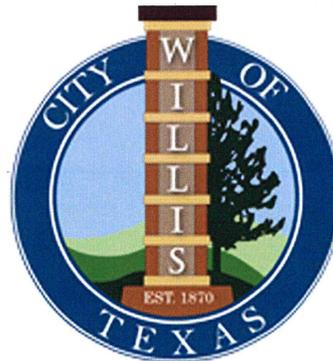


Annual Financial Report
For The Fiscal Year Ended
September 30, 2015



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, 2015**

City of Willis, Texas

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September 30, 2015

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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, 2015, 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, 2015 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.

Brooks Cardiel, PLLC

BrooksCardiel, PLLC
Certified Public Accountants
The Woodlands, Texas
January 11, 2016

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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, 2015

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, 2015. 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 \$10,178,947 at September 30, 2015. Of this, \$70,177 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$3,924,682, an increase of \$72,952.
- As of the end of the year, the unassigned fund balance of the general fund was \$607,158 or 17% of total general fund expenditures.
- The City had an overall increase in net position of \$120,852.

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, 2015

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, 2015

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, 2015

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 \$10,178,947 as of September 30, 2015, in the primary government.

The largest portion of the City's net position, \$6,791,246, 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:

	2015			2014		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities		Activities	Activities	
Current and						
other assets	\$ 4,370,403	\$ 7,045,698	\$ 11,416,101	\$ 4,325,114	\$ 8,776,639	\$ 13,101,753
Capital assets, net	3,837,503	15,300,580	19,138,083	3,832,104	13,517,119	17,349,223
Total Assets	8,207,906	22,346,278	30,554,184	8,157,218	22,293,758	30,450,976
Deferred Outflows of						
Resources	134,784	103,040	237,824	84,261	94,702	178,963
Other liabilities	386,981	1,138,576	1,525,557	424,435	255,027	679,462
Long-term liabilities	3,544,811	15,487,722	19,032,533	3,697,369	16,195,013	19,892,382
Total Liabilities	3,931,792	16,626,298	20,558,090	4,121,804	16,450,040	20,571,844
Deferred inflows of						
Resources	42,877	12,094	54,971	-	-	-
Net Position:						
Net investment in						
capital assets	737,503	6,053,743	6,791,246	510,984	5,308,104	5,819,088
Restricted	3,317,524	-	3,317,524	3,126,654	-	3,126,654
Unrestricted	312,994	(242,817)	70,177	482,037	630,316	1,112,353
Total Net Position	\$ 4,368,021	\$ 5,810,926	\$ 10,178,947	\$ 4,119,675	\$ 5,938,420	\$ 10,058,095

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2015

Statement of Activities:

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

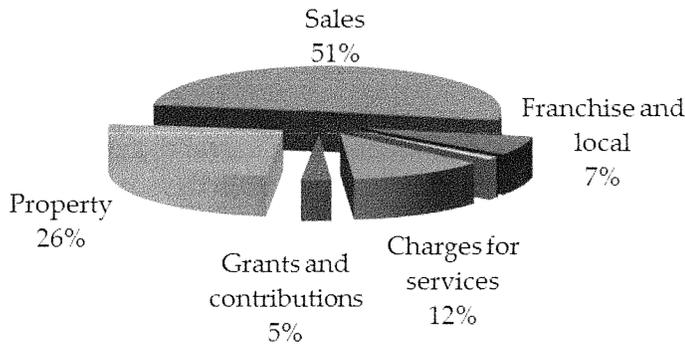
	For the Year Ended September 30, 2015			For the Year Ended September 30, 2014		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities	Primary Government	Activities	Activities	Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 636,483	\$ 2,567,568	\$ 3,204,051	\$ 566,726	\$ 1,984,726	\$ 2,551,452
Grants and contributions	142,789	-	142,789	239,028	-	239,028
General revenues:						
Property	1,290,595	-	1,290,595	1,073,562	-	1,073,562
Sales	2,560,913	-	2,560,913	2,520,208	-	2,520,208
Franchise and local	342,022	-	342,022	339,149	-	339,149
Interest	5,863	3,938	9,801	4,839	3,990	8,829
Other revenues	52,013	-	52,013	6,122	-	6,122
Total Revenues	5,030,678	2,571,506	7,602,184	4,749,634	1,988,716	6,738,350
Expenses						
General government	1,167,050	-	1,167,050	1,202,946	-	1,202,946
Community development	743,931	-	743,931	737,604	-	737,604
Public safety	1,357,795	-	1,357,795	1,314,107	-	1,314,107
Sanitation	269,657	-	269,657	240,918	-	240,918
Street	742,981	-	742,981	578,071	-	578,071
Water & sewer	-	2,561,993	2,561,993	-	2,517,420	2,517,420
Interest and fiscal charges	110,091	527,834	637,925	52,332	638,008	690,340
Total Expenses	4,391,505	3,089,827	7,481,332	4,125,978	3,155,428	7,281,406
Change in Net Position						
Before Transfers	639,173	(518,321)	120,852	623,656	(1,166,712)	(543,056)
Transfers	(390,827)	390,827	-	(1,127,032)	1,127,032	-
Total	(390,827)	390,827	-	(1,127,032)	1,127,032	-
Change in Net Position	248,346	(127,494)	120,852	(503,376)	(39,680)	(543,056)
Beginning Net Position	4,119,675	5,938,420	10,058,095	4,623,051	5,978,100	10,601,151
Ending Net Position	\$ 4,368,021	\$ 5,810,926	\$ 10,178,947	\$ 4,119,675	\$ 5,938,420	\$ 10,058,095

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2015

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:

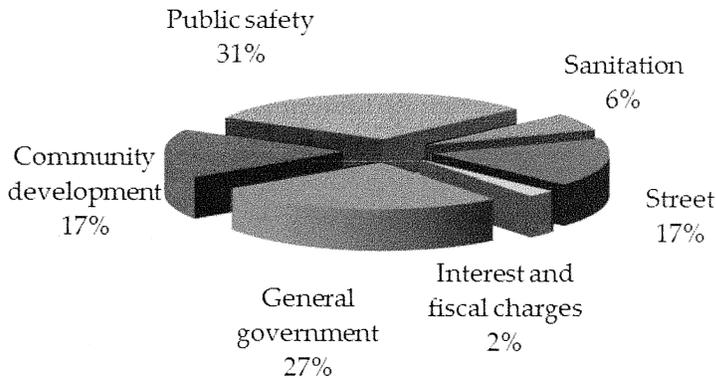
Governmental Activities - Revenues



For the year ended September 30, 2015, revenues from governmental activities totaled \$5,030,678. Sales and property taxes are the City's largest revenue sources. Sales tax increased \$40,705 or 2% due to a growing economy and property tax revenue increased \$217,033 or 17% due to an increase in the assessed values of the properties. Grants and contributions decreased by \$96,239 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, 2015, expenses for governmental activities totaled \$4,391,505. This represents an increase of \$265,527 or 4% from the prior year. The City's largest functional expenses are

City of Willis, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

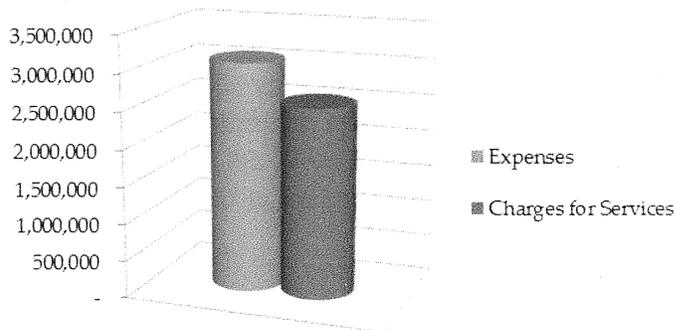
September 30, 2015

general government of \$1,167,050 and public safety of \$1,357,795. General government expenses decreased by \$35,896 or 3% due to a decrease in pension liability and an increase in the administrative reimbursement from the economic and community development corporations. Streets increased by \$164,910 or 22% due to an increase 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, 2015, charges for services by business-type activities totaled \$2,567,568. This is an increase of \$582,842, or 29%, from the previous year. This increase directly relates to water usage and a large write off of old balances in the prior year.

Total expenses decreased \$65,601 due primarily to bond issuance costs paid in the prior year. All other expenses remained relatively consistent.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

As of the end of the year the general fund reflected a total fund balance of \$607,158, all of which is unassigned. The general fund had a decrease in fund balance of \$52,982 during the year.

City of Willis, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2015

Over all there was a slight increase in governmental fund balance of \$72,952 over the prior year. The remaining funds all finished the year with a net increase in fund balance.

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 negative budget variance of \$311,498 in the general fund. The primary reason for this variance is due to transfers out exceeding appropriations by \$339,015. Revenues had a positive variance for the year of \$177,058.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$3,837,503 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 \$15,300,580 in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

- Improvements to the water and sewer systems for \$2,608,617
- Improvements to City Hall for \$57,315
- Purchase of three Ford pickups totaling \$68,876

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 \$18,344,443. No debt was issued during the year and payments on these obligations totaled \$817,344 during the year.

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

City of Willis, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2015

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's 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, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 2,256,029	\$ 6,343,299	\$ 8,599,328
Investments	1,504,467	344,140	1,848,607
Receivables, net	609,607	310,540	920,147
Inventory	-	47,719	47,719
Deposits	300	-	300
Total Current Assets	4,370,403	7,045,698	11,416,101
Capital assets:			
Non-depreciable	399,416	2,533,919	2,933,335
Depreciable, net	3,438,087	12,766,661	16,204,748
	3,837,503	15,300,580	19,138,083
Total Assets	8,207,906	22,346,278	30,554,184
<u>Deferred Outflows of Resources</u>			
Deferred charge on refunding	-	65,024	65,024
Pension contributions	105,273	29,693	134,966
Pension investment earnings	29,511	8,323	37,834
Total Deferred Outflows of Resources	134,784	103,040	237,824
<u>Liabilities</u>			
Accounts payable and accrued liabilities	386,981	1,038,599	1,425,580
Customer deposits	-	99,977	99,977
	386,981	1,138,576	1,525,557
Noncurrent liabilities:			
Due within one year	263,713	716,146	979,859
Due in more than one year	3,281,098	14,771,576	18,052,674
	3,544,811	15,487,722	19,032,533
Total Liabilities	3,931,792	16,626,298	20,558,090
<u>Deferred Inflows of Resources</u>			
Pension (gains) losses	42,877	12,094	54,971
<u>Net Position</u>			
Net investment in capital assets	737,503	6,053,743	6,791,246
Restricted for:			
Debt service	74,598	-	74,598
Tourism	232,479	-	232,479
Community development	1,603,201	-	1,603,201
Economic development	1,407,246	-	1,407,246
Unrestricted	312,994	(242,817)	70,177
Total Net Position	\$ 4,368,021	\$ 5,810,926	\$ 10,178,947

See Notes to Financial Statements.

City of Willis, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 1,167,050	\$ -	\$ 142,789
Community development	743,931	87,126	-
Public safety	1,357,795	271,275	-
Sanitation	269,657	278,082	-
Street	742,981	-	-
Interest and fiscal charges	110,091	-	-
Total Governmental Activities	4,391,505	636,483	142,789
Business-Type Activities			
Water & Sewer	3,089,827	2,567,568	-
Total Business-Type Activities	3,089,827	2,567,568	-
Total Primary Government	\$ 7,481,332	\$ 3,204,051	\$ 142,789

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
\$ (1,024,261)	\$ -	\$ (1,024,261)
(656,805)	-	(656,805)
(1,086,520)	-	(1,086,520)
8,425	-	8,425
(742,981)	-	(742,981)
(110,091)	-	(110,091)
<u>(3,612,233)</u>	<u>-</u>	<u>(3,612,233)</u>
-	(522,259)	(522,259)
-	(522,259)	(522,259)
<u>(3,612,233)</u>	<u>(522,259)</u>	<u>(4,134,492)</u>
1,290,595	-	1,290,595
2,560,913	-	2,560,913
342,022	-	342,022
5,863	3,938	9,801
52,013	-	52,013
(390,827)	390,827	-
<u>3,860,579</u>	<u>394,765</u>	<u>4,255,344</u>
248,346	(127,494)	120,852
4,119,675	5,938,420	10,058,095
<u>\$ 4,368,021</u>	<u>\$ 5,810,926</u>	<u>\$ 10,178,947</u>

City of Willis, Texas
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Community Development Corporation</u>	<u>Economic Development Corporation</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 563,921	\$ 74,598	\$ 662,289	\$ 792,129
Investments	23,612	-	816,445	545,389
Receivables, net	416,370	9,693	91,772	91,772
Deposits	300	-	-	-
Total Assets	\$ 1,004,203	\$ 84,291	\$ 1,570,506	\$ 1,429,290
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 331,585	\$ -	\$ 16,939	\$ 22,044
Total Liabilities	331,585	-	16,939	22,044
<u>Deferred Inflows of Resources</u>				
Unavailalbe revenue-property tax	65,460	9,693	-	-
Total Deferred Inflows of Resources	65,460	9,693	-	-
<u>Fund Balances</u>				
Restricted for:				
Debt service	-	74,598	-	-
Tourism	-	-	-	-
Community development	-	-	1,553,567	-
Economic development	-	-	-	1,407,246
Unassigned reported in:				
General fund	607,158	-	-	-
Total Fund Balances	607,158	74,598	1,553,567	1,407,246
Total Liabilities and Fund Balances	\$ 938,743	\$ 74,598	\$ 1,570,506	\$ 1,429,290

See Notes to Financial Statements.

<u>Nonmajor</u>	<u>Total</u>
\$ 163,092	\$ 2,256,029
119,021	1,504,467
-	609,607
-	300
<u>\$ 282,113</u>	<u>\$ 4,370,403</u>

<u>\$ -</u>	<u>\$ 370,568</u>
<u>-</u>	<u>370,568</u>

<u>-</u>	<u>75,153</u>
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<u>-</u>	<u>75,153</u>
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-	74,598
232,479	232,479
49,634	1,603,201
-	1,407,246
-	607,158
<u>282,113</u>	<u>3,924,682</u>
<u>\$ 282,113</u>	<u>\$ 4,295,250</u>

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City of Willis, Texas
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
September 30, 2015

Fund Balances - Total Governmental Funds	\$ 3,924,682
 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	399,416
Capital assets - net depreciable	3,438,087
 Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
	75,153
 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	105,273
Pension investment earnings	29,511
 Deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.	
Pension (gains) losses	(42,877)
 Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(16,413)
Compensated absences	(115,237)
Net pension liability	(329,574)
Non-current liabilities due in one year	(160,000)
Non-current liabilities due in more than one year	(2,940,000)
Net Position of Governmental Activities	<u><u>\$ 4,368,021</u></u>

See Notes to Financial Statements.

City of Willis, Texas

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

For the Year Ended September 30, 2015

	General	Debt Service	Community Development Corporation	Economic Development Corporation
Revenues				
Property tax	\$ 1,172,689	\$ 48,957	\$ -	\$ -
Sales tax	1,609,413	-	475,750	475,750
Franchise and local taxes	311,012	-	-	-
Permits and code enforcement	87,126	-	-	-
Sanitation	278,082	-	-	-
Grants	142,789	-	-	-
Fines and forfeitures	271,275	-	-	-
Interest	421	83	2,769	2,212
Other	51,701	-	-	312
Total Revenues	3,924,508	49,040	478,519	478,274
Expenditures				
Current:				
General government	954,036	-	-	-
Community development	255,581	-	356,519	391,060
Public safety	1,401,014	-	-	-
Sanitation	269,657	-	-	-
Court	93,958	-	-	-
Street	478,317	-	-	-
Capital outlay	97,056	-	-	-
Debt Service:				
Principal	-	-	46,000	66,800
Interest and fiscal charges	271	63	30,657	58,684
Total Expenditures	3,549,890	63	433,176	516,544
Excess of Revenues Over (Under) Expenditures	374,618	48,977	45,343	(38,270)
Other Financing Sources (Uses)				
Transfers in	-	918	-	108,826
Transfers (out)	(427,570)	(41,520)	(31,481)	-
Total Other Financing Sources (Uses)	(427,570)	(40,602)	(31,481)	108,826
Net Change in Fund Balances	(52,952)	8,375	13,862	70,556
Beginning fund balances	660,110	66,223	1,539,705	1,336,690
Ending Fund Balances	\$ 607,158	\$ 74,598	\$ 1,553,567	\$ 1,407,246

See Notes to Financial Statements.

<u>Nonmajor</u>	<u>Total Governmental Funds</u>
\$ 60,202	\$ 1,281,848
-	2,560,913
31,010	342,022
-	87,126
-	278,082
-	142,789
-	271,275
378	5,863
-	52,013
91,590	5,021,931
4,819	958,855
-	1,003,160
-	1,401,014
-	269,657
-	93,958
-	478,317
-	97,056
32,200	145,000
21,460	111,135
58,479	4,558,152
33,111	463,779
-	109,744
-	(500,571)
-	(390,827)
33,111	72,952
249,002	3,851,730
\$ 282,113	\$ 3,924,682

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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, 2015

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

Net changes in fund balances - total governmental funds	\$	72,952
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		381,406
Depreciation expense		(376,007)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		8,747
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		(24,701)
Accrued interest		1,044
Pension expense		39,905
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		145,000
Change in Net Position of Governmental Activities	\$	248,346

See Notes to Financial Statements.

City of Willis, Texas
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2015

		<u>Water & Sewer</u>
<u>Assets</u>		
Cash and cash equivalents	\$	6,343,299
Investments		344,140
Receivables, net		310,540
Inventory		47,719
Capital assets:		
Non-depreciable capital assets		2,533,919
Depreciable capital assets, net		12,766,661
Total Capital Assets		<u>15,300,580</u>
Total Assets		<u>22,346,278</u>
<u>Deferred Outflows of Resources</u>		
Deferred charge on refunding		65,024
Pension contributions		29,693
Pension investment earnings		8,323
Total Deferred Outflows of Resources		<u>103,040</u>
<u>Liabilities</u>		
Accounts payable and accrued liabilities		958,448
Accrued interest		80,151
Customer deposits		99,977
Noncurrent Liabilities:		
Due within one year		716,146
Due in more than one year		14,771,576
Total Liabilities		<u>16,626,298</u>
<u>Deferred Inflows of Resources</u>		
Pension (gains) losses		<u>12,094</u>
<u>Net Position</u>		
Net investment in capital assets		6,053,743
Unrestricted		(242,817)
Total Net Position	\$	<u><u>5,810,926</u></u>

See Notes to Financial Statements.

City of Willis, Texas

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

For the Year Ended September 30, 2015

		<u>Water & Sewer</u>
<u>Operating Revenues</u>		
Water sales	\$	842,378
Sewer revenue		903,720
Penalties and service charges		87,813
Tap fees		17,165
Intergovernmental		715,908
Other revenue		584
Total Operating Revenues		<u>2,567,568</u>
 <u>Operating Expenses</u>		
Cost of water		604,088
Cost of sewer		531,730
Operating expenses		7,800
Salary and wages		545,552
Depreciation		872,823
Total Operating Expenses		<u>2,561,993</u>
Operating Income (Loss)		<u>5,575</u>
 <u>Nonoperating Revenues (Expenses)</u>		
Investment income		3,938
Interest expense		(527,834)
Total Nonoperating Revenues (Expenses)		<u>(523,896)</u>
Income (Loss) Before Transfers		(518,321)
Transfers in		390,827
Change in Net Position		<u>(127,494)</u>
Beginning net position		<u>5,938,420</u>
Ending Net Position	\$	<u><u>5,810,926</u></u>

See Notes to Financial Statements.

City of Willis, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 1 of 2)
For the Year Ended September 30, 2015

	Water & Sewer
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 2,573,288
Payments to employees	(556,807)
Payments to suppliers	(274,044)
Net Cash Provided (Used) by Operating Activities	1,742,437
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfer in	390,827
Net Cash Provided (Used) by Noncapital Financing Activities	390,827
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(2,656,284)
Principal paid on debt	(672,344)
Interest paid on debt	(533,794)
Net Cash Provided (Used) by Capital and Related Financing Activities	(3,862,422)
<u>Cash Flows from Investing Activities</u>	
Purchase of investments	(124)
Interest on investments	3,938
Net Cash Provided (Used) by Investing Activities	3,814
Net Increase (Decrease) in Cash and Cash Equivalents	(1,725,344)
Beginning cash and cash equivalents	8,068,643
Ending Cash and Cash Equivalents	\$ 6,343,299

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, 2015

	Water & Sewer
<u>Reconciliation of Operating Income</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Operating Income (Loss)	\$ 5,575
Adjustments to reconcile operating income to net cash provided (used):	
Depreciation	872,823
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	5,720
Deferred Outflows of Resources:	
Pension contributions	(5,927)
Investment experience	(8,323)
Increase (Decrease) in:	
Accounts payable	881,470
Compensated absences	(13,976)
Customer deposits	2,080
Net pension liability	(9,099)
Deferred Inflows of Resources:	
Actual experience vs. assumption	12,094
Net Cash Provided (Used) by Operating Activities	\$ 1,742,437

See Notes to Financial Statements.

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City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

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, 2015

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, 2015

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.

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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.

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 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:

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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.

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

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

D. Measurement Focus and Basis of Accounting

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

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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.

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

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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. 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.

3. 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.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

4. 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.

5. Capital Assets

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

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

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

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 years
Machinery 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

6. 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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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.

7. 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.

8. 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.

9. 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

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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.

10. Compensated Absences

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

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

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

The estimated amount of accrued vacation pay benefits that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it upon maturity. Amounts of accrued vacation pay benefits that are not expected to be liquidated with expendable available financial resources are maintained separately and represent a reconciling item between the fund and

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, *Continued*
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government-wide presentations. At September 30, 2015, the accrued and unpaid compensated absences liability was \$134,961.

11. Long-Term Obligations

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

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

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

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

12. Pensions

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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:	
General government	\$ 113,253
Sanitation	19,657
Capital outlay	97,056
Transfers (out)	339,015

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2015, the primary government had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 1,848,607	0.28
External investment pools	965,019	0.04
Total fair value	<u>\$ 2,813,626</u>	
Portfolio weighted average maturity		0.13

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

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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, 2015, 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, 2015, the market values of pledged securities and FDIC exceeded bank balances.

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

TexSTAR

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

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

B. Receivables

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

	General	Debt Service	Community Development Corporation	Economic Development Corporation	Water & Sewer	Total
Property taxes	\$ 65,460	\$ 9,693	\$ -	\$ -	\$ -	\$ 75,153
Sales tax	305,908	-	91,772	91,772	-	489,452
Franchise taxes	45,002	-	-	-	-	45,002
Accounts	-	-	-	-	691,800	691,800
Allowance	-	-	-	-	(381,260)	(381,260)
	<u>\$ 416,370</u>	<u>\$ 9,693</u>	<u>\$ 91,772</u>	<u>\$ 91,772</u>	<u>\$ 310,540</u>	<u>\$ 920,147</u>

C. Capital Assets

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

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 399,416	\$ -	\$ -	\$ 399,416
Construction in process	76,120	-	(76,120)	-
Total capital assets not being depreciated	<u>475,536</u>	<u>-</u>	<u>(76,120)</u>	<u>399,416</u>
Capital assets, being depreciated:				
Buildings and improvements	1,334,750	164,583	-	1,499,333
Roads	3,259,775	195,614	76,120	3,531,509
Vehicles & equipment	1,132,757	21,209	-	1,153,966
Park improvements	255,108	-	-	255,108
Total capital assets being depreciated	<u>5,982,390</u>	<u>381,406</u>	<u>76,120</u>	<u>6,439,916</u>
Less accumulated depreciation				
Buildings and improvements	(516,651)	(50,606)	-	(567,257)
Roads	(1,063,781)	(264,663)	-	(1,328,444)
Vehicles & equipment	(976,066)	(52,400)	-	(1,028,466)
Park improvements	(69,324)	(8,338)	-	(77,662)
Total accumulated depreciation	<u>(2,625,822)</u>	<u>(376,007)</u>	<u>-</u>	<u>(3,001,829)</u>
Net capital assets being depreciated	3,356,568	5,399	76,120	3,438,087
Total Net Capital Assets	<u>\$ 3,832,104</u>	<u>\$ 5,399</u>	<u>\$ -</u>	<u>\$ 3,837,503</u>

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

Depreciation was charged to governmental functions as follows:

General government	\$	79,937
Public safety		31,406
Streets		264,664
Total Governmental Activities Depreciation Expense	\$	376,007

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	\$ 243,910	\$ 2,290,009	\$ -	\$ 2,533,919
Total capital assets not being depreciated	<u>243,910</u>	<u>2,290,009</u>	<u>-</u>	<u>2,533,919</u>
Capital assets, being depreciated:				
Water system	13,606,748	318,608	-	13,925,356
Sewer system	7,550,074	-	-	7,550,074
Equipment and equipment	891,425	47,667	-	939,092
Total capital assets being depreciated	<u>22,048,247</u>	<u>366,275</u>	<u>-</u>	<u>22,414,522</u>
Less accumulated depreciation				
Water system	(4,704,461)	(476,625)	-	(5,181,086)
Sewer system	(3,695,426)	(316,443)	-	(4,011,869)
Equipment and equipment	(375,151)	(79,755)	-	(454,906)
Total accumulated depreciation	<u>(8,775,038)</u>	<u>(872,823)</u>	<u>-</u>	<u>(9,647,861)</u>
Net capital assets being depreciated	13,273,209	(506,548)	-	12,766,661
Total Net Capital Assets	<u>\$ 13,517,119</u>	<u>\$ 1,783,461</u>	<u>\$ -</u>	<u>\$ 15,300,580</u>

All depreciation was charged to the water and sewer fund.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Bonds and other payables:					
Certificates of Obligation	\$ 3,245,000	\$ -	\$ (145,000)	\$ 3,100,000	\$ 160,000
Other liabilities:					
Compensated absences	90,536	24,701	-	115,237	103,713
Total Governmental Activities	\$ 3,335,536	\$ 24,701	\$ (145,000)	\$ 3,215,237	\$ 263,713
Long-term liabilities due in more than one year				\$ 2,951,524	
Business-Type Activities:					
Bonds, leases, and other payables:					
Capital lease	\$ 341,787	\$ -	\$ (132,344)	\$ 209,443	\$ 138,394
Revenue Bonds	3,295,000	-	(170,000)	3,125,000	175,000
Certificates of Obligation	12,280,000	-	(370,000)	11,910,000	385,000
Deferred amounts:					
Bond premium	142,470	-	(11,872)	130,598	-
Other liabilities:					
Compensated absences	33,700	-	(13,976)	19,724	17,752
Total Business-Type Activities	\$ 16,092,957	\$ -	\$ (698,192)	\$ 15,394,765	\$ 716,146
Long-term liabilities due in more than one year				\$ 14,678,619	

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, 2015

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

Description	Interest Rates	Original Balance	Current Balance
Governmental Activities:			
Certificates of Obligation - Series 2012	4.50%	\$ 800,000	\$ 715,000
Certificates of Obligation - Series 2014	2.78%	2,500,000	2,385,000
Total Governmental Activities		\$ 3,300,000	\$ 3,100,000
Business-Type Activities:			
Capital Lease - Meter Replacemnt program	4.40%	\$ 1,065,359	\$ 209,443
Revenue Bonds - Series 1995A	4.25% - 5.95%	110,000	10,000
Revenue Bonds - Series 1995B	3.70% - 5.40%	1,170,000	95,000
Revenue Bonds - Series 2012	0.45% - 3.40%	3,150,000	3,020,000
Certificates of Obligation - Series 2003	0.15% - 3.15%	3,245,000	135,000
Certificates of Obligation - Series 2005	5.13%	600,000	370,000
Certificates of Obligation - Series 2010	1.00%	1,355,000	1,335,000
Certificates of Obligation - Series 2012A	3.50%	800,000	710,000
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	3,560,000
Total Business-Type Activities		\$ 21,215,359	\$ 15,244,443
Total Long-Term Debt		\$ 24,515,359	\$ 18,344,443

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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
	2016	\$ 30,000	\$ 32,176	\$ 130,000	\$ 66,304	\$ 160,000
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
	\$ 715,000	\$ 303,758	\$ 2,385,000	\$ 540,716	\$ 3,100,000	\$ 844,474

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
2016	\$ 138,394	\$ 6,527	\$ 144,921
2017	71,049	1,411	72,460
	\$ 209,443	\$ 7,938	\$ 217,381

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

Year ending September 30,	Business-Type Activities		
	Revenue Bonds, Series 1995A, 1995B, and 2012		
	Principal	Interest	Total
2016	\$ 175,000	\$ 93,735	\$ 268,735
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>\$ 3,125,000</u>	<u>\$ 1,600,576</u>	<u>\$ 4,725,576</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.

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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.

Year ending September 30,	Business-Type Activities		
	Certificates of Obligation - Series 2003, 2005, 2010, 2012A,		
	2013, and 2013A		
	Principal	Interest	Total
2016	\$ 385,000	\$ 410,540	\$ 795,540
2017	510,000	401,726	911,726
2018	515,000	387,888	902,888
2019	530,000	375,794	905,794
2020	535,000	358,826	893,826
2021	555,000	341,706	896,706
2022	575,000	323,812	898,812
2023	500,000	300,412	800,412
2024	300,000	280,012	580,012
2025	305,000	270,432	575,432
2026	315,000	260,800	575,800
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
	\$ 11,910,000	\$ 5,576,224	\$ 17,486,224

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.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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

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

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

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.

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 \$65,024. Current year amortization expense for business-type activities totaled \$5,911.

E. Customer Deposits

The City had customer deposits of \$99,977 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 2015 year were as follows:

Transfer Out	Transfer In	Amount
General Fund		\$ (427,570)
Debt Service Fund		(41,520)
	Debt Service Fund	918
	Community Development Corporation	108,826
Economic Development Corporation		(31,481)
	Enterprise Fund	390,827
		<u>\$ -</u>

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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 2,617 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, 2015

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, 2015

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 2014</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)	0% of CPI	70% of CPI

Employees covered by benefit terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	15
Inactive employees entitled to but not yet receiving benefits	15
Active employees	<u>41</u>
Total	<u>71</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.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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 8.41% and 9.44% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$179,618, and were equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, 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, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0% 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 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. 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.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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, 2015

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. The target allocation and best estimates of arithmetic 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%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	<u>5.0%</u>	8.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. 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 7.0%, 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 (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

<u>1% Decrease 6.00%</u>	<u>Current Single Rate Assumption 7.00%</u>	<u>1% Increase 8.00%</u>
<u>\$ 1,132,557</u>	<u>\$ 422,531</u>	<u>\$ (157,264)</u>

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/13	\$ 4,162,857	\$ 3,698,968	\$ 463,889
Changes for the year:			
Service cost	223,008	-	223,008
Interest	293,562	-	293,562
Difference between expected and actual experience	(68,924)	-	(68,924)
Contributions – employer	-	152,679	(152,679)
Contributions – employee	-	127,081	(127,081)
Net investment income	-	211,635	(211,635)
Benefit payments, including refunds of emp. contributions	(161,237)	(161,237)	-
Administrative expense	-	(2,209)	2,209
Other changes	-	(182)	182
Net changes	286,409	327,767	(41,358)
Balance at 12/31/14	\$ 4,449,266	\$ 4,026,735	\$ 422,531

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2015, the city recognized pension expense of \$128,458.

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and investment earnings	\$ 37,834	\$ -
Differences between expected and actual economic experience	-	54,971
Contributions subsequent to the measurement date	134,966	-
Total	\$ 172,800	\$ 54,971

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

The City reported \$134,966 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, 2016. 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:		
2015	\$	(4,494)
2016		(4,494)
2017		(4,494)
2018		(3,655)
2019		-
2020		-
Thereafter		-
	<u>\$</u>	<u>(17,137)</u>

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 offers supplemental death to:	Plan Year 2014	Plan Year 2015
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

The City's contributions to the TMRS SDBF for the fiscal years ended 2015, 2014 and 2013 were \$784, \$695 and \$610, 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
2012	0.04%	0.04%	100.00%
2013	0.04%	0.04%	100.00%
2014	0.03%	0.03%	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, implementation of a new accounting pronouncement, and the reclassification of a fund. The restatement of beginning net position/fund balance is as follows:

	Governmental Activities	General	Community Development Corporation	Economic Development Corporation	TIRZ
Prior year ending net position/ fund balance as reported	\$ 4,295,762	\$ 623,591	\$ 1,528,749	\$ 1,325,734	\$ -
Change in reporting of sales tax accrual	58,431	36,519	10,956	10,956	-
Implementation of GASB 68	(277,572)	-	-	-	-
Change in classification of fund	43,054	-	-	-	43,054
Restated beginning net position/fund balance	<u>\$ 4,119,675</u>	<u>\$ 660,110</u>	<u>\$ 1,539,705</u>	<u>\$ 1,336,690</u>	<u>\$ 43,054</u>

	Business-type Activities	Water & Sewer
Prior year ending net position as reported	\$ 6,059,764	\$ 6,059,764
Implementation of GASB 68	(78,290)	(78,290)
Change in classification of fund	(43,054)	(43,054)
Restated beginning net position	<u>\$ 5,938,420</u>	<u>\$ 5,938,420</u>

F. New Accounting Pronouncements

The City has adopted the provision of Governmental Accounting Standard Board (GASB) Statement No. 68, entitled *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As part of GASB 68 the City is required to record its net funded pension liability.

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

GASB also issued Statement No. 69, entitled *Government Combinations and Disposals of Government Operation*, and GASB Statement No. 70, entitled *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Both statements were adopted this fiscal year but had no effect on these accompanying financial statements.

The, GASB has issued Statement No. 72, entitled *Fair Value Measurement and Application*; Statement No. 73, entitled, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68*; GASB 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. 76; entitled, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*; and GASB Statement No. 77; entitled, *Tax Abatement Disclosures, 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 11, 2016, the date the financial statements were issued.

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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, 2015

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues			
Property tax	\$ 1,200,100	\$ 1,172,689	\$ (27,411)
Sales tax	1,660,100	1,609,413	(50,687)
Franchise and local taxes	325,000	311,012	(13,988)
Permits and code enforcement	92,600	87,126	(5,474)
Sanitation	270,000	278,082	8,082
Grants	-	142,789	142,789
Fines and forfeitures	192,000	271,275	79,275
Interest	150	421	271
Other	7,500	51,701	44,201
Total Revenues	3,747,450	3,924,508	177,058
Expenditures			
General government	840,783	954,036	(113,253) *
Community development	271,251	255,581	15,670
Public safety	1,451,024	1,401,014	50,010
Sanitation	250,000	269,657	(19,657) *
Court	97,814	93,958	3,856
Street	489,206	478,317	10,889
Capital outlay	-	97,056	(97,056) *
Debt Service:			
Interest and fiscal charges	271	271	-
Total Expenditures	3,400,349	3,549,890	(149,541)
Revenues Over (Under) Expenditures	347,101	374,618	27,517
Other Financing Sources (Uses)			
Transfers (out)	(88,555)	(427,570)	(339,015) *
Total Other Financing Sources (Uses)	(88,555)	(427,570)	(339,015)
Net Change in Fund Balance	\$ 258,546	(52,952)	\$ (311,498)
Beginning fund balance		660,110	
Ending Fund Balance		\$ 607,158	

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, 2015

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ 44,520	\$ 48,957	\$ 4,437
Interest	100	83	(17)
Total Revenues	44,620	49,040	4,420
<u>Expenditures</u>			
Debt Service:			
Interest and fiscal charges	63	63	-
Total Expenditures	63	63	-
Revenues Over (Under) Expenditures	44,557	48,977	4,420
<u>Other Financing Sources (Uses)</u>			
Transfers in	-	918	918
Transfers (out)	(41,707)	(41,520)	187
Total Other Financing Sources (Uses)	(41,707)	(40,602)	1,105
Net Change in Fund Balance	\$ 2,850	8,375	\$ 5,525
Beginning fund balance		66,223	
Ending Fund Balance		\$ 74,598	

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, 2015

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Sales tax	\$ 430,000	\$ 475,750	\$ 45,750
Interest	100	2,769	2,669
Total Revenues	430,100	478,519	48,419
<u>Expenditures</u>			
Community development	411,809	356,519	55,290
Debt Service:			
Principal	46,000	46,000	-
Interest and fiscal charges	31,157	30,657	500
Total Expenditures	488,966	433,176	55,790
Revenues Over (Under) Expenditures	(58,866)	45,343	104,209
<u>Other Financing Sources (Uses)</u>			
Transfers (out)	(31,481)	(31,481)	-
Total Other Financing Sources	(31,481)	(31,481)	-
Net Change in Fund Balance	\$ (90,347)	13,862	\$ 104,209
Beginning fund balance		1,539,705	
Ending Fund Balance		\$ 1,553,567	

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, 2015

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>			
Sales tax	\$ 430,000	\$ 475,750	\$ 45,750
Interest	100	2,212	2,112
Other	-	312	312
Total Revenues	<u>430,100</u>	<u>478,274</u>	<u>48,174</u>
<u>Expenditures</u>			
Economic development	420,806	391,060	29,746
Debt service:			
Principal	66,800	66,800	-
Interest	58,684	58,684	-
Total Expenditures	<u>546,290</u>	<u>516,544</u>	<u>29,746</u>
Revenues Over (Under) Expenditures	<u>(116,190)</u>	<u>(38,270)</u>	<u>77,920</u>
<u>Other Financing Sources (Uses)</u>			
Transfers in	66,903	108,826	41,923
Total Other Financing Sources	<u>66,903</u>	<u>108,826</u>	<u>41,923</u>
Net Change in Fund Balance	<u>\$ (49,287)</u>	<u>70,556</u>	<u>\$ 119,843</u>
Beginning fund balance		1,336,690	
Ending Fund Balance		<u>\$ 1,407,246</u>	

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, 2015

	12/31/2014	¹
Total pension liability		
Service cost	\$ 223,008	
Interest	293,562	
Changes in benefit terms	-	
Differences between expected and actual experience	(68,924)	
Changes of assumptions	-	
Benefit payments, including refunds of participant contributions	(161,237)	
Net change in total pension liability	286,409	
Total pension liability - beginning	4,162,857	
Total pension liability - ending (a)	4,449,266	
Plan fiduciary net position		
Contributions - employer	\$ 152,679	
Contributions - members	127,081	
Net investment income	211,635	
Benefit payments, including refunds of participant contributions	(161,237)	
Administrative expenses	(2,209)	
Other	(182)	
Net change in plan fiduciary net position	327,767	
Plan fiduciary net position - beginning	3,698,968	
Plan fiduciary net position - ending (b)	\$ 4,026,735	
Fund's net pension liability - ending (a) - (b)	\$ 422,531	
Plan fiduciary net position as a percentage of the total pension liability	90.50%	
Covered employee payroll	\$ 1,815,436	
Fund's net position as a percentage of covered employee payroll	23.27%	

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, 2015

	2015	1
Actuarially determined employer contributions	\$ 182,506	
Contributions in relation to the actuarially determined contribution	\$ 182,506	
Contribution deficiency (excess)	\$ -	
Annual covered employee payroll	\$ 1,960,661	
Employer contributions as a percentage of covered employee payroll	9.31%	

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	29 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.0%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009
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.

City of Willis, Texas
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2015

	<u>Hotel Tax</u>	<u>TIRZ</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 113,458	\$ 49,634	\$ 163,092
Investments	119,021	-	119,021
Total Assets	\$ 232,479	\$ 49,634	\$ 282,113
<u>Fund Balances</u>			
Restricted for:			
Tourism	232,479	-	232,479
Community development	-	49,634	49,634
Total Fund Balances	232,479	49,634	282,113
Total Liabilities and Fund Balances	\$ 232,479	\$ 49,634	\$ 282,113

City of Willis, Texas
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2015

	<u>Hotel Tax</u>	<u>TIRZ</u>	<u>Total</u>
<u>Revenues</u>			
Property tax	\$ -	\$ 60,202	\$ 60,202
Hotel occupancy tax	31,010	-	31,010
Interest	340	38	378
Total Revenues	<u>31,350</u>	<u>60,240</u>	<u>91,590</u>
<u>Expenditures</u>			
Signage and advertising	4,819	-	4,819
Debt service:			
Principal	-	32,200	32,200
Interest	-	21,460	21,460
Total Expenditures	<u>4,819</u>	<u>53,660</u>	<u>58,479</u>
Revenues Over Expenditures	<u>26,531</u>	<u>6,580</u>	<u>33,111</u>
Beginning fund balances	205,948	43,054	249,002
Ending Fund Balances	<u>\$ 232,479</u>	<u>\$ 49,634</u>	<u>\$ 282,113</u>

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