

*ANNUAL FINANCIAL REPORT*

of the

**City of Willis, Texas**

**For the Year Ended  
September 30, 2014**

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# City of Willis, Texas

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September 30, 2014

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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, 2014, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinion.

### *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, 2014, 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's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-

Profit Organizations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 04, 2015 on our consideration of City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.



BrooksCardiel, PLLC  
Certified Public Accountants  
The Woodlands, Texas  
March 04, 2015

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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, 2014

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, 2014. 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 \$10,355,526 at September 30, 2014. Of this, \$1,409,784 (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 \$3,750,245, an increase of \$70,364.
- As of the end of the year, the unassigned fund balance of the general fund was \$623,591 or 13% of total general fund expenditures.
- The City had an overall decrease in net position of \$543,056, which is primarily due to depreciation expense taken on capital assets.

### **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.

# City of Willis, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2014

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

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, 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.

# City of Willis, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2014

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

The City of Willis maintains five 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, and community 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 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 RSI that GASB Statement No. 34 requires includes a budgetary comparison schedule for the general fund and schedule of funding progress for 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, 2014**

**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 \$10,355,526 as of September 30, 2014, in the primary government.

The largest portion of the City's net position, \$5,819,088, 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:

	2014			2013		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 4,223,629	\$ 8,819,693	\$ 13,043,322	\$ 3,989,473	\$ 9,463,097	\$ 13,452,570
Capital assets, net	3,832,104	13,517,119	17,349,223	3,692,777	11,602,643	15,295,420
<b>Total Assets</b>	<b>8,055,733</b>	<b>22,336,812</b>	<b>30,392,545</b>	<b>7,682,250</b>	<b>21,065,740</b>	<b>28,747,990</b>
Other liabilities	424,435	184,091	608,526	318,112	175,543	493,655
Long-term liabilities	3,335,536	16,092,957	19,428,493	2,565,000	14,790,753	17,355,753
<b>Total Liabilities</b>	<b>3,759,971</b>	<b>16,277,048</b>	<b>20,037,019</b>	<b>2,883,112</b>	<b>14,966,296</b>	<b>17,849,408</b>
Net Position:						
Net investment in capital assets	510,984	5,308,104	5,819,088	1,127,777	3,832,628	4,960,405
Restricted	3,126,654	-	3,126,654	2,789,642	-	2,789,642
Unrestricted	658,124	751,660	1,409,784	881,719	2,266,816	3,148,535
<b>Total Net Position</b>	<b>\$ 4,295,762</b>	<b>\$ 6,059,764</b>	<b>\$ 10,355,526</b>	<b>\$ 4,799,138</b>	<b>\$ 6,099,444</b>	<b>\$ 10,898,582</b>

**City of Willis, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2014**

**Statement of Activities:**

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

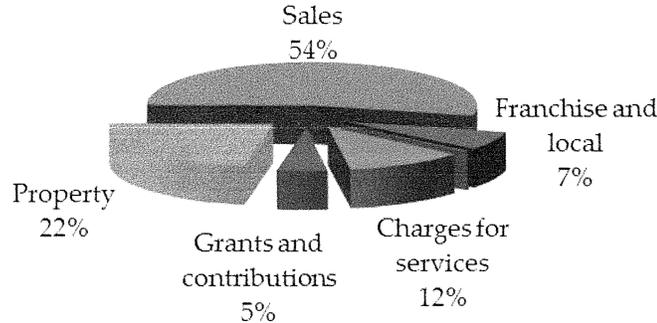
	For the Year Ended September 30, 2014			For the Year Ended September 30, 2013		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 566,726	\$ 1,984,726	\$ 2,551,452	\$ 507,315	\$ 2,162,161	\$ 2,669,476
Grants and contributions	239,028	-	239,028	870,950	-	870,950
General revenues:						
Property	1,073,562	-	1,073,562	865,782	-	865,782
Sales	2,590,888	-	2,590,888	2,549,823	-	2,549,823
Franchise and local	339,149	-	339,149	321,490	-	321,490
Investment income	4,839	3,990	8,829	6,097	2,494	8,591
Other revenues	6,122	-	6,122	61,007	-	61,007
<b>Total Revenues</b>	<b>4,820,314</b>	<b>1,988,716</b>	<b>6,809,030</b>	<b>5,182,464</b>	<b>2,164,655</b>	<b>7,347,119</b>
<b>Expenses</b>						
General government	1,526,694	-	1,526,694	1,268,671	-	1,268,671
Community development	737,604	-	737,604	184,640	-	184,640
Public safety	1,314,107	-	1,314,107	90,100	-	90,100
Sanitation	240,918	-	240,918	1,184,685	-	1,184,685
Street	325,003	-	325,003	215,644	-	215,644
Water & Sewer	-	3,155,428	3,155,428	352,159	2,573,665	2,925,824
Interest and fiscal charges	52,332	-	52,332	119,603	369,327	488,930
<b>Total Expenses</b>	<b>4,196,658</b>	<b>3,155,428</b>	<b>7,352,086</b>	<b>3,415,502</b>	<b>2,942,992</b>	<b>6,358,494</b>
<b>Change in Net Position</b>						
<b>Before Transfers</b>	623,656	(1,166,712)	(543,056)	1,766,962	(778,337)	988,625
Transfers	(1,127,032)	1,127,032	-	(815,871)	815,871	-
<b>Total</b>	<b>(1,127,032)</b>	<b>1,127,032</b>	<b>-</b>	<b>(815,871)</b>	<b>815,871</b>	<b>-</b>
<b>Change in Net Position</b>	<b>(503,376)</b>	<b>(39,680)</b>	<b>(543,056)</b>	<b>951,091</b>	<b>37,534</b>	<b>988,625</b>
Beginning Net Position	4,799,138	6,099,444	10,898,582	3,848,047	6,061,910	9,909,957
<b>Ending Net Position</b>	<b>\$ 4,295,762</b>	<b>\$ 6,059,764</b>	<b>\$ 10,355,526</b>	<b>\$ 4,799,138</b>	<b>\$ 6,099,444</b>	<b>\$ 10,898,582</b>

**City of Willis, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2014**

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:

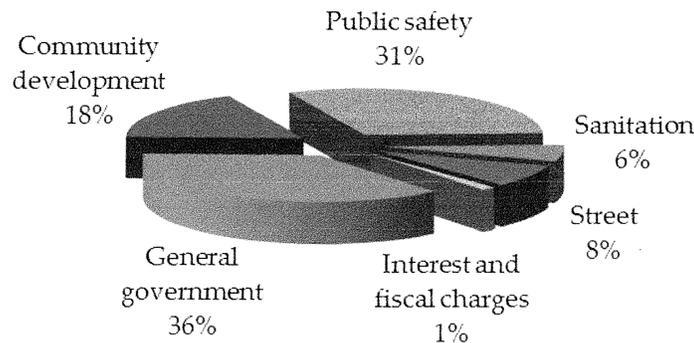
**Governmental Activities - Revenues**



For the year ended September 30, 2014, revenues from governmental activities totaled \$4,820,314. Sales and property taxes are the City's largest revenue sources. Sales tax increased \$41,065 or 2% due to new businesses establishing a presence in the City and to an overall recovery in the economy. Property tax revenue increased \$207,780 or 19% due to an increase in the assessed values of the properties. Grants and contributions decreased by \$631,922 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, 2014, expenses for governmental activities totaled \$4,196,658. This represents an increase of \$781,156 or 11% from the prior year. The City's largest functional expenses are general government of \$1,526,694 and public safety of \$1,314,107 both of which are primarily due to salaries.

# City of Willis, Texas

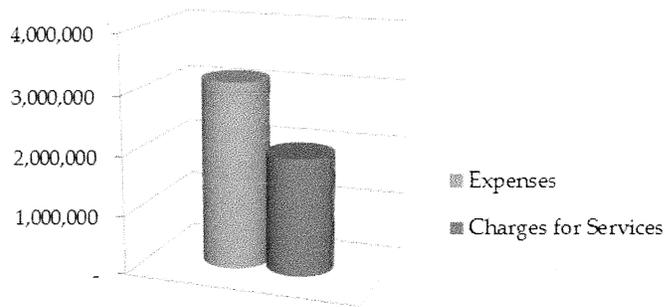
## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2014

The City's bond interest expense decreased in current year due to debt refunding, which resulted in a decrease of general government expenses as debt was repaid. Otherwise, expenditures 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, 2014, charges for services by business-type activities totaled \$1,984,726. This is a decrease of \$177,435, or 8%, from the previous year. This decrease directly relates to a decrease in the water usage due to a surcharge imposed to conserve water.

Total expenses increased \$212,436 due primarily to additional interest paid on debt during the 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 \$623,591, all of which is unassigned

There was an increase in governmental fund balance of \$70,364 over the prior year. The increase was due to bond proceeds on a new debt issuance in the year.

**City of Willis, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued***  
**September 30, 2014**

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 \$145,597 in the general fund. The decrease was due to bond proceeds on a new debt issuance in the year. No budget amendments were made during the year.

**CAPITAL ASSETS**

As of the end of the year, the City's governmental activities funds had invested \$3,832,104 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 \$13,517,119 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 \$2,501,494
- Improvements to City Hall for \$299,951
- Two police vehicles for \$59,532

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 debt outstanding of \$19,428,493. During the year, the City had an increase in the long-term debt of \$2,072,740.

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

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

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

# City of Willis, Texas

## *MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued*

September 30, 2014

### **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](http://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, 2014**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b><u>Assets</u></b>			
Current assets:			
Cash and cash equivalents	\$ 2,338,552	\$ 8,111,698	\$ 10,450,250
Investments	1,349,336	344,016	1,693,352
Receivables, net	535,741	316,260	852,001
Inventory	-	47,719	47,719
<b>Total Current Assets</b>	<b>4,223,629</b>	<b>8,819,693</b>	<b>13,043,322</b>
Capital assets:			
Non-depreciable	475,536	243,910	719,446
Depreciable, net	3,356,568	13,273,209	16,629,777
	<b>3,832,104</b>	<b>13,517,119</b>	<b>17,349,223</b>
<b>Total Assets</b>	<b>8,055,733</b>	<b>22,336,812</b>	<b>30,392,545</b>
<b><u>Deferred Outflows of Resources</u></b>			
Deferred charge on refunding	-	70,936	70,936
<b><u>Liabilities</u></b>			
Current liabilities:			
Accounts payable and accrued liabilities	424,435	157,130	581,565
Customer deposits	-	97,897	97,897
	<b>424,435</b>	<b>255,027</b>	<b>679,462</b>
Noncurrent liabilities:			
Due within one year	226,482	702,674	929,156
Due in more than one year	3,109,054	15,390,283	18,499,337
	<b>3,335,536</b>	<b>16,092,957</b>	<b>19,428,493</b>
<b>Total Liabilities</b>	<b>3,759,971</b>	<b>16,347,984</b>	<b>20,107,955</b>
<b><u>Net Position</u></b>			
Net investment in capital assets	510,984	5,308,104	5,819,088
Restricted for:			
Debt service	66,223	-	66,223
Tourism	205,948	-	205,948
Community development	1,528,749	-	1,528,749
Economic development	1,325,734	-	1,325,734
Unrestricted	658,124	751,660	1,409,784
<b>Total Net Position</b>	<b>\$ 4,295,762</b>	<b>\$ 6,059,764</b>	<b>\$ 10,355,526</b>

See Notes to Financial Statements.

# City of Willis, Texas

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government</b>			
<b>Governmental Activities</b>			
General government	\$ 1,526,694	\$ -	\$ 239,028
Community development	737,604	85,306	-
Public safety	1,314,107	210,136	-
Sanitation	240,918	271,284	-
Street	325,003	-	-
Interest and fiscal charges	52,332	-	-
<b>Total Governmental Activities</b>	<b>4,196,658</b>	<b>566,726</b>	<b>239,028</b>
<b>Business-Type Activities</b>			
Water & Sewer	3,155,428	1,984,726	-
<b>Total Business-Type Activities</b>	<b>3,155,428</b>	<b>1,984,726</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 7,352,086</b>	<b>\$ 2,551,452</b>	<b>\$ 239,028</b>

### General Revenues:

Taxes:

Property

Sales

Franchise and local

Investment income

Other revenues

Transfers

**Total General Revenues and Transfers**

**Change in Net Position**

Beginning Net Position

**Ending Net Position**

See Notes to Financial Statements.

**Net (Expense) Revenue and Changes in Net Position**

<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (1,287,666)	\$ -	\$ (1,287,666)
(652,298)	-	(652,298)
(1,103,971)	-	(1,103,971)
30,366	-	30,366
(325,003)	-	(325,003)
(52,332)	-	(52,332)
<u>(3,390,904)</u>	<u>-</u>	<u>(3,390,904)</u>
-	(1,170,702)	(1,170,702)
-	(1,170,702)	(1,170,702)
<u>(3,390,904)</u>	<u>(1,170,702)</u>	<u>(4,561,606)</u>
1,073,562	-	1,073,562
2,590,888	-	2,590,888
339,149	-	339,149
4,839	3,990	8,829
6,122	-	6,122
(1,127,032)	1,127,032	-
<u>2,887,528</u>	<u>1,131,022</u>	<u>4,018,550</u>
(503,376)	(39,680)	(543,056)
4,799,138	6,099,444	10,898,582
<u>\$ 4,295,762</u>	<u>\$ 6,059,764</u>	<u>\$ 10,355,526</u>

**City of Willis, Texas**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**September 30, 2014**

	General	Debt Service	Community Development Corporation
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 696,752	\$ 66,223	\$ 749,956
Investments	23,607	-	699,230
Receivables, net	371,981	4,635	79,563
<b>Total Assets</b>	<b>\$ 1,092,340</b>	<b>\$ 70,858</b>	<b>\$ 1,528,749</b>
 <b><u>Liabilities</u></b>			
Accounts payable and accrued liabilities	\$ 406,978	\$ -	\$ -
<b>Total Liabilities</b>	<b>406,978</b>	<b>-</b>	<b>-</b>
 <b><u>Deferred Inflows of Resources</u></b>			
Unavailalbe revenue-Property tax	61,771	4,635	-
<b>Total Deferred inflows of resources</b>	<b>61,771</b>	<b>4,635</b>	<b>-</b>
 <b><u>Fund Balances</u></b>			
Restricted for:			
Debt service	-	66,223	-
Tourism	-	-	-
Community development	-	-	1,528,749
Economic development	-	-	-
Unassigned reported in:			
General fund	623,591	-	-
<b>Total Fund Balances</b>	<b>623,591</b>	<b>66,223</b>	<b>1,528,749</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,030,569</b>	<b>\$ 66,223</b>	<b>\$ 1,528,749</b>

See Notes to Financial Statements.

<u>Nonmajor</u>	<u>Total</u>
\$ 825,621	\$ 2,338,552
626,499	1,349,336
79,562	535,741
<u>\$ 1,531,682</u>	<u>\$ 4,223,629</u>

<u>\$ -</u>	<u>\$ 406,978</u>
<u>-</u>	<u>406,978</u>

<u>-</u>	<u>66,406</u>
<u>-</u>	<u>66,406</u>

-	66,223
205,948	205,948
-	1,528,749
1,325,734	1,325,734
-	623,591
<u>1,531,682</u>	<u>3,750,245</u>

<u>\$ 1,531,682</u>	<u>\$ 4,157,223</u>
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**City of Willis, Texas**  
**RECONCILIATION OF THE BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**GOVERNMENTAL FUNDS**  
**September 30, 2014**

<b>Fund Balances - Total Governmental Funds</b>	\$ 3,750,245
 <b>Adjustments for the Statement of Net Position:</b>	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.	
Capital assets - non-depreciable	475,536
Capital assets - net depreciable	3,356,568
 Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
	66,406
 Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(17,457)
Non-current liabilities due in one year	(226,482)
Non-current liabilities due in more than one year	(3,109,054)
<b>Net Position of Governmental Activities</b>	<u>\$ 4,295,762</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, 2014

	General	Debt Service	Community Development Corporation
<b>Revenues</b>			
Property tax	\$ 991,516	\$ 84,337	\$ -
Sales tax	1,656,742	-	467,073
Franchise and local taxes	313,789	-	-
Permits and code enforcement	85,306	-	-
Sanitation	271,284	-	-
Grants	239,028	-	-
Fines and forfeitures	210,136	-	-
Investment income	459	63	2,145
Other	3,960	900	-
<b>Total Revenues</b>	3,772,220	85,300	469,218
<b>Expenditures</b>			
Current:			
General government	1,297,940	-	-
Community development	224,877	-	298,886
Public safety	1,297,960	-	-
Sanitation	240,918	-	-
Court	94,387	-	-
Street	401,125	-	-
Capital outlay	194,996	-	-
Debt Service:			
Principal	1,235,000	555,000	-
Interest and fiscal charges	-	-	-
<b>Total Expenditures</b>	4,987,203	555,000	298,886
<b>Excess of Revenues Over (Under) Expenditures</b>	(1,214,983)	(469,700)	170,332
<b>Other Financing Sources (Uses)</b>			
Transfers in	1,235,000	568,254	-
Transfers (out)	(2,786,665)	(52,321)	(25,435)
Bond proceeds	2,500,000	-	-
<b>Total Other Financing Sources (Uses)</b>	948,335	515,933	(25,435)
<b>Net Change in Fund Balances</b>	(266,648)	46,233	144,897
Beginning fund balances	890,239	19,990	1,383,852
<b>Ending Fund Balances</b>	\$ 623,591	\$ 66,223	\$ 1,528,749

See Notes to Financial Statements.

<u>Nonmajor</u>	<u>Total Governmental Funds</u>
\$ -	\$ 1,075,853
467,073	2,590,888
25,360	339,149
-	85,306
-	271,284
-	239,028
-	210,136
2,172	4,839
1,262	6,122
495,867	4,822,605
5,404	1,303,344
213,841	737,604
-	1,297,960
-	240,918
-	94,387
-	401,125
-	194,996
30,000	1,820,000
34,875	34,875
284,120	6,125,209
211,747	(1,302,604)
-	1,803,254
(65,865)	(2,930,286)
-	2,500,000
(65,865)	1,372,968
145,882	70,364
1,385,800	3,679,881
\$ 1,531,682	\$ 3,750,245

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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, 2014

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

Net changes in fund balances - total governmental funds	\$	70,364
<p>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.</p>		
Capital outlay		506,034
Depreciation expense		(366,707)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		(2,291)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences		(13,319)
<p>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.</p>		
<p>This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Accrued interest		(17,457)
Issuance of debt		(2,500,000)
Principal payments		1,820,000
		1,820,000
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>(503,376)</b>

See Notes to Financial Statements.

**City of Willis, Texas**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**September 30, 2014**

		<u>Water &amp; Sewer</u>
<b><u>Assets</u></b>		
<b><u>Current Assets</u></b>		
Cash and cash equivalents	\$	8,111,698
Investments		344,016
Receivables, net		316,260
Inventory		47,719
<b>Total Current Assets</b>		<u>8,819,693</u>
<b><u>Noncurrent Assets</u></b>		
Capital assets:		
Non-depreciable capital assets		243,910
Depreciable capital assets, net		13,273,209
<b>Total Noncurrent Assets</b>		<u>13,517,119</u>
<b>Total Assets</b>		<u>22,336,812</u>
<b><u>Deferred Outflows of Resources</u></b>		
Deferred charge on refunding		<u>70,936</u>
<b><u>Liabilities</u></b>		
<b><u>Current Liabilities</u></b>		
Accounts payable and accrued liabilities		157,130
Customer deposits		97,897
Compensated absences due within one year		30,330
Long-term debt due within one year		672,344
<b>Total Current Liabilities</b>		<u>957,701</u>
<b><u>Noncurrent Liabilities</u></b>		
Due in more than one year		15,390,283
<b>Total Liabilities</b>		<u>16,347,984</u>
<b><u>Net Position</u></b>		
Net investment in capital assets		5,308,104
Unrestricted		751,660
<b>Total Net Position</b>	\$	<u><u>6,059,764</u></u>

See Notes to Financial Statements.

# City of Willis, Texas

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

For the Year Ended September 30, 2014

	<b>Water &amp; Sewer</b>
<b><u>Operating Revenues</u></b>	
Water sales	\$ 701,017
Sewer revenue	702,649
Penalties and service charges	87,123
Tap fees	10,868
Intergovernmental	457,760
Other revenue	25,309
<b>Total Operating Revenues</b>	<b>1,984,726</b>
 <b><u>Operating Expenses</u></b>	
Cost of water	591,615
Cost of sewer	455,759
Operating expenses	65,652
Salary and wages	541,644
Depreciation	862,750
<b>Total Operating Expenses</b>	<b>2,517,420</b>
<b>Operating Loss</b>	<b>(532,694)</b>
 <b><u>Nonoperating Revenues (Expenses)</u></b>	
Investment income	3,990
Interest expense	(527,942)
Bond issuance costs	(110,066)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(634,018)</b>
<b>Loss Before Transfers</b>	<b>(1,166,712)</b>
Transfers in	2,917,032
Transfers (out)	(1,790,000)
<b>Change in Net Position</b>	<b>(39,680)</b>
Beginning net position	6,099,444
<b>Ending Net Position</b>	<b>\$ 6,059,764</b>

See Notes to Financial Statements.

**City of Willis, Texas**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND (Page 1 of 2)**  
**For the Year Ended September 30, 2014**

	<b>Water &amp; Sewer</b>
<b><u>Cash Flows from Operating Activities</u></b>	
Receipts from customers	\$ 2,231,081
Payments to employees	(541,029)
Payments to suppliers	(939,314)
<b>Net Cash Provided by Operating Activities</b>	<b>750,738</b>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>	
Transfer in	2,917,032
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>2,917,032</b>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>	
Capital purchases	(2,777,226)
Principal paid on debt	(681,801)
Interest paid on debt	(596,691)
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<b>(4,055,718)</b>
<b><u>Cash Flows from Investing Activities</u></b>	
Purchase of investments	(21,104)
Interest on investments	3,990
<b>Net Cash (Used) by Investing Activities</b>	<b>(17,114)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(405,062)</b>
Beginning cash and cash equivalents	8,516,760
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 8,111,698</b>

See Notes to Financial Statements.

**City of Willis, Texas**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND (Page 2 of 2)**  
**For the Year Ended September 30, 2014**

	<b>Water &amp; Sewer</b>
<b><u>Reconciliation of Operating Income (Loss)</u></b>	
<b><u>to Net Cash Provided by Operating Activities</u></b>	
Operating Income (Loss)	\$ (532,694)
Adjustments to reconcile operating income to net cash provided:	
Depreciation	862,750
<b>Changes in Operating Assets and Liabilities:</b>	
<b>(Increase) Decrease in:</b>	
Accounts receivable	246,355
Inventory	13,092
<b>Increase (Decrease) in:</b>	
Accounts payable	156,968
Compensated absences	615
Customer deposits	3,652
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 750,738</b>
 <b><u>Noncash Capital and Related Financing Activities</u></b>	
Debt refunding	\$ 3,920,000

See Notes to Financial Statements.

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**City of Willis, Texas**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2014**

**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, 2014

organizations, or functions as part of the City's financial reporting entity. The Willis Community Development Corporation ("CDC") and the Willis Economic Development Corporation ("EDC"), 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 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, 2014**

**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.

**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. The debt service fund is considered a major fund for reporting purposes.

# City of Willis, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

### **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.

### **Proprietary Fund Types**

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

### **Water and Sewer Fund**

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

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.

**City of Willis, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

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 is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received

**City of Willis, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2014

during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

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

**1. Deposits and Investments**

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

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

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

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

**2. 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."

**City of Willis, Texas**  
**NOTES TO FINANCIAL STATEMENTS, *Continued***  
**September 30, 2014**

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.

**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.

**City of Willis, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

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.

<b>Asset Description</b>	<b>Estimated Useful Life</b>
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 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.

**City of Willis, Texas**  
**NOTES TO FINANCIAL STATEMENTS, *Continued***  
**September 30, 2014**

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 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.

**City of Willis, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2014

**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 government-wide presentations. At September 30, 2014, the accrued and unpaid compensated absences liability was \$124,236.

**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.

**City of Willis, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

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

# City of Willis, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

### 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 issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” A reconciliation has been presented in the basic financial statements.

### III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, debt service, special revenue, and water and sewer fund. 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 fund level. No funds can be added to a budgeted item without Council approval. Appropriations lapse at the end of the year. No expenditures exceeded appropriations at the legal level of control during the year.

**City of Willis, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

**IV. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

As of September 30, 2014, the primary government had the following investments:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Average Maturity (Years)</b>
Certificates of deposit	\$ 1,693,352	0.89

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

*Credit risk* The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service. As of September 30, 2014, 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, 2014, 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.

**City of Willis, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

**TexSTAR**

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

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

**B. Receivables**

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

	<u>General</u>	<u>Debt Service</u>	<u>Community Development Corporation</u>	<u>Water &amp; Sewer</u>	<u>Total</u>
Property taxes	\$ 61,771	\$ 10,919	\$ -	\$ -	\$ 72,690
Sales tax	265,208	-	79,563	-	344,771
Franchise taxes	45,002	-	-	-	45,002
Accounts	-	-	-	676,358	676,358
Allowance	-	(6,284)	-	(360,098)	(366,382)
	<u>\$ 371,981</u>	<u>\$ 4,635</u>	<u>\$ 79,563</u>	<u>\$ 316,260</u>	<u>\$ 772,439</u>

**City of Willis, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

**C. Capital Assets**

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 399,416	\$ -	\$ -	\$ 399,416
Construction in process	-	76,120	-	76,120
Total capital assets not being depreciated	<u>399,416</u>	<u>76,120</u>	<u>-</u>	<u>475,536</u>
Capital assets, being depreciated:				
Buildings and improvements	1,013,592	299,951	-	1,313,543
Roads	3,259,775	-	-	3,259,775
Vehicles & equipment	504,892	59,532	-	564,424
Equipment	550,713	38,827	-	589,540
Park improvements	223,506	31,602	-	255,108
Total capital assets being depreciated	<u>5,552,478</u>	<u>429,912</u>	<u>-</u>	<u>5,982,390</u>
Less accumulated depreciation				
Buildings and improvements	(447,095)	(49,289)	-	(496,384)
Roads	(810,714)	(253,068)	-	(1,063,782)
Vehicles & equipment	(543,602)	(11,906)	-	(555,508)
Equipment	(396,719)	(44,105)	-	(440,824)
Park improvements	(60,987)	(8,337)	-	(69,324)
Total accumulated depreciation	<u>(2,259,117)</u>	<u>(366,705)</u>	<u>-</u>	<u>(2,625,822)</u>
Net capital assets being depreciated	<u>3,293,361</u>	<u>63,207</u>	<u>-</u>	<u>3,356,568</u>
<b>Total Net Capital Assets</b>	<u><u>\$ 3,692,777</u></u>	<u><u>\$ 139,327</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,832,104</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 350,558
Public safety	16,147
<b>Total Governmental Activities Depreciation Expense</b>	<u><u>\$ 366,705</u></u>

**City of Willis, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

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	\$ -	\$ 243,910
Total capital assets not being depreciated	<u>-</u>	<u>243,910</u>	<u>-</u>	<u>243,910</u>
Capital assets, being depreciated:				
Water system	\$ 11,132,473	\$ 1,092,072	\$ -	\$ 12,224,545
Sewer system	7,592,812	1,409,420	-	9,002,232
Equipment	580,608	31,824	-	612,432
Vehicles	209,038	-	-	209,038
Total capital assets being depreciated	<u>19,514,931</u>	<u>2,533,316</u>	<u>-</u>	<u>22,048,247</u>
Less accumulated depreciation				
Water system	(4,299,005)	(444,684)	-	(4,743,689)
Sewer system	(3,288,646)	(343,077)	-	(3,631,723)
Equipment	(168,257)	(61,125)	-	(229,382)
Vehicles	(156,380)	(13,864)	-	(170,244)
Total accumulated depreciation	<u>(7,912,288)</u>	<u>(862,750)</u>	<u>-</u>	<u>(8,775,038)</u>
Net capital assets being depreciated	<u>11,602,643</u>	<u>1,670,566</u>	<u>-</u>	<u>13,273,209</u>
<b>Total Net Capital Assets</b>	<u>\$ 11,602,643</u>	<u>\$ 1,914,476</u>	<u>\$ -</u>	<u>\$ 13,517,119</u>

**City of Willis, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

**D. Long-term Debt**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
<b>Governmental Activities:</b>					
Bonds and other payables:					
Tax & Revenue Bonds	\$ 1,790,000	\$ -	\$ (1,790,000)	\$ -	\$ -
Certificates of Obligation	775,000	2,500,000	(30,000)	3,245,000	145,000
Other liabilities:					
Compensated absences	77,217	13,319	-	90,536	81,482
<b>Total Governmental Activities</b>	<u>\$ 2,642,217</u>	<u>\$ 2,513,319</u>	<u>\$ (1,820,000)</u>	<u>\$ 3,335,536</u>	<u>\$ 226,482</u>
<b>Long-term liabilities due in more than one year</b>				<u>\$ 3,109,054</u>	
<b>Business-Type Activities:</b>					
Bonds and other payables:					
Revenue Bonds	\$ 3,460,000	\$ -	\$ (165,000)	\$ 3,295,000	\$ 170,000
Certificates of Obligation	10,829,080	3,920,000	(2,469,080)	12,280,000	370,000
Deferred amounts:					
Issuance premiums	-	154,343	(11,873)	142,470	-
Other liabilities:					
Capital lease	468,588	-	(126,801)	341,787	132,344
Compensated absences	33,085	615	-	33,700	30,330
<b>Total Business-Type Activities</b>	<u>\$ 14,790,753</u>	<u>\$ 4,074,958</u>	<u>\$ (2,772,754)</u>	<u>\$ 16,092,957</u>	<u>\$ 702,674</u>
<b>Long-term liabilities due in more than one year</b>				<u>\$ 15,390,283</u>	

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

**City of Willis, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

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

Description	Interest Rates	Original Balance	Current Balance
<b>Governmental Activities:</b>			
<b>General Obligation Bonds:</b>			
Certificates of Obligation - Series 2012	4.50%	\$ 800,000	\$ 745,000
Certificates of Obligation - Series 2014	2.78%	2,500,000	2,500,000
<b>Total Governmental Activities</b>		<b>\$ 3,300,000</b>	<b>\$ 3,245,000</b>
 <b>Business-type Activities:</b>			
<b>Revenue Bonds:</b>			
Revenue Bonds - Series 1995A	4.25% - 5.95%	\$ 110,000	\$ 20,000
Revenue Bonds - Series 1995B	3.70% - 5.40%	1,170,000	190,000
Revenue Bonds - Series 2012	0.45% - 3.40%	3,150,000	3,085,000
		<u>4,430,000</u>	<u>3,295,000</u>
 <b>General Obligation Bonds:</b>			
Certificates of Obligation - Series 2003	0.15% - 3.15%	3,245,000	260,000
Certificates of Obligation - Series 2005	5.13%	600,000	400,000
Certificates of Obligation - Series 2010	1.00%	1,355,000	1,340,000
Certificates of Obligation - Series 2012A	3.50%	800,000	755,000
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	3,725,000
		<u>15,720,000</u>	<u>12,280,000</u>
 <b>Capital Leases:</b>			
Capital Lease - Meter Replacemnt program	4.40%	1,065,359	341,787
<b>Total Business-Type Activities</b>		<b>\$ 21,215,359</b>	<b>\$ 15,916,787</b>
 <b>Total Long-Term Debt</b>		 <b>\$ 24,515,359</b>	 <b>\$ 19,161,787</b>

**City of Willis, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

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
	2015	\$ 30,000	\$ 33,526	\$ 115,000	\$ 76,643	\$ 145,000
2016	30,000	32,176	130,000	66,304	160,000	98,480
2017	35,000	30,826	135,000	62,690	170,000	93,516
2018	35,000	29,250	140,000	58,936	175,000	88,186
2019	35,000	27,676	145,000	55,044	180,000	82,720
2020	35,000	26,100	150,000	51,014	185,000	77,114
2021	40,000	24,526	160,000	46,844	200,000	71,370
2022	40,000	22,726	165,000	42,396	205,000	65,122
2023	45,000	20,926	170,000	37,808	215,000	58,734
2024	45,000	18,900	180,000	33,082	225,000	51,982
2025	45,000	16,876	185,000	28,078	230,000	44,954
2026	50,000	14,850	195,000	22,936	245,000	37,786
2027	50,000	12,600	200,000	17,514	250,000	30,114
2028	55,000	10,350	210,000	11,954	265,000	22,304
2029	55,000	7,876	220,000	6,116	275,000	13,992
2030	60,000	5,400	-	-	60,000	5,400
2031	60,000	2,700	-	-	60,000	2,700
	<u>\$ 745,000</u>	<u>\$ 337,284</u>	<u>\$ 2,500,000</u>	<u>\$ 617,359</u>	<u>\$ 3,245,000</u>	<u>\$ 954,643</u>

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

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

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

Year ending September 30,	Business-Type Activities		
	Capital Lease - Utility Meter Replacement Program		
	Principal	Interest	Total
2015	\$ 132,344	\$ 12,577	\$ 144,921
2016	138,394	6,527	144,921
2017	71,049	1,411	72,460
	<u>\$ 341,787</u>	<u>\$ 20,515</u>	<u>\$ 362,302</u>

**City of Willis, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

Capital Lease – entered into in November 2007, due in annual installments beginning May 2008 through 2017, bearing interest of 4.40% payable May 1.

Year ending September 30,	Business-Type Activities		
	Revenue Bonds, Series 1995A, 1995B, and 2012		
	Principal	Interest	Total
2015	\$ 170,000	\$ 99,862	\$ 269,862
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>\$ 3,295,000</u>	<u>\$ 1,700,438</u>	<u>\$ 4,995,438</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, 2014

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
2015	\$ 370,000	\$ 420,815	\$ 790,815
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
	\$ 12,280,000	\$ 5,997,039	\$ 18,277,039

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, 2014**

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. Current Refunding**

The government issued \$3,920,000 in Certificates of Obligation, Series 2013 with interest rates of 2-4%. The proceeds were used to refund \$3,869,080 of outstanding Certificates of Obligation, Series 2001, 2003, 2006, & 2007, with interest rates of 3.25% to 5.09% and a maturity dates of August 1, 2022 through August 1, 2026. The net proceeds of \$3,945,927 (after payment of \$110,066 in issuance costs) were used to pay off the noted issuances in a current refunding and the liability for those bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$76,847. This amount is being amortized over the remaining life of the refunding debt. The government reduced its total debt service payments over 12 years by \$200,671 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$166,354.

**F. 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 \$70,936. Current year amortization expense for business-type activities totaled \$5,911.

**City of Willis, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

**G. Customer Deposits**

The City had customer deposits of \$97,897 in the utility 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.

**H. Interfund Transactions**

Transfers between the primary government funds during the 2014 year were as follows:

Transfer out	Transfer In	Amount
General Fund		\$ 2,786,665
	General Fund	(1,235,000)
Debt Service Fund		52,321
	Debt Service Fund	(568,254)
Enterprise Fund		1,790,000
	Enterprise Fund	(2,917,032)
Community Development Corporation		25,435
Economic Development Corporation		65,865
		<u>\$ -</u>

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

**City of Willis, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
**September 30, 2014**

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

**B. Contingent Liabilities**

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

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

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

**C. Federal Audit Requirements**

The U.S. Office of Management and Budget (OMB) issued Circular A-133, which establishes uniform audit requirements for non-Federal entities that administer Federal awards and implements the Single Audit Act Amendments of 1996, which were signed into law July 5, 1996 (Public Law 104-156).

The purposes of the Single Audit Act Amendments of 1996 are as follows:

- To promote sound financial management, including effective internal controls, with respect to Federal awards;
- To promote the efficient and effective use of audit resources;
- To reduce burdens on state and local governments, Indian tribes, and nonprofit organizations; and

# City of Willis, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

- To ensure that Federal departments and agencies, to the maximum extent practicable, rely upon and use audit work done pursuant to Chapter 75 of Title 30, United States Code (the "Single Audit Act").

For 2014, the City's audit was performed in accordance with Circular A-133. The auditor's reports on consideration on the City's internal control over financial reporting and tests of other matters are issued separately from this report.

### **D. 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.

### **E. Pension Plans**

#### Texas Municipal Retirement System

#### Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS. TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

# City of Willis, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

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 2013</u>	<u>Plan Year 2012</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

### Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

### Three-Year Contribution Information

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual Pension Cost (ARC)	\$ 267,220	\$ 240,102	\$ 236,110
Actual Contributions Made	\$ 267,220	\$ 240,102	\$ 236,110
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation/Asset	-	-	-
<b>NPO at the End of Period</b>	\$ -	\$ -	\$ -

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2012 actuarial valuation, the latest actuarial valuation, as follows:

# City of Willis, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

Valuation Date	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	26.1 years; closed period	26.1 years; closed period	28.8 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return *	7.0%	7.0%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at Cost-of-Living Adjustments	3.0% 0.0%	3.0% 0.0%	3.0% 0.0%

The funded status as of December 31, 2013, the most recent actuarial valuation date, is as follows:

Fiscal Year	<u>2014</u>
Actuarial Valuation Date	12/31/2013
Actuarial Value of Assets	\$ 3,494,822
Actuarial Accrued Liability	\$ 4,162,857
Percentage Funded	84%
Annual Covered Payroll	\$ 1,621,422
Unfunded Actuarial Accrued Liability (UAAL)	\$ (668,035)
UAAL as a % of Covered Payroll	(41.2)%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the

# City of Willis, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

### Supplemental Death Benefits Plan

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

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

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

The City's retiree contribution rates to the TMRS SDBF, which equaled the required contributions each fiscal year, as of December 31, 2012, the most recent actuarial valuation date, are as follows:

<b>Plan/ Calendar Year</b>	<b>Annual Required Contribution (Rate)</b>	<b>Actual Contribution Made (Rate)</b>	<b>Percentage of ARC Contributed</b>
2012	0.04%	0.04%	100.00%
2013	0.04%	0.04%	100.00%
2014	0.03%	0.03%	100.00%

The City's contributions to the TMRS SDBF for the years ended 2014, 2013 and 2012 were \$695, \$639 and \$610, respectively, which equaled the required contributions each year.

**City of Willis, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

**F. 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, compensated absences, deferrals, utility revenue, and interest expense. The restatement of beginning net position/fund balance is as follows:

	<b>Governmental Activities</b>	<b>General</b>
Prior year ending net assets		
fund balance as reported	\$ 4,685,613	\$ 768,194
Change in reporting of franchise tax accrual	44,828	44,828
Change in reporting of compensated absences	-	77,217
Change in reporting of deferred property tax	68,697	-
Restated beginning net position/fund balance	\$ 4,799,138	\$ 890,239

	<b>Business-Type Activities</b>	<b>Water &amp; Sewer</b>
Prior year ending net position as reported	\$ 6,126,453	\$ 6,126,453
Change in reporting of unbilled revenue	54,128	54,128
Change in reporting of interest expense	(81,137)	(81,137)
Restated beginning net position	\$ 6,099,444	\$ 6,099,444

**G. Subsequent Events**

There were no material subsequent events March 04, 2015, the date the financial statements were issued.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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# City of Willis, Texas

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

For the Year Ended September 30, 2014

	Original and Final Budget	2014 Actual	Variance with Final Budget Positive (Negative)
<b>Revenues</b>			
Property tax	\$ 830,000	\$ 991,516	\$ 161,516
Sales tax	1,500,000	1,656,742	156,742
Franchise and local taxes	325,000	313,789	(11,211)
Permits and code enforcement	100,500	85,306	(15,194)
Sanitation	250,100	271,284	21,184
Grants	-	239,028	239,028
Fines and forfeitures	169,000	210,136	41,136
Investment income	500	459	(41)
Other	5,000	3,960	(1,040)
<b>Total Revenues</b>	3,180,100	3,772,220	592,120
<b>Expenditures</b>			
General government	764,285	1,297,940	(533,655)
Community development	261,542	224,877	36,665
Public safety	1,418,071	1,297,960	120,111
Sanitation	220,000	240,918	(20,918)
Court	94,856	94,387	469
Street	505,538	401,125	104,413
Capital outlay	405,808	194,996	210,812
Debt service:			
Principal	1,305,000	1,235,000	70,000
Interest	54,340	-	54,340
<b>Total Expenditures</b>	5,029,440	4,987,203	42,237
<b>Revenues Over (Under) Expenditures</b>	(1,849,340)	(1,214,983)	634,357
<b>Other Financing Sources (Uses)</b>			
Bond proceeds	-	2,500,000	2,500,000
Transfers in	1,728,289	1,235,000	(493,289)
Transfers (out)	-	(2,786,665)	(2,786,665)
<b>Total Other Financing Sources</b>	1,728,289	948,335	(779,954)
<b>Net Change in Fund Balance</b>	\$ (121,051)	(266,648)	\$ (145,597)
Beginning fund balance		890,239	
<b>Ending Fund Balance</b>		\$ 623,591	

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**  
**DEBT SERVICE FUND**  
**For the Year Ended September 30, 2014**

	<b>Original and Final Budget</b>	<b>2014 Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b><u>Revenues</u></b>			
Property tax, including P&I	\$ 77,503	\$ 84,337	\$ 6,834
Interest	100	63	(37)
Other	-	900	900
<b>Total Revenues</b>	77,603	85,300	7,697
<b><u>Expenditures</u></b>			
Administration	1,000	-	1,000
Bond principal	50,000	555,000	(505,000)
Bond interest	23,003	-	23,003
<b>Total Expenditures</b>	74,003	555,000	(480,997)
<b>Revenues Over (Under) Expenditures</b>	3,600	(469,700)	(473,300)
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers in	40,000	568,254	528,254
Transfers (out)	-	(52,321)	(52,321)
<b>Total Other Financing Sources (Uses)</b>	40,000	515,933	475,933
<b>Net Change in Fund Balance</b>	\$ 43,600	46,233	\$ 2,633
Beginning fund balance		19,990	
<b>Ending Fund Balance</b>		\$ 66,223	

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, 2014**

	<b>Original and Final Budget</b>	<b>2014 Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b><u>Revenues</u></b>			
Sales tax	\$ 280,000	\$ 467,073	\$ 187,073
Interest	2,000	2,145	145
<b>Total Revenues</b>	282,000	469,218	187,218
<b><u>Expenditures</u></b>			
Community development	441,200	298,886	142,314
<b>Total Expenditures</b>	441,200	298,886	142,314
<b>Revenues Over (Under) Expenditures</b>	(159,200)	170,332	329,532
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers (out)	-	(25,435)	(25,435)
<b>Total Other Financing (Uses)</b>	-	(25,435)	(25,435)
<b>Net Change in Fund Balance</b>	\$ (159,200)	144,897	\$ 304,097
Beginning fund balance		1,383,852	
<b>Ending Fund Balance</b>		\$ 1,528,749	

Notes to Required Supplementary Information

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

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**City of Willis, Texas**  
**SCHEDULE OF FUNDING PROGRESS-**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the City makes all the annually required contributions, no net pension obligation (NPO) exists. The information presented below represents the City's Schedule of Funding Progress.

Actuarial Valuation Date	<u>12/31/2013</u>	<u>12/31/2012</u>	<u>12/31/2011</u>
Actuarial Value of Assets	\$ 3,494,822	\$ 3,152,964	\$ 2,813,567
Actuarial Accrued Liability	\$ 4,162,857	\$ 3,658,015	\$ 3,315,851
Percentage Funded	84.0%	86.2%	84.9%
Unfunded Actuarial			
Accrued Liability	\$ 668,035	\$ 505,051	\$ 502,284
Annual Covered Payroll	\$ 1,621,422	\$ 1,548,567	\$ 1,463,845
Unfunded Actuarial Accrued Liability			
(UAAL) % of Covered Payroll	41.2%	32.6%	34.3%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	\$ 267,220	\$ 240,102	\$ 236,110
Contributions Made	\$ 267,220	\$ 240,102	\$ 236,110
<b>NPO at the End of Period</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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***COMBINING STATEMENTS AND  
INDIVIDUAL FUND SCHEDULES***

**City of Willis, Texas**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**September 30, 2014**

	<u>Hotel Tax</u>	<u>EDC</u>	<u>Total</u>
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 87,222	\$ 738,399	\$ 825,621
Investments	118,726	507,773	626,499
Receivables, net	-	79,562	79,562
<b>Total Assets</b>	<b>\$ 205,948</b>	<b>\$ 1,325,734</b>	<b>\$ 1,531,682</b>
<b><u>Fund Balances</u></b>			
Restricted for:			
Tourism	205,948	-	205,948
Economic development	-	1,325,734	1,325,734
<b>Total Fund Balances</b>	<b>205,948</b>	<b>1,325,734</b>	<b>1,531,682</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 205,948</b>	<b>\$ 1,325,734</b>	<b>\$ 1,531,682</b>

# City of Willis, Texas

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2014

	Hotel Tax	EDC	Total
<b><u>Revenues</u></b>			
Sales tax	\$ -	\$ 467,073	\$ 467,073
Hotel occupancy tax	25,360	-	25,360
Investment income	554	1,618	2,172
Other	-	1,262	1,262
<b>Total Revenues</b>	25,914	469,953	495,867
<b><u>Expenditures</u></b>			
Signage and advertising	5,404	-	5,404
Economic development	-	213,841	213,841
Debt service:			
Principal	-	30,000	30,000
Interest	-	34,875	34,875
<b>Total Expenditures</b>	5,404	278,716	284,120
<b>Revenues Over Expenditures</b>	20,510	191,237	211,747
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers (out)	-	(65,865)	(65,865)
<b>Total Other Financing Sources (Uses)</b>	-	(65,865)	(65,865)
<b>Net Change in Fund Balances</b>	20,510	125,372	145,882
Beginning fund balances	185,438	1,200,362	1,385,800
<b>Ending Fund Balances</b>	\$ 205,948	\$ 1,325,734	\$ 1,531,682

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