

Annual Financial Report
For The Fiscal Year Ended
September 30, 2017



City of Willis

200 North Bell | Willis, TX 77378 | 936.856.4611

ANNUAL FINANCIAL REPORT

of the

City of Willis, Texas

**For the Year Ended
September 30, 2017**

(This page intentionally left blank.)

City of Willis, Texas

TABLE OF CONTENTS

September 30, 2017

FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis	7

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Position	18
Statement of Activities	20

Fund Financial Statements

Governmental Funds:

Balance Sheet	22
Reconciliation of the Balance Sheet to the Statement of Net Position- Governmental Funds	23
Statement of Revenues, Expenditures, and Changes in Fund Balance- Governmental Funds	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25

Proprietary Funds:

Statement of Net Position	26
Statement of Revenues, Expenses, and Changes in Fund Net Position	27
Statement of Cash Flows	28

Notes to Financial Statements	31
--------------------------------------	----

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual - General Fund	71
Schedule of Changes in Net Pension Liability and Related Ratios	72
Schedule of Employer Contributions to Pension Plan	73

COMBINING AND INDIVIDUAL FUND STATEMENTS

Combining Balance Sheet – Nonmajor Governmental Funds	78
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds	79
Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual – Debt Service Fund	81

Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual – Community Development Corporation	82
Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual – Economic Development Corporation	83



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Willis, Texas (the "City"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2017 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note IV.F. to the financial statements, the City restated its beginning fund balance and net position within governmental activities, the general fund, and the discretely presented component. The restatement was a result of correction of accounting errors and changes to the financial statement presentation of the City's component units. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Brooks Watson & Co.
Certified Public Accountants
Houston, Texas
February 16, 2018

(This page intentionally left blank.)

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

(This page intentionally left blank.)

City of Willis, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2017

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, 2017. 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 \$8,223,226 at September 30, 2017.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$1,628,379, an increase of \$424,007.
- As of the end of the year, the unassigned fund balance of the general fund was \$1,165,585 or 24% of total general fund expenditures.
- The City had an overall increase in net position of \$1,825,549.
- The City's net pension liability totaled \$750,632 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, 2017

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, 2017

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, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Willis, assets exceed liabilities by \$8,223,226 as of September 30, 2017, in the primary government.

The largest portion of the City's net position, \$8,200,932, 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:

	2017			2016		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities		Activities	Activities	
Current and other assets	\$ 1,905,237	\$ 10,907,013	\$ 12,812,250	\$ 1,612,001	\$ 3,834,780	\$ 5,446,781
Capital assets, net	8,608,286	17,223,780	25,832,066	7,688,995	16,724,488	24,413,483
Total Assets	10,513,523	28,130,793	38,644,316	9,300,996	20,559,268	29,860,264
Deferred Outflows of Resources	315,787	142,270	458,057	322,287	150,014	472,301
Other liabilities	208,640	826,587	1,035,227	339,030	2,230,033	2,569,063
Long-term liabilities	4,929,270	24,826,672	29,755,942	5,339,079	16,026,746	21,365,825
Total Liabilities	5,137,910	25,653,259	30,791,169	5,678,109	18,256,779	23,934,888
Deferred inflows of Resources	68,623	19,355	87,978	-	-	-
Net Position:						
Net investment in capital assets	5,844,807	2,356,125	8,200,932	4,748,995	2,864,427	7,613,422
Restricted	462,794	-	462,794	464,959	-	464,959
Unrestricted	(684,824)	244,324	(440,500)	(1,268,780)	(411,924)	(1,680,704)
Total Net Position	\$ 5,622,777	\$ 2,600,449	\$ 8,223,226	\$ 3,945,174	\$ 2,452,503	\$ 6,397,677

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2017

Statement of Activities:

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

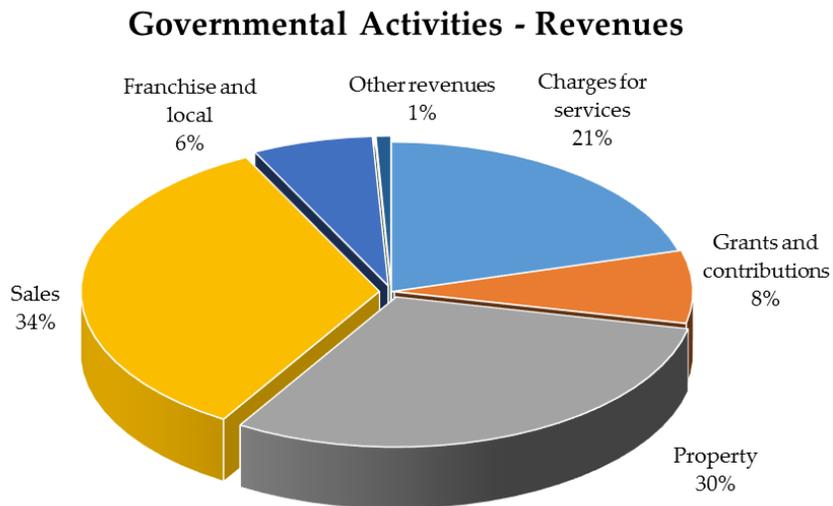
	For the Year Ended September 30, 2017			For the Year Ended September 30, 2016		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 1,041,996	\$ 2,253,170	\$ 3,295,166	\$ 771,444	\$ 2,095,677	\$ 2,867,121
Grants and contributions	395,668	1,792,722	2,188,390	92,293	1,091,958	1,184,251
General revenues:						
Property	1,534,867	-	1,534,867	1,410,453	-	1,410,453
Sales	1,715,227	-	1,715,227	1,653,034	-	1,653,034
Franchise and local	330,192	-	330,192	317,232	-	317,232
Interest	1,950	34,285	36,235	1,084	4,030	5,114
Other revenues	41,054	16,137	57,191	40,122	1,353	41,475
Total Revenues	5,060,954	4,096,314	9,157,268	4,285,662	3,193,018	7,478,680
				-	-	
Expenses						
General government	655,070	-	655,070	1,028,408	-	1,028,408
Community development	274,038	-	274,038	172,561	-	172,561
Public safety	1,654,115	-	1,654,115	1,654,418	-	1,654,418
Sanitation	265,394	-	265,394	263,781	-	263,781
Street	939,488	-	939,488	680,320	-	680,320
Water & sewer	-	2,738,322	2,738,322	-	2,504,691	2,504,691
Interest and fiscal charges	177,077	628,215	805,292	18,322	519,375	537,697
Total Expenses	3,965,182	3,366,537	7,331,719	3,817,810	3,024,066	6,841,876
Change in Net Position						
Before Transfers	1,095,772	729,777	1,825,549	467,852	168,952	636,804
Transfers	581,831	(581,831)	-	3,389,685	(3,389,685)	-
Total	581,831	(581,831)	-	3,389,685	(3,389,685)	-
Change in Net Position	1,677,603	147,946	1,825,549	3,857,537	(3,220,733)	636,804
Beginning Net Position	3,945,174	2,452,503	6,397,677	87,637	5,673,236	5,760,873
Ending Net Position	\$ 5,622,777	\$ 2,600,449	\$ 8,223,226	\$ 3,945,174	\$ 2,452,503	\$ 6,397,677

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2017

Current and other assets for business-type activities increased \$7,072,233 compared to the prior year, which is primarily a result of the increase in cash on hand as relating to the issuance of \$9,500,000 Certificates of Obligation. Long-term liabilities for business-type activities increased \$8,799,926 due to aforementioned Certificate of Obligation issuance in the current year.

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:



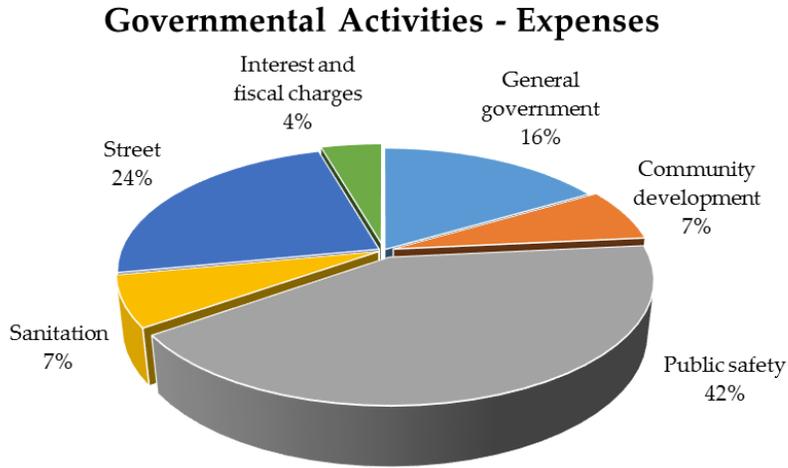
For the year ended September 30, 2017, revenues from governmental activities totaled \$5,060,954. Sales taxes, property taxes, and charges for services are the City's largest revenue sources. Property tax revenue increased \$124,414 or 9% due to an increase in the assessed values of the properties. Charges for services increased by \$270,552 or 35% as a result of significant federal seizure revenue. Grants and contributions increased by \$303,375 or 329% due to several nonrecurring grants received in the current year as well as transfers from the CDC and EDC. All other revenues remained relatively stable when compared to the previous year.

City of Willis, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2017

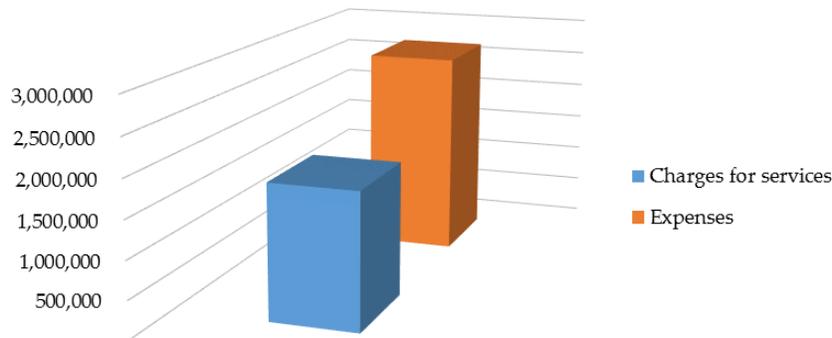
This graph shows the governmental function expenses of the City:



For the year ended September 30, 2017, expenses for governmental activities totaled \$3,965,182. This represents an increase of \$147,372 or 4% from the prior year. The City's largest functional expenses are general government of \$655,070, public safety of \$1,654,115, and street expenditures of \$939,488. General government expenses decreased by \$373,338 or 36% due primarily to a reduction in salaries and benefits. Community development increased by \$101,477 or 59% due to an increase in development grants and projects in the current year. Streets increased by \$259,168 or 38% primarily due to depreciation of street improvement related assets and street projects. Remaining 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



For the year ended September 30, 2017, charges for services by business-type activities totaled \$2,253,170. This is an increase of \$157,493 or 8% from the previous year. This primary reason for this increase is due to an increase in the utility rates and an increase in the City's customer base. Grants and

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2017

contributions increased by \$700,764 or 64% due to increased funding from the San Jacinto River Authority for the construction of cooling towers.

Total expenses increased \$342,471 or 11%. This increase is due to a combination of an increase in wastewater collection expenses, water distribution costs. Interest and fiscal charges increased by \$158,755 as a result of new bond issuances in the current year and prior year. All other expenses remained relatively consistent.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

As of the end of the year the general fund reflected a total fund balance of \$1,165,585, all of which is unassigned. Unassigned fund balance equaled 24% of total annual general fund expenditures. The general fund had an increase in fund balance of \$426,172 during the year. Property taxes increased by \$137,714 due to an increase in the assessed values of the properties. The general fund also saw increases in intergovernmental revenue as well as fines and forfeitures which is a result of significant federal seizure revenue as well as new grant revenue. The largest change in governmental expenditures was in streets of \$126,876 which is due to an increase in street projects.

Overall there was an increase in governmental fund balance of \$424,007 over the prior year. This was the result of increases in the general fund noted above, an increase in the nonmajor hotel tax fund of \$24,220, an increase in the nonmajor TIRZ fund of \$25,590, and a decrease in the nonmajor debt service fund of \$795.

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 \$382,015 in the general fund. Revenues had a positive variance for the year of \$842,451, combined with a negative expenditure variance of \$1,257,624. Other financing sources had a positive budget variance of \$797,188.

City of Willis, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2017

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$8,608,286 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$17,223,780 in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

- Paving improvements totaling \$1,266,490
- West Side Loop construction of \$67,813
- Cooling tower investments of \$1,131,550
- East Stewart Creek lift station of \$114,255
- FM 1097 East Utility Extension of \$65,859

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 \$28,727,170. The City issued \$9,500,000 of certificates of obligation during the year. Payments on debt obligations totaled \$1,079,892 during the year.

More detailed information about the City's long-term liabilities is presented in note IV. E to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

(This page intentionally left blank.)

FINANCIAL STATEMENTS

City of Willis, Texas
STATEMENT OF NET POSITION
September 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 1,295,871	\$ 7,794	\$ 1,303,665
Restricted cash	-	10,171,693	10,171,693
Investments	143,307	214,074	357,381
Receivables, net	465,759	456,858	922,617
Inventory	-	56,594	56,594
Deposits	300	-	300
Total Current Assets	1,905,237	10,907,013	12,812,250
Capital assets:			
Non-depreciable	492,043	1,313,606	1,805,649
Depreciable, net	8,116,243	15,910,174	24,026,417
	8,608,286	17,223,780	25,832,066
Total Assets	10,513,523	28,130,793	38,644,316
<u>Deferred Outflows of Resources</u>			
Deferred charge on refunding	-	53,202	53,202
Pension contributions	121,634	34,307	155,941
Pension investment earnings	143,578	40,496	184,074
Pension assumption changes	50,575	14,265	64,840
Total Deferred Outflows of Resources	315,787	142,270	458,057
<u>Liabilities</u>			
Accounts payable and accrued liabilities	208,640	386,806	595,446
Customer deposits	-	105,114	105,114
Unearned revenue - advance funding	-	334,667	334,667
	208,640	826,587	1,035,227
Noncurrent liabilities:			
Due within one year	414,025	848,345	1,262,370
Due in more than one year	4,515,245	23,978,327	28,493,572
	4,929,270	24,826,672	29,755,942
Total Liabilities	5,137,910	25,653,259	30,791,169
<u>Deferred Inflows of Resources</u>			
Pension (gains) losses	68,623	19,355	87,978
Total Deferred Inflows of Resources	68,623	19,355	87,978
<u>Net Position</u>			
Net investment in capital assets	5,844,807	2,356,125	8,200,932
Restricted for:			
Debt service	69,081	-	69,081
Tourism	281,424	-	281,424
Community development	112,289	-	112,289
Economic development	-	-	-
Unrestricted	(684,824)	244,324	(440,500)
Total Net Position	\$ 5,622,777	\$ 2,600,449	\$ 8,223,226

See Notes to Financial Statements.

Component Units

Community Development Corporation	Economic Development Corporation
\$ 961,282	\$ 635,594
-	-
820,599	548,354
99,950	99,950
-	-
-	-
1,881,831	1,283,898
-	-
-	-
-	-
1,881,831	1,283,898
-	-
-	-
-	-
-	-
-	-
-	-
2,743	2,743
-	-
-	-
2,743	2,743
25,675	25,675
292,210	292,210
317,885	317,885
320,628	320,628
-	-
-	-
-	-
-	-
1,561,203	-
-	963,270
-	-
\$ 1,561,203	\$ 963,270

City of Willis, Texas
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 655,070	\$ -	\$ 395,668
Community development	274,038	93,045	-
Public safety	1,654,115	659,758	-
Sanitation	265,394	289,193	-
Street	939,488	-	-
Interest and fiscal charges	177,077	-	-
Total Governmental Activities	3,965,182	1,041,996	395,668
Business-Type Activities			
Water & Sewer	3,366,537	2,253,170	1,792,722
Total Business-Type Activities	3,366,537	2,253,170	1,792,722
Total Primary Government	\$ 7,331,719	\$ 3,295,166	\$ 2,188,390
 Component Units			
Community development	220,719	-	-
Economic development	649,833	-	-
Total Component Units	\$ 870,552	-	\$ -
General Revenues:			
Taxes:			
Property			
Sales			
Franchise and local			
Interest			
Other revenues			
Transfers			
Total General Revenues and Transfers			
Change in Net Position			
Beginning Net Position			
Ending Net Position			

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Community Development Corporation	Economic Development Corporation
\$ (259,402)	\$ -	\$ (259,402)	\$ -	\$ -
(180,993)	-	(180,993)	-	-
(994,357)	-	(994,357)	-	-
23,799	-	23,799	-	-
(939,488)	-	(939,488)	-	-
(177,077)	-	(177,077)	-	-
<u>(2,527,518)</u>	<u>-</u>	<u>(2,527,518)</u>	<u>-</u>	<u>-</u>
-	679,355	679,355	-	-
-	679,355	679,355	-	-
<u>(2,527,518)</u>	<u>679,355</u>	<u>(1,848,163)</u>	<u>-</u>	<u>-</u>
			(220,719)	-
			-	(649,833)
			<u>(220,719)</u>	<u>(649,833)</u>
1,534,867	-	1,534,867	-	-
1,715,227	-	1,715,227	506,493	507,219
330,192	-	330,192	-	-
1,950	34,285	36,235	5,777	5,873
41,054	16,137	57,191	-	-
581,831	(581,831)	-	-	-
<u>4,205,121</u>	<u>(531,409)</u>	<u>3,673,712</u>	<u>512,270</u>	<u>513,092</u>
1,677,603	147,946	1,825,549	291,551	(136,741)
3,945,174	2,452,503	6,397,677	1,269,652	1,100,011
<u>\$ 5,622,777</u>	<u>\$ 2,600,449</u>	<u>\$ 8,223,226</u>	<u>\$ 1,561,203</u>	<u>\$ 963,270</u>

City of Willis, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2017

	General	Nonmajor	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 952,772	\$ 343,099	\$ 1,295,871
Investments	23,612	119,695	143,307
Receivables, net	459,142	6,617	465,759
Deposits	300	-	300
Total Assets	\$ 1,435,826	\$ 469,411	\$ 1,905,237
 <u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 181,539	\$ -	\$ 181,539
Total Liabilities	181,539	-	181,539
 <u>Deferred Inflows of Resources</u>			
Unavailalbe revenue-property tax	88,702	6,617	95,319
Total Deferred Inflows of Resources	88,702	6,617	95,319
 <u>Fund Balances</u>			
Restricted for:			
Tourism	-	281,424	281,424
Community development	-	112,289	112,289
Debt service	-	69,081	69,081
Unassigned reported in:			
General fund	1,165,585	-	1,165,585
Total Fund Balances	1,165,585	462,794	1,628,379
Total Liabilities, Deferred Inflows and Fund Balances	\$ 1,347,124	\$ 462,794	\$ 1,809,918

See Notes to Financial Statements.

City of Willis, Texas
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
September 30, 2017

Fund Balances - Total Governmental Funds	\$ 1,628,379
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	492,043
Capital assets - net depreciable	8,116,243
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	95,319
Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expenditure) until then.	
Pension contributions	121,634
Pension investment earnings	143,578
Pension assumption changes	50,575
Deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.	
Pension assumption changes and (gains) losses	(68,623)
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(27,101)
Compensated absences	(136,607)
Net pension liability	(585,493)
Non-current liabilities due in one year	(291,079)
Non-current liabilities due in more than one year	(3,916,091)
Net Position of Governmental Activities	\$ 5,622,777

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, 2017

	General	Nonmajor	Total Governmental Funds
<u>Revenues</u>			
Property tax	\$ 1,433,957	\$ 89,776	\$ 1,523,733
Sales tax	1,715,227	-	1,715,227
Franchise and local taxes	306,428	23,764	330,192
Permits and code enforcement	93,045	-	93,045
Sanitation	289,193	-	289,193
Intergovernmental	365,182	30,486	395,668
Fines and forfeitures	659,758	-	659,758
Interest	1,357	593	1,950
Other	41,054	-	41,054
Total Revenues	4,905,201	144,619	5,049,820
<u>Expenditures</u>			
Current:			
General government	505,432	4,622	510,054
Community development	488,085	-	488,085
Public safety	1,646,485	-	1,646,485
Sanitation	265,394	-	265,394
Court	101,762	-	101,762
Street	536,128	-	536,128
Debt Service:			
Principal	-	170,000	170,000
Interest and fiscal charges	71,977	93,585	165,562
Capital outlay	1,324,174	-	1,324,174
Total Expenditures	4,939,437	268,207	5,207,644
Excess of Revenues Over (Under) Expenditures	(34,236)	(123,588)	(157,824)
<u>Other Financing Sources (Uses)</u>			
Transfers in	1,036,579	211,936	1,248,515
Transfers (out)	(576,171)	(90,513)	(666,684)
Total Other Financing Sources (Uses)	460,408	121,423	581,831
Net Change in Fund Balances	426,172	(2,165)	424,007
Beginning fund balances	739,413	464,959	1,204,372
Ending Fund Balances	\$ 1,165,585	\$ 462,794	\$ 1,628,379

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, 2017

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

Net changes in fund balances - total governmental funds	\$	424,007
---	----	---------

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	1,500,083
Depreciation expense	(580,792)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	11,134
--	--------

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	68
Accrued interest	(11,515)
Pension expense	(54,225)

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	388,843
--------------------	---------

Change in Net Position of Governmental Activities	\$	1,677,603
--	-----------	------------------

See Notes to Financial Statements.

City of Willis, Texas
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2017

		<u>Water & Sewer</u>
<u>Assets</u>		
Cash and cash equivalents	\$	7,794
Restricted cash		10,171,693
Investments		214,074
Receivables, net		456,858
Inventory		56,594
Capital assets:		
Non-depreciable capital assets		1,313,606
Depreciable capital assets, net		15,910,174
Total Capital Assets		<u>17,223,780</u>
Total Assets		<u>28,130,793</u>
<u>Deferred Outflows of Resources</u>		
Deferred charge on refunding		53,202
Pension contributions		34,307
Pension changes in assumptions		14,265
Pension investment earnings		40,496
Total Deferred Outflows of Resources		<u>142,270</u>
<u>Liabilities</u>		
Accounts payable and accrued liabilities		246,075
Accrued interest		140,731
Customer deposits		105,114
Unearned revenue - advance funding		334,667
Noncurrent Liabilities:		
Due within one year		848,345
Due in more than one year		23,978,327
Total Liabilities		<u>25,653,259</u>
<u>Deferred Inflows of Resources</u>		
Pension (gains) losses		19,355
Total Deferred Inflows of Resources		<u>19,355</u>
<u>Net Position</u>		
Net investment in capital assets		2,356,125
Unrestricted		244,324
Total Net Position	\$	<u><u>2,600,449</u></u>

See Notes to Financial Statements.

City of Willis, Texas

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

For the Year Ended September 30, 2017

	Water & Sewer
<u>Operating Revenues</u>	
Water sales	\$ 1,400,879
Sewer revenue	736,643
Penalties and service charges	90,223
Tap fees	25,425
Other revenue	16,137
Total Operating Revenues	2,269,307
 <u>Operating Expenses</u>	
Cost of water	433,864
Cost of sewer	535,608
Operating expenses	68,650
Salary and wages	660,882
Depreciation	1,039,318
Total Operating Expenses	2,738,322
Operating Income (Loss)	(469,015)
 <u>Nonoperating Revenues (Expenses)</u>	
Investment income	34,285
Interest expense	(628,215)
Total Nonoperating Revenues (Expenses)	(593,930)
Income (Loss) Before Capital Contributions and Transfers	(1,062,945)
Capital contributions	1,792,722
Transfers in	662,855
Transfers (out)	(1,244,686)
Change in Net Position	147,946
Beginning net position	2,452,503
Ending Net Position	\$ 2,600,449

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, 2017

	Water & Sewer
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 1,254,030
Payments to employees	(645,588)
Payments to suppliers	(1,608,280)
Net Cash Provided (Used) by Operating Activities	(999,838)
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfer in	662,855
Transfer (out)	(1,244,686)
Net Cash Provided (Used) by Noncapital Financing Activities	(581,831)
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(1,538,610)
Capital contributions	1,792,722
Issuance of capital debt	9,500,000
Principal paid on debt	(691,049)
Interest paid on debt	(570,183)
Net Cash Provided (Used) by Capital and Related Financing Activities	8,492,880
<u>Cash Flows from Investing Activities</u>	
Purchase of investments	(154)
Interest on investments	34,285
Net Cash Provided (Used) by Investing Activities	34,131
Net Increase (Decrease) in Cash and Cash Equivalents	6,945,342
Beginning cash and cash equivalents	3,234,145
Ending Cash and Cash Equivalents	\$ 10,179,487

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, 2017

	Water & Sewer
<u>Reconciliation of Operating Income</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Operating Income (Loss)	\$ (469,015)
Adjustments to reconcile operating income to net cash provided (used):	
Depreciation	1,039,318
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(161,744)
Inventory	35,007
Deferred Outflows of Resources:	
Pension contributions	(3,803)
Investment experience	14,310
Assumption changes	(14,265)
Increase (Decrease) in:	
Accounts payable	(608,100)
Customer deposits	2,935
Net pension liability	(5,894)
Deferred Inflows of Resources:	
Actual experience vs. assumption	24,946
Advance funding	(853,533)
Net Cash Provided (Used) by Operating Activities	\$ (999,838)

See Notes to Financial Statements.

(This page intentionally left blank.)

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

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

B. Reporting Entity

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

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

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

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

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2017

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

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

Discreetly Presented Component Units

Willis Community Development Corporation

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

Willis Economic Development Corporation

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

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2017

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

Blended Component Units

Tax Increment Reinvestment Zone No. 1 Fund

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

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

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

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

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

The government reports the following major governmental fund:

General Fund

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

Proprietary Fund Types

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

Water and Sewer Fund

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

Additionally, the government reports the following fund types:

Special Revenue Funds

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

Debt Service Fund

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

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

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

D. Measurement Focus and Basis of Accounting

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

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

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

E. Estimates

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

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.

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2017

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

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

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

2. Fair Value

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

3. Receivables and Interfund Transactions

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

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

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

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2017

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 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.

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2017

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

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.

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2017

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 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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

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, 2017, the accrued and unpaid compensated absences liability was \$162,546.

12. Long-Term Obligations

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

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

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

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

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.

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

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

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2017

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

General fund:

Community Development	\$ 209,035
Public Safety	\$ 29,422
Sanitation	\$ 394
Street	\$ 25,715
Interest and fiscal charges	\$ 71,977
Capital outlay	\$ 1,324,174
Transfers (out)	\$ 239,391

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

Debt service fund:	
Principal	\$ 68,450
Interest and fiscal charges	\$ 60,017
Transfers (out)	\$ 90,513
Economic development corporation fund:	
Economic development	\$ 201,354

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2017, the primary government had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 357,381	0.60
External investment pools	182,732	0.07
Total fair value	<u>\$ 540,113</u>	
Portfolio weighted average maturity		0.42

As of September 30, 2017, the City's component units had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 1,368,953	0.15
External investment pools	1,047,458	0.07
Total fair value	<u>\$ 2,416,411</u>	
Portfolio weighted average maturity		0.12

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

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2017

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, 2017, the City's investment in TexSTAR was rated AAAM by Standard & Poor's.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The City's investment policy requires funds on bank deposit at the depository bank to be collateralized by securities with a collective market value (market value of the principal and accrued interest) of at least 102%. As of September 30, 2017, 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.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

B. Fair Value Measurement

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

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

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

C. Receivables

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

	<u>General</u>	<u>Debt Service</u>	<u>Water & Sewer</u>	<u>Total</u>
Property taxes	\$ 88,701	\$ 6,617	\$ -	\$ 95,318
Sales tax	347,036	-	-	347,036
Franchise taxes	23,405	-	-	23,405
Accounts	-	-	869,260	869,260
Allowance	-	-	(412,402)	(412,402)
	<u>\$ 459,142</u>	<u>\$ 6,617</u>	<u>\$ 456,858</u>	<u>\$ 922,617</u>

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

	<u>Community Development Corporation</u>	<u>Economic Development Corporation</u>	<u>Total</u>
Sales tax	\$ 99,950	\$ 99,950	\$ 199,900
	<u>\$ 99,950</u>	<u>\$ 99,950</u>	<u>\$ 199,900</u>

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

D. Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 482,044	\$ -	\$ -	\$ 482,044
Construction in process	4,089,528	1,344,302	(5,423,831)	9,999
Total capital assets not being depreciated	<u>4,571,572</u>	<u>1,344,302</u>	<u>(5,423,831)</u>	<u>492,043</u>
Capital assets, being depreciated:				
Buildings and improvements	1,499,333	-	-	1,499,333
Roads	3,531,509	-	5,423,831	8,955,340
Vehicles & equipment	1,203,604	155,781	-	1,359,385
Park improvements	255,108	-	-	255,108
Total capital assets being depreciated	<u>6,489,554</u>	<u>155,781</u>	<u>5,423,831</u>	<u>12,069,166</u>
Less accumulated depreciation				
Buildings and improvements	(620,606)	(53,349)	-	(673,955)
Roads	(1,593,107)	(472,357)	-	(2,065,464)
Vehicles & equipment	(1,072,418)	(46,748)	-	(1,119,166)
Park improvements	(86,000)	(8,338)	-	(94,338)
Total accumulated depreciation	<u>(3,372,131)</u>	<u>(580,792)</u>	<u>-</u>	<u>(3,952,923)</u>
Net capital assets being depreciated	3,117,423	(425,011)	5,423,831	8,116,243
Total Net Capital Assets	<u>\$ 7,688,995</u>	<u>\$ 919,291</u>	<u>\$ -</u>	<u>\$ 8,608,286</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 73,569
Public safety	34,866
Streets	472,357
Total Governmental Activities Depreciation Expense	<u>\$ 580,792</u>

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 1,789,144	\$ 1,473,410	\$ (1,948,948)	\$ 1,313,606
Total capital assets not being depreciated	<u>1,789,144</u>	<u>1,473,410</u>	<u>(1,948,948)</u>	<u>1,313,606</u>
Capital assets, being depreciated:				
Water system	16,515,383	26,800	1,557,615	18,099,798
Sewer system	8,106,910	38,400	391,333	8,536,643
Equipment and equipment	939,092	-	-	939,092
Total capital assets being depreciated	<u>25,561,385</u>	<u>65,200</u>	<u>1,948,948</u>	<u>27,575,533</u>
Less accumulated depreciation				
Water system	(5,744,045)	(611,967)	-	(6,356,012)
Sewer system	(4,342,568)	(346,194)	-	(4,688,762)
Equipment and equipment	(539,428)	(81,157)	-	(620,585)
Total accumulated depreciation	<u>(10,626,041)</u>	<u>(1,039,318)</u>	<u>-</u>	<u>(11,665,359)</u>
Net capital assets being depreciated	14,935,344	(974,118)	1,948,948	15,910,174
Total Net Capital Assets	<u>\$ 16,724,488</u>	<u>\$ 499,292</u>	<u>\$ -</u>	<u>\$ 17,223,780</u>

All depreciation was charged to the water and sewer fund.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

E. Long-term Debt

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Bonds and other payables:					
Certificates of Obligation	\$ 2,940,000	\$ -	\$ (170,000)	\$ 2,770,000	\$ 175,000
Other liabilities:					
SHTC Developer Agreement	1,656,013	-	(218,843)	1,437,170	116,079
Net pension liability	606,391	-	(20,898)	585,493	-
Compensated absences	136,675	136,607	(136,675)	136,607	122,946
Total Governmental Activities	<u>\$ 5,339,079</u>	<u>\$ 136,607</u>	<u>\$ (546,416)</u>	<u>\$ 4,929,270</u>	<u>\$ 414,025</u>
Long-term liabilities due in more than one year				<u>\$ 4,515,245</u>	
Business-Type Activities:					
Bonds, leases, and other payables:					
Capital lease	\$ 71,049	\$ -	\$ (71,049)	\$ -	\$ -
Revenue Bonds	2,950,000	-	(70,000)	2,880,000	70,000
General Obligation Refunding	3,390,000	-	(425,000)	2,965,000	425,000
Certificates of Obligation	9,300,000	9,500,000	(125,000)	18,675,000	330,000
Deferred amounts:					
Bond premium	118,725	9,091	(12,222)	115,594	-
Other liabilities:					
Net pension liability	171,033	-	(5,894)	165,139	-
Compensated absences	25,939	-	-	25,939	23,345
Total Business-Type Activities	<u>\$ 16,026,746</u>	<u>\$ 9,509,091</u>	<u>\$ (709,165)</u>	<u>\$ 24,826,672</u>	<u>\$ 848,345</u>
Long-term liabilities due in more than one year				<u>\$ 23,978,327</u>	
Discretely Presented Component Units:					
Other liabilities:					
SHTC Developer Agreement	\$ 868,732	\$ -	\$ (232,962)	\$ 635,770	\$ 51,350
Total Discretely Presented Component Units	<u>\$ 868,732</u>	<u>\$ -</u>	<u>\$ (232,962)</u>	<u>\$ 635,770</u>	<u>\$ 51,350</u>
Long-term liabilities due in more than one year				<u>\$ 584,420</u>	

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

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.

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	\$ 650,000
Certificates of Obligation - Series 2014	2.78%	2,500,000	2,120,000
SHTC Developer Agreement	4.50%	2,029,500	1,437,170
Total Governmental Activities		\$ 5,329,500	\$ 4,207,170
Business-Type Activities:			
Revenue Bonds - Series 2012	0.45% - 3.40%	3,150,000	2,880,000
Certificates of Obligation - Series 2005	5.13%	600,000	310,000
Certificates of Obligation - Series 2010	1.00%	1,355,000	1,325,000
Certificates of Obligation - Series 2012A	3.50%	800,000	615,000
Certificates of Obligation - Series 2013	3.75% - 5.00%	5,800,000	5,800,000
Certificates of Obligation - Series 2016	1.19%	1,165,000	1,125,000
Certificates of Obligation - Series 2017	2.00 - 5.00%	9,500,000	9,500,000
General Obligation Refunding - Series 2013	2.00 - 4.00%	3,920,000	2,965,000
Total Business-Type Activities		\$ 26,290,000	\$ 24,520,000
Discretely Presented Component Units:			
SHTC Developer Agreement	4.50%	1,045,500	635,770
Total Long-Term Debt		\$ 32,665,000	\$ 29,362,940

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

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

Year ending September 30,	Certificates of Obligation Series 2012		Certificates of Obligation Series 2014		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 35,000	\$ 29,250	\$ 140,000	\$ 58,936	\$ 175,000	\$ 88,186
2019	35,000	27,676	145,000	55,044	180,000	82,719
2020	35,000	26,100	150,000	51,014	185,000	77,114
2021	40,000	24,526	160,000	46,844	200,000	71,369
2022	40,000	22,726	165,000	42,396	205,000	65,121
2023	45,000	20,926	170,000	37,808	215,000	58,733
2024	45,000	18,900	180,000	33,082	225,000	51,982
2025	45,000	16,876	185,000	28,078	230,000	44,953
2026	50,000	14,850	195,000	22,936	245,000	37,786
2027	50,000	12,600	200,000	17,514	250,000	30,114
2028	55,000	10,350	210,000	11,954	265,000	22,304
2029	55,000	7,876	220,000	6,116	275,000	13,991
2030	60,000	5,400	-	-	60,000	5,400
2031	60,000	2,700	-	-	60,000	2,700
	<u>\$ 650,000</u>	<u>\$ 240,756</u>	<u>\$ 2,120,000</u>	<u>\$ 411,722</u>	<u>\$ 2,770,000</u>	<u>\$ 652,472</u>

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

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

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

Year ending September 30,	Sam Houston Town Center		
	Principal	Interest	Total
2018	\$ 116,079	\$ 62,746	\$ 178,824
2019	121,391	57,433	178,824
2020	126,946	51,878	178,824
2021	132,630	46,194	178,824
2022	138,826	39,998	178,824
2023	145,179	33,645	178,824
2024	151,823	27,001	178,824
2025	158,719	20,106	178,824
2026	166,035	12,789	178,824
2027	173,634	5,190	178,824
2028	5,907	67	5,974
	<u>\$ 1,437,170</u>	<u>\$ 357,047</u>	<u>\$ 1,794,217</u>

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

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
2018	\$ 70,000	\$ 86,476	\$ 156,476
2019	75,000	85,461	160,461
2020	75,000	84,201	159,201
2021	80,000	82,753	162,753
2022	80,000	81,009	161,009
2023	85,000	79,129	164,129
2024	85,000	76,996	161,996
2025	90,000	74,752	164,752
2026	95,000	72,286	167,286
2027	95,000	69,607	164,607
2028	100,000	66,880	166,880
2029	105,000	63,960	168,960
2030	105,000	60,831	165,831
2031	110,000	57,671	167,671
2032	115,000	54,305	169,305
2033	115,000	50,728	165,728
2034	120,000	47,083	167,083
2035	125,000	43,195	168,195
2036	130,000	39,082	169,082
2037	135,000	34,753	169,753
2038	140,000	30,204	170,204
2039	140,000	25,472	165,472
2040	145,000	20,726	165,726
2041	150,000	15,810	165,810
2042	155,000	10,702	165,702
2043	160,000	5,446	165,446
	<u>\$ 2,880,000</u>	<u>\$ 1,419,518</u>	<u>\$ 4,299,518</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.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

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.

Year ending September 30,	Business-Type Activities		
	Certificates of Obligation - Series 2005, 2010, 2012A, 2013,		
	2016, 2017, and GO Refunding 2013		
	Principal	Interest	Total
2018	\$ 755,000	\$ 757,913	\$ 1,512,913
2019	830,000	735,364	1,565,364
2020	845,000	705,345	1,550,345
2021	875,000	674,675	1,549,675
2022	910,000	642,981	1,552,981
2023	915,000	605,185	1,520,185
2024	820,000	576,807	1,396,807
2025	845,000	557,232	1,402,232
2026	875,000	536,492	1,411,492
2027	755,000	516,113	1,271,113
2028	780,000	494,763	1,274,763
2029	805,000	469,763	1,274,763
2030	830,000	443,713	1,273,713
2031	860,000	416,913	1,276,913
2032	960,000	388,913	1,348,913
2033	995,000	351,938	1,346,938
2034	1,040,000	313,613	1,353,613
2035	1,085,000	272,013	1,357,013
2036	1,130,000	228,613	1,358,613
2037	1,180,000	183,413	1,363,413
2038	1,235,000	136,213	1,371,213
2039	540,000	86,813	626,813
2040	565,000	66,563	631,563
2041	590,000	45,375	635,375
2042	620,000	23,250	643,250
	\$ 21,640,000	\$ 10,229,968	\$ 31,869,968

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.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

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.

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

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

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

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

Year ending September 30,	Sam Houston Town Center		
	Principal	Interest	Total
2018	\$ 51,350	\$ 27,757	\$ 79,108
2019	53,700	25,407	79,108
2020	56,158	22,950	79,108
2021	58,673	20,435	79,108
2022	61,413	17,694	79,108
2023	64,224	14,884	79,108
2024	67,163	11,945	79,108
2025	70,213	8,894	79,108
2026	73,450	5,658	79,108
2027	76,812	2,296	79,108
2028	2,613	30	2,643
	<u>\$ 635,770</u>	<u>\$ 157,949</u>	<u>\$ 793,719</u>

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

F. Texas Water Development Board Compliance

Revenue Bonds

The City's Waterworks & Sewer System Revenue Bonds, Series 2012 require the City to accumulate and maintain funds as a reserve for the payment of the bonds. The City is required to deposit an amount which amount equals or exceeds the Average Annual Debt Service for the Bonds. All funds deposited in the reserve fund are to be used solely for the payment of the principal of and interest on the bonds when other funds available for such purposes are insufficient. As of September 30, 2017, the amount required to be deposited in the reserve fund equaled \$161,695. The City's actual deposit of \$156,938 was below this amount and out of compliance with the required covenant. The City is working to increase balance to the required amount.

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, 2017, the amount required to be deposited in the interest and sinking fund equaled \$26,079. The City's actual deposit of \$22,235 was below this amount and out of compliance with the required covenant. The City is working to increase balance to the required amount.

Public Funds Investment & Collateral Acts

State statues 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, 2017, the market values of pledged securities and FDIC exceeded bank balances. In addition, the City is required to adopt certain standards as it relates to the investment and maintenance of public funds. The City was in compliance with the requirement Public Funds Investment Act and the Public Funds Collateral Act.

G. Deferred Charges on Refunding

Deferred charges resulting from the issuance of series 2013 certificates of obligation have been recorded as deferred outflows of resources and are being amortized to interest expense over the shorter of either the remaining term of the refunded debt or the refunding certificates of

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

obligation. Current year balances for business-type activities totaled \$53,202. Current year amortization expense for business-type activities totaled \$5,911.

H. Customer Deposits

The City had customer deposits of \$105,114 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.

I. Interfund Transactions

Transfers between the primary government funds during the 2017 year were as follows:

Transfer Out	Transfer In	Amount
General Fund		\$ (576,171)
Debt Service Fund		(90,513)
Water and Sewer Fund		(1,244,686)
	General Fund	1,036,579
	Debt Service Fund	208,107
	Hotel/Motel Tax Fund	3,829
	Water and Sewer Fund	662,855
		\$ -

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

J. Unearned Revenue

San Jacinto River Authority Funding

The City is in the process of installing water cooling towers which will lower the temperature of groundwater produced from the Catahoula Wells and reduce or remove sulfur dioxide and methane gasses from the groundwater. The San Jacinto River Authority (the "Authority") has agreed to contribute up to \$1,257,000 to defray the costs of the installation of the cooling towers. The Authority has determined that the installation of such cooling towers may facilitate an increase in the production of groundwater from the Catahoula Wells by the City and a reduction in the production of groundwater from the Upper Gulf Coast Aquifer, which will benefit all participants. On August 31, 2016, the City received funding from the Authority in the amount of \$1,257,000. These funds are to be used for the cooling towers only and any unspent funds are to be returned to the Authority. As these funds are to reimburse the City and are contingent on the City actually spending the funds, any unspent proceeds are considered to be a liability until the

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

date at which those funds are spent. The City has spent \$1,172,333 to date on engineering fees. The remaining balance of \$84,667 is recorded on the balance sheet as unearned revenue.

Camillo Properties

The City has entered into a development agreement with Camillo properties ("Camillo"). Camillo has plans to develop property into a proposed 202 lot residential subdivision and has requested that the City provide water and wastewater (sanitary sewer) utility service to the property. In order for the City to serve the property with sanitary sewer service, Camillo has agreed to finance a new Old Danville Road lift station ("lift station") located near the property for a pro-rata share of the cost for design and construction of the lift station, which total cost will be approximately \$1,150,000. Camillo's share will be \$386,000, based on a pro-rata of the impact of system and estimated costs for design and construction. Camillo has agreed to pay Bleyl Engineering for the engineering design of the lift station at a cost of \$102,000 and has agreed to pre-fund the City's cost of construction of the lift station at an approximate cost of \$284,000, which is the remaining portion of Camillo's pro-rata share. The unspent proceeds are considered to be a liability until the date at which those funds are spent. The balance of \$250,000 is recorded on the balance sheet as unearned revenue. The City approved a contractor for this project in September of 2017 and will commence construction in the 2017/2018 fiscal year.

IV. OTHER INFORMATION

A. Risk Management

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

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

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

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

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, 2017

D. Defined Benefit Pension Plans

Texas Municipal Retirement System

1. Plan Description

The City of Willis, Texas participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

2. Benefits Provided

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

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

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 2016</u>	<u>Plan Year 2015</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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

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, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	18
Inactive employees entitled to but not yet receiving benefits	20
Active employees	<u>40</u>
Total	<u>78</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 9.16% and 10% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$199,869, and were equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, 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, 2016 actuarial valuation was determined using the following actuarial assumptions:

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

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2017

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

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. 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 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 2017 are summarized in the following table:

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2017

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	<u>5.0%</u>	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	Current Single Rate	1% Increase
5.75%	Assumption 6.75%	7.75%
\$ 1,563,601	\$ 750,632	\$ 91,147

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/15	\$ 4,957,716	\$ 4,180,292	\$ 777,424
Changes for the year:			
Service cost	299,586	-	299,586
Interest	333,617	-	333,617
Difference between expected and actual experience	(58,577)	-	(58,577)
Contributions – employer	-	182,582	(182,582)
Contributions – employee	-	139,528	(139,528)
Net investment income	-	282,671	(282,671)
Change of assumptions	-	-	-
Benefit payments, including refunds of emp. contributions	(330,073)	(330,073)	-
Administrative expense	-	(3,191)	3,191
Other changes	-	(172)	172
Net changes	244,553	271,345	(26,792)
Balance at 12/31/16	\$ 5,202,269	\$ 4,451,637	\$ 750,632

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, 2017, the city recognized pension expense of \$269,388.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

At September 30, 2017, 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	\$ 184,074	\$ -
Differences between expected and actual economic experience	-	(87,978)
Differences in assumptions changes	64,840	-
Contributions subsequent to the measurement date	155,941	-
Total	\$ 404,855	\$ (87,978)

The City reported \$155,941 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, 2018. 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:	
2017	\$ 54,521
2018	55,360
2019	59,016
2020	(7,961)
2021	-
Thereafter	-
	\$ 160,936

Supplemental Death Benefits Fund

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

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2017

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.

The City's contributions to the TMRS SDBF for the fiscal years ended 2017, 2016 and 2015 were \$768, \$615 and \$784, 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
2013	0.04%	0.04%	100.00%
2014	0.03%	0.03%	100.00%
2015	0.04%	0.04%	100.00%
2016	0.03%	0.03%	100.00%
2017	0.04%	0.04%	100.00%

E. 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, 2017:

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%	\$ 428,650	n/a	\$ 131,880	\$ 560,530

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

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2017

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.

F. Restatement

The City has restated beginning fund balance/net position within governmental activities, discreetly presented component units, and the general fund due to a change in the reporting of sales tax accruals, the recognition of long-term debt, and the recognition of discreetly presented component units (“discrete CU”) that were previously blended within governmental activities. The restatement of beginning net position/fund balance is as follows:

	Governmental Activities	General
Prior year ending net position/ fund balance as reported	\$ 8,832,982	\$ 732,809
Change in reporting of sales tax accruals	6,604	6,604
Recognition of the SHTC long-term debt	(1,656,013)	-
Recognize the CDC as a discrete CU	(1,704,020)	-
Recognize the EDC as a discrete CU	(1,534,379)	-
Restated beginning net position/fund balance	\$ 3,945,174	\$ 739,413

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017

	Community Development Corporation	Economic Development Corporation
Prior year ending net position as reported	\$ 1,704,020	\$ 1,534,379
Recognition of the SHTC long-term debt	(434,368)	(434,368)
Restated beginning net position	\$ 1,269,652	\$ 1,100,011

G. Subsequent Events

There were no material subsequent events through February 16, 2018, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank.)

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

For the Year Ended September 30, 2017

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues			
Property tax	\$ 1,372,600	\$ 1,433,957	\$ 61,357
Sales tax	1,740,000	1,715,227	(24,773)
Franchise and local taxes	350,000	306,428	(43,572)
Permits and code enforcement	102,600	93,045	(9,555)
Sanitation	285,100	289,193	4,093
Intergovernmental	-	365,182	365,182
Fines and forfeitures	201,800	659,758	457,958
Interest	150	1,357	1,207
Other	10,500	41,054	30,554
Total Revenues	4,062,750	4,905,201	842,451
Expenditures			
General government	899,492	505,432	394,060
Community development	279,050	488,085	(209,035) *
Public safety	1,617,063	1,646,485	(29,422) *
Sanitation	265,000	265,394	(394) *
Court	110,795	101,762	9,033
Street	510,413	536,128	(25,715) *
Debt Service:			
Interest and fiscal charges	-	71,977	(71,977) *
Capital outlay	-	1,324,174	(1,324,174) *
Total Expenditures	3,681,813	4,939,437	(1,257,624)
Revenues Over (Under) Expenditures	380,937	(34,236)	(415,173)
Other Financing Sources (Uses)			
Transfers in	-	1,036,579	1,036,579
Transfers (out)	(336,780)	(576,171)	(239,391) *
Total Other Financing Sources (Uses)	(336,780)	460,408	797,188
Net Change in Fund Balance	\$ 44,157	426,172	\$ 382,015
Beginning fund balance		739,413	
Ending Fund Balance		\$ 1,165,585	

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 December 31,

	12/31/2014	12/31/2015	12/31/2016 ¹
Total pension liability			
Service cost	\$ 223,008	\$ 282,064	\$ 299,586
Interest	293,562	315,302	333,617
Changes in benefit terms	-	-	-
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	286,409	508,450	244,553
Total pension liability - beginning	4,162,857	4,449,266	4,957,716
Total pension liability - ending (a)	4,449,266	4,957,716	5,202,269
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	327,767	153,557	271,345
Plan fiduciary net position - beginning	3,698,968	4,026,735	4,180,292
Plan fiduciary net position - ending (b)	\$ 4,026,735	\$ 4,180,292	\$ 4,451,637
Fund's net pension liability - ending (a) - (b)	\$ 422,531	\$ 777,424	\$ 750,632
 Plan fiduciary net position as a percentage of the total pension liability	 90.50%	 84.32%	 85.57%
Covered employee payroll	\$ 1,815,436	\$ 1,966,971	\$ 1,993,255
Fund's net position as a percentage of covered employee payroll	23.27%	39.52%	37.66%

Notes to schedule:

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

(This page intentionally left blank.)

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

(This page intentionally left blank.)

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, 2017

	<u>Hotel Tax</u>	<u>TIRZ</u>	<u>Debt Service Fund</u>	<u>Total</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 161,729	\$ 112,289	\$ 69,081	\$ 343,099
Investments	119,695	-	-	119,695
Receivables, net	-	-	6,617	6,617
Total Assets	\$ 281,424	\$ 112,289	\$ 75,698	\$ 469,411
<u>Deferred Inflows of Resources</u>				
Unavailable revenue-property tax	-	-	6,617	6,617
Total Deferred Inflows of Resources	-	-	6,617	6,617
<u>Fund Balances</u>				
Restricted for:				
Tourism	281,424	-	-	281,424
Community development	-	112,289	-	112,289
Debt service	-	-	69,081	69,081
Total Fund Balances	281,424	112,289	69,081	462,794
Total Liabilities, Deferred Inflows and Fund Balances	\$ 281,424	\$ 112,289	\$ 75,698	\$ 469,411

City of Willis, Texas

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS For the Year Ended September 30, 2017

	Hotel Tax	TIRZ	Debt Service Fund	Total
<u>Revenues</u>				
Property tax	\$ -	\$ -	\$ 89,776	\$ 89,776
Hotel occupancy tax	23,764	-	-	23,764
Intergovernmental	-	30,486	-	30,486
Interest	456	70	67	593
Total Revenues	24,220	30,556	89,843	144,619
<u>Expenditures</u>				
General government	3,829	793	-	4,622
Debt service:				
Principal	-	37,800	132,200	170,000
Interest	-	17,553	76,032	93,585
Total Expenditures	3,829	56,146	208,232	268,207
Revenues Over Expenditures	20,391	(25,590)	(118,389)	(123,588)
<u>Other Financing Sources (Uses)</u>				
Transfers in	3,829	-	208,107	211,936
Transfers (out)	-	-	(90,513)	(90,513)
Total Other Financing Sources (Uses)	3,829	-	117,594	121,423
Net Change in Fund Balances	24,220	(25,590)	(795)	(2,165)
Beginning fund balances	257,204	137,879	69,876	464,959
Ending Fund Balances	\$ 281,424	\$ 112,289	\$ 69,081	\$ 462,794

(This page intentionally left blank.)

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, 2017

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues			
Property tax	\$ 51,000	\$ 89,776	\$ 38,776
Interest	100	67	(33)
Total Revenues	51,100	89,843	38,743
Expenditures			
Debt Service:			
Principal	63,750	132,200	(68,450) *
Interest and fiscal charges	16,015	76,032	(60,017) *
Total Expenditures	79,765	208,232	(128,467)
Revenues Over (Under) Expenditures	(28,665)	(118,389)	(89,724)
Other Financing Sources (Uses)			
Transfers (out)	-	(90,513)	(90,513) *
Total Other Financing Sources (Uses)	-	117,594	117,594
Net Change in Fund Balance	\$ (28,665)	(795)	\$ 27,870
Beginning fund balance		69,876	
Ending Fund Balance		\$ 69,081	

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 REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
COMMUNITY DEVELOPMENT CORPORATION FUND
For the Year Ended September 30, 2017

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Sales tax	\$ 475,000	\$ 506,493	\$ 31,493
Interest	1,000	5,777	4,777
Total Revenues	476,000	512,270	36,270
<u>Expenditures</u>			
Community development	691,017	199,488	491,529
Debt Service:			
Principal	54,000	-	54,000
Interest and fiscal charges	27,325	21,231	6,094
Total Expenditures	772,342	220,719	551,623
Net Change in Fund Balance	\$ (296,342)	291,551	\$ 587,893
Beginning fund balance		1,269,652	
Ending Fund Balance		\$ 1,561,203	

Notes to Required Supplementary Information

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

City of Willis, Texas

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
ECONOMIC DEVELOPMENT CORPORATION FUND
For the Year Ended September 30, 2017**

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Sales tax	\$ 475,000	\$ 507,219	\$ 32,219
Interest	1,000	5,873	4,873
Total Revenues	476,000	513,092	37,092
<u>Expenditures</u>			
Economic development	426,600	627,954	(201,354) *
Debt service:			
Principal	129,450	-	129,450
Interest	75,761	21,879	53,882
Total Expenditures	631,811	649,833	(18,022)
Revenues Over (Under) Expenditures	(155,811)	(136,741)	19,070
Net Change in Fund Balance	\$ (155,811)	(136,741)	\$ 19,070
Beginning fund balance		1,100,011	
Ending Fund Balance		\$ 963,270	

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.

(This page intentionally left blank.)