

Annual Financial Report
For The Fiscal Year Ended
September 30, 2016



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, 2016**

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City of Willis, Texas

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2016, 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, each major fund, and the aggregate remaining fund information of the City as of September 30, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 cursive script that reads "Brooks Cardiel, PLLC".

BrooksCardiel, PLLC
Certified Public Accountants
The Woodlands, Texas
January 13, 2017

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

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City of Willis, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2016

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, 2016. 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 \$11,285,485 at September 30, 2016.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$4,436,167, an increase of \$530,963.
- As of the end of the year, the unassigned fund balance of the general fund was \$732,809 or 10% of total general fund expenditures.
- The City had an overall increase in net position of \$1,099,615.
- The City's net pension liability totaled \$777,424 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, 2016

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, 2016

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 seven 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, debt service, community development corporation, and economic development corporation funds which are considered to be major funds.

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.

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, 2016

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 \$11,285,485 as of September 30, 2016, in the primary government.

The largest portion of the City's net position, \$7,613,422, 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:

	2016			2015		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities		Activities	Activities	
Current and other assets	\$ 4,880,963	\$ 3,834,780	\$ 8,715,743	\$ 4,370,403	\$ 7,045,698	\$ 11,416,101
Capital assets, net	7,688,995	16,724,488	24,413,483	4,001,594	15,162,890	19,164,484
Total Assets	12,569,958	20,559,268	33,129,226	8,371,997	22,208,588	30,580,585
Deferred Outflows of Resources	302,462	144,423	446,885	134,784	103,040	237,824
Other liabilities	376,197	1,041,833	1,418,030	406,459	1,138,576	1,545,035
Long-term liabilities	3,683,066	16,026,746	19,709,812	3,544,811	15,487,722	19,032,533
Total Liabilities	4,059,263	17,068,579	21,127,842	3,951,270	16,626,298	20,577,568
Deferred inflows of Resources	(19,825)	1,182,609	1,162,784	42,877	12,094	54,971
Net Position:						
Net investment in capital assets	4,748,995	2,864,427	7,613,422	901,594	5,916,053	6,817,647
Restricted	3,703,358	-	3,703,358	3,317,524	-	3,317,524
Unrestricted	380,629	(411,924)	(31,295)	293,516	(242,817)	50,699
Total Net Position	\$ 8,832,982	\$ 2,452,503	\$ 11,285,485	\$ 4,512,634	\$ 5,673,236	\$ 10,185,870

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

Statement of Activities:

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

	For the Year Ended September 30, 2016			For the Year Ended September 30, 2015		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 771,444	\$ 1,647,664	\$ 2,419,108	\$ 767,483	\$ 1,851,660	\$ 2,619,143
Grants and contributions	92,293	1,539,971	1,632,264	142,789	715,908	858,697
General revenues:						
Property	1,410,453	-	1,410,453	1,290,595	-	1,290,595
Sales	2,628,481	-	2,628,481	2,560,913	-	2,560,913
Franchise and local	317,232	-	317,232	342,022	-	342,022
Interest	7,896	4,030	11,926	5,863	3,938	9,801
Other revenues	40,136	1,353	41,489	52,013	-	52,013
Total Revenues	5,267,935	3,193,018	8,460,953	5,161,678	2,571,506	7,733,184
-						
Expenses						
General government	1,026,250	-	1,026,250	1,167,050	-	1,167,050
Community development	613,698	-	613,698	743,931	-	743,931
Public safety	1,654,418	-	1,654,418	1,488,795	-	1,488,795
Sanitation	263,781	-	263,781	269,657	-	269,657
Street	680,320	-	680,320	742,981	-	742,981
Water & sewer	-	2,504,691	2,504,691	-	2,561,993	2,561,993
Interest and fiscal charges	98,805	519,375	618,180	110,091	527,834	637,925
Total Expenses	4,337,272	3,024,066	7,361,338	4,522,505	3,089,827	7,612,332
-						
Change in Net Position						
Before Transfers	930,663	168,952	1,099,615	639,173	(518,321)	120,852
Transfers	3,389,685	(3,389,685)	-	(390,827)	390,827	-
Total	3,389,685	(3,389,685)	-	(390,827)	390,827	-
Change in Net Position	4,320,348	(3,220,733)	1,099,615	248,346	(127,494)	120,852
Beginning Net Position	4,512,634	5,673,236	10,185,870	4,264,288	5,800,730	10,065,018
Ending Net Position	\$ 8,832,982	\$ 2,452,503	\$ 11,285,485	\$ 4,512,634	\$ 5,673,236	\$ 10,185,870

City of Willis, Texas

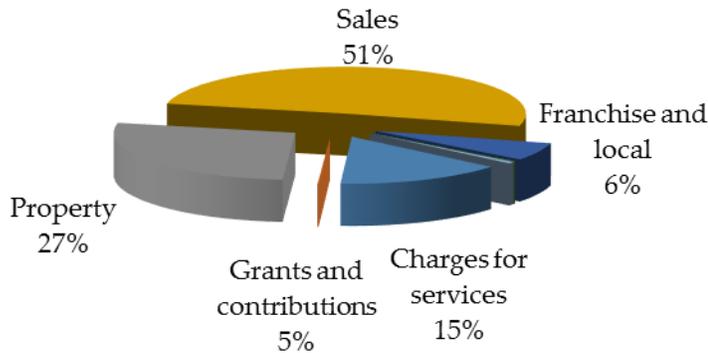
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2016

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

This graph shows the governmental function revenues of the City:

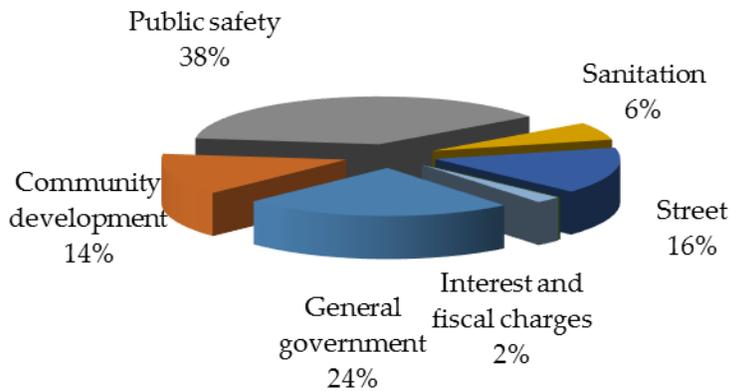
Governmental Activities - Revenues



For the year ended September 30, 2016, revenues from governmental activities totaled \$5,267,935. Sales and property taxes are the City's largest revenue sources. Sales tax increased \$67,568 or 3% due to a growing economy and property tax revenue increased \$119,858 or 9% due to an increase in the assessed values of the properties. Grants and contributions decreased by \$50,496 due to several nonrecurring grants received in the prior year and not in the current year. All other revenues remained relatively stable when compared to the previous year.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



For the year ended September 30, 2016, expenses for governmental activities totaled \$4,337,272. This represents a decrease of \$185,233 or 4% from the prior year. The City's largest functional expenses are

City of Willis, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

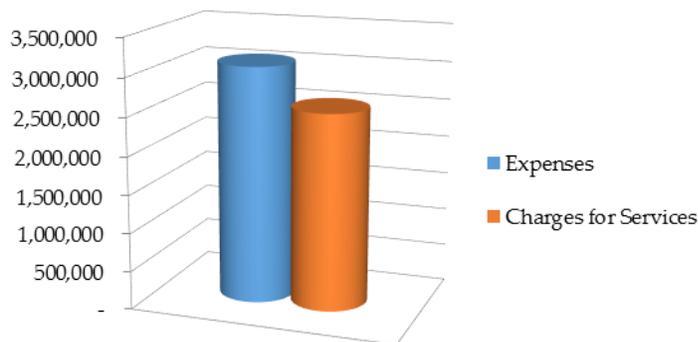
September 30, 2016

general government of \$1,026,250 and public safety of \$1,654,418. General government expenses decreased by \$140,800 or 12% due primarily to a reduction in salaries and wages. Community development decreased by \$130,233 or 18% due to a reduction in the amount of development grants and projects in the current year. Public safety increased by \$165,623 or 11% due to in salary and wages. Streets decreased by \$62,661 or 8% due to a decrease in street maintenance 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, 2016, charges for services by business-type activities totaled \$1,647,664. This is a decrease of \$203,996, or 11%, from the previous year. This primary reason for this decrease due to the loss of a significant commercial customer, National Oil Well Varco. Grants increase \$824,063 due to two new grants. The City received funding from the San Jacinto River Authority to reimburse the cost related to the construction of cooling towers in the amount of \$1,257,000. As the City has not yet begun the cooling tower project, the majority of this balance is recorded as a deferred inflow of resources. In addition, the City received \$1,000,000 from Montgomery County as part of an interlocal agreement to assist with the construction of the West Loop Connector road.

Total expenses decreased \$65,761. This decrease is due to a combination of a decrease in operating costs offset with an increase depreciation. 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.

City of Willis, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2016

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 \$732,809, all of which is unassigned. Unassigned fund balance equaled 10% of total annual general fund expenditures. The general fund had an increase in fund balance of \$145,129 during the year. This was fairly consistent with the City's budgeted increase of \$104,252. The City's largest revenue increase was property tax which saw an increase of \$123,554 over the prior year. This was due to an increase in the appraised values.

Overall there was an increase in governmental fund balance of \$530,963 over the prior year. The remaining funds all finished the year with a net increase in fund balance. This was the result of increases in the general fund noted above, an increase in the community development corporation of \$150,453, and an increase in the economic development corporation of \$127,133.

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 \$40,877 in the general fund. Revenues had a positive variance for the year of \$51,250 combined with a positive expenditure variance of \$241,251. Other financing sources had a negative budget variance of \$264,075.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$7,688,995 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 \$16,724,488 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 \$2,737,599
- West Side Loop construction of \$1,152,838
- East Stewart Creek Lift Station of \$277,078
- FM 1097 Utility Relocation for \$862,820

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

- FM 1097 East Utility Extension of \$711,004

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

LONG-TERM DEBT

At the end of the current year, the City had total bonds, capital leases, and certificates of obligation outstanding of \$18,651,049. The City issued \$1,165,000 of certificates of obligation during the year. Payments on debt obligations totaled \$858,394 during the year.

More detailed information about the City's long-term liabilities is presented in note IV. D 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.

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FINANCIAL STATEMENTS

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City of Willis, Texas
STATEMENT OF NET POSITION
September 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 2,742,942	\$ 3,234,145	\$ 5,977,087
Investments	1,508,357	213,920	1,722,277
Receivables, net	629,364	295,114	924,478
Inventory	-	91,601	91,601
Deposits	300	-	300
Total Current Assets	4,880,963	3,834,780	8,715,743
Capital assets:			
Non-depreciable	4,571,572	1,789,144	6,360,716
Depreciable, net	3,117,423	14,935,344	18,052,767
	7,688,995	16,724,488	24,413,483
Total Assets	12,569,958	20,559,268	33,129,226
Deferred Outflows of Resources			
Deferred charge on refunding	-	59,113	59,113
Pension contributions	108,149	30,504	138,653
Pension investment earnings	194,313	54,806	249,119
Total Deferred Outflows of Resources	302,462	144,423	446,885
Liabilities			
Accounts payable and accrued liabilities			
	376,197	939,654	1,315,851
Customer deposits	-	102,179	102,179
	376,197	1,041,833	1,418,030
Noncurrent liabilities:			
Due within one year	263,713	716,146	979,859
Due in more than one year	3,419,353	15,310,600	18,729,953
	3,683,066	16,026,746	19,709,812
Total Liabilities	4,059,263	17,068,579	21,127,842
Deferred Inflows of Resources			
Advance funding	-	1,188,200	1,188,200
Pension (gains) losses	(19,825)	(5,591)	(25,416)
Total Deferred Inflows of Resources	(19,825)	1,182,609	1,162,784
Net Position			
Net investment in capital assets	4,748,995	2,864,427	7,613,422
Restricted for:			
Debt service	69,876	-	69,876
Tourism	257,204	-	257,204
Community development	1,841,899	-	1,841,899
Economic development	1,534,379	-	1,534,379
Unrestricted	380,629	(411,924)	(31,295)
Total Net Position	\$ 8,832,982	\$ 2,452,503	\$ 11,285,485

See Notes to Financial Statements.

City of Willis, Texas
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 1,026,250	\$ -	\$ 92,293
Community development	613,698	72,359	-
Public safety	1,654,418	415,344	-
Sanitation	263,781	283,741	-
Street	680,320	-	-
Interest and fiscal charges	98,805	-	-
Total Governmental Activities	<u>4,337,272</u>	<u>771,444</u>	<u>92,293</u>
Business-Type Activities			
Water & Sewer	3,024,066	1,647,664	1,539,971
Total Business-Type Activities	<u>3,024,066</u>	<u>1,647,664</u>	<u>1,539,971</u>
Total Primary Government	<u>\$ 7,361,338</u>	<u>\$ 2,419,108</u>	<u>\$ 1,632,264</u>

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		
Governmental Activities	Business-Type Activities	Total
\$ (933,957)	\$ -	\$ (933,957)
(541,339)	-	(541,339)
(1,239,074)	-	(1,239,074)
19,960	-	19,960
(680,320)	-	(680,320)
(98,805)	-	(98,805)
<u>(3,473,535)</u>	<u>-</u>	<u>(3,473,535)</u>
-	163,569	163,569
-	163,569	163,569
<u>(3,473,535)</u>	<u>163,569</u>	<u>(3,309,966)</u>
1,410,453	-	1,410,453
2,628,481	-	2,628,481
317,232	-	317,232
7,896	4,030	11,926
40,136	1,353	41,489
3,389,685	(3,389,685)	-
<u>7,793,883</u>	<u>(3,384,302)</u>	<u>4,409,581</u>
4,320,348	(3,220,733)	1,099,615
4,512,634	5,673,236	10,185,870
<u>\$ 8,832,982</u>	<u>\$ 2,452,503</u>	<u>\$ 11,285,485</u>

City of Willis, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2016

	<u>General</u>	<u>Community Development Corporation</u>	<u>Economic Development Corporation</u>	<u>Nonmajor</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 674,336	\$ 810,801	\$ 912,161	\$ 345,644
Investments	23,612	818,550	546,880	119,315
Receivables, net	436,430	93,950	93,224	5,760
Deposits	300	-	-	-
Total Assets	\$ 1,134,678	\$ 1,723,301	\$ 1,552,265	\$ 470,719
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 323,444	\$ 19,281	\$ 17,886	\$ -
Total Liabilities	323,444	19,281	17,886	-
<u>Deferred Inflows of Resources</u>				
Unavailalbe revenue-property tax	78,425	-	-	5,760
Total Deferred Inflows of Resources	78,425	-	-	5,760
<u>Fund Balances</u>				
Restricted for:				
Tourism	-	-	-	257,204
Community development	-	1,704,020	-	137,879
Debt service	-	-	-	69,876
Economic development	-	-	1,534,379	-
Unassigned reported in:				
General fund	732,809	-	-	-
Total Fund Balances	732,809	1,704,020	1,534,379	464,959
Total Liabilities and Fund Balances	\$ 1,056,253	\$ 1,723,301	\$ 1,552,265	\$ 464,959

See Notes to Financial Statements.

Total

\$ 2,742,942
1,508,357
629,364
300
\$ 4,880,963

\$ 360,611
360,611

84,185

84,185

257,204
1,841,899
69,876
1,534,379
732,809
4,436,167
\$ 4,796,778

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City of Willis, Texas
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
September 30, 2016

Fund Balances - Total Governmental Funds	\$	4,436,167
 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		4,571,572
Capital assets - net depreciable		3,117,423
 Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		
		84,185
 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		108,149
Pension investment earnings		194,313
 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		19,825
 Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.		
Accrued interest		(15,586)
Compensated absences		(136,675)
Net pension liability		(606,391)
Non-current liabilities due in one year		(170,000)
Non-current liabilities due in more than one year		(2,770,000)
Net Position of Governmental Activities	\$	8,832,982

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, 2016

	General	Community Development Corporation	Economic Development Corporation	Nonmajor Governmental
Revenues				
Property tax	\$ 1,296,243	\$ -	\$ -	\$ 105,178
Sales tax	1,653,034	488,081	487,366	-
Franchise and local taxes	289,220	-	-	28,012
Permits and code enforcement	72,359	-	-	-
Sanitation	283,741	-	-	-
Intergovernmental	5,795	-	-	86,498
Fines and forfeitures	415,344	-	-	-
Interest	593	3,503	3,309	491
Other	40,122	-	14	-
Total Revenues	4,056,451	491,584	490,689	220,179
Expenditures				
Current:				
General government	834,534	-	-	3,647
Community development	282,174	264,768	176,369	-
Public safety	1,634,649	-	-	-
Sanitation	262,363	-	-	-
Court	99,800	-	-	-
Street	409,252	-	-	-
Debt Service:				
Principal	-	52,000	71,600	36,400
Interest and fiscal charges	459	26,521	53,962	18,690
Capital outlay	3,890,437	-	-	-
Total Expenditures	7,413,668	343,289	301,931	58,737
Excess of Revenues				
Over (Under) Expenditures	(3,357,217)	148,295	188,758	161,442
Other Financing Sources (Uses)				
Transfers in	3,890,437	2,158	-	5
Transfers (out)	(388,091)	-	(61,625)	(53,199)
Total Other Financing Sources (Uses)	3,502,346	2,158	(61,625)	(53,194)
Net Change in Fund Balances	145,129	150,453	127,133	108,248
Beginning fund balances	587,680	1,553,567	1,407,246	356,711
Ending Fund Balances	\$ 732,809	\$ 1,704,020	\$ 1,534,379	\$ 464,959

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 1,401,421
2,628,481
317,232
72,359
283,741
92,293
415,344
7,896
40,136

5,258,903

838,181
723,311
1,634,649
262,363
99,800
409,252

160,000
99,632
3,890,437

8,117,625

(2,858,722)

3,892,600
(502,915)

3,389,685

530,963

3,905,204

\$ 4,436,167

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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, 2016

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

Net changes in fund balances - total governmental funds	\$	530,963
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	4,057,703
Depreciation expense	(370,302)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	9,032
--	-------

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	(21,438)
Accrued interest	827
Pension expense	(46,437)

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 issuance costs, 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	160,000
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Change in Net Position of Governmental Activities	\$	4,320,348
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See Notes to Financial Statements.

City of Willis, Texas
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2016

		<u>Water & Sewer</u>
<u>Assets</u>		
Cash and cash equivalents	\$	3,234,145
Investments		213,920
Receivables, net		295,114
Inventory		91,601
Capital assets:		
Non-depreciable capital assets		1,789,144
Depreciable capital assets, net		14,935,344
	Total Capital Assets	<u>16,724,488</u>
	Total Assets	<u>20,559,268</u>
 <u>Deferred Outflows of Resources</u>		
Deferred charge on refunding		59,113
Pension contributions		30,504
Pension investment earnings		54,806
	Total Deferred Outflows of Resources	<u>144,423</u>
 <u>Liabilities</u>		
Accounts payable and accrued liabilities		854,175
Accrued interest		85,479
Customer deposits		102,179
Noncurrent Liabilities:		
Due within one year		716,146
Due in more than one year		15,310,600
	Total Liabilities	<u>17,068,579</u>
 <u>Deferred Inflows of Resources</u>		
Advance funding		1,188,200
Pension assumption changes and (gains) losses		(5,591)
	Total Deferred Inflows of Resources	<u>1,182,609</u>
 <u>Net Position</u>		
Net investment in capital assets		2,864,427
Unrestricted		(411,924)
	Total Net Position	<u>\$ 2,452,503</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, 2016

	Water & Sewer
<u>Operating Revenues</u>	
Water sales	\$ 861,906
Sewer revenue	685,896
Penalties and service charges	86,935
Tap fees	12,927
Intergovernmental	1,539,971
Other revenue	1,353
Total Operating Revenues	3,188,988
 <u>Operating Expenses</u>	
Cost of water	393,226
Cost of sewer	431,782
Operating expenses	5,340
Salary and wages	671,348
Depreciation	978,180
Total Operating Expenses	2,479,876
Operating Income (Loss)	709,112
 <u>Nonoperating Revenues (Expenses)</u>	
Investment income	4,030
Interest expense	(519,375)
Bond issuance expense	(24,815)
Total Nonoperating Revenues (Expenses)	(540,160)
Income (Loss) Before Transfers	168,952
Transfers in	500,752
Transfers (out)	(3,890,437)
Change in Net Position	(3,220,733)
Beginning net position	5,673,236
Ending Net Position	\$ 2,452,503

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, 2016

	Water & Sewer
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 4,392,614
Payments to employees	(658,251)
Payments to suppliers	(970,086)
Net Cash Provided (Used) by Operating Activities	2,764,277
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfer in	500,752
Transfer (out)	(3,890,437)
Net Cash Provided (Used) by Noncapital Financing Activities	(3,389,685)
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(2,539,778)
Issuance of capital debt	1,165,000
Principal paid on debt	(698,394)
Interest paid on debt	(544,824)
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,617,996)
<u>Cash Flows from Investing Activities</u>	
Purchase of investments	130,220
Interest on investments	4,030
Net Cash Provided (Used) by Investing Activities	134,250
Net Increase (Decrease) in Cash and Cash Equivalents	(3,109,154)
Beginning cash and cash equivalents	6,343,299
Ending Cash and Cash Equivalents	\$ 3,234,145

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, 2016

	Water & Sewer
<u>Reconciliation of Operating Income</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Operating Income (Loss)	\$ 709,112
Adjustments to reconcile operating income to net cash provided (used):	
Depreciation	978,180
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	15,426
Inventory	(43,882)
Deferred Outflows of Resources:	
Pension contributions	(811)
Investment experience	(46,483)
Increase (Decrease) in:	
Accounts payable	(104,273)
Compensated absences	6,215
Customer deposits	2,202
Net pension liability	78,076
Deferred Inflows of Resources:	
Actual experience vs. assumption	(17,685)
Advance funding	1,188,200
Net Cash Provided (Used) by Operating Activities	\$ 2,764,277

See Notes to Financial Statements.

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City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

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, 2016

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.

Blended 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.

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 Development Corporation Act of 1979. The purpose of the EDC is to promote economic and community development within the City of Willis.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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.

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 units. Separate statements for each fund category—governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

General Fund

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

Willis Community Development Corporation

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

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

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 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.

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.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Additionally, the government reports the following fund types:

Special Revenue Funds

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

Debt Service Fund

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

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

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

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

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

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

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

E. Estimates

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

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, 2016

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, 2016

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, 2016

<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, 2016

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, 2016

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, 2016, the accrued and unpaid compensated absences liability was \$136,675.

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, 2016

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, 2016

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	\$ 3,124
Sanitation	\$ 3,363
Transfers (out)	\$ 169,077
Debt service fund:	
Transfers (out)	\$ 11,049

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2016, the primary government had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 1,722,227	0.28
External investment pools	827,793	0.15
Total fair value	<u>\$ 2,550,020</u>	
Portfolio weighted average maturity		0.42

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

Credit risk The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service. As of September 30, 2016, 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, 2016, 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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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.

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.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

C. Receivables

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

	<u>General</u>	<u>Debt Service</u>	<u>Community Development Corporation</u>	<u>Economic Development Corporation</u>	<u>Water & Sewer</u>	<u>Total</u>
Property taxes	\$ 78,425	\$ 5,760	\$ -	\$ -	\$ -	\$ 84,185
Sales tax	327,012	-	93,950	93,224	-	514,186
Franchise taxes	30,993	-	-	-	-	30,993
Accounts	-	-	-	-	702,442	702,442
Allowance	-	-	-	-	(407,328)	(407,328)
	<u>\$ 436,430</u>	<u>\$ 5,760</u>	<u>\$ 93,950</u>	<u>\$ 93,224</u>	<u>\$ 295,114</u>	<u>\$ 924,478</u>

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	\$ 399,416	\$ 82,628	\$ -	\$ 482,044
Construction in process	164,091	3,925,437	-	4,089,528
Total capital assets not being depreciated	<u>563,507</u>	<u>4,008,065</u>	<u>-</u>	<u>4,571,572</u>
Capital assets, being depreciated:				
Buildings and improvements	1,499,333	-	-	1,499,333
Roads	3,531,509	-	-	3,531,509
Vehicles & equipment	1,153,966	49,638	-	1,203,604
Park improvements	255,108	-	-	255,108
Total capital assets being depreciated	<u>6,439,916</u>	<u>49,638</u>	<u>-</u>	<u>6,489,554</u>
Less accumulated depreciation				
Buildings and improvements	(567,257)	(53,349)	-	(620,606)
Roads	(1,328,444)	(264,663)	-	(1,593,107)
Vehicles & equipment	(1,028,466)	(43,952)	-	(1,072,418)
Park improvements	(77,662)	(8,338)	-	(86,000)
Total accumulated depreciation	<u>(3,001,829)</u>	<u>(370,302)</u>	<u>-</u>	<u>(3,372,131)</u>
Net capital assets being depreciated	<u>3,438,087</u>	<u>(320,664)</u>	<u>-</u>	<u>3,117,423</u>
Total Net Capital Assets	<u>\$ 4,001,594</u>	<u>\$ 3,687,401</u>	<u>\$ -</u>	<u>\$ 7,688,995</u>

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Depreciation was charged to governmental functions as follows:

General government	\$	70,773
Public safety		34,866
Streets		264,663
Total Governmental Activities Depreciation Expense	\$	370,302

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	\$ 2,396,229	\$ 1,346,385	\$ (1,953,470)	\$ 1,789,144
Total capital assets not being depreciated	<u>2,396,229</u>	<u>1,346,385</u>	<u>(1,953,470)</u>	<u>1,789,144</u>
Capital assets, being depreciated:				
Water system	13,925,356	862,819	1,727,208	16,515,383
Sewer system	7,550,074	330,574	226,262	8,106,910
Equipment and equipment	939,092	-	-	939,092
Total capital assets being depreciated	<u>22,414,522</u>	<u>1,193,393</u>	<u>1,953,470</u>	<u>25,561,385</u>
Less accumulated depreciation				
Water system	(5,181,086)	(562,959)	-	(5,744,045)
Sewer system	(4,011,869)	(330,699)	-	(4,342,568)
Equipment and equipment	(454,906)	(84,522)	-	(539,428)
Total accumulated depreciation	<u>(9,647,861)</u>	<u>(978,180)</u>	<u>-</u>	<u>(10,626,041)</u>
Net capital assets being depreciated	12,766,661	215,213	1,953,470	14,935,344
Total Net Capital Assets	<u>\$ 15,162,890</u>	<u>\$ 1,561,598</u>	<u>\$ -</u>	<u>\$ 16,724,488</u>

All depreciation was charged to the water and sewer fund.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

D. 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	\$ 3,100,000	\$ -	\$ (160,000)	\$ 2,940,000	\$ 170,000
Other liabilities:					
Net pension liability	329,574	276,817	-	606,391	-
Compensated absences	115,237	136,675	(115,237)	136,675	123,008
Total Governmental Activities	<u>\$ 3,544,811</u>	<u>\$ 413,492</u>	<u>\$ (275,237)</u>	<u>\$ 3,683,066</u>	<u>\$ 293,008</u>
Long-term liabilities due in more than one year				<u>\$ 3,390,059</u>	
Business-Type Activities:					
Bonds, leases, and other payables:					
Capital lease	\$ 209,443	\$ -	\$ (138,394)	\$ 71,049	\$ 71,049
Revenue Bonds	3,125,000	-	(175,000)	2,950,000	70,000
Certificates of Obligation	11,910,000	1,165,000	(385,000)	12,690,000	550,000
Deferred amounts:					
Bond premium	130,598	-	(11,873)	118,725	-
Other liabilities:					
Net pension liability	92,957	78,076	-	171,033	-
Compensated absences	19,724	-	-	19,724	17,752
Total Business-Type Activities	<u>\$ 15,487,722</u>	<u>\$ 1,243,076</u>	<u>\$ (710,267)</u>	<u>\$ 16,020,531</u>	<u>\$ 708,801</u>
Long-term liabilities due in more than one year				<u>\$ 15,311,730</u>	

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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

Description	Rates	Balance	Balance
Governmental Activities:			
Certificates of Obligation - Series 2012	4.50%	\$ 800,000	\$ 685,000
Certificates of Obligation - Series 2014	2.78%	2,500,000	2,255,000
Total Governmental Activities		\$ 3,300,000	\$ 2,940,000
Business-Type Activities:			
Capital Lease - Meter Replacemnt program	4.40%	\$ 1,065,359	\$ 71,049
Revenue Bonds - Series 2012	0.45% - 3.40%	3,150,000	2,950,000
Certificates of Obligation - Series 2005	5.13%	600,000	340,000
Certificates of Obligation - Series 2010	1.00%	1,355,000	1,330,000
Certificates of Obligation - Series 2012A	3.50%	800,000	665,000
Certificates of Obligation - Series 2013	3.75% - 5.00%	5,800,000	5,800,000
Certificates of Obligation - Series 2013A	2.00 - 4.00%	3,920,000	3,390,000
Certificates of Obligation - Series 2016	1.19%	1,165,000	1,165,000
Total Business-Type Activities		\$ 22,380,359	\$ 15,711,049
Total Long-Term Debt		\$ 25,680,359	\$ 18,651,049

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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
2017	\$ 35,000	\$ 30,826	\$ 135,000	\$ 62,690	\$ 170,000	\$ 93,516
2018	35,000	29,250	140,000	58,936	175,000	88,186
2019	35,000	27,676	145,000	55,044	180,000	82,720
2020	35,000	26,100	150,000	51,014	185,000	77,114
2021	40,000	24,526	160,000	46,844	200,000	71,370
2022	40,000	22,726	165,000	42,396	205,000	65,122
2023	45,000	20,926	170,000	37,808	215,000	58,734
2024	45,000	18,900	180,000	33,082	225,000	51,982
2025	45,000	16,876	185,000	28,078	230,000	44,954
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	13,992
2030	60,000	5,400	-	-	60,000	5,400
2031	60,000	2,700	-	-	60,000	2,700
	<u>\$ 685,000</u>	<u>\$ 271,582</u>	<u>\$ 2,255,000</u>	<u>\$ 474,412</u>	<u>\$ 2,940,000</u>	<u>\$ 745,994</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.

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

Year ending September 30,	Business-Type Activities		
	Capital Lease - Utility Meter Replacement Program		
	Principal	Interest	Total
2017	\$ 71,049	\$ 1,411	\$ 72,460
	<u>\$ 71,049</u>	<u>\$ 1,411</u>	<u>\$ 72,460</u>

Capital Lease – entered into in November 2007, due in annual installments beginning May 2008 through 2017, bearing interest of 4.40% payable May 1. This lease has a book value of \$639,215 at year end.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Year ending September 30,	Business-Type Activities		
	Revenue Bonds, Series 2012		
	Principal	Interest	Total
2017	\$ 70,000	\$ 87,323	\$ 157,323
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>\$ 2,950,000</u>	<u>\$ 1,506,841</u>	<u>\$ 4,456,841</u>

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

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

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

<u>Year ending September 30,</u>	<u>Business-Type Activities</u>		
	<u>Certificates of Obligation - Series 2003, 2005, 2010, 2012A, 2013, 2013A, and 2016</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 550,000	\$ 423,978	\$ 973,978
2018	565,000	409,376	974,376
2019	585,000	396,327	981,327
2020	590,000	378,308	968,308
2021	610,000	360,138	970,138
2022	635,000	341,193	976,193
2023	635,000	316,647	951,647
2024	530,000	293,669	823,669
2025	545,000	279,696	824,696
2026	560,000	265,480	825,480
2027	420,000	252,600	672,600
2028	505,000	240,700	745,700
2029	505,000	225,600	730,600
2030	475,000	209,750	684,750
2031	490,000	193,600	683,600
2032	570,000	176,700	746,700
2033	590,000	155,326	745,326
2034	615,000	133,200	748,200
2035	640,000	108,600	748,600
2036	665,000	83,000	748,000
2037	690,000	56,400	746,400
2038	720,000	28,800	748,800
	<u>\$ 12,690,000</u>	<u>\$ 5,329,085</u>	<u>\$ 18,019,085</u>

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

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

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

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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 and interest rate of 1.91% payable February 1 and August 1.

E. Deferred Charges on Refunding

Deferred charges resulting from the issuance of series 2013 certificates of obligation have been recorded as deferred outflows of resources and are being amortized to interest expense over the shorter of either the remaining term of the refunded debt or the refunding certificates of obligation. Current year balances for business-type activities totaled \$59,113. Current year amortization expense for business-type activities totaled \$5,911.

E. Customer Deposits

The City had customer deposits of \$102,179 in the water and sewer fund as of year end. The City requires a refundable deposit for all new utility customers. This amount will be returned to the customer when utility service is discontinued and all outstanding utility expenses are paid.

F. Interfund Transactions

Transfers between the primary government funds during the 2016 year were as follows:

Transfer Out	Transfer In	Amount
General Fund		\$ (388,091)
Debt Service Fund		(53,199)
Community Development Corporation		(61,625)
Water and Sewer Fund		(3,890,437)
	General Fund	3,890,437
	Hotel/Motel Tax Fund	5
Economic Development Corporation		2,158
	Water and Sewer Fund	500,752
		\$ -

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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

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.

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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.

D. Defined Benefit Pension Plans

Texas Municipal Retirement System

1. Plan Description

The City of Willis, Texas participates as one of 860 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.

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

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
Annuity increase (to retirees)	70% of CPI	70% of CPI
Active Employees	Yes	Yes
Supplemental Death Benefit to Retirees	Yes	Yes

Employees covered by benefit terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	17
Inactive employees entitled to but not yet receiving benefits	22
Active employees	<u>40</u>
Total	<u>79</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 9.44%

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

and 9.16% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$189,370, and were equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, 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, 2015 actuarial valuation was determined using the following actuarial assumptions:

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

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

Actuarial assumptions used in the December 31, 2015, 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.

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

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). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	<u>5.0%</u>	8.00%
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:

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

1% Decrease	Current Single Rate	1% Increase
5.75%	Assumption 6.75%	7.75%
\$ 1,564,117	\$ 777,424	\$ 137,403

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/14	\$ 4,449,266	\$ 4,026,735	\$ 422,531
Changes for the year:			
Service cost	282,064	-	282,064
Interest	315,302	-	315,302
Difference between expected and actual experience	(25,025)	-	(25,025)
Contributions – employer	-	185,682	(185,682)
Contributions – employee	-	137,688	(137,688)
Net investment income	-	5,943	(5,943)
Change of assumptions	108,067	-	108,067
Benefit payments, including refunds of emp. contributions	(171,958)	(171,958)	-
Administrative expense	-	(3,619)	3,619
Other changes	-	(179)	179
Net changes	508,450	153,557	354,893
Balance at 12/31/15	\$ 4,957,716	\$ 4,180,292	\$ 777,424

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.tmrs.com.

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

For the year ended September 30, 2016, the city recognized pension expense of \$249,905.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and investment earnings	\$ 249,119	\$ -
Differences between expected and actual economic experience	-	61,038
Differences in assumptions changes		(86,454)
Contributions subsequent to the measurement date	138,653	-
Total	\$ 387,772	\$ (25,416)

The City reported \$138,653 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, 2017. 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:

2016	\$	67,300
2017		67,300
2018		68,139
2019		71,796
2020		-
Thereafter		-
	\$	274,535

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 funding policy for the SDBF program is to assure that adequate resources are available to meet

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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 2016, 2015 and 2014 were \$820, \$784 and \$695, 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. Restatement

The City has restated beginning fund balance/net position within governmental activities, business-type activities, general, and water & sewer funds due to a change in the reporting of accruals, transfer of capital assets and the capitalization of assets from a prior period. The restatement of beginning net position/fund balance is as follows:

	<u>Governmental Activities</u>	<u>General</u>
Prior year ending net position/ fund balance as reported	\$ 4,368,021	\$ 607,158
Change in reporting of accruals	(19,478)	(19,478)
Transfer of capital assets	164,091	-
Restated beginning net position/fund balance	<u>\$ 4,512,634</u>	<u>\$ 587,680</u>

	<u>Business-type Activities</u>	<u>Water & Sewer</u>
Prior year ending net position as reported	\$ 5,810,926	\$ 5,810,926
Capitalization of asset	26,401	26,401
Transfer of capital assets	(164,091)	(164,091)
Restated beginning net position	<u>\$ 5,673,236</u>	<u>\$ 5,673,236</u>

F. New Accounting Pronouncements

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

The, GASB has issued Statement No. 72, entitled *Fair Value Measurement and Application*; The provisions of GASB Statement No. 72 are effective for reporting periods beginning after June 15, 2015. GASB Statement No. 72 provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The statement generally requires state and local governments to measure investments at fair value. The statement defines an *investment* as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. *Fair value* is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. The City has adopted this statement during the current fiscal year but had no effect on these accompanying financial statements.

The, GASB has issued Statement No. 74 entitled, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; GASB Statement No. 75, entitled, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; GASB Statement No. 77; entitled, *Tax Abatement Disclosures*; GASB Statement No. 78, entitled, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which will require adoption in the future, if applicable. These statements may or will have a material effect on the City's financial statements once implemented. The City will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date.

G. Subsequent Events

There were no material subsequent events through January 13, 2017, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

City of Willis, Texas

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

For the Year Ended September 30, 2016

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ 1,315,000	\$ 1,296,243	\$ (18,757)
Sales tax	1,727,600	1,653,034	(74,566)
Franchise and local taxes	350,000	289,220	(60,780)
Permits and code enforcement	102,600	72,359	(30,241)
Sanitation	285,100	283,741	(1,359)
Intergovernmental	-	5,795	5,795
Fines and forfeitures	201,800	415,344	213,544
Interest	150	593	443
Other	10,500	40,122	29,622
Total Revenues	3,992,750	4,056,451	63,701
<u>Expenditures</u>			
General government	978,998	834,534	144,464
Community development	279,050	282,174	(3,124) *
Public safety	1,635,846	1,634,649	1,197
Sanitation	259,000	262,363	(3,363) *
Court	106,270	99,800	6,470
Street	505,318	409,252	96,066
Debt Service:			
Interest and fiscal charges	-	459	(459)
Capital outlay	3,890,437	3,890,437	-
Total Expenditures	7,654,919	7,413,668	241,251
Revenues Over (Under) Expenditures	(3,662,169)	(3,357,217)	304,952
<u>Other Financing Sources (Uses)</u>			
Transfers in	3,985,437	3,890,437	(95,000)
Transfers (out)	(219,016)	(388,091)	(169,075) *
Total Other Financing Sources (Uses)	3,766,421	3,502,346	(264,075)
Net Change in Fund Balance	\$ 104,252	145,129	\$ 40,877
Beginning fund balance		587,680	
Ending Fund Balance		\$ 732,809	

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 DEBT SERVICE FUND

For the Year Ended September 30, 2016

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ 44,775	\$ 48,515	\$ 3,740
Interest	100	87	(13)
Total Revenues	44,875	48,602	3,727
<u>Expenditures</u>			
Debt Service:			
Interest and fiscal charges	125	125	-
Total Expenditures	125	125	-
Revenues Over (Under) Expenditures	44,750	48,477	3,727
<u>Other Financing Sources (Uses)</u>			
Transfers (out)	(42,150)	(53,199)	(11,049)
Total Other Financing Sources (Uses)	(42,150)	(53,199)	(11,049)
Net Change in Fund Balance	\$ 2,600	(4,722)	\$ (7,322)
Beginning fund balance		74,598	
Ending Fund Balance		\$ 69,876	

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
COMMUNITY DEVELOPMENT CORPORATION FUND
For the Year Ended September 30, 2016

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Sales tax	\$ 475,000	\$ 488,081	\$ 13,081
Interest	1,000	3,503	2,503
Total Revenues	476,000	491,584	15,584
<u>Expenditures</u>			
Community development	584,809	264,768	320,041
Debt Service:			
Principal	52,000	52,000	-
Interest and fiscal charges	27,021	26,521	500
Total Expenditures	663,830	343,289	320,541
Revenues Over (Under) Expenditures	(187,830)	148,295	336,125
<u>Other Financing Sources (Uses)</u>			
Transfers in	2,158	2,158	-
Total Other Financing Sources	2,158	2,158	-
Net Change in Fund Balance	\$ (185,672)	150,453	\$ 336,125
Beginning fund balance		1,553,567	
Ending Fund Balance		\$ 1,704,020	

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, 2016**

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Sales tax	\$ 475,000	\$ 487,366	\$ 12,366
Interest	1,000	3,309	2,309
Other	-	14	14
Total Revenues	476,000	490,689	14,689
<u>Expenditures</u>			
Economic development	315,525	176,369	139,156
Debt service:			
Principal	109,850	71,600	38,250
Interest	78,871	53,962	24,909
Total Expenditures	504,246	301,931	202,315
Revenues Over (Under) Expenditures	(28,246)	188,758	217,004
<u>Other Financing Sources (Uses)</u>			
Transfers (out)	(61,625)	(61,625)	-
Total Other Financing Sources	(61,625)	(61,625)	-
Net Change in Fund Balance	\$ (89,871)	127,133	\$ 217,004
Beginning fund balance		1,407,246	
Ending Fund Balance		\$ 1,534,379	

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 CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

September 30, 2016

	12/31/2014	12/31/2015
Total pension liability		
Service cost	\$ 223,008	\$ 282,064
Interest	293,562	315,302
Changes in benefit terms	-	-
Differences between expected and actual experience	(68,924)	(25,025)
Changes of assumptions	-	108,067
Benefit payments, including refunds of participant contributions	(161,237)	(171,958)
Net change in total pension liability	286,409	508,450
Total pension liability - beginning	4,162,857	4,449,266
Total pension liability - ending (a)	4,449,266	4,957,716
Plan fiduciary net position		
Contributions - employer	\$ 152,679	\$ 185,682
Contributions - members	127,081	137,688
Net investment income	211,635	5,943
Benefit payments, including refunds of participant contributions	(161,237)	(171,958)
Administrative expenses	(2,209)	(3,619)
Other	(182)	(179)
Net change in plan fiduciary net position	327,767	153,557
Plan fiduciary net position - beginning	3,698,968	4,026,735
Plan fiduciary net position - ending (b)	\$ 4,026,735	\$ 4,180,292
Fund's net pension liability - ending (a) - (b)	\$ 422,531	\$ 777,424
 Plan fiduciary net position as a percentage of the total pension liability	 90.50%	 84.32%
Covered employee payroll	\$ 1,815,436	\$ 1,966,971
Fund's net position as a percentage of covered employee payroll	23.27%	39.52%

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.

City of Willis, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

For the Year Ended September 30, 2016

	2015	2016
Actuarially determined employer contributions	\$ 179,618	\$ 189,370
Contributions in relation to the actuarially determined contribution	\$ 179,618	\$ 189,370
Contribution deficiency (excess)	\$ -	\$ -
Annual covered employee payroll	\$ 1,960,661	\$ 2,050,931
Employer contributions as a percentage of covered employee payroll	9.16%	9.23%

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

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014

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

Other Information:

Notes There were no benefit changes during the year.

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COMBINING STATEMENTS

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

TAX INCREMENT REINVESTMENT ZONE NO. 1 FUND (TIRZ)

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

HOTEL TAX FUND

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

DEBT SERVICE FUND

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

City of Willis, Texas
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2016

	<u>Hotel Tax</u>	<u>TIRZ</u>	<u>Debt Service Fund</u>	<u>Total</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 137,889	\$ 137,879	\$ 69,876	\$ 345,644
Investments	119,315	-	-	119,315
Receivables, net	-	-	5,760	5,760
Total Assets	\$ 257,204	\$ 137,879	\$ 75,636	\$ 470,719
<u>Liabilities</u>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total Liabilities	-	-	-	-
<u>Deferred Inflows of Resources</u>				
Unavailalbe revenue-property tax	-	-	5,760	5,760
Total Deferred Inflows of Resources	-	-	5,760	5,760
<u>Fund Balances</u>				
Restricted for:				
Tourism	257,204	-	-	257,204
Community development	-	137,879	-	137,879
Debt service	-	-	69,876	69,876
Total Fund Balances	257,204	137,879	69,876	464,959
Total Liabilities, Deferred Inflows and Fund Balances	\$ 257,204	\$ 137,879	\$ 75,636	\$ 470,719

City of Willis, Texas

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2016**

	Hotel Tax	TIRZ	Debt Service Fund	Total
<u>Revenues</u>				
Property tax	\$ -	\$ 56,663	\$ 48,515	\$ 105,178
Hotel occupancy tax	28,012	-	-	28,012
Intergovernmental	-	86,498	-	86,498
Interest	355	49	87	491
Total Revenues	28,367	143,210	48,602	220,179
<u>Expenditures</u>				
Signage and advertising	3,647	-	-	3,647
Debt service:				
Principal	-	36,400	-	36,400
Interest	-	18,565	125	18,690
Total Expenditures	3,647	54,965	125	58,737
Revenues Over Expenditures	24,720	88,245	48,477	161,442
<u>Other Financing Sources (Uses)</u>				
Transfers in	5	-	-	5
Transfers (out)	-	-	(53,199)	(53,199)
Total Other Financing Sources (Uses)	5	-	(53,199)	(53,194)
Net Change in Fund Balances	24,725	88,245	(4,722)	108,248
Beginning fund balances	232,479	49,634	74,598	356,711
Ending Fund Balances	\$ 257,204	\$ 137,879	\$ 69,876	\$ 464,959

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