

ANNUAL FINANCIAL REPORT 2020

FOR FISCAL YEAR ENDED
SEPTEMBER 30, 2020

CITY OF
WILLIS, TEXAS

200 NORTH BELL | WILLIS, TX 77378
WWW.CI.WILLIS.TX.US | 936.856.4611

ANNUAL FINANCIAL REPORT

of the

City of Willis, Texas

**For the Year Ended
September 30, 2020**

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City of Willis, Texas

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September 30, 2020

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component 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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2020 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.

Other Matters

Required Supplementary Information

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

Other Information

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

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and

reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Brooks Watson & Co.

Brooks Watson & Co., PLLC
Certified Public Accountants
Houston, Texas
June 17, 2022

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

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City of Willis, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2020

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, 2020. 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 \$14,869,851 at September 30, 2020.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$5,159,466, an increase of \$952,940.
- As of the end of the year, the unassigned fund balance of the general fund was \$4,199,744 or 98% of total general fund expenditures.
- The City had an overall increase in net position of \$2,767,320.
- The City's net pension liability totaled \$316,693 at yearend.

Government-Wide Statements

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

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

City of Willis, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2020

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

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

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

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

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

City of Willis, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2020

of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

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

Proprietary Funds

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

Component Units

The City maintains the accounting and financial statements for three component units. The Willis Community Development Corporation and the Willis Economic Development Corporation are both discretely presented component units displayed on the government-wide financial statements. The Willis Tax Increment Financing Zone No. 1 is considered a blended component unit and presented as a special revenue fund of the City.

Notes to Financial Statements

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

Other Information

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

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2020

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 \$14,869,851 as of September 30, 2020, in the primary government.

The largest portion of the City's net position, \$10,686,329, 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:

| | 2020 | | | 2019 | | |
|---------------------------------------|----------------------------|-----------------------------|----------------------|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Total | Governmental Activities | Business-Type Activities | Total |
| Current and other assets | \$ 5,688,743 | \$ 2,939,272 | \$ 8,628,015 | \$ 4,705,334 | \$ 8,274,231 | \$ 12,979,565 |
| Capital assets, net | 7,792,150 | 25,424,907 | 33,217,057 | 7,374,944 | 19,745,812 | 27,120,756 |
| Total Assets | 13,480,893 | 28,364,179 | 41,845,072 | 12,080,278 | 28,020,043 | 40,100,321 |
| Deferred Outflows of Resources | 140,934 | 72,980 | 213,914 | 361,982 | 142,618 | 504,600 |
| Other liabilities | 1,163,502 | 2,215,886 | 3,379,388 | 939,014 | 1,681,241 | 2,620,255 |
| Long-term liabilities | 2,403,517 | 21,091,908 | 23,495,425 | 3,552,529 | 22,155,155 | 25,707,684 |
| Total Liabilities | 3,567,019 | 23,307,794 | 26,874,813 | 4,491,543 | 23,836,396 | 28,327,939 |
| Deferred Inflows of Resources | 248,247 | 66,075 | 314,322 | 136,324 | 38,127 | 174,451 |
| Net Position: | | | | | | |
| Net investment in capital assets | 5,552,149 | 5,134,180 | 10,686,329 | 4,959,943 | 3,924,565 | 8,884,508 |
| Restricted | 959,722 | - | 959,722 | 697,481 | - | 697,481 |
| Unrestricted | 3,294,690 | (70,890) | 3,223,800 | 2,156,969 | 363,573 | 2,520,542 |
| Total Net Position | \$ 9,806,561 | \$ 5,063,290 | \$ 14,869,851 | \$ 7,814,393 | \$ 4,288,138 | \$ 12,102,531 |

City of Willis, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2020

Current and other assets for governmental activities increased by \$983,409 primarily due to greater cash on hand, resulting from operating surpluses in the current year. Current and other assets for business-type activities decreased by \$5,334,959 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 \$759,133 primarily due to greater vendor payables outstanding at the end of the current year. Total long-term liabilities decreased by \$2,212,259 primarily due to current year principal payments and a decline in the City's net pension liability.

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2020

Statement of Activities:

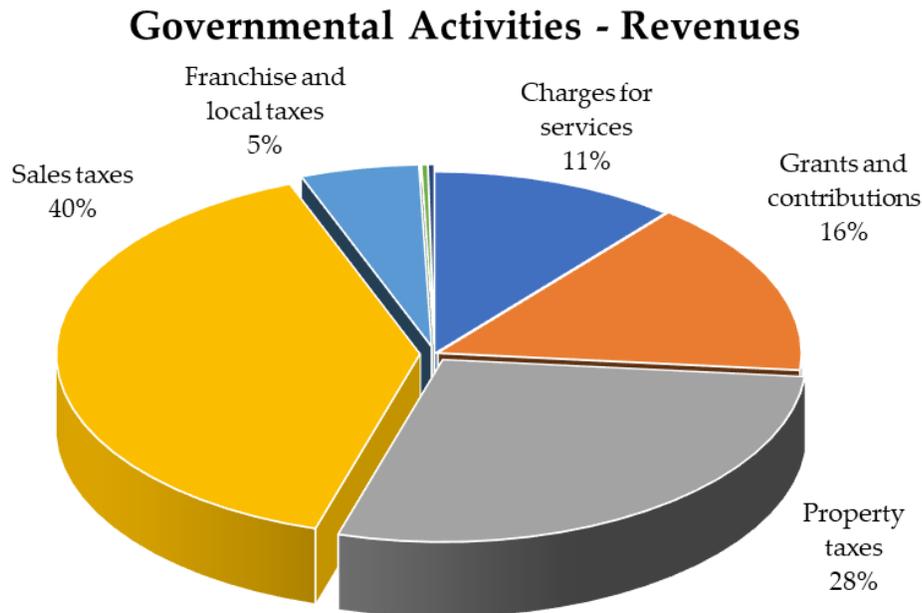
The following table provides a summary of the City's changes in net position:

| | For the Year Ended September 30, 2020 | | | For the Year Ended September 30, 2019 | | |
|--------------------------------|---------------------------------------|-----------------------------|--------------------------------|---------------------------------------|-----------------------------|--------------------------------|
| | Governmental Activities | Business-Type Activities | Total Primary Government | Governmental Activities | Business-Type Activities | Total Primary Government |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 779,606 | \$ 3,140,502 | \$ 3,920,108 | \$ 716,893 | \$ 3,202,717 | \$ 3,919,610 |
| Grants and contributions | 1,106,975 | 348,533 | 1,455,508 | 303,774 | 401,729 | 705,503 |
| General revenues: | | | | | | |
| Property taxes | 2,003,231 | - | 2,003,231 | 2,019,732 | - | 2,019,732 |
| Sales taxes | 2,815,148 | - | 2,815,148 | 1,931,089 | - | 1,931,089 |
| Franchise and local taxes | 374,998 | - | 374,998 | 370,395 | - | 370,395 |
| Investment income | 19,773 | 63,196 | 82,969 | 21,812 | 209,809 | 231,621 |
| Other revenues | 20,027 | 7,375 | 27,402 | 23,058 | 217,172 | 240,230 |
| Total Revenues | 7,119,758 | 3,559,606 | 10,679,364 | 5,386,753 | 4,031,427 | 9,418,180 |
| Expenses | | | | | | |
| General government | 814,712 | - | 814,712 | 924,554 | - | 924,554 |
| Community development | 344,169 | - | 344,169 | 340,209 | - | 340,209 |
| Public safety | 1,866,527 | - | 1,866,527 | 1,875,665 | - | 1,875,665 |
| Sanitation | 357,344 | - | 357,344 | 311,273 | - | 311,273 |
| Street | 971,990 | - | 971,990 | 1,110,987 | - | 1,110,987 |
| Water & sewer | - | 2,668,220 | 2,668,220 | - | 2,583,116 | 2,583,116 |
| Interest and fiscal charges | 103,644 | 785,438 | 889,082 | 126,112 | 807,032 | 933,144 |
| Total Expenses | 4,458,386 | 3,453,658 | 7,912,044 | 4,688,800 | 3,390,148 | 8,078,948 |
| Change in Net Position | | | | | | |
| Before Transfers | 2,661,372 | 105,948 | 2,767,320 | 697,953 | 641,279 | 1,339,232 |
| Transfers | (669,204) | 669,204 | - | 51,722 | (51,722) | - |
| Special item - transfer of EDC | - | - | - | 1,132,384 | - | 1,132,384 |
| Total | (669,204) | 669,204 | - | 1,184,106 | (51,722) | 1,132,384 |
| Change in Net Position | 1,992,168 | 775,152 | 2,767,320 | 1,882,059 | 589,557 | 2,471,616 |
| Beginning Net Position | 7,814,393 | 4,288,138 | 12,102,531 | 5,932,334 | 3,698,581 | 9,630,915 |
| Ending Net Position | \$ 9,806,561 | \$ 5,063,290 | \$ 14,869,851 | \$ 7,814,393 | \$ 4,288,138 | \$ 12,102,531 |

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2020

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, 2020, revenues from governmental activities totaled \$7,119,758. Sales taxes, property taxes, and grants/contributions are the City's largest revenue sources. Charges for services increased by \$62,713 or 9% as a result of greater building and plumbing permit revenue earned in the current year. Grants and contributions increased by \$803,201 or 264% due to nonrecurring capital grants from the CDC for MLK Park improvements. Sales tax revenues increased by \$884,059 or 46% primarily due to economic growth fueled by local purchases and the first full year of previously restricted EDC sales tax included with governmental activities. All other revenues remained relatively stable when compared to the previous year.

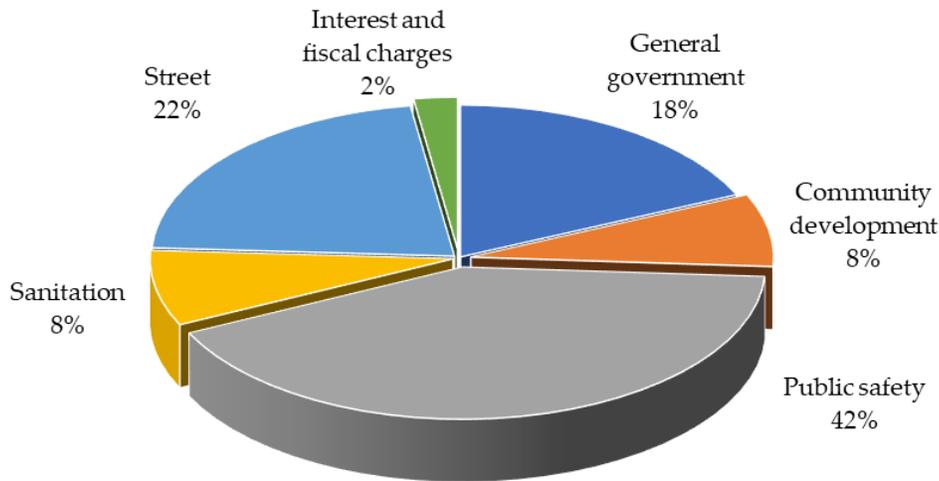
City of Willis, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2020

This graph shows the governmental function expenses of the City:

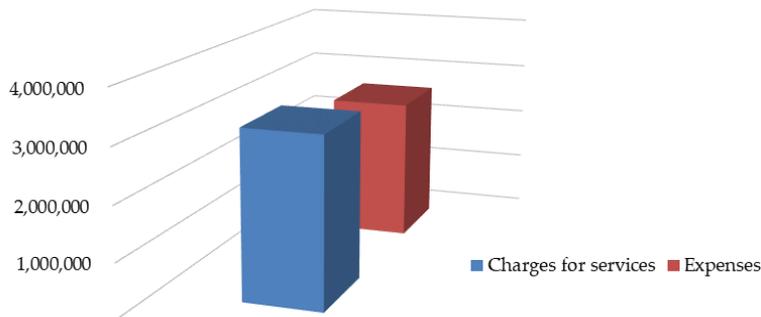
Governmental Activities - Expenses



For the year ended September 30, 2020, expenses for governmental activities totaled \$4,458,386. This represents a decrease of \$230,414 or 5% from the prior year. The City's largest functional expenses are general government of \$814,712, public safety of \$1,866,527 and street expenses of \$971,990. General government expenses decreased by \$109,842 or 12% due primarily to a reduction in personnel costs, office operations, and legal expenses. Sanitation expenses increased by \$46,071 or 15% as a result of increased waste service expenses, which is consistent with increased garbage collection revenues in the current year. Street expenses decreased by \$138,997 or 13% primarily due to a reduction in annual depreciation expenses compared to the prior year. All other expenses remained relatively consistent with the previous year.

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

Business-Type Activities - Revenues and Expenses



City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2020

For the year ended September 30, 2020, charges for services by business-type activities totaled \$3,140,502. This is an increase of \$62,215 or 2% from the previous year, which is considered minimal.

Total expenses increased \$63,510 or 2% compared to the prior year and is considered minimal.

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 \$4,554,145, \$4,199,744 of which is unassigned. Unassigned fund balance equaled 98% of total annual general fund expenditures. The general fund had an increase in fund balance of \$887,116 during the year. This increase is primarily a result of greater than expected revenues and less than expected expenditures.

Overall there was an increase in governmental fund balance of \$952,940 over the prior year. This was the result of increases in the general fund, as mentioned above, a decrease in the nonmajor hotel tax fund of \$1,185, an increase in the nonmajor TIRZ fund of \$66,868, and a slight increase in the nonmajor debt service fund of \$141.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total positive budget variance of \$822,474 in the general fund. Revenues had a positive variance for the year of \$797,638 and expenditures had a positive variance of \$750,999. In addition, other financing sources had a negative budget variance of \$726,163. Expenditures exceeded appropriations at the legal level of control for sanitation, debt service principal, and transfers out.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$7,792,150 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 \$25,424,907 in a variety of capital assets and infrastructure, net of accumulated depreciation.

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2020

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

- Improvements to MLK Park pavilion improvements for \$948,456.
- Mill Street culvert replacement for \$48,666.
- Purchase of mobile equipment for police department totaling \$63,012.
- Improvements to water well #7 totaling \$42,162.
- Wastewater treatment plant expansion and rehabilitation totaling \$3,927,244.
- Utility improvements off of Highway 75 north totaling \$1,984,635.
- Additional CDBG drainage project improvements of \$633,570.

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

LONG-TERM DEBT

At the end of the current year, the City had total bonds and notes payables outstanding of \$24,511,793. Principal payments on debt obligations totaled \$1,546,741 during the year. More detailed information about the City's long-term liabilities is presented in note IV. E to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

FINANCIAL STATEMENTS

City of Willis, Texas
STATEMENT OF NET POSITION
September 30, 2020

| | Primary Government | | |
|--|----------------------------|-----------------------------|--------------|
| | Governmental Activities | Business-Type Activities | Total |
| <u>Assets</u> | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 4,827,085 | \$ 81,358 | \$ 4,908,443 |
| Restricted cash | - | 2,149,258 | 2,149,258 |
| Investments | 128,928 | 147,964 | 276,892 |
| Receivables, net | 732,430 | 518,862 | 1,251,292 |
| Inventory | - | 41,830 | 41,830 |
| Deposits | 300 | - | 300 |
| Total Current Assets | 5,688,743 | 2,939,272 | 8,628,015 |
| Capital assets: | | | |
| Non-depreciable | 505,074 | 6,828,892 | 7,333,966 |
| Depreciable, net | 7,287,076 | 18,596,015 | 25,883,091 |
| Total Noncurrent Assets | 7,792,150 | 25,424,907 | 33,217,057 |
| Total Assets | 13,480,893 | 28,364,179 | 41,845,072 |
| <u>Deferred Outflows of Resources</u> | | | |
| Deferred charge on refunding | - | 35,468 | 35,468 |
| OPEB contributions | 651 | 173 | 824 |
| OPEB (gains) losses | 14,271 | 3,799 | 18,070 |
| Pension contributions | 123,208 | 32,793 | 156,001 |
| Pension assumption changes | 2,804 | 747 | 3,551 |
| Total Deferred Outflows of Resources | 140,934 | 72,980 | 213,914 |

See Notes to Financial Statements.

**Component
Unit**

**Community
Development
Corporation**

\$ 1,338,917
-
53,339
134,964
-
-
1,527,220

-
-
-
1,527,220

-
-
-
-
-
-
-

City of Willis, Texas
STATEMENT OF NET POSITION
September 30, 2020

| | Primary Government | | |
|---|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Total |
| <u>Liabilities</u> | | | |
| Accounts payable and accrued liabilities | \$ 433,116 | \$ 1,115,643 | \$ 1,548,759 |
| Customer deposits | - | 126,617 | 126,617 |
| Compensated absences, current | 118,593 | 18,626 | 137,219 |
| Long-term debt due within one year | 611,793 | 955,000 | 1,566,793 |
| Total Current Liabilities | 1,163,502 | 2,215,886 | 3,379,388 |
| Noncurrent liabilities: | | | |
| Net pension liability | 250,120 | 66,573 | 316,693 |
| OPEB liability | 110,220 | 29,337 | 139,557 |
| Compensated absences, noncurrent | 13,177 | 2,070 | 15,247 |
| Long-term debt due in more than one year | 2,030,000 | 20,993,928 | 23,023,928 |
| | 2,403,517 | 21,091,908 | 23,495,425 |
| Total Liabilities | 3,567,019 | 23,307,794 | 26,874,813 |
| <u>Deferred Inflows of Resources</u> | | | |
| OPEB investment earnings | 2,309 | 615 | 2,924 |
| Pension investment earnings | 144,677 | 38,508 | 183,185 |
| Pension (gains) losses | 101,261 | 26,952 | 128,213 |
| Total Deferred Inflows of Resources | 248,247 | 66,075 | 314,322 |
| <u>Net Position</u> | | | |
| Net investment in capital assets | 5,552,149 | 5,134,180 | 10,686,329 |
| Restricted for: | | | |
| Debt service | 87,880 | - | 87,880 |
| Tourism | 317,981 | - | 317,981 |
| Community development | 199,460 | - | 199,460 |
| PEG fees | 70,338 | - | 70,338 |
| Public safety | 284,063 | - | 284,063 |
| Unrestricted | 3,294,690 | (70,890) | 3,223,800 |
| Total Net Position | \$ 9,806,561 | \$ 5,063,290 | \$ 14,869,851 |

See Notes to Financial Statements.

| Component Unit |
|--|
| Community Development Corporation |
| \$ 17,984 |
| - |
| - |
| - |
| <u>17,984</u> |
| - |
| - |
| - |
| - |
| <u>17,984</u> |
| - |
| - |
| - |
| - |
| <u>1,509,236</u> |
| - |
| - |
| - |
| <u>\$ 1,509,236</u> |

City of Willis, Texas
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2020

| Functions/Programs | Expenses | Program Revenues | | |
|---------------------------------------|---------------------|----------------------|--------------------------|----------------------------------|
| | | Charges for Services | Grants and Contributions | Capital Grants and Contributions |
| Primary Government | | | | |
| Governmental Activities | | | | |
| General government | \$ 814,712 | \$ - | \$ 158,519 | \$ - |
| Community development | 344,169 | 265,372 | - | 948,456 |
| Public safety | 1,866,527 | 154,519 | - | - |
| Sanitation | 357,344 | 359,715 | - | - |
| Street | 971,990 | - | - | - |
| Interest and fiscal charges | 103,644 | - | - | - |
| Total Governmental Activities | 4,458,386 | 779,606 | 158,519 | 948,456 |
| Business-Type Activities | | | | |
| Water & Sewer | 3,453,658 | 3,140,502 | 348,533 | - |
| Total Business-Type Activities | 3,453,658 | 3,140,502 | 348,533 | - |
| Total Primary Government | \$ 7,912,044 | \$ 3,920,108 | \$ 507,052 | \$ 948,456 |
| Component Unit | | | | |
| Community development | 1,157,559 | - | - | - |
| Total Component Unit | \$ 1,157,559 | \$ - | \$ - | \$ - |

General Revenues:

Taxes:

Property taxes

Sales taxes

Franchise and local taxes

Investment income

Other revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

| Primary Government | | | Component Unit |
|--------------------------------|---------------------------------|----------------------|--|
| Governmental Activities | Business-Type Activities | Total | Community Development Corporation |
| \$ (656,193) | \$ - | \$ (656,193) | \$ - |
| 869,659 | - | 869,659 | - |
| (1,712,008) | - | (1,712,008) | - |
| 2,371 | - | 2,371 | - |
| (971,990) | - | (971,990) | - |
| (103,644) | - | (103,644) | - |
| <u>(2,571,805)</u> | <u>-</u> | <u>(2,571,805)</u> | <u>-</u> |
| - | 35,377 | 35,377 | - |
| - | 35,377 | 35,377 | - |
| <u>(2,571,805)</u> | <u>35,377</u> | <u>(2,536,428)</u> | <u>-</u> |
| | | | <u>(1,157,559)</u> |
| | | | <u>(1,157,559)</u> |
| 2,003,231 | - | 2,003,231 | - |
| 2,815,148 | - | 2,815,148 | 692,099 |
| 374,998 | - | 374,998 | - |
| 19,773 | 63,196 | 82,969 | 17,073 |
| 20,027 | 7,375 | 27,402 | - |
| (669,204) | 669,204 | - | - |
| <u>4,563,973</u> | <u>739,775</u> | <u>5,303,748</u> | <u>709,172</u> |
| 1,992,168 | 775,152 | 2,767,320 | (448,387) |
| 7,814,393 | 4,288,138 | 12,102,531 | 1,957,623 |
| <u>\$ 9,806,561</u> | <u>\$ 5,063,290</u> | <u>\$ 14,869,851</u> | <u>\$ 1,509,236</u> |

City of Willis, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2020

| | General | Nonmajor | Total |
|--|---------------------|-------------------|---------------------|
| <u>Assets</u> | | | |
| Cash and cash equivalents | \$ 4,221,764 | \$ 605,321 | \$ 4,827,085 |
| Investments | 128,928 | - | 128,928 |
| Receivables, net | 725,829 | 6,601 | 732,430 |
| Deposits | 300 | - | 300 |
| Total Assets | \$ 5,076,821 | \$ 611,922 | \$ 5,688,743 |
| <u>Liabilities</u> | | | |
| Accounts payable and accrued liabilities | \$ 419,829 | \$ - | \$ 419,829 |
| Total Liabilities | 419,829 | - | 419,829 |
| <u>Deferred Inflows of Resources</u> | | | |
| Unavailable revenue-property tax | 102,847 | 6,601 | 109,448 |
| Total Deferred Inflows of Resources | 102,847 | 6,601 | 109,448 |
| <u>Fund Balances</u> | | | |
| Restricted for: | | | |
| Tourism | - | 317,981 | 317,981 |
| Community development | - | 199,460 | 199,460 |
| Debt service | - | 87,880 | 87,880 |
| PEG fees | 70,338 | - | 70,338 |
| Public safety | 284,063 | - | 284,063 |
| Unassigned reported in: | | | |
| General fund | 4,199,744 | - | 4,199,744 |
| Total Fund Balances | 4,554,145 | 605,321 | 5,159,466 |
| Total Liabilities, Deferred Inflows and Fund Balances | \$ 4,973,974 | \$ 605,321 | \$ 5,579,295 |

See Notes to Financial Statements.

City of Willis, Texas
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
September 30, 2020

Fund Balances - Total Governmental Funds

\$ 5,159,466

Adjustments for the Statement of Net Position:

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

| | |
|----------------------------------|-----------|
| Capital assets - non-depreciable | 505,074 |
| Capital assets - net depreciable | 7,287,076 |

| | |
|---|---------|
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds. | 109,448 |
|---|---------|

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 | 123,208 |
| Pension assumption changes | 2,804 |
| OPEB contributions | 651 |
| OPEB (gains) losses | 14,271 |

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 | (101,261) |
| Pension investment earnings | (144,677) |
| OPEB investment earnings | (2,309) |

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

| | |
|---|-------------|
| Accrued interest | (13,287) |
| Compensated absences | (131,770) |
| Net pension liability | (250,120) |
| OPEB liability | (110,220) |
| Non-current liabilities due in one year | (611,793) |
| Non-current liabilities due in more than one year | (2,030,000) |

| | |
|--|--------------|
| Net Position of Governmental Activities | \$ 9,806,561 |
|--|--------------|

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, 2020

| | General | Nonmajor | Total Governmental Funds |
|---|--------------|------------|--------------------------------|
| <u>Revenues</u> | | | |
| Property tax | \$ 1,882,675 | \$ 120,556 | \$ 2,003,231 |
| Sales tax | 2,815,148 | - | 2,815,148 |
| Franchise and local taxes | 371,598 | 3,400 | 374,998 |
| Permits and code enforcement | 265,372 | - | 265,372 |
| Sanitation | 359,715 | - | 359,715 |
| Intergovernmental | 8,662 | 149,857 | 158,519 |
| Fines and forfeitures | 154,519 | - | 154,519 |
| Interest | 18,002 | 1,771 | 19,773 |
| Other | 20,027 | - | 20,027 |
| Total Revenues | 5,895,718 | 275,584 | 6,171,302 |
| <u>Expenditures</u> | | | |
| Current: | | | |
| General government | 634,103 | - | 634,103 |
| Community development | 343,776 | - | 343,776 |
| Public safety | 1,863,934 | - | 1,863,934 |
| Sanitation | 357,344 | - | 357,344 |
| Court | 107,937 | - | 107,937 |
| Street | 502,780 | - | 502,780 |
| Debt Service: | | | |
| Principal | 441,741 | 185,000 | 626,741 |
| Interest and fiscal charges | 30,824 | 77,121 | 107,945 |
| Capital outlay | - | 4,598 | 4,598 |
| Total Expenditures | 4,282,439 | 266,719 | 4,549,158 |
| Excess of Revenues Over (Under) Expenditures | 1,613,279 | 8,865 | 1,622,144 |
| <u>Other Financing Sources (Uses)</u> | | | |
| Transfers in | 14,059 | 169,735 | 183,794 |
| Transfers (out) | (740,222) | (112,776) | (852,998) |
| Total Other Financing Sources (Uses) | (726,163) | 56,959 | (669,204) |
| Net Change in Fund Balances | 887,116 | 65,824 | 952,940 |
| Beginning fund balances | 3,667,029 | 539,497 | 4,206,526 |
| Ending Fund Balances | \$ 4,554,145 | \$ 605,321 | \$ 5,159,466 |

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, 2020

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

| | | |
|---|----|---------|
| Net changes in fund balances - total governmental funds | \$ | 952,940 |
|---|----|---------|

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | | |
|----------------------|--|-----------|
| Capital outlay | | 1,041,148 |
| Depreciation expense | | (623,942) |

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

| | | |
|----------------------|--|---------|
| Compensated absences | | (4,107) |
| Accrued interest | | 4,301 |
| Pension expense | | 4,943 |
| OPEB liability | | (9,856) |

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

| | | |
|--------------------|--|---------|
| Principal payments | | 626,741 |
|--------------------|--|---------|

| | | |
|--|-----------|------------------|
| Change in Net Position of Governmental Activities | \$ | 1,992,168 |
|--|-----------|------------------|

See Notes to Financial Statements.

City of Willis, Texas
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2020

| | | <u>Water & Sewer</u> |
|--|---|------------------------------|
| <u>Assets</u> | | |
| Cash and cash equivalents | \$ | 81,358 |
| Restricted cash | | 2,149,258 |
| Investments | | 147,964 |
| Receivables, net | | 518,862 |
| Inventory | | 41,830 |
| | Total Current Assets | <u>2,939,272</u> |
| Capital assets: | | |
| Non-depreciable capital assets | | 6,828,892 |
| Depreciable capital assets, net | | 18,596,015 |
| | Total Noncurrent Assets | <u>25,424,907</u> |
| | Total Assets | <u>28,364,179</u> |
| <u>Deferred Outflows of Resources</u> | | |
| Deferred charge on refunding | | 35,468 |
| Pension contributions | | 32,793 |
| Pension changes in assumptions | | 747 |
| OPEB contributions | | 173 |
| OPEB (gains) losses | | 3,799 |
| | Total Deferred Outflows of Resources | <u>72,980</u> |
| <u>Liabilities</u> | | |
| Accounts payable and accrued liabilities | | 984,052 |
| Accrued interest | | 131,591 |
| Customer deposits | | 126,617 |
| Compensated absences, current | | 18,626 |
| Long-term debt due within one year | | 955,000 |
| | Total Current Liabilities | <u>2,215,886</u> |
| <u>Noncurrent Liabilities</u> | | |
| Net pension liability | | 66,573 |
| OPEB liability | | 29,337 |
| Compensated absences, noncurrent | | 2,070 |
| Long-term debt due in more than one year | | 20,993,928 |
| | Total Noncurrent Liabilities | <u>21,091,908</u> |
| | Total Liabilities | <u>23,307,794</u> |
| <u>Deferred Inflows of Resources</u> | | |
| OPEB investment earnings | | 615 |
| Pension investment earnings | | 38,508 |
| Pension (gains) losses | | 26,952 |
| | Total Deferred Inflows of Resources | <u>66,075</u> |
| <u>Net Position</u> | | |
| Net investment in capital assets | | 5,134,180 |
| Unrestricted | | (70,890) |
| | Total Net Position | <u>\$ 5,063,290</u> |

See Notes to Financial Statements.

City of Willis, Texas

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

For the Year Ended September 30, 2020

| | <u>Water & Sewer</u> |
|--|------------------------------|
| <u>Operating Revenues</u> | |
| Water sales | \$ 1,819,987 |
| Sewer revenue | 1,152,209 |
| Penalties and service charges | 98,101 |
| Tap fees | 70,205 |
| Other revenue | 7,375 |
| Intergovernmental revenue | 348,533 |
| Total Operating Revenues | <u>3,496,410</u> |
| <u>Operating Expenses</u> | |
| Cost of water | 472,878 |
| Cost of sewer | 535,151 |
| Operating expenses | 3,800 |
| Salary and wages | 646,713 |
| Depreciation | 1,009,678 |
| Total Operating Expenses | <u>2,668,220</u> |
| Operating Income (Loss) | <u>828,190</u> |
| <u>Nonoperating Revenues (Expenses)</u> | |
| Investment income | 63,196 |
| Interest expense | (785,438) |
| Total Nonoperating Revenues (Expenses) | <u>(722,242)</u> |
| Income (Loss) Before Transfers | 105,948 |
| Transfers in | 816,581 |
| Transfers (out) | (147,377) |
| Change in Net Position | <u>775,152</u> |
| Beginning net position | 4,288,138 |
| Ending Net Position | <u>\$ 5,063,290</u> |

See Notes to Financial Statements.

City of Willis, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 1 of 2)
For the Year Ended September 30, 2020

| | Water & Sewer |
|---|------------------------------|
| <u>Cash Flows from Operating Activities</u> | |
| Receipts from customers | \$ 3,468,021 |
| Payments to employees | (650,909) |
| Payments to suppliers | (478,046) |
| Net Cash Provided (Used) by Operating Activities | 2,339,066 |
| <u>Cash Flows from Noncapital Financing Activities</u> | |
| Transfer in | 816,581 |
| Transfer (out) | (147,377) |
| Net Cash Provided (Used) by Noncapital Financing Activities | 669,204 |
| <u>Cash Flows from Capital and Related Financing Activities</u> | |
| Capital asset purchases | (6,688,773) |
| Principal paid on debt | (920,000) |
| Interest paid on debt | (791,749) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (8,400,522) |
| <u>Cash Flows from Investing Activities</u> | |
| Purchase of investments | 67,875 |
| Interest on investments | 63,196 |
| Net Cash Provided (Used) by Investing Activities | 131,071 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (5,261,181) |
| Beginning cash and cash equivalents | 7,491,797 |
| Ending Cash and Cash Equivalents | \$ 2,230,616 |

See Notes to Financial Statements.

City of Willis, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 2 of 2)
For the Year Ended September 30, 2020

| | Water & Sewer |
|---|------------------------------|
| <u>Reconciliation of Operating Income</u> | |
| <u>to Net Cash Provided by Operating Activities</u> | |
| Operating Income (Loss) | \$ 828,190 |
| Adjustments to reconcile operating income to net cash provided (used): | |
| Depreciation | 1,009,678 |
| Changes in Operating Assets and Liabilities: | |
| (Increase) Decrease in: | |
| Accounts receivable | (27,639) |
| Inventory | 33,542 |
| Deferred Outflows of Resources: | |
| Pension contributions | 3,633 |
| Pension investment experience | 98,451 |
| Assumption changes | 3,977 |
| OPEB contributions | (27) |
| Increase (Decrease) in: | |
| Accounts payable | 485,498 |
| Compensated absences | 5,953 |
| Customer deposits | 8,790 |
| Net pension liability | (102,750) |
| OPEB liability | 6,129 |
| Deferred Inflows of Resources: | |
| Actual experience vs. assumption | (9,694) |
| OPEB (gains)/losses | (3,915) |
| OPEB investment earnings | (750) |
| Net Cash Provided (Used) by Operating Activities | \$ 2,339,066 |

See Notes to Financial Statements.

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City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

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

B. Reporting Entity

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

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

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

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

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

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.

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 a one half of one percent 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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

requirement for blending due to a financial benefit/burden relationship with the City and the Board is substantially the same as the City Council.

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

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

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

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

The government reports the following major governmental fund:

General Fund

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

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel,

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB. The government reports the following major enterprise fund:

Water and Sewer Fund

The water and sewer fund is used to account for the provision of water & wastewater collection and wastewater treatment operations. Activities of the fund include administration, operations and maintenance of the water system, and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

Additionally, the government reports the following fund types:

Special Revenue Funds

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

Debt Service Fund

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

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

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

D. Measurement Focus and Basis of Accounting

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

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

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

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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E. Estimates

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

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

1. Deposits and Investments

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

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

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

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

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

2. Fair Value

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

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

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3. Receivables and Interfund Transactions

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

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

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

4. Property Taxes

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

5. Inventories and Prepaid Items

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

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

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

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

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

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.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

8. Net Position Flow Assumption

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

It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

9. Fund Balance Flow Assumptions

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

10. Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. The governing council is the highest level of decision-making authority for 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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

11. Compensated Absences

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

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

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

The estimated amount of accrued vacation pay benefits that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of 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, 2020, the accrued and unpaid compensated absences liability was \$152,466.

12. Long-Term Obligations

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

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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

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

13. Pensions

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

14. Other Postemployment Benefits ("OPEB")

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, "the issuance of long-term debt (e.g., bonds)

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." A reconciliation has been presented in the basic financial statements.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

General Fund:

| | |
|-----------------|------------|
| Sanitation | \$ 52,344 |
| Principal | \$ 244,341 |
| Transfers (out) | \$ 740,222 |

Debt Service Fund:

| | |
|-----------------------------|------------|
| Principal | \$ 118,250 |
| Interest and fiscal charges | \$ 65,636 |
| Transfers (out) | \$ 111,247 |

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2020, the primary government had the following investments:

| <u>Investment Type</u> | <u>Value</u> | <u>Weighted Average Maturity (Years)</u> |
|-------------------------------------|---------------------|--|
| Certificates of deposit | \$ 276,892 | 0.56 |
| External investment pools | 1,945,841 | 0.12 |
| Total fair value | <u>\$ 2,222,733</u> | |
| Portfolio weighted average maturity | | 0.17 |

As of September 30, 2020, the City's component unit had the following investments:

| <u>Investment Type</u> | <u>Value</u> | <u>Weighted Average Maturity (Years)</u> |
|-------------------------------------|-------------------|--|
| Certificates of deposit | \$ 53,339 | 0.80 |
| External investment pools | 602,127 | 0.12 |
| Total fair value | <u>\$ 655,466</u> | |
| Portfolio weighted average maturity | | 0.18 |

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

Credit risk The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service. As of September 30, 2020, the City's investment in TexSTAR was rated AAAM by Standard & Poor's.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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, 2020, the market values of pledged securities and FDIC exceeded bank balances.

Custodial credit risk – investments For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexSTAR

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

TexSTAR operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexSTAR use amortized cost rather than fair value to report net position to compute share prices. Accordingly, the fair value of the position in TexSTAR is the same as the value of TexSTAR shares. There were no limitations or restrictions on withdrawals.

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.

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

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

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

C. Receivables

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

| | General | Nonmajor Debt Service | Water & Sewer | Total |
|-----------------|----------------|----------------------------------|------------------------------|--------------|
| Property taxes | \$ 102,847 | \$ 6,601 | \$ - | \$ 109,448 |
| Sales tax | 590,869 | - | - | 590,869 |
| Franchise taxes | 32,113 | - | - | 32,113 |
| Accounts | - | - | 1,070,154 | 1,070,154 |
| Allowance | - | - | (551,292) | (551,292) |
| | \$ 725,829 | \$ 6,601 | \$ 518,862 | \$ 1,251,292 |

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

| | |
|-----------|--|
| | Community Development Corporation |
| Sales tax | \$ 134,964 |
| | \$ 134,964 |

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

D. Capital Assets

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

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases/ Reclassifications</u> | <u>Ending Balances</u> |
|--|-------------------------------|-------------------|---|----------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 505,074 | \$ - | \$ - | \$ 505,074 |
| Construction in process | 54,844 | 948,456 | (1,003,300) | - |
| Total capital assets not being depreciated | <u>559,918</u> | <u>948,456</u> | <u>(1,003,300)</u> | <u>505,074</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 1,447,214 | - | - | 1,447,214 |
| Roads | 8,955,340 | - | 31,575 | 8,986,915 |
| Vehicles & equipment | 1,527,587 | 92,692 | - | 1,620,279 |
| Park improvements | 322,788 | - | 971,725 | 1,294,513 |
| Total capital assets being depreciated | <u>12,252,929</u> | <u>92,692</u> | <u>1,003,300</u> | <u>13,348,921</u> |
| Less accumulated depreciation | | | | |
| Buildings and improvements | (739,257) | (48,202) | - | (787,459) |
| Roads | (3,331,008) | (477,988) | - | (3,808,996) |
| Vehicles & equipment | (1,251,735) | (84,902) | - | (1,336,637) |
| Park improvements | (115,903) | (12,850) | - | (128,753) |
| Total accumulated depreciation | <u>(5,437,903)</u> | <u>(623,942)</u> | <u>-</u> | <u>(6,061,845)</u> |
| Net capital assets being depreciated | <u>6,815,026</u> | <u>(531,250)</u> | <u>1,003,300</u> | <u>7,287,076</u> |
| Total Net Capital Assets | <u>\$ 7,374,944</u> | <u>\$ 417,206</u> | <u>\$ -</u> | <u>\$ 7,792,150</u> |

Depreciation was charged to governmental functions as follows:

| | |
|---|-------------------|
| General government | \$ 75,572 |
| Public safety | 69,726 |
| Streets | 478,644 |
| Total Governmental Activities Depreciation Expense | <u>\$ 623,942</u> |

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

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases/ Reclassifications</u> | <u>Ending Balances</u> |
|--|-------------------------------|----------------------------|---|-----------------------------|
| Capital assets, not being depreciated: | | | | |
| Construction in progress | \$ 3,706,898 | \$ 6,597,946 | \$ (3,475,952) | \$ 6,828,892 |
| Total capital assets not being depreciated | <u>3,706,898</u> | <u>6,597,946</u> | <u>(3,475,952)</u> | <u>6,828,892</u> |
| Capital assets, being depreciated: | | | | |
| Water system | 19,533,157 | 90,827 | 3,475,952 | 23,099,936 |
| Sewer system | 9,220,347 | - | - | 9,220,347 |
| Equipment and equipment | 939,092 | - | - | 939,092 |
| Total capital assets being depreciated | <u>29,692,596</u> | <u>90,827</u> | <u>3,475,952</u> | <u>33,259,375</u> |
| Less accumulated depreciation | | | | |
| Water system | (7,525,536) | (599,811) | - | (8,125,347) |
| Sewer system | (5,416,148) | (372,110) | - | (5,788,258) |
| Equipment and equipment | (711,998) | (37,757) | - | (749,755) |
| Total accumulated depreciation | <u>(13,653,682)</u> | <u>(1,009,678)</u> | <u>-</u> | <u>(14,663,360)</u> |
| Net capital assets being depreciated | <u>16,038,914</u> | <u>(918,851)</u> | <u>3,475,952</u> | <u>18,596,015</u> |
| Total Net Capital Assets | <u><u>\$ 19,745,812</u></u> | <u><u>\$ 5,679,095</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 25,424,907</u></u> |

All depreciation was charged to the water and sewer fund.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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E. Long-term Debt

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

| | <u>Beginning Balance</u> | <u>Additions/ Transfers</u> | <u>Reductions/ Transfers</u> | <u>Ending Balance</u> | <u>Amounts Due within One Year</u> |
|--|------------------------------|---------------------------------|----------------------------------|---------------------------|--|
| Governmental Activities: | | | | | |
| Bonds and other payables: | | | | | |
| Certificates of Obligation | \$ 2,415,000 | \$ - | \$ (185,000) | \$ 2,230,000 | \$ 200,000 |
| Other liabilities: | | | | | |
| SHTC Developer Agreement | 853,534 | - | (441,741) | 411,793 | 411,793 |
| Total Governmental Activities | <u>\$ 3,268,534</u> | <u>\$ -</u> | <u>\$ (626,741)</u> | <u>\$ 2,641,793</u> | <u>\$ 611,793</u> |
| Long-term liabilities due in more than one year | | | | <u>\$ 2,030,000</u> | |
| Business-Type Activities: | | | | | |
| Bonds, leases, and other payables: | | | | | |
| Revenue Bonds | \$ 2,735,000 | \$ - | \$ (75,000) | \$ 2,660,000 | \$ 80,000 |
| General Obligation Refunding | 2,100,000 | - | (445,000) | 1,655,000 | 465,000 |
| Certificates of Obligation | 17,955,000 | - | (400,000) | 17,555,000 | 410,000 |
| Deferred amounts: | | | | | |
| Bond premium | 91,150 | - | (12,222) | 78,928 | - |
| Total Business-Type Activities | <u>\$ 22,881,150</u> | <u>\$ -</u> | <u>\$ (932,222)</u> | <u>\$ 21,948,928</u> | <u>\$ 955,000</u> |
| Long-term liabilities due in more than one year | | | | <u>\$ 20,993,928</u> | |
| Discretely Presented Component Units: | | | | | |
| Other liabilities: | | | | | |
| SHTC Developer Agreement | \$ 50,282 | \$ - | \$ (50,282) | \$ - | \$ - |
| Total Discretely Presented Component Units | <u>\$ 50,282</u> | <u>\$ -</u> | <u>\$ (50,282)</u> | <u>\$ -</u> | <u>\$ -</u> |
| Long-term liabilities due in more than one year | | | | <u>\$ -</u> | |

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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

| Description | Interest Rates | Original Balance | Current Balance |
|--|----------------|----------------------|----------------------|
| Governmental Activities: | | | |
| Certificates of Obligation - Series 2012 | 4.50% | \$ 800,000 | \$ 545,000 |
| Certificates of Obligation - Series 2014 | 2.78% | 2,500,000 | 1,685,000 |
| SHTC Developer Agreement | 4.50% | 2,029,500 | 411,793 |
| Total Governmental Activities | | \$ 5,329,500 | \$ 2,641,793 |
| Business-Type Activities: | | | |
| Revenue Bonds - Series 2012 | 0.45% - 3.40% | 3,150,000 | 2,660,000 |
| Certificates of Obligation - Series 2005 | 5.13% | 600,000 | 205,000 |
| Certificates of Obligation - Series 2010 | 1.00% | 1,355,000 | 1,310,000 |
| Certificates of Obligation - Series 2012A | 3.50% | 800,000 | 455,000 |
| Certificates of Obligation - Series 2013 | 3.75% - 5.00% | 5,800,000 | 5,800,000 |
| Certificates of Obligation - Series 2016 | 1.19% | 1,165,000 | 965,000 |
| Certificates of Obligation - Series 2017 | 2.00 - 5.00% | 9,500,000 | 8,820,000 |
| General Obligation Refunding - Series 2013 | 2.00 - 4.00% | 3,920,000 | 1,655,000 |
| Total Business-Type Activities | | \$ 26,290,000 | \$ 21,870,000 |
| Total Long-Term Debt | | \$ 32,665,000 | \$ 24,511,793 |

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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

| Year ending September 30, | Certificates of Obligation Series 2012 | | Certificates of Obligation Series 2014 | | Total | |
|------------------------------|---|-------------------|---|-------------------|---------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2021 | \$ 40,000 | \$ 24,526 | \$ 160,000 | \$ 46,844 | \$ 200,000 | \$ 71,369 |
| 2022 | 40,000 | 22,726 | 165,000 | 42,396 | 205,000 | 65,121 |
| 2023 | 45,000 | 20,926 | 170,000 | 37,808 | 215,000 | 58,733 |
| 2024 | 45,000 | 18,900 | 180,000 | 33,082 | 225,000 | 51,982 |
| 2025 | 45,000 | 16,876 | 185,000 | 28,078 | 230,000 | 44,953 |
| 2026 | 50,000 | 14,850 | 195,000 | 22,936 | 245,000 | 37,786 |
| 2027 | 50,000 | 12,600 | 200,000 | 17,514 | 250,000 | 30,114 |
| 2028 | 55,000 | 10,350 | 210,000 | 11,954 | 265,000 | 22,304 |
| 2029 | 55,000 | 7,876 | 220,000 | 6,116 | 275,000 | 13,991 |
| 2030 | 60,000 | 5,400 | - | - | 60,000 | 5,400 |
| 2031 | 60,000 | 2,700 | - | - | 60,000 | 2,700 |
| | <u>\$ 545,000</u> | <u>\$ 157,730</u> | <u>\$ 1,685,000</u> | <u>\$ 246,728</u> | <u>\$ 2,230,000</u> | <u>\$ 404,453</u> |

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

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

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

On July 15, 2019, the City dissolved the EDC operations. The EDC's assets and liabilities were transferred to the general fund as of July 16, 2019. Subsequent to the dissolution date, the City made principal and interest payments on the EDC's portion of the outstanding SHTC debt balance.

| Year ending September 30, | Sam Houston Town Center | | |
|------------------------------|-------------------------|------------------|-------------------|
| | Principal | Interest | Total |
| 2021 | \$ 411,793 | \$ 12,976 | \$ 424,769 |
| | <u>\$ 411,793</u> | <u>\$ 12,976</u> | <u>\$ 424,769</u> |

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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

| Year ending September 30, | Business-Type Activities | | |
|------------------------------|----------------------------|---------------------|---------------------|
| | Revenue Bonds, Series 2012 | | |
| | Principal | Interest | Total |
| 2021 | \$ 80,000 | \$ 82,753 | \$ 162,753 |
| 2022 | 80,000 | 81,009 | 161,009 |
| 2023 | 85,000 | 79,129 | 164,129 |
| 2024 | 85,000 | 76,996 | 161,996 |
| 2025 | 90,000 | 74,752 | 164,752 |
| 2026 | 95,000 | 72,286 | 167,286 |
| 2027 | 95,000 | 69,607 | 164,607 |
| 2028 | 100,000 | 66,880 | 166,880 |
| 2029 | 105,000 | 63,960 | 168,960 |
| 2030 | 105,000 | 60,831 | 165,831 |
| 2031 | 110,000 | 57,671 | 167,671 |
| 2032 | 115,000 | 54,305 | 169,305 |
| 2033 | 115,000 | 50,728 | 165,728 |
| 2034 | 120,000 | 47,083 | 167,083 |
| 2035 | 125,000 | 43,195 | 168,195 |
| 2036 | 130,000 | 39,082 | 169,082 |
| 2037 | 135,000 | 34,753 | 169,753 |
| 2038 | 140,000 | 30,204 | 170,204 |
| 2039 | 140,000 | 25,472 | 165,472 |
| 2040 | 145,000 | 20,726 | 165,726 |
| 2041 | 150,000 | 15,810 | 165,810 |
| 2042 | 155,000 | 10,702 | 165,702 |
| 2043 | 160,000 | 5,446 | 165,446 |
| | <u>\$ 2,660,000</u> | <u>\$ 1,163,380</u> | <u>\$ 3,823,380</u> |

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

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

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

| Year ending September 30, | Business-Type Activities | | |
|--------------------------------------|---|-----------------|---------------|
| | Certificates of Obligation - Series 2005, 2010, 2012A, 2013, 2016, 2017, and GO Refunding 2013 | | |
| | Principal | Interest | Total |
| 2021 | \$ 875,000 | \$ 674,675 | \$ 1,549,675 |
| 2022 | 910,000 | 642,981 | 1,552,981 |
| 2023 | 915,000 | 605,185 | 1,520,185 |
| 2024 | 820,000 | 576,807 | 1,396,807 |
| 2025 | 845,000 | 557,232 | 1,402,232 |
| 2026 | 875,000 | 536,492 | 1,411,492 |
| 2027 | 755,000 | 516,113 | 1,271,113 |
| 2028 | 780,000 | 494,763 | 1,274,763 |
| 2029 | 805,000 | 469,763 | 1,274,763 |
| 2030 | 830,000 | 443,713 | 1,273,713 |
| 2031 | 860,000 | 416,913 | 1,276,913 |
| 2032 | 960,000 | 388,913 | 1,348,913 |
| 2033 | 995,000 | 351,938 | 1,346,938 |
| 2034 | 1,040,000 | 313,613 | 1,353,613 |
| 2035 | 1,085,000 | 272,013 | 1,357,013 |
| 2036 | 1,130,000 | 228,613 | 1,358,613 |
| 2037 | 1,180,000 | 183,413 | 1,363,413 |
| 2038 | 1,235,000 | 136,213 | 1,371,213 |
| 2039 | 540,000 | 86,813 | 626,813 |
| 2040 | 565,000 | 66,563 | 631,563 |
| 2041 | 590,000 | 45,375 | 635,375 |
| 2042 | 620,000 | 23,250 | 643,250 |
| | \$ 19,210,000 | \$ 8,031,347 | \$ 27,241,347 |

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

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

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

Certificates of Obligation – Series 2012A issued March 2012, due in annual installments from August 1, 2014 through August 2027, bearing interest at 3.50% payable February 1 and August 1.

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.

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

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

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

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

F. Other Long-term Liabilities

The following is a summary of changes in the City’s other long-term liabilities for the year ended. In general, the City uses the general fund and proprietary fund to liquidate compensated absences.

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|--|----------------------|-----------------|-------------|-------------------|-----------------------------------|
| Governmental Activities: | | | | | |
| Compensated Absences | \$ 127,663 | \$ 4,107 | \$ - | \$ 131,770 | \$ 118,593 |
| Total Governmental Activities | \$ 127,663 | \$ 4,107 | \$ - | \$ 131,770 | \$ 118,593 |
| Long-term Liabilities Due in More than One Year | | | | \$ 13,177 | |
| Business-Type Activities: | | | | | |
| Compensated Absences | \$ 14,743 | \$ 5,953 | \$ - | \$ 20,696 | \$ 18,626 |
| Total Business-Type Activities | \$ 14,743 | \$ 5,953 | \$ - | \$ 20,696 | \$ 18,626 |
| Long-term Liabilities Due in More than One Year | | | | \$ 2,070 | |

H. Texas Water Development Board Compliance

Revenue Bonds

The City's Waterworks & Sewer System Revenue Bonds, Series 2012 require the City to accumulate and maintain funds as a reserve for the payment of the bonds. The City is required to deposit an amount which amount equals or exceeds the Average Annual Debt Service for the Bonds. All funds deposited in the reserve fund are to be used solely for the payment of the principal of and interest on the bonds when other funds available for such purposes are insufficient. As of September 30, 2020, the amount required to be deposited in the reserve fund

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

equaled \$161,695. The City's actual deposit of \$161,929 was above this amount and in compliance with the required covenant.

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, 2020, the amount required to be deposited in the interest and sinking fund equaled \$27,126. The City's actual deposit of \$131,641 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, 2020, 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 \$35,468. Current year amortization expense for business-type activities totaled \$5,911.

J. Customer Deposits

The City had customer deposits of \$126,617 in the water and sewer fund as of yearend. The City requires a refundable deposit for all new utility customers. This amount will be returned to the customer when utility service is discontinued and all outstanding utility expenses are paid.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

K. Interfund Transactions

Transfers between the primary government funds during the 2020 year were as follows:

| Transfer Out | Transfer In | Amount |
|-----------------------|-----------------------|--------------|
| General | | \$ (740,222) |
| Nonmajor governmental | | (112,776) |
| Water and Sewer | | (147,377) |
| | General | 14,059 |
| | Nonmajor governmental | 169,735 |
| | Water and sewer | 816,581 |
| | | \$ - |

Transfers between the primary government funds and discretely presented component units during the 2020 year were as follows:

| Transfer Out | Transfer In | Amount |
|-----------------------------------|-----------------------|--------------|
| Community Development Corporation | | \$ (163,118) |
| | General | 5,681 |
| | Nonmajor governmental | 120,641 |
| | Water and Sewer Fund | 36,796 |
| | | \$ - |

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

V. OTHER INFORMATION

A. Risk Management

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

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

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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

B. Contingent Liabilities

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

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

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City had not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

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 FINANCIAL STATEMENTS, Continued
September 30, 2020

D. Defined Benefit Pension Plans

Texas Municipal Retirement System

1. Plan Description

The City of Willis, Texas participates as one of 888 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (ACFR) that can be obtained at www.tMrs.com.

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

2. Benefits Provided

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

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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 2018</u> | <u>Plan Year 2019</u> |
|--|--------------------------|--------------------------|
| Employee deposit rate | 7% | 7% |
| Matching ratio (city to employee) | 2 to 1 | 2 to 1 |
| Years required for vesting | 5 | 5 |
| Service retirement eligibility (expressed as age / years of service) | 60/5, 0/20 | 60/5, 0/20 |
| Updated service credit | 100% Repeating Transfers | 100% Repeating Transfers |
| Annuity increase (to retirees) | 0% of CPI | 0% of CPI |
| Active Employees | Yes | Yes |
| Supplemental Death Benefit to Retirees | Yes | Yes |

Employees covered by benefit terms

At the December 31, 2019, valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|------------------|
| Inactive employees or beneficiaries currently receiving benefits | 22 |
| Inactive employees entitled to but not yet receiving benefits | 33 |
| Active employees | <u>40</u> |
| Total | <u>95</u> |

3. Contributions

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

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 9.95% and 9.46% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020, were \$206,723, and were equal to the required contributions.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2019, 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, 2019 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|--|
| Inflation | 2.5% per year |
| Overall payroll growth | 2.75% per year |
| Investment Rate of Return | 6.75% net of pension plan investment expense, including Inflation |

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

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

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

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

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 2020 are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|-----------------------|-------------------|---|
| 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 | 100.0% | |

Discount Rate

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

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

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

| 1% Decrease 5.75% | Current Single Rate Assumption 6.75% | 1% Increase 7.75% |
|----------------------|---|----------------------|
| \$ 1,323,602 | \$ 316,693 | \$ (502,990) |

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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Changes in the Net Pension Liability

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) – (b) |
|---|--|--|--|
| Balance at 12/31/18 | \$ 5,978,694 | \$ 5,203,953 | \$ 774,741 |
| Changes for the year: | | | |
| Service cost | 327,501 | - | 327,501 |
| Interest | 408,017 | - | 408,017 |
| Difference between expected and actual experience | (27,069) | - | (27,069) |
| Contributions – employer | - | 217,387 | (217,387) |
| Contributions – employee | - | 152,936 | (152,936) |
| Net investment income | - | 805,504 | (805,504) |
| Change of assumptions | 4,647 | - | 4,647 |
| Benefit payments, including refunds of emp. contributions | (195,494) | (195,494) | - |
| Administrative expense | - | (4,546) | 4,546 |
| Other changes | - | (137) | 137 |
| Net changes | 517,602 | 975,650 | (458,048) |
| Balance at 12/31/19 | \$ 6,496,296 | \$ 6,179,603 | \$ 316,693 |

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2020, the city recognized pension expense of \$195,398.

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred (Inflows) of Resources |
|---|---|--|
| Difference between projected and investment earnings | \$ - | \$ (183,185) |
| Differences between expected and actual economic experience | - | (128,213) |
| Differences in assumptions changes | 3,551 | - |
| Contributions subsequent to the measurement date | 156,001 | - |
| Total | \$ 159,552 | \$ (311,398) |

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

The City reported \$156,001 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, 2021. 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: | |
|--------------------------------|--------------|
| 2020 | \$ (107,578) |
| 2021 | (98,856) |
| 2022 | (9,295) |
| 2023 | (92,118) |
| 2024 | - |
| Thereafter | - |
| | \$ (307,847) |

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, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefits | 20 |
| Inactive employees entitled to but not yet receiving benefits | 9 |
| Active employees | 40 |
| Total | 69 |

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

The City's contributions to the TMRS SDBF for the fiscal years ended 2020, 2019 and 2018 were \$1,028, \$819 and \$663, respectively, which equaled the required contributions each year.

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

| Plan/ Calendar Year | Annual Required Contribution (Rate) | Actual Contribution Made (Rate) | Percentage of ARC Contributed |
|---------------------------|---|--|----------------------------------|
| 2018 | 0.03% | 0.03% | 100.00% |
| 2019 | 0.04% | 0.04% | 100.00% |
| 2020 | 0.05% | 0.05% | 100.00% |

Total OPEB Liability

The City's Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2019, 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, 2019 actuarial valuation was determined using the following actuarial assumptions:

| | |
|--|---|
| Inflation | 2.5% per year |
| Overall payroll growth | 3.5% to 10.5%, including inflation per year |
| Discount rate | 2.75% |
| 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.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 2.75%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019.

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 2.75%, 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 (1.75%) or 1-percentage-point higher (3.75%) than the current rate:

| 1% Decrease (1.75%) | Current Single Rate Assumption 2.75% | 1% Increase (3.75%) |
|------------------------|---|------------------------|
| \$ 170,022 | \$ 139,557 | \$ 116,191 |

Changes in the Total OPEB Liability:

| | Total OPEB Liability |
|--|-------------------------|
| Balance at 12/31/18 | \$ 106,188 |
| Changes for the year: | |
| Service Cost | 5,025 |
| Interest | 4,017 |
| Difference between expected and actual experience | 2,455 |
| Changes of assumptions | 22,746 |
| Benefit payments | (874) |
| Net changes | 33,369 |
| Balance at 12/31/19 | \$ 139,557 |

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

For the year ended September 30, 2020, the City recognized OPEB expense of \$12,320.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability from the following sources:

| | Deferred Outflows of Resources | Deferred (Inflows) of Resources |
|---|---|--|
| Differences between projected and investment earnings | \$ - | (2,924) |
| Differences between expected and actual economic experience | 18,070 | - |
| Contributions subsequent to measurement date | 824 | - |
| Total | \$ 18,894 | \$ (2,924) |

The City reported \$824 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, 2021. Other amounts reported as deferred outflows of resources related to pensions will be recognized in OPEB expense as follows:

Year ended December 31:

| | |
|------------|------------------|
| 2020 | \$ 3,278 |
| 2021 | 3,278 |
| 2022 | 3,031 |
| 2023 | 2,157 |
| 2024 | 3,402 |
| Thereafter | - |
| | \$ 15,146 |

F. Tax Abatement Disclosures

The City of Willis negotiates property tax abatement agreements on an individual basis. The City has tax abatement agreements with one entity as of September 30, 2020:

| Percentage of Sales Taxes Abated during the Fiscal Year | Amount of Sales Taxes Abated during the Fiscal Year | Percentage of Property Taxes Abated during the Fiscal Year | Amount of Property Taxes Abated during the Fiscal Year | Total |
|--|--|---|---|-------------------|
| 75% | \$ 302,653 | n/a | \$ 221,213 | \$ 523,866 |

In 2010 the City, EDC, & CDC entered into a 380 Economic Development agreement with A-S 103 Sam Houston Town Center, LP (Developer) to provide financial incentives to encourage and promote the development of the property thereby enhancing and stimulating business and commercial activity in the City. The developer was responsible for the construction of a mixed-use development known as the Sam Houston Town Center. The developer was responsible for all

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

project improvements. Project Improvements are expenditures required or suitable for infrastructure necessary to promote or develop new or expanded business enterprises (streets and roads, water and sewer utilities, drainage, site improvements, and related improvements). The developer was required to pay all costs estimated to be \$5,565,000. The City, EDC, & CDC are to pay the developer \$3,075,000 plus 7.5% interest, in the form of an economic development grant to reimburse the developer for the cost of the project improvements. Payments are structured as an abatement of property taxes and sales taxes generated from the development. Payments shall be made in installments beginning June 1, 2011 until paid off.

The agreement was negotiated under Article III, Section 52-a, Texas Constitution, and Chapter 380, Texas Local Gov't Code, stating that the City may establish and provide for the administration of a program for making loans and grants of public money to promote state or local economic development and to stimulate business and commercial activity in the municipality. Pursuant to the Development Corporation Act, Chapters 501 and 504, Texas Local Gov't Code, the City has created a 4A Development corporation, the Willis Economic Development Corporation, in order to assist with the development or operation of an economic development programs. Pursuant to the Development Corporation Act, Chapters 501 and 505, Texas Local Gov't Code, the City has created a 4B Development Corporation, the Willis Community Development Corporation in order to assist with the development or operation of an economic development programs. The agreement is in accordance with Section 501.103, Texas Local Gov't Code.

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

G. Subsequent Events

There were no material subsequent events through June 17, 2022, the date the financial statements were issued.

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REQUIRED SUPPLEMENTARY INFORMATION

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City of Willis, Texas

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

For the Year Ended September 30, 2020

| | Original & Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|----------------------------|---------------------|---|
| Revenues | | | |
| Property tax | \$ 1,935,000 | \$ 1,882,675 | \$ (52,325) |
| Sales tax | 2,310,000 | 2,815,148 | 505,148 |
| Franchise and local taxes | 320,000 | 371,598 | 51,598 |
| Permits and code enforcement | 101,680 | 265,372 | 163,692 |
| Sanitation | 312,100 | 359,715 | 47,615 |
| Intergovernmental | - | 8,662 | 8,662 |
| Fines and forfeitures | 103,800 | 154,519 | 50,719 |
| Interest | 5,000 | 18,002 | 13,002 |
| Other | 10,500 | 20,027 | 9,527 |
| Total Revenues | <u>5,098,080</u> | <u>5,895,718</u> | <u>797,638</u> |
| Expenditures | | | |
| General government | 1,265,226 | 634,103 | 631,123 |
| Community development | 384,350 | 343,776 | 40,574 |
| Public safety | 2,025,737 | 1,863,934 | 161,803 |
| Sanitation | 305,000 | 357,344 | (52,344) * |
| Court | 115,681 | 107,937 | 7,744 |
| Street | 591,698 | 502,780 | 88,918 |
| Debt Service: | | | |
| Principal | 197,400 | 441,741 | (244,341) * |
| Interest and fiscal charges | 148,346 | 30,824 | 117,522 |
| Total Expenditures | <u>5,033,438</u> | <u>4,282,439</u> | <u>750,999</u> |
| Revenues Over (Under) Expenditures | <u>64,642</u> | <u>1,613,279</u> | <u>1,548,637</u> |
| Other Financing Sources (Uses) | | | |
| Transfers in | - | 14,059 | 14,059 |
| Transfers (out) | - | (740,222) | (740,222) * |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>(726,163)</u> | <u>(726,163)</u> |
| Net Change in Fund Balance | <u>\$ 64,642</u> | <u>887,116</u> | <u>\$ 822,474</u> |
| Beginning fund balance | | <u>3,667,029</u> | |
| Ending Fund Balance | | <u>\$ 4,554,145</u> | |

Notes to Required Supplementary Information

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

* Expenditures exceeded appropriations at the legal level of control.

City of Willis, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Years Ended:

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

Notes to schedule:

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

| | <u>12/31/2017</u> | <u>12/31/2018</u> | <u>12/31/2019</u> |
|--|---------------------|---------------------|---------------------|
| | \$ 313,021 | \$ 309,059 | \$ 327,501 |
| | 356,132 | 386,761 | 408,017 |
| | (12,800) | (174,505) | (27,069) |
| | - | - | 4,647 |
| | <u>(165,487)</u> | <u>(235,756)</u> | <u>(195,494)</u> |
| | <u>490,866</u> | <u>285,559</u> | <u>517,602</u> |
| | <u>5,202,269</u> | <u>5,693,135</u> | <u>5,978,694</u> |
| | <u>5,693,135</u> | <u>5,978,694</u> | <u>6,496,296</u> |
| | \$ 205,395 | \$ 207,678 | \$ 217,387 |
| | 143,776 | 143,367 | 152,936 |
| | 617,280 | (157,381) | 805,504 |
| | (165,487) | (235,756) | (195,494) |
| | (3,197) | (3,039) | (4,546) |
| | (165) | (155) | (137) |
| | <u>797,602</u> | <u>(45,286)</u> | <u>975,650</u> |
| | <u>4,451,637</u> | <u>5,249,239</u> | <u>5,203,953</u> |
| | <u>\$ 5,249,239</u> | <u>\$ 5,203,953</u> | <u>\$ 6,179,603</u> |
| | <u>\$ 443,896</u> | <u>\$ 774,741</u> | <u>\$ 316,693</u> |
| | 92.20% | 87.04% | 95.13% |
| | \$ 2,053,946 | \$ 2,048,105 | \$ 2,184,798 |
| | 21.61% | 37.83% | 14.50% |

City of Willis, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Years Ended:

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

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

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|---|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Closed |
| Remaining Amortization Period | 26 years |
| Asset Valuation Method | 10 Year smoothed market; 12% soft corridor |
| Inflation | 2.5% |
| Salary Increases | 3.50% to 11.5% including inflation |
| Investment Rate of Return | 6.75% |
| Retirement Age | Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018 |

Mortality

Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
 Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes There were no benefit changes during the year.

| <u>9/30/2019</u> | <u>9/30/2020</u> ¹ |
|---------------------|-------------------------------|
| \$ 216,995 | \$ 206,723 |
| <u>\$ 216,995</u> | <u>\$ 206,723</u> |
| <u>\$ -</u> | <u>\$ -</u> |
| <u>\$ 2,171,380</u> | <u>\$ 2,158,824</u> |
| 9.99% | 9.58% |

City of Willis, Texas

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

Years Ended:

| | 12/31/2017 | 12/31/2018 | 12/31/2019 ¹ |
|--|-------------------------|-------------------------|--------------------------------|
| Total OPEB liability | | | |
| Service cost | \$ 4,724 | \$ 5,325 | \$ 5,025 |
| Interest | 3,716 | 3,817 | 4,017 |
| Changes in benefit terms | - | - | - |
| Differences between expected and actual experience | - | (7,534) | 2,455 |
| Changes of assumptions | 8,975 | (7,764) | 22,746 |
| Benefit payments, including refunds of participant contributions | (822) | (614) | (874) |
| Net change in total OPEB liability | 16,593 | (6,770) | 33,369 |
| Total OPEB liability - beginning | \$ 96,365 | \$ 112,958 | \$ 106,188 |
| Total OPEB liability - ending (a) | \$ 112,958 | \$ 106,188 | \$ 139,557 ² |
| Covered payroll | \$ 2,053,946 | \$ 2,048,105 | 2,184,798 |
| Total OPEB Liability as a percentage of covered payroll | 5.50% | 5.18% | 6.39% |

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.

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

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

TAX INCREMENT REINVESTMENT ZONE NO. 1 FUND (TIRZ)

The Tax Increment Reinvestment Zone No. 1 Fund was created to encourage and accelerate planned development within the City limits. The fund accounts for all tax and expenditure activity associated with the fund's primary purpose. This fund is considered nonmajor for reporting purposes.

HOTEL TAX FUND

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

DEBT SERVICE FUND

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

City of Willis, Texas
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2020

| | <u>Hotel Tax</u> | <u>TIRZ</u> | <u>Debt Service Fund</u> | <u>Total</u> |
|--|-------------------|-------------------|------------------------------|-------------------|
| <u>Assets</u> | | | | |
| Cash and cash equivalents | \$ 317,981 | \$ 199,460 | \$ 87,880 | \$ 605,321 |
| Receivables, net | - | - | 6,601 | 6,601 |
| Total Assets | \$ 317,981 | \$ 199,460 | \$ 94,481 | \$ 611,922 |
| <u>Deferred Inflows of Resources</u> | | | | |
| Unavailable revenue-property tax | - | - | 6,601 | 6,601 |
| Total Deferred Inflows of Resources | - | - | 6,601 | 6,601 |
| <u>Fund Balances</u> | | | | |
| Restricted for: | | | | |
| Tourism | 317,981 | - | - | 317,981 |
| Community development | - | 199,460 | - | 199,460 |
| Debt service | - | - | 87,880 | 87,880 |
| Total Fund Balances | 317,981 | 199,460 | 87,880 | 605,321 |
| Total Liabilities, Deferred Inflows and Fund Balances | \$ 317,981 | \$ 199,460 | \$ 94,481 | \$ 611,922 |

City of Willis, Texas

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

NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2020

| | Hotel Tax | TIRZ | Debt Service Fund | Total |
|---|------------|------------|----------------------|------------|
| <u>Revenues</u> | | | | |
| Property tax | \$ - | \$ 37,564 | \$ 82,992 | \$ 120,556 |
| Hotel occupancy tax | 3,400 | - | - | 3,400 |
| Intergovernmental | - | 29,216 | 120,641 | 149,857 |
| Interest | 1,542 | 88 | 141 | 1,771 |
| Total Revenues | 4,942 | 66,868 | 203,774 | 275,584 |
| <u>Expenditures</u> | | | | |
| Debt service: | | | | |
| Principal | - | - | 185,000 | 185,000 |
| Interest | - | - | 77,121 | 77,121 |
| Capital outlay | 4,598 | - | - | 4,598 |
| Total Expenditures | 4,598 | - | 262,121 | 266,719 |
| Revenues Over (Under) | | | | |
| Expenditures | 344 | 66,868 | (58,347) | 8,865 |
| <u>Other Financing Sources (Uses)</u> | | | | |
| Transfers in | - | - | 169,735 | 169,735 |
| Transfers (out) | (1,529) | - | (111,247) | (112,776) |
| Total Other Financing Sources (Uses) | (1,529) | - | 58,488 | 56,959 |
| Net Change in Fund Balances | (1,185) | 66,868 | 141 | 65,824 |
| Beginning fund balances | 319,166 | 132,592 | 87,739 | 539,497 |
| Ending Fund Balances | \$ 317,981 | \$ 199,460 | \$ 87,880 | \$ 605,321 |

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City of Willis, Texas

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

For the Year Ended September 30, 2020

| | Original and Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|------------------------------|-----------|---|
| <u>Revenues</u> | | | |
| Property tax | \$ 83,000 | \$ 82,992 | \$ (8) |
| Interest | 100 | 141 | 41 |
| Intergovernmental | - | 120,641 | 120,641 |
| Total Revenues | 83,100 | 203,774 | 120,674 |
| <u>Expenditures</u> | | | |
| Debt Service: | | | |
| Principal | 66,750 | 185,000 | (118,250) * |
| Interest and fiscal charges | 11,485 | 77,121 | (65,636) * |
| Total Expenditures | 78,235 | 262,121 | (183,886) |
| Revenues Over (Under) Expenditures | 4,865 | (58,347) | (63,212) |
| <u>Other Financing Sources (Uses)</u> | | | |
| Transfers in | - | 169,735 | 169,735 |
| Transfers (out) | - | (111,247) | (111,247) * |
| Total Other Financing Sources (Uses) | - | 58,488 | 58,488 |
| Net Change in Fund Balance | \$ 4,865 | 141 | \$ (4,724) |
| Beginning fund balance | | 87,739 | |
| Ending Fund Balance | | \$ 87,880 | |

Notes to Supplementary Information

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

* Expenditures exceeded appropriations at the legal level of control.

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City of Willis, Texas
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - BUDGET AND ACTUAL
COMMUNITY DEVELOPMENT CORPORATION
For the Year Ended September 30, 2020

| | Original and Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|--------------------------------------|---------------|---|
| <u>Revenues</u> | | | |
| Sales tax | \$ 515,000 | \$ 692,099 | \$ 177,099 |
| Interest | 10,000 | 17,073 | 7,073 |
| Total Revenues | 525,000 | 709,172 | 184,172 |
| <u>Expenses</u> | | | |
| Community development | 1,409,901 | 1,156,345 | 253,556 |
| Debt Service: | | | |
| Principal | 64,275 | - | 64,275 |
| Interest and fiscal charges | 39,012 | 1,214 | 37,798 |
| Total Expenses | 1,513,188 | 1,157,559 | 355,629 |
| Revenues Over (Under) Expenditures | (988,188) | (448,387) | 539,801 |
| Net Change in Net Position | \$ (988,188) | (448,387) | \$ 539,801 |
| Beginning net position | | 1,957,623 | |
| Ending Net Position | | \$ 1,509,236 | |

Notes to Supplementary Information

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