

CITY OF WILLIS, TEXAS
FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

CITY OF WILLIS, TEXAS

Table of Contents

September 30, 2013

	<u>Page</u>
List of Officials	-
Management's Discussion and Analysis	1-7
Independent Auditors' Report	-
Basic Financial Statements:	
Government Wide Financial Statements	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements	
Balance Sheet - Governmental Funds	10
Reconciliation of Total Fund Balance to Net Position of Governmental Activities	11
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	12
Reconciliation of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds	13
Statement of Net Position - Proprietary Funds	14
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	15
Statement of Cash Flows - Proprietary Funds	16
Notes to the Financial Statements	17-36
Required Supplemental Information Section	
Schedules of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budgetary Basis)	37-41
Pension Plan Schedule of Actuarial Liabilities and Funding Progress	42
Other Supplemental Information	
Statement of Expenses - General Fund	43
Statement of Expenses - Special Revenue Funds	44
Statement of Expenses - Utility Fund	45
Statistical Information	
Property Tax Data	46
Schedule of Water Usage and Customers	47
Bonds and Capital Leases	48-60

CITY OF WILLIS, TEXAS
List of Officials

<u>Position</u>	<u>Elected Official</u>	<u>Term expires</u>
Mayor	Leonard Reed	May 2015
Mayor Pro-Tem and Council Member, Place No. 2	John F. Lovelady	May 2015
Council Member, Place No. 1	Tamara Young-Hector	May 2015
Council Member, Place No. 3	Thomas Belinoski	May 2015
Council Member, Place No. 4	Anna F. Ross	May 2015
Council Member, Place No. 5	Bill Van Alstyne	May 2015

<u>City Office</u>	<u>City Employee - Appointed</u>
City Manager	Hector Forestier
City Secretary	Brenda Burns
City Attorney	Larry Foerster
Police Chief	James Nowak

CITY OF WILLIS, TEXAS
Management's Discussion and Analysis

Our discussion and analysis of the City of Willis, Texas' (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2013. Please read it in conjunction with the City's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

The City's total assets increased by \$6,935,983 and total liabilities increased by \$6,078,509. New debt of \$6,600,000 was issued during the year and principle payments made totaled \$521,491.

During the year, the City had governmental expenses that were \$155,758 (4%) more than the prior year (not including interfund transfers). Total governmental revenues were \$1,429,265 (38%) higher than in fiscal 2012.

In the City's business-type activities, revenues increased by \$35,769 (2%) and expenses increased by 28% or \$526,4974 (not including interfund transfers).

Governmental activities reported a increase in net position this year of \$951,091 and the business-type activities (water & sewer utility fund) reported an increase in net position of \$118,670. Interfund transfers decreased governmental funds and increased business-type funds by \$815,871.

In 2012, an agreement was reached with the Sam Houston Town Center for the City to reimburse the developers for various costs of the project. The center in includes a Kroger Superstore and numerous other businesses. A total of \$3,075,000 will be reimbursed based on the additional ad valorem and sales taxes generated.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a long-term view of the City's finances. Fund financial statements are also presented. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

One of the most important questions asked about the City's finances is, "Has the City of Willis, Texas improved as a whole as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

These two statements report the City's net position and changes in them. You can think of the City's net position—the difference between assets and liabilities—as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

Some of the recent projects and accomplishments made include the HOME program, which is a grant that assists low income homeowners by making repairs to, or replacement of, their property. The Texas Capital Grant reflects funds received that will be used to complete the entrance and exit ramps on I-45 north of Long Street. In addition, new businesses have been attracted to Willis such as Holiday World of Willis (RV sales and service), Bailiff Enterprises (manufacturing) and Love's Travel and Convenience Center (motorist's restaurant-center).

In the Statement of Net Position and the Statement of Activities we divide the City into two kinds of activities: Governmental activities—Most of the City's basic services are reported here, including the police, parks departments, and general administration. Property taxes, sales taxes, franchise fees, and traffic fines finance most of these activities.

Business-type activities—The City charges a fee to customers to help it cover all or most of the cost of services it provides. The City's water and sewer system is reported here.

Reporting the City's Most Significant Funds

The fund financial statements begin on page 10 and provide detailed information about the most significant funds—not the City as a whole.

Governmental Funds

Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities reported in the Statement of Net Position and the Statement of Activities and governmental funds in reconciliation at the bottom of the fund financial statements.

Proprietary Funds

When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail.

THE CITY AS A WHOLE

The City's combined assets increased by \$6,349,081. Governmental assets increased by \$586,902 and business-type assets increased by \$6,349,081. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

Table 1 - Net Position
Governmental and Business-Type Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2013	2012	2013	2012	2013
Current & Other Assets	\$ 3,877,746	\$ 3,944,645	\$ 4,915,892	\$ 9,408,972	\$ 8,793,638	\$ 13,353,617
Capital Assets	3,172,774	3,692,777	9,746,641	11,602,642	12,919,415	15,295,419
Total Assets	7,050,520	7,637,422	14,662,533	21,011,614	21,713,053	28,649,036
Long-Term Debt	2,710,000	2,565,000	8,534,159	14,757,668	11,244,159	17,322,668
Other Liabilities	602,998	386,809	120,591	127,493	723,589	514,302
Total Liabilities	3,312,998	2,951,809	8,654,750	14,885,161	11,967,748	17,836,970
Net Position:						
Net investment in capital assets	462,774	1,127,777	1,212,482	(3,155,026)	1,675,256	(2,027,249)
Non-spendable	-	-	42,082	60,811	42,082	60,811
Restricted	2,346,610	2,789,642	4,042,154	8,451,945	6,388,764	11,241,587
Unrestricted	925,138	768,194	711,065	768,723	1,636,203	1,536,917
Total Net Position	\$ 3,734,522	\$ 4,685,613	\$ 6,007,783	\$ 6,126,453	\$ 9,742,305	\$ 10,812,066

Net position of the City's governmental activities increased by 25% (\$4,685,613 compared to \$3,734,522). Unrestricted net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements decreased from \$925,138 at September 2012 to \$768,194 at the end of this year.

The net position of the City's business-type activities increased by 2% (\$6,126,453 compared to \$6,007,783). Unrestricted net position increased from \$711,065 at September 2012 to \$768,723 in 2013.

Table 2 - Changes in Net Position
Governmental and Business-Type Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2013	2012	2013	2012	2013
Revenues						
Program	\$ 475,198	\$ 507,315	\$ 1,995,479	\$ 2,162,161	\$ 2,470,677	\$ 2,669,476
Grants	241,547	870,950	131,198	-	372,745	870,950
Franchise tax	305,715	321,490	-	-	305,715	321,490
Sales tax	1,892,857	2,549,823	-	-	1,892,857	2,549,823
Property tax	775,719	851,481	-	-	775,719	851,481
Other	62,163	81,405	2,209	2,494	64,372	83,899
Total Revenues	3,753,199	5,182,464	2,128,886	2,164,655	5,882,085	7,347,119
Program Expenses						
Administration	809,668	967,231	-	-	809,668	967,231
Operations	-	-	2,146,629	2,573,665	2,146,629	2,573,665
Code enforcement	165,888	184,640	-	-	165,888	184,640
Garbage collection	203,036	215,644	-	-	203,036	215,644
Streets	366,005	352,159	-	-	366,005	352,159
Special revenue	272,316	301,440	-	-	272,316	301,440
Court	85,118	90,100	-	-	85,118	90,100
Public safety	1,256,054	1,184,685	-	-	1,256,054	1,184,685
Bond interest	101,659	119,603	188,730	288,191	290,389	407,794
Transfers	475,006	815,871	(475,006)	(815,871)	-	-
Total Program Expenses	3,734,750	4,231,373	1,860,353	2,045,985	5,595,103	6,277,358
Change in Net Position	\$ 18,449	\$ 951,091	\$ 268,533	\$ 118,670	\$ 286,982	\$ 1,069,761

Governmental Activities

Revenues for the City's governmental activities increased by 38%, while expenses, not including transfers, increased 4%. Sales tax revenue increased by \$656,966.

Business-Type Activities

Water and sewer revenues of the City's business-type activities increased by 2% and expenses, not including interfund transfers, increased by 28%. Depreciation expense, which is a non-cash outlay, was \$696,661 for fiscal year 2013.

THE CITY'S FUNDS

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

As the City completed the year, its governmental funds (as presented in the balance sheet on page 10) reported a combined fund balance of \$3,557,836. This is \$286,088 higher than last year's balance of \$3,271,748. The City had a restricted fund balance of \$2,953,957 and an unassigned fund balance of \$603,879.

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

Unrestricted net position of the Utility Fund at year end was \$768,723. This represents an increase of \$57,658. Interfund transfers in were \$815,871. Other factors concerning the finances of the Utility Fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

General fund revenues were \$1,444,445 higher than budgeted. Expenses were \$497,177 above the budget amount. This resulted in a positive variance of \$947,278. Debt service revenues were \$2,336 under budget and expenses were as budgeted. This result in a negative variance of \$273. Community Development revenues were \$197,174 higher than expected while its expenses were \$139,325 under budget. This resulted in a positive variance of \$333,499. Economic Development revenues were \$194,102 over budget and expenses were \$222,227 lower than budgeted. The result was a positive variance of \$416,329. The Hotel Tax Fund revenues were \$719 below budget and expenses were \$1,909 over the budget amount. This resulted in a negative variance of \$2,628. The overall general fund budget showed a positive variance of \$1,694,205. All of the figures shown here include bond proceeds and interfund transfers.

	Actual		Budget		Total
	Revenue	Expense	Revenue	Expense	Variance
General Fund	\$ 4,128,305	\$ 4,285,249	\$ 2,683,850	\$ 3,788,072	\$ 947,278
Debt Service	139,665	137,183	139,938	137,183	(273)
Community Development	476,174	305,875	282,000	445,200	333,499
Economic Development	476,102	222,973	282,000	445,200	416,329
Hotel Tax Fund	24,281	7,159	25,000	5,250	(2,628)
	<u>\$ 5,244,527</u>	<u>\$ 4,958,439</u>	<u>\$ 3,412,788</u>	<u>\$ 4,820,905</u>	<u>\$ 1,694,205</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of September 2013, the City had \$15,295,420, net of accumulated depreciation, invested in a broad range of capital assets, including police equipment, buildings, park facilities, roads, and water and sewer facilities. This amount represents a net increase of \$2,376,005, or 18%, from last year. The current year combined depreciation expense was \$1,056,439.

Table 3 - Capital Assets at Year-end

	Governmental and Business-Type Activities					
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2013	2012	2013	2012	2013
Land & buildings	\$ 1,413,008	\$ 1,413,008	\$ -	\$ -	\$ 1,413,008	\$ 1,413,008
Roads	2,404,110	3,259,775	-	-	2,404,110	3,259,775
Parks	223,506	223,506	-	-	223,506	223,506
Vehicles & equipment	504,892	504,892	160,395	209,038	665,287	713,930
Equipment	526,597	550,713	467,907	580,608	994,504	1,131,321
Water system	-	-	9,026,499	11,132,473	9,026,499	11,132,473
Sewer system	-	-	7,307,467	7,592,812	7,307,467	7,592,812
Less depreciation	(1,899,339)	(2,259,117)	(7,215,627)	(7,912,288)	(9,114,966)	(10,171,405)
Total Assets	\$ 3,172,774	\$ 3,692,777	\$ 9,746,641	\$ 11,602,643	\$ 12,919,415	\$ 15,295,420

Debt

At September 2013, the City of Willis, Texas had \$17,322,668 in outstanding debt. This was a net increase of \$6,078,509 from 2012. New debt of \$6,600,000 was issued and \$521,491 was paid. All regularly scheduled payments were made. Current debt schedules call for payments through 2043.

Table 4 - Outstanding Debt at Year-end

	Governmental and Business-Type Activities					
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2013	2012	2013	2012	2013
Utility Meter Program	\$ -	\$ -	\$ 590,079	\$ 468,588	\$ 590,079	\$ 468,588
Bonds-Series 2001	605,000	555,000	-	-	605,000	555,000
Bonds-Series 2006	1,305,000	1,235,000	-	-	1,305,000	1,235,000
Bonds-Series 2012	800,000	775,000	-	-	800,000	775,000
Bonds-Series 1995-A	-	-	30,000	25,000	30,000	25,000
Bonds-Series 1995-B	-	-	380,000	285,000	380,000	285,000
Bonds-Series 2003	-	-	2,400,000	2,290,000	2,400,000	2,290,000
Bonds-Series 2005	-	-	450,000	425,000	450,000	425,000
Bonds-Series 2007	-	-	184,080	169,080	184,080	169,080
Bonds-Series 2010	-	-	1,350,000	1,345,000	1,350,000	1,345,000
Bonds-Series 2012	-	-	3,150,000	3,150,000	3,150,000	3,150,000
Bonds-Series 2013	-	-	-	5,800,000	-	5,800,000
Bonds-Series 2013-A	-	-	-	800,000	-	800,000
	\$ 2,710,000	\$ 2,565,000	\$ 8,534,159	\$ 14,757,668	\$ 11,244,159	\$ 17,322,668

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's elected and appointed officials and citizens considered many factors when setting the 2014 fiscal year budget. The economy, employment growth, traffic patterns and other factors were all a part of the factors used. The general fund revenues were budgeted lower than 2013 actual figures by \$787,000. (grant revenues, which are inconsistent, have not been budgeted) The Utility Fund revenues have been budgeted at a 20% increase.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact City Hall at 200 N. Bell, Willis, Texas or visit the City's website at www.ci.willis.tx.us.

VANWASSEHNOVA AND ASSOCIATES
Certified Public Accountants

Independent Auditors' Report

The Honorable Leonard Reed, Mayor
Members of City Council
City of Willis, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of The City of Willis, Texas (City) as of and for the year ended September 30, 2013, 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

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 an opinion 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 and each major fund of the City as of September 30, 2013, 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 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 an opinion on the financial statements that collectively comprise the City's basic financial statements. The other supplemental information is presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is separately presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The other supplemental information and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 other supplemental information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole. The other supplemental information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have separately issued our report dated December 23, 2013, on our consideration of the 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 the City's internal control over financial reporting and compliance.

VanWassehnova & Associates

VanWassehnova & Associates
December 23, 2013

CITY OF WILLIS, TEXAS
Statement of Net Position
September 30, 2013

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 3,434,598	\$ 8,839,672	\$ 12,274,270
Receivables, net	510,047	508,489	1,018,536
Inventory	-	60,811	60,811
Capital assets, net	3,692,777	11,602,642	15,295,419
Total assets	<u>7,637,422</u>	<u>21,011,614</u>	<u>28,649,036</u>
Liabilities			
Accounts payable	240,895	163	241,058
Accrued wages	77,217	33,085	110,302
Customer deposits	-	94,245	94,245
Noncurrent liabilities:			
Due within one year	150,000	501,801	651,801
Due in more than one year	2,415,000	14,255,867	16,670,867
Total liabilities	<u>2,883,112</u>	<u>14,885,161</u>	<u>17,768,273</u>
Deferred infows of resources			
Property tax	68,697	-	68,697
Net Position			
Net investment in capital assets	1,127,777	(3,155,026)	(2,027,249)
Non-spendable	-	60,811	60,811
Restricted for:			
Debt service	19,990	8,451,945	8,471,935
Economic development	1,200,362	-	1,200,362
Community development	1,383,852	-	1,383,852
Hotel tax fund	185,438	-	185,438
Unrestricted	768,194	707,912	1,476,106
Total net position	<u>\$ 4,685,613</u>	<u>\$ 6,065,642</u>	<u>\$ 10,751,255</u>

The accompanying notes are an integral part of the financial statements.

CITY OF WILLIS, TEXAS
Statement of Activities
For the Year Ended September 30, 2013

Function/programs	Program Revenues		
	Expenses	Charges for Services	Grants
Primary government:			
Governmental activities:			
Administration	\$ 967,231	\$ -	\$ 847,071
Building permits & code enforcement	184,640	86,397	-
Garbage collection	215,644	245,790	-
Streets	352,159	-	-
Public safety	1,184,685	-	23,879
Special revenue funds	301,440	-	-
Court	90,100	175,128	-
Bond interest & fees	119,603	-	-
Total governmental activities	3,415,502	507,315	870,950
Business-type activities:			
Utility - water and sewer	2,573,665	2,162,161	-
Bond interest & fees	288,191	-	-
Total business-type activities	2,861,856	2,162,161	-
Total primary government	\$ 6,277,358	\$ 2,669,476	\$ 870,950

The accompanying notes are an integral part of the financial statements.

	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
Primary government:			
Governmental activities:			
Administration	\$ (120,160)	\$ -	\$ (120,160)
Building permits & code enforcement	(98,243)	-	(98,243)
Garbage collection	30,146	-	30,146
Streets	(352,159)	-	(352,159)
Public safety	(1,160,806)	-	(1,160,806)
Special revenue funds	(301,440)	-	(301,440)
Court	85,028	-	85,028
Bond interest & fees	(119,603)	-	(119,603)
Total governmental activities	<u>(2,037,237)</u>	<u>-</u>	<u>(2,037,237)</u>
Business-type activities:			
Utility - water and sewer	-	(411,504)	(411,504)
Bond interest & fees	-	(288,191)	(288,191)
Total business-type activities	<u>-</u>	<u>(699,695)</u>	<u>(699,695)</u>
Total primary government	<u>(2,037,237)</u>	<u>(699,695)</u>	<u>(2,736,932)</u>
General revenues:			
Property tax	851,481	-	851,481
Sales tax	2,549,823	-	2,549,823
Franchise tax	321,490	-	321,490
Penalties & interest	14,301	-	14,301
Interest	6,097	2,494	8,591
Miscellaneous	61,007	-	61,007
Transfers	(815,871)	815,871	-
Total general revenues and transfers	<u>2,988,328</u>	<u>818,365</u>	<u>3,806,693</u>
Change in net position	951,091	118,670	1,069,761
Net position-beginning	<u>3,734,522</u>	<u>6,007,783</u>	<u>9,742,305</u>
Net position-ending	<u>\$ 4,685,613</u>	<u>\$ 6,126,453</u>	<u>\$ 10,812,066</u>

CITY OF WILLIS, TEXAS
Balance Sheet
Governmental Funds
September 30, 2013

	Governmental Fund Types		
	General	Debt Service	Economic Development
Assets			
Cash and cash equivalents	\$ 483,637	\$ 19,990	\$ 239,850
Certificates of deposit/investments	326,825	-	877,759
Receivables, net:			
Sales tax	275,844	-	82,753
Property tax	63,238	5,459	-
Total assets	<u>\$ 1,149,544</u>	<u>\$ 25,449</u>	<u>\$ 1,200,362</u>
Liabilities			
Accounts payable	\$ 240,895	\$ -	\$ -
Accrued wages	77,217	-	-
Total liabilities	<u>318,112</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources			
Property tax	63,238	5,459	
Fund balances			
Fund balance - restricted	164,315	19,990	1,200,362
Fund balance - unassigned	603,879	-	-
Total fund balance	<u>768,194</u>	<u>19,990</u>	<u>1,200,362</u>
Total liabilities and fund balances	<u>\$ 1,149,544</u>	<u>\$ 25,449</u>	<u>\$ 1,200,362</u>

The accompanying notes are an integral part of the financial statements.

Governmental Fund Types

	Community Development	Hotel Tax	Total
Assets			
Cash and cash equivalents	\$ 278,214	\$ 67,075	\$ 1,088,766
Certificates of deposit/investments	1,022,885	118,363	2,345,832
Receivables, net:			
Sales tax	82,753	-	441,350
Property tax	-	-	68,697
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u><u>\$ 1,383,852</u></u>	<u><u>\$ 185,438</u></u>	<u><u>\$ 3,944,645</u></u>
Liabilities			
Accounts payable	\$ -	\$ -	\$ 240,895
Accrued wages	-	-	77,217
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u> </u>	<u> </u>	<u>318,112</u>
Deferred inflows of resources			
Property tax	-	-	68,697
	<u> </u>	<u> </u>	<u> </u>
Fund balances			
Fund balance - restricted	1,383,852	185,438	2,953,957
Fund balance - unassigned	-	-	603,879
	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>1,383,852</u>	<u>185,438</u>	<u>3,557,836</u>
Total liabilities and fund balances	<u><u>\$ 1,383,852</u></u>	<u><u>\$ 185,438</u></u>	<u><u>\$ 3,944,645</u></u>

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CITY OF WILLIS, TEXAS
Reconciliation of Total Governmental Fund Balance
to Net Position of Governmental Activities
September 30, 2013

Total governmental fund balances	\$ 3,557,836
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore not reported in governmental funds	3,692,777
Long-term liabilities are not reported as liabilities in the governmental funds	<u>(2,565,000)</u>
Net position of governmental activities	<u><u>\$ 4,685,613</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF WILLIS, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2013

	<u>General</u>	<u>Debt Service</u>	<u>Economic Development</u>
Revenues			
Sales tax	\$ 1,602,847	\$ -	\$ 473,488
Property tax	776,530	74,951	-
Franchise tax	298,034	-	-
Grants	870,950	-	-
Garbage collection	245,790	-	-
Court	175,128	-	-
Building permits	81,028	-	-
Miscellaneous	60,492	-	515
Penalties & interest	11,699	2,602	-
Interest	438	49	2,099
Code enforcement	5,369	-	-
Total revenues	<u>4,128,305</u>	<u>77,602</u>	<u>476,102</u>
Expenditures			
Administration	666,209	1,000	-
Building permits & code enforcement	184,640	-	-
Garbage collection	215,644	-	-
Streets	1,084,809	-	-
Public safety	1,150,045	-	-
Special revenue funds	-	-	115,441
Court	90,100	-	-
Bond interest	57,420	61,183	-
Bond principal	70,000	75,000	-
Total expenditures	<u>3,518,867</u>	<u>137,183</u>	<u>115,441</u>
Excess (deficiency) of revenues over expenditures	609,438	(59,581)	360,661
Other financing sources (uses)			
Transfers in (out)	<u>(766,382)</u>	<u>62,063</u>	<u>(107,532)</u>
Net change in fund balances	(156,944)	2,482	253,129
Fund balances-beginning	<u>925,138</u>	<u>17,508</u>	<u>947,233</u>
Fund balances-ending	<u>\$ 768,194</u>	<u>\$ 19,990</u>	<u>\$ 1,200,362</u>

The accompanying notes are an integral part of the financial statements.

	Community Development	Hotel Tax	Total
Revenues			
Sales tax	\$ 473,488	\$ -	\$ 2,549,823
Property tax	-	-	851,481
Franchise tax	-	23,456	321,490
Grants	-	-	870,950
Garbage collection	-	-	245,790
Court	-	-	175,128
Building permits	-	-	81,028
Miscellaneous	-	-	61,007
Penalties & interest	-	-	14,301
Interest	2,686	825	6,097
Code enforcement	-	-	5,369
	<u>476,174</u>	<u>24,281</u>	<u>5,182,464</u>
Expenditures			
Administration	-	-	667,209
Building permits & code enforcement	-	-	184,640
Garbage collection	-	-	215,644
Streets	-	-	1,084,809
Public safety	-	-	1,150,045
Special revenue funds	302,020	6,994	424,455
Court	-	-	90,100
Bond interest	-	-	118,603
Bond principal	-	-	145,000
	<u>302,020</u>	<u>6,994</u>	<u>4,080,505</u>
Excess (deficiency) of revenues over expenditures	174,154	17,287	1,101,959
Other financing sources (uses)			
Transfers in (out)	<u>(3,855)</u>	<u>(165)</u>	<u>(815,871)</u>
Net change in fund balances	170,299	17,122	286,088
Fund balances-beginning	<u>1,213,553</u>	<u>168,316</u>	<u>3,271,748</u>
Fund balances-ending	<u>\$ 1,383,852</u>	<u>\$ 185,438</u>	<u>\$ 3,557,836</u>

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, 2013

Net change in fund balances-total governmental funds	\$ 286,088
Amounts reported for governmental activities in the statement of activities are different because:	
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 as depreciation expense. This is the amount of depreciation for the year.	(359,778)
This is the amount of capital expenditures for the year.	879,781
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of current year repayments.	
	<u>145,000</u>
Change in net position of governmental activities	<u><u>\$ 951,091</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF WILLIS, TEXAS
Statement of Net Position
Proprietary Funds
September 30, 2013

Assets	<u>Utility</u>
Current assets	
Cash and cash equivalents	\$ 8,516,760
Certificates of deposit/investments	322,912
Inventory	60,811
Receivables, net	<u>508,489</u>
Total current assets	9,408,972
Noncurrent assets	
Capital assets, net	<u>11,602,642</u>
Total assets	<u><u>\$ 21,011,614</u></u>
Liabilities	
Current liabilities	
Customer deposits	\$ 94,245
Accounts payable	163
Accrued wages	33,085
Bonds payable	<u>501,801</u>
Total current liabilities	629,294
Noncurrent liabilities	
Bonds payable	<u>14,255,867</u>
Total liabilities	<u>14,885,161</u>
Net Position	
Net investment in capital assets	(3,155,026)
Non-spendable	60,811
Restricted	8,451,945
Unrestricted net assets	<u>768,723</u>
Total net position	<u>6,126,453</u>
Total Net Position and Liabilities	<u><u>\$ 21,011,614</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF WILLIS, TEXAS
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Year Ended September 30, 2013

	Utility
Operating revenues	
Charges for services-water	\$ 857,167
Charges for services-sewer	819,898
Lone Star Conservation & San Jacinto River Authority	347,641
Penalties & service charges	83,555
Tap fees	52,943
Other	957
Total operating revenues	2,162,161
Operating expenses	2,573,665
Operating loss	(411,504)
Nonoperating revenue (expense)	
Interest expense	(288,191)
Interest revenue	2,494
Total nonoperating expense	(285,697)
Net loss before transfers	(697,201)
Transfers in	815,871
Change in net position	118,670
Total net position-beginning	6,007,783
Total net position-ending	\$ 6,126,453

The accompanying notes are an integral part of the financial statements.

CITY OF WILLIS, TEXAS
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2013

	Utility
Cash flows from operating activities	
Receipts from customers	\$ 2,115,401
Payments to suppliers	(1,528,146)
Payments to employees	(360,684)
Net cash provided by operating activities	226,571
Cash flows from noncapital financing activities	
Transfers between funds	815,871
Cash flows from capital and related financing activities	
Purchases of capital assets	(2,552,663)
Cash flows from investing activities	
Proceeds of debt	6,600,000
Payment on debt	(376,491)
Interest received	2,494
Interest paid	(288,191)
Net cash provided by investing activities	5,937,812
Net increase in cash and cash equivalents	4,427,591
Cash & cash equivalents-beginning of the year	4,412,081
Cash & cash equivalents-end of the year	\$ 8,839,672
Reconciliation of operating income to net cash provided	
(used) by operating activities:	
Operating loss	\$ (411,504)
Adjustments to reconcile operating income to net cash provided	
(used) by operating activities:	
Depreciation expense	696,661
Change in net assets and liabilities:	
Receivables, net	(46,759)
Inventory	(18,729)
Accrued wages	2,814
Customer deposits	4,088
Net cash provided by operating activities	\$ 226,571

The accompanying notes are an integral part of the financial statements.

CITY OF WILLIS, TEXAS
Notes to Financial Statements
September 30, 2013

Note 1 - Summary of Significant Accounting Policies

A. History & General Statement

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

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

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

The City is an independent political subdivision of the State of Texas governed by an elected council and is considered a primary government for financial reporting purposes as its activities are not considered a part of any other governmental or other type of reporting entity. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. No other entities have been included in the City's reporting entity.

The accompanying financial statements and accounting policies of the City are prepared in conformity with generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's significant accounting policies are described in the following notes to the financial statements.

The City applies all applicable GASB pronouncements as well as Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

B. Implementation of New Standards

In the current year, the City implemented the following new GASB pronouncements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, enhances the usefulness of the financial statements by organizing all sources of generally accepted accounting principles for state and local governments into a single source in an effort to reduce the complexity of locating and using authoritative literature needed to prepare State and local government financial reports. This statement is intended to enhance the usefulness of the GASB's Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. This statement incorporates into the GASB's authoritative literature, the applicable guidance previously presented in the following pronouncements issued before November 30, 1989:

- FASB Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure

This statement is effective for financial statement periods beginning after December 15, 2011. Management expects no changes in the City's financial report as a result of implementing this statement.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* improves financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effect on a government's net position. This statement provides a new statement of net position format to report all assets, deferred inflows and outflows of resources, liabilities, and net position (which is the residual amount of the other elements). The statement requires that deferred inflows and outflows of resources be reported separately from assets and liabilities and discusses how net position (no longer net assets) should be displayed.

Ultimately, this statement will serve to standardize the presentation of deferred balances and their effects on a government's net position and address uncertainty related to their display. The provisions of this statement are effective for financial statement periods beginning after December 15, 2011. This statement has been implemented by the City with significant effect on the presentation of the financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources, deferred inflows of resources, or current period outflows and inflows and also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for financial statement periods beginning after December 15, 2012, but early implementation is encouraged. Given the City's implementation of GASB Statement No. 63 and the presence of deferred inflows and outflows of resources, the City opted to early implement this statement. This statement has been implemented by the City with significant effect on the presentation of the financial statements.

C. Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on these criteria, the City has no component units.

D. Financial Statement Presentation

These financial statements include implementation of GASB Statement No. 63 and GASB 65, both of which amend GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement No. 34) and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Statement No. 34, as amended, includes the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the City's activities.
- A change in the fund financial statements to focus on the major funds.

Statement No. 34, as amended by Statement No. 63, established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets and a statement of activities. It requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those capital assets.
- Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds.

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted.

E. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured and basis of accounting refers to when transactions are recorded in the financial records and reported on the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the Statement of Net Position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter (30 days) to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received. Unearned revenue arises when assets are recognized before revenue has been received or recognized.

F. Basic Financial Statements-Government-Wide Statements

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements report financial information on all of the activities of the City. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and intergovernmental revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. The Statement of Net Position presents the financial position of the governmental and business-type activities of the City. The Statement of Activities presents a comparison between direct expenses and program revenues for each given program of the City's governmental activities and for each identifiable activity of the business-type activities of the City. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

G. Basic Financial Statements-Fund Financial Statements

The City uses funds to maintain its financial records during the year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The City uses two fund categories: governmental and proprietary.

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Fund financial statements are presented for governmental and proprietary funds. These statements present each major and non-major fund as a separate column on the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between its governmental fund assets and its liabilities and deferred inflows of resources as fund balance. The City has presented the following major governmental funds:

General Fund – The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.

Special Revenue Funds – The Special Revenue Funds are used to account for financial transactions and resources received from specific sources. The City has three special revenue funds:

1. Willis Community Development Corporation - The Willis Community Development Corporation receives one half of one percent sales tax. The mission of the Willis Community Development Corporation is to provide leadership in developing and maintaining a quality living and working environment for residents of the local area, which is defined as land within the City limits and within one mile outside the City limits. Its goals are to:
 - Develop and maintain an aesthetically pleasing living environment.
 - Provide opportunities for community activities by developing appropriately related public facilities.
 - Promote or develop new or expanded business enterprises.
 - Assemble and maintain a marketing package for the local area.
 - Provide park improvements to neighborhood parks throughout the area inside the city limits of Willis.
2. Willis Economic Development Corporation – The Willis Economic Development Corporation also receives one half of one percent sales tax. The mission of the Willis Economic Development Corporation is to enhance and strengthen the local economy of Willis through the support and expansion of local businesses and the attraction of new businesses that will increase the tax basis of the local area, which is defined as land within the city limits and within one mile outside the city limits. This mission will be accomplished through (a) providing financial assistance as may be required, and permissible, to promote business opportunities and to provide expeditious assistance for expansion and entry into the Willis economy and (b) providing and supporting programs that enhance the quality of life for all Willis citizens. Its goals are to:
 - Seek to retain and expand existing employers.
 - Communicate educational needs of local employees to local educational institutions.
 - Work with the Greater Conroe Economic Development Council for the mutual economic benefit of North Montgomery County.
 - Assist existing and potential employers with site acquisition and development and with employee training.
 - Maintain a list of key suppliers to industry in Montgomery County located outside the local area with the goal of relocating them in the local area.

3. Hotel Tax Fund – The Hotel Tax fund receives taxes from hotels in the city limits. Expenditures from this fund are used to provide publicity for the City in general.

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. 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. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary fund:

Utility Fund - The Utility Fund is used to account for the provision of water & wastewater collection and wastewater treatment operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. 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.

Proprietary funds distinguish operating revenues and expenses from non-operating 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. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

H. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Governmental fund balances represent the difference between the current assets and deferred outflows of resources and current liabilities and deferred inflows of resources. Governmental funds report fund balance classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent.

Fund balances are classified as follows:

- Nonspendable Fund Balance—includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.
- Restricted Fund Balance—includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- Committed Fund Balance— includes amounts that can only be used for the specific purposes determined by a formal action of the City's highest level of decision-making authority. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally (for example: resolution and ordinance).
- Assigned Fund Balance—includes amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by (a) The City Council or (b) a body (a budget, finance committee) to which the assigned amounts are to be used for specific purposes.

- Unassigned Fund Balance—includes all residual amounts in governmental funds that are not otherwise. Unassigned amounts are available for any purpose and may also be used to report negative fund balances in other governmental funds.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

I. Budgetary Control

The City adopts an annual budget which is prepared on a basis (budget basis), which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's method (budget basis) in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual to provide a meaningful comparison of actual results with the budget. The Statement of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual— General Fund presents a comparison of budgetary data to actual results of operations for which annual operating budgets are legally adopted. The General Fund uses the same basis of accounting for both budgetary purposes and actual results.

The major differences between budget and GAAP basis in the General Fund are capital expenditures and long term debt proceeds. Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of capital outlays is allocated over their estimated useful lives as depreciation. Depreciation, since it is not a cash expense, is not budgeted. Depreciation for the General Fund for the year ending September 30, 2013 was \$359,778.

The City has established its fiscal year as the twelve-month period beginning October 1. The departments submit to the Mayor a budget of estimated expenditures for the ensuing fiscal year after which the Mayor subsequently submits a budget of estimated expenditures and revenues to the City Council. The budget is then legally enacted through passage of an ordinance. The Mayor is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Budgeted amounts are as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original adopted appropriations.

J. Estimates

The preparation of financial statements in conformity with U.S. GAAP requires City's management to make estimates and assumptions about future events that may affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Such estimates include the allowance for doubtful accounts, the lives of fixed assets, pension assets and obligations, and contingencies. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Adjustments to such estimates and assumptions are made when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

K. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the Proprietary Fund considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, requires that investments having maturity a date over three months, not be defined as cash equivalents.

L. Investments

The City's investment consists of "TexSTAR" holdings. The Texas Short Term Asset Reserve Program ("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. These two acts provide for the creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors consisting of individuals from participating Government Entities in the pool. The business and affairs of TexSTAR are managed by the Board. J.P. Morgan Investment Management, Inc. provides investment management, fund accounting, transfer agency and custodial services for the pool and FirstSouthwest provides administrative, marketing and participant services. Together, these organizations bring to the TexSTAR program a proven and noted track record in local government investment pool management. Investment positions in external investment pools that are operated in a manner consistent with the Security and Exchange Commissions (SEC) Rule 2a-7 of the Investment Company Act of 1940, such as TexSTAR, are reported using the pools' share price. Such investments do not have interest rate risk disclosure requirements.

M. Deposit and Investment Risks

In the case of deposits, credit risk is the risk that in the event of a bank failure, the City's deposits, that exceed federally insured limits (\$250,000 for 2013), may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities. The bank deposits of the City, at times, may exceed this federally insured limit. The City has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash. The cash held at local banks is insured and is collateralized with securities held by the City or its agent in the City's name. These pledged assets had a book value of \$4,854,952 at September 30, 2013.

In the case of investments, custodial credit risk 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 possession of an outside party.

According to the City's investment policy, the City shall contract with a financial institution for the safekeeping of securities owned by the City as part of its investment portfolio. All of TexSTAR's investments are held by the Federal Reserve or the custodian in TexSTAR's name. TexSTAR's bank balances are fully collateralized Federal depository insurance or by the institution holding the funds

In the case of investments, credit risk is the risk that a borrower will default on it's debt by failing to make payments which it is obligated to do. The TexSTAR portfolio is designed and managed to ensure that it maintains its AAAM rating (or equivalent) by a nationally recognized statistical rating agency. As of September 30, 2013, TexSTAR is rated AAAM by Standard & Poors ratings services.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, as amended by, GASB Statement No. 59, *Financial Instruments Omnibus*, the City reports all investments at fair value, except for "money market investments" and "2a-7-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 Security and Exchange Commissions (SEC) Rule 2a-7 of the Investment Company Act of 1940, such as TexSTAR, are reported using the pools' share price.

N. Interfund balances, Transfers, Receivables, and Payables

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after the non-operating revenues/expenses section in proprietary funds. During the year, the Governmental Funds transferred \$815,871 to the Utility Fund.

All trade and tax receivables are reported net of an allowance for uncollectibles, where applicable. Proprietary funds receivables of \$508,489 at September 30, 2013 consisted of utility billings for user charges and are reported net of allowance for doubtful accounts. Governmental funds receivables were \$510,047 and consisted of sales tax and property tax due.

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. Governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current resources are reported as obligations of these funds.

O. Deferred Inflows and Outflows of Resources

The implementation of GASB Statement No. 63 requires that in addition to assets, the Statement of Net Position report separate sections for deferred outflows of resources, which represent a consumption of net position that is applicable to a future reporting period, and deferred inflows of resources, which represent an acquisition of net position that is applicable to a future period.

For the City, these deferred inflows and outflows of resources are property tax. The full amount of property taxes receivable that has been recognized is offset against deferred inflows of resources. Revenues will subsequently be recognized in the fiscal year in which they become available to finance expenditures of that fiscal year. For the year ended September 30, 2013, deferred inflows and outflows of resources was \$63,238.

P. Inventories

Inventories consist primarily of public works supplies, valued at cost, which approximates market value. Cost is determined using a weighted average method. The cost of inventories is recorded as expenditures/expenses when purchased rather than when consumed.

Q. Property Taxes

All property values are determined by the Montgomery County Tax Assessor/Collector. Property taxes are levied on October 1 and are payable on or before January 31. They attach as an enforceable lien on January 1. Penalties and interest are charged if taxes are not paid by the succeeding January 31.

The tax rate in effect for the year ending September 30, 2013 was \$0.5208 cents per \$100 of valuation for 2012 taxes.

R. Capital Assets

General capital assets are those capital assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in governmental funds. The City reports these assets in the governmental activities column of the government-wide statement of net position but does not report these assets in the governmental fund financial statements. Capital assets utilized by enterprise funds are reported in the business-type activities column of the government-wide financial statement of net position and in the enterprise funds' statement of net position.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Depreciation has been calculated on the estimated useful life of each class of depreciable capital assets using the straight-line method as follows:

Buildings	30 Years
Water System	30 Years
Machinery and Equipment	5-10 Years

S. 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. The City is not obligated in any manner for special assessment debt.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount, and payment of principal and interest is reported as expenditures.

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.

T. Compensated Absences

The City maintains formal programs for vacation and sick leave. The City's eligible employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Employees may carryover 180 hours of vacation to the next year. Upon termination with the City, employees will be paid for their accrued and unused vacation time for that year. Vacation time is accrued as follows:

Less than 10 years of service	6.67 hours per month
11 to 15 years of service	10.00 hours per month
16 to 20 years of service	13.34 hours per month
More than 20 years of service	16.67 hours per month

The estimated amount of compensation for services provided 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. At September 30, 2013, the accrued and unpaid compensated absences liability was \$110,302

Sick leave accrues to eligible employees to specified maximums. A maximum amount of 360 hours of sick leave may be carried over from the previous year. Upon termination with the City, employees are not paid for accumulated sick leave. Amounts of vested or accumulated sick leave and compensatory time 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.

Note 2 - Cash & Investments

The City has an investment policy that applies to all the financial assets and funds of the City. The City's investment policy authorizes the City to invest its funds in passbooks, bankers' acceptances, and other available bank investments provided that approved securities are pledged to secure those funds on deposit in an amount equal to those funds.

In addition, and unless such an investment is expressly prohibited by law, the City can invest in direct debt securities of the United States, certificates of deposit, repurchase agreements and reverse repurchase agreements, money market funds, and Texas Government Investment Pools. 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%. Collateral is held by an independent third party safekeeping agent. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day to day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

The City's investments are categorized as either:

Category #1 - Insured or registered for which the securities are held by the government agents in the City's name. Category #2 - Uninsured and unregistered for which the securities are held by the dealer's trust department or agent in the City's name. Category #3 - Uninsured and unregistered for which the securities are held by the dealer or by its trust department but not in the City's name.

At September 30, 2013, all of the City's investments were in category #1 and consisted of cash on deposit at local banks or TexSTAR accounts that were insured by the FDIC or secured by US Government Securities. At year-end, the carrying amount of deposits totaled \$12,281,430 and the bank balance was \$12,408,796.

Below is a schedule of cash, savings, certificates of deposit, and investments at year end:

General Fund	Checking	\$ 483,638	
	Savings	143,024	
	CD's-Investments	<u>183,801</u>	\$ 810,463
Economic Development	Checking	239,850	
	CD's-Investments	<u>877,759</u>	1,117,609
Community Development	Checking	278,213	
	CD's-Investments	<u>1,022,886</u>	1,301,099
Hotel Tax Fund	Savings	67,075	
	CD's-Investments	<u>118,362</u>	185,437
Debt Service	Savings	<u>19,990</u>	19,990
Utility Fund	TWDB Series 2003 Savings	326	
	TWDB Series 2010 Checking	611,452	
	TWDB Series 2010 Escrow	972,009	
	TWDB Series 2012 Escrow	1,126,227	
	TWDB Series 2012 Reserve	106,034	
	TWDB Series 2013 Escrow	5,383,580	
	TWDB Series 2013 Savings	252,318	
	Waste water/sewer bond funds	170,848	
	Savings	2,433	
	CD's-Investments	189,106	
	Meter deposits	<u>25,339</u>	<u>8,839,672</u>
			<u>\$ 12,274,270</u>

Note 3 - Employee Pension Plan

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 TMRS. This report may be obtained from TMRS' website at www.TMRS.com.

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:

	Plan Year	Plan Year
	2012	2013
Employee deposit rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

Benefits

Upon retirement, benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City financed monetary credits, with interest. City financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence, and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer financed monetary credits, with interest, were used to purchase an annuity.

Contributions

Under the state law governing TMRS, the contribution rate for the 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 remainder of the plan’s 24-year amortization period. 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 required contribution rates for fiscal year 2013 were determined as part of the December 21, 2012 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, is presented in the RSI of this report.

Funded Status and Funding Progress

The funded status as of December 31, 2012, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UALL)	Covered Payroll	UAAL as a percentage of covered payroll
12/31/2012	\$ 3,152,964	\$ 3,658,015	86.19%	\$ 505,051	\$ 1,548,567	32.61%

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 prospective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and the actuarial value of assets. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan asset is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Note 4 - Post Employment Retirement Benefits

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by 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 City has not chosen to terminate coverage or discontinue participation.

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 proceeding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Contributions

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 contributions to the TMRS SDBF, which equaled the required contributions each fiscal year, are as follows:

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

Plan Year	Annual Required Contribution ARC (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2010	0.04%	0.04%	100.00%
2011	0.04%	0.04%	100.00%
2012	0.04%	0.04%	100.00%

TMRS only allowed a Phase-in Rate for the pension contributions. All contributions to the SDBF are paid at the stated rate above and, as such, the percentage of ARC contributed will always be 100%.

Note 5 - Operating Lease

The City has entered into an operating lease agreement for a postage machine. The payment is \$519 per quarter and expires upon the consent of either party. The total lease payment for the year ending September 30, 2013 was, and minimum lease payments for the years ending September 30, 2014 through 2017 will be, \$2,076.

Note 6 - Long-Term Obligations

The City enters into loan agreements, capital lease agreements, and issues revenue bonds and certificates of obligation to provide financing for its various operations. Loan agreements, capital leases, bonds, and certificates of obligations can and have been issued for both the City's governmental activities and business-type activities.

For each of the bond and certificate of obligation issues, the City is required to establish either (or both) a reserve fund and an interest & sinking fund. The purpose of such funds is to accumulate sufficient capital to retire the debt. For each fund, for each bond and certificate of obligation issue, equal monthly payments are to be made. All required reserve and interest & sinking fund payments and accounts have been properly maintained as of September 30, 2013. Debt details and schedules are presented under the statistical information at the end of this report.

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 the net minimum lease payments are inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources 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 as appropriate reduction of principal in the government-wide financial statements.

Note 7 - 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:

- promote sound financial management, including effective internal controls, with respect to Federal awards;
- promote the efficient and effective use of audit resources;
- reduce burdens on state and local governments, Indian tribes, and nonprofit organizations;
- 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 2013, 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.

Note 8 - Commitments

In 2010, the City approved a Chapter 380 Agreement with the Sam Houston Town Center, L.P. (SHTC). Chapter 380, *Miscellaneous Provisions Relating to Municipal Planning and Development*, of the Texas Local Government Code provides the authority to the governing body of a municipality to establish and provide for the administration of one or more programs, including programs for making loans and grants of public money and providing personnel and services of the municipality, to promote state of local economic development and to stimulate business and commercial activity in the municipality. The SHTC is a 24.5 acre, mixed use development consisting of approximately 143,717 square feet of retail and restaurant space would be constructed within the City boundaries. The contract agreement calls for reimbursement to the developer of up to \$3,075,000, plus interest at 7.5%, for certain infrastructure improvements.

The developer has incurred costs for road boring, earthwork & grading, drainage, retaining wall, relocation of lift station, offsite sanitary sewer, water relocation, electrical, gas line relocation, traffic study & signal engineering, traffic signal, environmental consultant, FM 1097 widening and engineering fees. The payments are to be made based on excess ad valorem and sales tax generated at the Center. During the year ended September 30, 2013, \$278,587 was paid to the developer and the balance was \$3,263,146.

In addition to the Section 380 agreement, the City has entered into various contractual relationships with outside consultants and organizations to provide various administrative, operational, financial, IT, and program services and tasks.

Note 9 - Risk Management

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

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; personal injury and death; and natural disasters for which the City participates along with other entities in the Texas Municipal League's Intergovernmental Risk Pools ("Pool"). The Pool purchases commercial insurance at a group rate 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 that exceeded coverage amounts for the past several years.

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.

Note 10 - Contingent Liabilities

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. No claim liabilities are reported at year end.

The Tax Reform Act of 1986 instituted certain arbitrage restrictions 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 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 ("IRS") at least every five years for applicable bond issues. Accordingly, there is a risk that if such calculations are not performed correctly, it could result in a substantial liability to the City. Although the City does not anticipate that it will have any arbitrage liability, it periodically engages an arbitrage consultant to perform the calculations in accordance with the IRS rules and regulations.

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 collectibility 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.

Note 11 - New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several new statements. A listing follows of those that apply to the City. These statements will be implemented as required by the GASB. Other recent GASB pronouncements have also been reviewed and have been determined to be not applicable to the City.

GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, an amendment of GASB Statement Nos. 25 and 50 (as it relates to pension plans that are administered through trusts). The requirements of this Statement will improve financial reporting by state and local governmental pension plans through improved measurement of the net pension liability and improved notes to the financial statements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2013. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions administered through pension trusts. The requirements of this Statement will improve financial reporting through enhanced note disclosures and schedules of required supplementary information. The provisions of this statement are effective for financial statement periods beginning after June 15, 2014. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

Note 12 - Subsequent Events

The City has evaluated events, transactions, or pronouncements that may impact the financial statements for the year ended September 30, 2013 through December 23, 2013 the date the financial statements were available to be issued. There were no subsequent events, transactions, or pronouncements that require recognition or disclosure in the financial statements.

Note 13 - Long-Term Debt

The following is a summary of notes payable transactions for the year ended September 30, 2013:

	Balance 9-30-12	Additions	Reductions	Balance 9-30-13
Governmental Activities				
Tax & Revenue Bonds-Series 2001	\$ 605,000	\$ -	\$ 50,000	\$ 555,000
Tax & Revenue Bonds-Series 2006	1,305,000	-	70,000	1,235,000
Certificates of Obligation-Series 2012	800,000	-	25,000	775,000
Total Governmental Activities Debt	<u>2,710,000</u>	<u>-</u>	<u>145,000</u>	<u>2,565,000</u>
Other Liabilities				
Compensated absences	80,339	-	3,122	77,217
Total Governmental Debt	<u>2,790,339</u>	<u>-</u>	<u>148,122</u>	<u>2,642,217</u>
Business-Type Activities				
Capital Lease - Meter Replacement Program	590,079	-	121,491	468,588
Revenue Bonds-Series 1995-A	30,000	-	5,000	25,000
Revenue Bonds-Series 1995-B	380,000	-	95,000	285,000
Certificates of Obligation-Series 2003	2,400,000	-	110,000	2,290,000
Certificates of Obligation-Series 2005	450,000	-	25,000	425,000
Certificates of Obligation-Series 2007	184,080	-	15,000	169,080
Certificates of Obligation-Series 2010	1,350,000	-	5,000	1,345,000
Revenue Bonds-Series 2012	3,150,000	-	-	3,150,000
Certificates of Obligation-Series 2013	-	5,800,000	-	5,800,000
Certificates of Obligation-Series 2013-A	-	800,000	-	800,000
Total Business-Type Activities Debt	<u>8,534,159</u>	<u>6,600,000</u>	<u>376,491</u>	<u>14,757,668</u>
Other Liabilities				
Compensated absences	30,271	2,814	-	33,085
Total Business-Type Activities Debt	<u>8,564,430</u>	<u>6,602,814</u>	<u>376,491</u>	<u>14,790,753</u>
Total Debt and Other Liabilities	<u>\$11,354,769</u>	<u>\$ 6,602,814</u>	<u>\$ 524,613</u>	<u>\$ 17,432,970</u>

Total Long-Term Debt requirements are as follows:

Year Ending	Principal Payment	Interest	Total
September 2014	\$ 651,801	\$ 637,776	\$ 1,289,577
September 2015	682,344	602,955	1,285,299
September 2016	708,394	576,244	1,284,638
September 2017	671,049	549,429	1,220,478
September 2018	610,000	527,208	1,137,208
September 2019 & Thereafter	13,999,080	5,972,410	19,971,490
	<u>\$17,322,668</u>	<u>\$ 8,866,022</u>	<u>\$26,188,690</u>

Note 14 - Changes in Capital Assets

A summary of changes in capital assets follows:

	Balance 9-30-12	Increases	Decreases	Balance 9-30-13
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 399,416	\$ -	\$ -	\$ 399,416
Capital assets being depreciated:				
Buildings	1,013,592	-	-	1,013,592
Roads	2,404,110	855,665	-	3,259,775
Vehicles & equipment	504,892	-	-	504,892
Equipment	526,597	24,116	-	550,713
Parks	223,506	-	-	223,506
Total capital assets being depreciated:	4,672,697	879,781	-	5,552,478
Less accumulated depreciation				
Buildings	(407,330)	(39,765)	-	(447,095)
Roads	(569,857)	(240,857)	-	(810,714)
Vehicles & equipment	(518,252)	(25,350)	-	(543,602)
Equipment	(351,192)	(45,527)	-	(396,719)
Parks	(52,708)	(8,279)	-	(60,987)
Total accumulated depreciation	(1,899,339)	(359,778)	-	(2,259,117)
Total capital assets being depreciated, net	2,773,358	520,003	-	3,293,361
Governmental Activities				
Capital Assets, net	\$ 3,172,774	\$ 520,003	\$ -	\$ 3,692,777

Depreciation expense was charged to functions as follows:

Governmental activities:

General government	\$ 301,022
Police	58,756
Total governmental activities depreciation expense	<u>\$ 359,778</u>

Note 14 - Changes in Capital Assets, Continued

Business-Type Activities	Balance 9-30-12	Increases	Decreases	Balance 9-30-13
Capital assets being depreciated:				
Water system	\$ 9,026,499	\$ 2,105,974	\$ -	\$ 11,132,473
Sewer system	7,307,467	285,345	-	7,592,812
Equipment	467,907	112,701	-	580,608
Vehicles	160,395	48,643	-	209,038
Total capital assets being depreciated	<u>16,962,268</u>	<u>2,552,663</u>	<u>-</u>	<u>19,514,931</u>
Less accumulated depreciation:				
Water system	(3,935,173)	(363,832)	-	(4,299,005)
Sewer system	(3,039,851)	(248,795)	-	(3,288,646)
Equipment	(111,106)	(57,151)	-	(168,257)
Vehicles	(129,497)	(26,883)	-	(156,380)
Total accumulated depreciation	<u>(7,215,627)</u>	<u>(696,661)</u>	<u>-</u>	<u>(7,912,288)</u>
Business-Type Activities				
Capital Assets, net	<u>\$ 9,746,641</u>	<u>\$ 1,856,002</u>	<u>\$ -</u>	<u>\$ 11,602,643</u>

All depreciation was charged to the utility fund.

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REQUIRED SUPPLEMENTAL INFORMATION

CITY OF WILLIS, TEXAS
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budgetary Basis)
General Fund
For the Year Ended September 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues				
Property tax	\$ 770,000	\$ 770,000	\$ 776,530	\$ 6,530
Building permits	68,000	68,000	81,028	13,028
Court	140,000	140,000	175,128	35,128
Franchise tax	300,000	300,000	298,034	(1,966)
Garbage collection	235,100	235,100	245,790	10,690
Interest	250	250	438	188
Code enforcement	2,500	2,500	5,369	2,869
Grants	24,000	24,000	870,950	846,950
Miscellaneous	29,000	29,000	60,492	31,492
Penalties & interest	15,000	15,000	11,699	(3,301)
Sales tax	1,100,000	1,100,000	1,602,847	502,847
Total revenues	<u>2,683,850</u>	<u>2,683,850</u>	<u>4,128,305</u>	<u>1,444,455</u>
Expenditures				
Administration	632,384	632,384	666,209	(33,825)
Code enforcement	189,922	189,922	184,640	5,282
Garbage collection	210,000	210,000	215,644	(5,644)
Streets	362,440	362,440	1,084,809	(722,369)
Public safety	1,439,830	1,439,830	1,150,045	289,785
Court	93,426	93,426	90,100	3,326
Bond interest	57,420	57,420	57,420	-
Bond principal	70,000	70,000	70,000	-
Total expenditures	<u>3,055,422</u>	<u>3,055,422</u>	<u>3,518,867</u>	<u>(463,445)</u>
Excess of revenues over (under) expenditures	(371,572)	(371,572)	609,438	981,010
Other sources				
Transfers	(732,650)	(732,650)	(766,382)	(33,732)
Net change in fund balance	(1,104,222)	(1,104,222)	(156,944)	<u>\$ 947,278</u>
Fund balance-beginning	925,138	925,138	925,138	
Fund balance-ending	<u>\$ (179,084)</u>	<u>\$ (179,084)</u>	<u>\$ 768,194</u>	

CITY OF WILLIS, TEXAS
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budgetary Basis)
Debt Service Fund
For the Year Ended September 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property tax	\$ 77,388	\$ 77,388	\$ 74,951	\$ (2,437)
Interest	50	50	49	(1)
Penalties & interest	2,500	2,500	2,602	102
Total revenues	<u>79,938</u>	<u>79,938</u>	<u>77,602</u>	<u>(2,336)</u>
Expenditures				
Administration	1,000	1,000	1,000	-
Bond interest	61,183	61,183	61,183	-
Bond principal	75,000	75,000	75,000	-
Total expenditures	<u>137,183</u>	<u>137,183</u>	<u>137,183</u>	<u>-</u>
Excess of revenues under expenditures before transfers	(57,245)	(57,245)	(59,581)	(2,336)
Other financing uses				
Transfers	60,000	60,000	62,063	2,063
Net change in fund balance	2,755	2,755	2,482	<u>\$ (273)</u>
Fund balance-beginning	17,508	17,508	17,508	
Fund balance-ending	<u>\$ 20,263</u>	<u>\$ 20,263</u>	<u>\$ 19,990</u>	

CITY OF WILLIS, TEXAS
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budgetary Basis)
Special Revenue Funds - Community Development
For the Year Ended September 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues				
Sales tax	\$ 280,000	\$ 280,000	\$ 473,488	\$ 193,488
Interest	2,000	2,000	2,686	686
Total revenues	<u>282,000</u>	<u>282,000</u>	<u>476,174</u>	<u>194,174</u>
Expenditures				
Special revenue funds	<u>441,200</u>	<u>441,200</u>	<u>302,020</u>	<u>139,180</u>
Excess of revenues over (under) expenditures before transfers	(159,200)	(159,200)	174,154	333,354
Other financing uses				
Transfers	<u>(4,000)</u>	<u>(4,000)</u>	<u>(3,855)</u>	<u>145</u>
Net change in fund balance	(163,200)	(163,200)	170,299	<u>\$ 333,499</u>
Fund balance-beginning	<u>1,213,553</u>	<u>1,213,553</u>	<u>1,213,553</u>	
Fund balance-ending	<u><u>1,050,353</u></u>	<u><u>\$ 1,050,353</u></u>	<u><u>\$ 1,383,852</u></u>	

CITY OF WILLIS, TEXAS
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budgetary Basis)
Special Revenue Funds - Economic Development
For the Year Ended September 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Sales tax	\$ 280,000	\$ 280,000	\$ 473,488	\$ 193,488
Miscellaneous	-	-	515	515
Interest	2,000	2,000	2,099	99
Total revenues	<u>282,000</u>	<u>282,000</u>	<u>476,102</u>	<u>194,102</u>
Expenditures				
Special revenue funds	<u>345,200</u>	<u>345,200</u>	<u>115,441</u>	<u>229,759</u>
Excess of revenues over (under) expenditures before transfers	(63,200)	(63,200)	360,661	423,861
Other financing uses				
Transfers	<u>(100,000)</u>	<u>(100,000)</u>	<u>(107,532)</u>	<u>(7,532)</u>
Net change in fund balance	(163,200)	(163,200)	253,129	<u>\$ 416,329</u>
Fund balance-beginning	<u>947,233</u>	<u>947,233</u>	<u>947,233</u>	
Fund balance-ending	<u>\$ 784,033</u>	<u>\$ 784,033</u>	<u>\$ 1,200,362</u>	

CITY OF WILLIS, TEXAS
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budgetary Basis)
Special Revenue Funds - Hotel Tax Fund
For the Year Ended September 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Franchise tax	\$ 25,000	\$ 25,000	\$ 23,456	\$ (1,544)
Intererst	-	-	825	825
Total revenues	25,000	25,000	24,281	(719)
Expenditures				
Special revenue funds	5,250	5,250	6,994	(1,744)
Excess of revenues over (under) expenditures before transfers	19,750	19,750	17,287	(2,463)
Other financing sources				
Transfers	-	-	(165)	(165)
Net change in fund balance	19,750	19,750	17,122	<u>\$ (2,628)</u>
Fund balance-beginning	168,316	168,316	168,316	
Fund balance-ending	<u>\$ 188,066</u>	<u>\$ 188,066</u>	<u>\$ 185,438</u>	

CITY OF WILLIS, TEXAS
Pension Plan
Schedule of Funding Progress and Contribution Rates

Fiscal Year End - September	2008	2009	2010
Actuarial Valuation Date	12-31-07	12-31-08	12-31-09
Actuarial Value of Assets	\$ 1,346,408	\$ 1,257,849	\$ 1,383,009
Actuarial Accrued Liability	\$ 1,736,554	\$ 1,734,397	\$ 1,965,915
Percentage Funded	77.5%	72.5%	70.3%
Under (Over) Funded Actuarial Accrued Liability (UAAL)	\$ 390,146	\$ 476,548	\$ 582,906
Annual Covered Payroll	\$ 1,181,404	\$ 1,306,961	\$ 1,338,890
UAAL as a Percentage of Covered Payroll	33.0%	36.5%	43.5%

Fiscal Year End - September	2011	2012	2013
Actuarial Valuation Date	12-31-10	12-31-11	12-31-12
Actuarial Value of Assets	\$ 2,565,623	\$ 2,813,567	\$ 3,152,964
Actuarial Accrued Liability	\$ 3,222,028	\$ 3,315,851	\$ 3,658,015
Percentage Funded	79.6%	84.9%	86.2%
Under (Over) Funded Actuarial Accrued Liability (UAAL)	\$ 656,405	\$ 502,284	\$ 505,051
Annual Covered Payroll	\$ 1,427,292	\$ 1,463,845	\$ 1,548,567
UAAL as a Percentage of Covered Payroll	46.0%	34.3%	32.6%

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, follows:

Valuation Date	12-31-10	12-31-11	12-31-12
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
GASB 25 Equivalent Single Amortization Peri	27.1 years; closed period	26.1 years; closed period	25.4 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10 year Smoothed Mkt	10 year	10 year
Actuarial Assumptions:			
Investment Rate of Return *	7.0%	7.0%	7.0%
Projected Salary Increases *	Varies by age & service	Varies by age & service	Varies by age & service
*Includes Inflation at	3.0%	3.0%	3.0%
Cost of Living Adjustments	2.1%	0.0%	0.0%

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OTHER SUPPLEMENTAL INFORMATION

CITY OF WILLIS, TEXAS
Statement of Expenses
General Fund
For the Year Ended September 30, 2013

	<u>Administration</u>	<u>Building Permits & Code Enforcement</u>	<u>Streets</u>
Salaries	\$ 209,158	\$ 101,009	\$ 115,547
Capital assets	-	-	732,650
Health insurance	25,769	16,875	25,889
Professional services	61,815	9,602	28,544
Employees retirement fund	17,578	8,141	9,508
Utilities & phone	8,780	2,772	52,993
Payroll taxes	16,230	7,712	8,847
Sam Houston Town Center	183,717	-	-
Miscellaneous	7,099	113	10,433
Fuel	412	4,183	5,135
Operations/office equipment	23,991	5,080	2,069
Vehicle	10,200	1,697	6,808
Meetings & conferences	42,002	3,794	327
Insurance	5,000	2,349	2,860
Buildings & structures	12,984	-	902
Office & supplies	13,166	1,217	632
Equipment	2,879	294	6,742
Interlocal government	6,599	13,497	2,905
Streets, signs & parks	-	-	70,088
Dues, fees & training	9,534	573	248
Postage	2,681	3,434	1
Demolition-clean up	-	1,470	-
Uniforms	-	238	1,681
Public notices	6,615	590	-
Narcotics funds	-	-	-
	<hr/>	<hr/>	<hr/>
Total General Fund Expenses	666,209	184,640	1,084,809
Adjustments to the Statement of Activities:			
Depreciation	301,022	-	-
Capitalized assets	-	-	(732,650)
	<hr/>	<hr/>	<hr/>
Total Primary Government Expenses	<u>\$ 967,231</u>	<u>\$ 184,640</u>	<u>\$ 352,159</u>

	Public Safety	Court	Total
Salaries	\$ 627,096	\$ 42,603	\$1,095,413
Capital assets	24,116	-	756,766
Health insurance	130,225	9,675	208,433
Professional services	-	22,250	122,211
Employees retirement fund	58,082	3,411	96,720
Utilities & phone	29,734	-	94,279
Payroll taxes	46,166	3,095	82,050
Sam Houston Town Center	-	-	183,717
Miscellaneous	40,553	580	58,778
Fuel	52,748	-	62,478
Operations/office equipment	27,086	1,055	59,281
Vehicle	26,248	-	44,953
Meetings & conferences	13,514	2,166	61,803
Insurance	26,692	140	37,041
Buildings & structures	15,645	-	29,531
Office & supplies	8,382	930	24,327
Equipment	826	1,285	12,026
Interlocal government	10,673	-	33,674
Streets, signs & parks	-	-	70,088
Dues, fees & training	2,131	140	12,626
Postage	1,651	2,770	10,537
Demolition-clean up	-	-	1,470
Uniforms	6,265	-	8,184
Public notices	-	-	7,205
Narcotics funds	2,212	-	2,212
Total General Fund Expenses	1,150,045	90,100	3,175,803
Adjustments to the Statement of Activities:			
Depreciation	58,756	-	359,778
Capitalized assets	(24,116)	-	(756,766)
Total Primary Government Expenses	<u>\$ 1,184,685</u>	<u>\$ 90,100</u>	<u>\$2,778,815</u>

CITY OF WILLIS, TEXAS
Statement of Expenses
Special Revenue Funds
For the Year Ended September 30, 2013

	Economic Development	Community Development	Hotel Tax	Total
Museum	\$ -	\$ 12,499	\$ -	\$ 12,499
Capital improvements	-	123,015	-	123,015
Professional services	39,040	36,267	-	75,307
Housing	-	5,134	-	5,134
Clearance & demolition	-	4,400	-	4,400
Publicity	14,083	27,176	6,994	48,253
Sam Houston Town Center	47,435	47,435	-	94,870
Park improvements	-	14,276	-	14,276
Contract services	4,500	4,500	-	9,000
Recycling	7,878	-	-	7,878
Miscellaneous	550	-	-	550
Community Center	-	8,944	-	8,944
Water & sewer improvements	-	17,086	-	17,086
Public notices	82	500	-	582
Dues, fees & training	1,873	788	-	2,661
	<hr/>	<hr/>	<hr/>	<hr/>
Total Primary Government Expenses	115,441	302,020	6,994	424,455
Adjustments to the Statement of Activities:				
Capital outlay	-	(123,015)	-	(123,015)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Primary Government Expenses	<u>\$ 115,441</u>	<u>\$ 179,005</u>	<u>\$ 6,994</u>	<u>\$ 301,440</u>

CITY OF WILLIS, TEXAS
Statement of Expenses
Utility Fund
For the Year Ended September 30, 2013

Operating Expenses

Depreciation	\$ 696,661
Interlocal government	416,854
Salaries	360,684
Utilities	153,460
Engineering	148,716
Contractual	135,550
Bond costs	103,175
Health insurance	75,032
Utility lines	56,745
Equipment	55,058
Pumps and motors	40,380
Utility billing	32,042
Chemicals	30,897
Fuel	29,914
Employees retirement fund	29,120
Legal	27,842
Payroll tax	26,772
Sludge removal	25,225
Rentals	20,591
Insurance	19,255
Vehicle	19,060
Operations	18,304
Telephone	11,483
Samples & supplies	9,687
Meetings, dues & conferences	8,301
Radio & cell phones	6,027
Uniforms	5,260
Building and structures	4,734
Office expense	3,821
Administration	3,015
	<hr/>
Total Operating Expenses	<u><u>\$ 2,573,665</u></u>

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STATISTICAL INFORMATION

CITY OF WILLIS, TEXAS
Property Tax Data

<u>Year</u> <u>September</u>	<u>General</u> <u>Fund</u>	<u>Debt</u> <u>Service</u>	<u>Total</u>	<u>Valuation</u>	<u>Levy</u>
2001	.4840	.0470	.5310	\$77,685,534	\$ 412,510
2002	.4931	.0716	.5647	93,648,498	528,754
2003	.5048	.0736	.5784	97,246,449	562,473
2004	.5171	.0732	.5903	96,638,210	570,455
2005	.5221	.0713	.5934	98,075,178	581,979
2006	.4796	.0646	.5442	111,665,980	607,686
2007	.4818	.0613	.5431	116,943,677	635,122
2008	.4806	.0570	.5376	125,117,868	672,634
2009	.5182	.0626	.5808	119,272,012	692,732
2010	.5286	.0607	.5893	128,385,365	756,575
2011	.5098	.0571	.5669	135,684,994	769,199
2012	.4746	.0462	.5208	164,706,840	857,793

Receivables, by years:

2003 and prior	\$ 9,664
2004	2,299
2005	2,451
2006	2,733
2007	2,886
2008	3,504
2009	5,576
2010	8,707
2011	13,448
2012	<u>23,713</u>
	74,981
Less Reserve	<u>(6,284)</u>
Total	<u><u>\$ 68,697</u></u>

CITY OF WILLIS, TEXAS
Schedule of Water Usage and Customers
For the Year Ended September 30, 2013

Month	Water Usage in Gallons		Number of Customers Served	
	Pumped	Sold	Water	Sewer
October 2012	18,383,000	20,439,100	2,080	1,827
November 2012	17,345,000	18,852,100	2,067	1,827
December 2012	17,177,000	16,573,400	2,078	1,828
January 2013	17,485,000	17,132,600	2,093	1,830
February 2013	16,314,000	17,553,300	2,087	1,828
March, 2013	20,590,000	17,700,600	2,113	1,837
April 2013	19,002,000	17,818,000	2,124	1,839
May 2013	21,289,000	20,794,700	2,115	1,839
June 2013	22,505,000	21,874,200	2,119	1,839
July 2013	25,343,000	22,661,400	2,127	1,841
August 2013	24,490,000	23,992,700	2,131	1,842
September 2013	<u>20,393,000</u>	<u>20,962,900</u>	<u>2,124</u>	<u>1,841</u>
Total for Year	<u><u>240,316,000</u></u>	<u><u>236,355,000</u></u>		
Average for Year	<u><u>20,026,333</u></u>	<u><u>19,696,250</u></u>	<u><u>2,105</u></u>	<u><u>1,835</u></u>

CITY OF WILLIS, TEXAS
Combination Tax & Revenue Certificates of Obligation, Series 2001
Governmental Activities

FYE September	Interest Rate	Interest Due		Principal August 1	Total
		February 1	August 1		
2003	1.65	\$ 18,059	\$ 18,059	\$ 30,000	\$ 66,118
2004	2.05	17,811	17,811	35,000	70,622
2005	2.35	17,453	17,453	35,000	69,906
2006	2.60	17,041	17,041	35,000	69,082
2007	2.80	16,586	16,586	40,000	73,172
2008	3.05	16,026	16,026	40,000	72,052
2009	3.15	15,416	15,416	40,000	70,832
2010	3.25	14,786	14,786	45,000	74,572
2011	3.35	14,055	14,055	45,000	73,110
2012	3.55	13,301	13,301	50,000	76,602
2013	3.65	12,414	12,414	50,000	74,828
2014	3.75	11,501	11,501	50,000	73,002
2015	3.90	10,564	10,564	55,000	76,128
2016	4.00	9,492	9,492	55,000	73,984
2017	4.10	8,392	8,392	60,000	76,784
2018	4.15	7,161	7,161	60,000	74,322
2019	4.20	5,916	5,916	65,000	76,832
2020	4.30	4,551	4,551	65,000	74,102
2021	4.35	3,154	3,154	70,000	76,308
2022	4.35	1,631	1,631	75,000	78,262
Total Due		235,310	235,310	1,000,000	1,470,620
Retired through 2013		172,948	172,948	445,000	790,896
Balance September 2013		\$ 62,362	\$ 62,362	\$ 555,000	\$ 679,724

CITY OF WILLIS, TEXAS
Combination Tax & Revenue Certificates of Obligation, Series 2006
Governmental Activities

<u>FYE</u> <u>September</u>	<u>Interest</u> <u>Rate</u>	<u>Interest Due</u>		<u>Principal</u> <u>August 1</u>	<u>Total</u>
		<u>February 1</u>	<u>August 1</u>		
2007	4.40	\$ 14,126	\$ 36,850	\$ 65,000	\$ 115,976
2008	4.40	35,420	35,420	55,000	125,840
2009	4.40	34,210	34,210	60,000	128,420
2010	4.40	32,890	32,890	60,000	125,780
2011	4.40	31,570	31,570	65,000	128,140
2012	4.40	30,140	30,140	65,000	125,280
2013	4.40	28,710	28,710	70,000	127,420
2014	4.40	27,170	27,170	70,000	124,340
2015	4.40	25,630	25,630	75,000	126,260
2016	4.40	23,980	23,980	80,000	127,960
2017	4.40	22,200	22,200	85,000	129,400
2018	4.40	20,350	20,350	85,000	125,700
2019	4.40	18,480	18,480	90,000	126,960
2020	4.40	16,500	16,500	95,000	128,000
2021	4.40	14,410	14,410	100,000	128,820
2022	4.40	12,210	12,210	105,000	129,420
2023	4.40	9,900	9,900	105,000	124,800
2024	4.40	7,590	7,590	110,000	125,180
2025	4.40	5,170	5,170	115,000	125,340
2026	4.40	2,640	2,640	120,000	125,280
Total Due		413,296	436,020	1,675,000	2,524,316
Retired through 2013		207,066	229,790	440,000	876,856
Balance September 2013		<u>\$ 206,230</u>	<u>\$ 206,230</u>	<u>\$ 1,235,000</u>	<u>\$ 1,647,460</u>

CITY OF WILLIS, TEXAS
Tax and Revenue Certificates of Obligation, Series 2012
Governmental Activities

FYE September	Interest Rate	Interest Due		Principal March 1	Total
		February 1	August 1		
2012	4.50	\$ -	\$ 12,800	\$ -	\$ 12,800
2013	4.50	18,000	18,000	25,000	61,000
2014	4.50	17,438	17,438	30,000	64,875
2015	4.50	16,763	16,763	30,000	63,525
2016	4.50	16,088	16,088	30,000	62,175
2017	4.50	15,413	15,413	35,000	65,825
2018	4.50	14,625	14,625	35,000	64,250
2019	4.50	13,838	13,838	35,000	62,675
2020	4.50	13,050	13,050	35,000	61,100
2021	4.50	12,263	12,263	40,000	64,525
2022	4.50	11,363	11,363	40,000	62,725
2023	4.50	10,463	10,463	45,000	65,925
2024	4.50	9,450	9,450	45,000	63,900
2025	4.50	8,438	8,438	45,000	61,875
2026	4.50	7,425	7,425	50,000	64,850
2027	4.50	6,300	6,300	50,000	62,600
2028	4.50	5,175	5,175	55,000	65,350
2029	4.50	3,938	3,938	55,000	62,875
2030	4.50	2,700	2,700	60,000	65,400
2031	4.50	1,350	1,350	60,000	62,700
Total Due		204,075	216,875	800,000	1,220,950
Retired through 2013		18,000	30,800	25,000	73,800
Balance September 2013		<u>\$ 186,075</u>	<u>\$ 186,075</u>	<u>\$ 775,000</u>	<u>\$ 1,147,150</u>

CITY OF WILLIS, TEXAS
Utility Meter Replacement Program, 2008
Business-Type Activities

<u>FYE</u> <u>September</u>	<u>Interest</u> <u>Rate</u>	<u>Optional</u> <u>Payoff</u>	<u>Paid Quarterly</u>		<u>Total</u>
			<u>Interest</u>	<u>Principal</u>	
2008	4.40	\$ 1,047,792	\$ 34,348	\$ 38,112	\$ 72,460
2009	4.40	943,362	42,538	102,383	144,921
2010	4.40	834,367	38,063	106,858	144,921
2011	4.40	720,607	33,393	111,528	144,921
2012	4.40	601,880	28,522	116,399	144,921
2013	4.40	477,959	23,430	121,491	144,921
2014	4.40	348,621	18,120	126,801	144,921
2015	4.40	213,630	12,577	132,344	144,921
2016	4.40	72,743	6,527	138,394	144,921
2017	4.40	-	1,411	71,049	72,460
Total Due			238,929	1,065,359	1,304,288
Retired through 2013			200,294	596,771	797,065
Balance September 2013			<u>\$ 38,635</u>	<u>\$ 468,588</u>	<u>\$ 507,223</u>

CITY OF WILLIS, TEXAS
Waterworks & Sewer System Revenue Bonds, Series 1995-A
Business-Type Activities

FYE September	Interest Rate	Interest Due		Principal August 1	Total
		February 1	August 1		
1997	4.25	\$ 2,936	\$ 2,936	\$ 5,000	\$ 10,872
1998	4.40	2,830	2,830	5,000	10,660
1999	4.55	2,720	2,720	5,000	10,440
2000	4.65	2,606	2,606	5,000	10,212
2001	4.80	2,490	2,490	5,000	9,980
2002	4.90	2,370	2,370	5,000	9,740
2003	5.00	2,248	2,248	5,000	9,496
2004	5.10	2,123	2,123	5,000	9,246
2005	5.20	1,995	1,995	5,000	8,990
2006	5.30	1,865	1,865	5,000	8,730
2007	5.40	1,733	1,733	5,000	8,466
2008	5.50	1,597	1,597	5,000	8,194
2009	5.60	1,460	1,460	5,000	7,920
2010	5.70	1,320	1,320	5,000	7,640
2011	5.80	1,177	1,177	5,000	7,354
2012	5.85	1,032	1,032	5,000	7,064
2013	5.85	886	886	5,000	6,772
2014	5.90	740	740	5,000	6,480
2015	5.90	593	593	10,000	11,186
2016	5.95	298	298	10,000	10,596
Total Due		35,019	35,019	110,000	180,038
Retired through 2013		33,388	33,388	85,000	151,776
Balance September 2013		\$ 1,631	\$ 1,631	\$ 25,000	\$ 28,262

CITY OF WILLIS, TEXAS
Waterworks & Sewer System Revenue Bonds, Series 1995-B
Business-Type Activities

<u>FYE</u> <u>September</u>	<u>Interest</u> <u>Rate</u>	<u>Interest Due</u>		<u>Principal</u> <u>August 1</u>	<u>Total</u>
		<u>February 1</u>	<u>August 1</u>		
1997	3.70	\$ 29,406	\$ 29,406	\$ 5,000	\$ 63,812
1998	3.85	29,314	29,314	5,000	63,628
1999	4.00	29,218	29,218	5,000	63,436
2000	4.10	29,118	29,118	5,000	63,236
2001	4.25	29,015	29,015	15,000	73,030
2002	4.35	28,696	28,696	40,000	97,392
2003	4.45	27,826	27,826	55,000	110,652
2004	4.55	26,603	26,603	60,000	113,206
2005	4.65	25,237	25,237	60,000	110,474
2006	4.75	23,842	23,842	65,000	112,684
2007	4.85	22,299	22,299	65,000	109,598
2008	4.95	20,722	20,722	75,000	116,444
2009	5.05	18,866	18,866	75,000	112,732
2010	5.15	16,973	16,973	80,000	113,946
2011	5.25	14,912	14,912	90,000	119,824
2012	5.30	12,550	12,550	90,000	115,100
2013	5.30	10,165	10,165	95,000	115,330
2014	5.35	7,648	7,648	95,000	110,296
2015	5.35	5,106	5,106	95,000	105,212
2016	5.40	2,565	2,565	95,000	100,130
Total Due		410,081	410,081	1,170,000	1,990,162
Retired through 2013		394,762	394,762	885,000	1,674,524
Balance September 2013		<u>\$ 15,319</u>	<u>\$ 15,319</u>	<u>\$ 285,000</u>	<u>\$ 315,638</u>

CITY OF WILLIS, TEXAS
Combination Tax & Revenue Certificates of Obligation, Series 2003
Business-Type Activities

FYE September	Interest Rate	Interest Due		Principal August 1	Total
		February 1	August 1		
2004	0.15	\$ 315	\$ 499	\$ 80,000	\$ 80,814
2005	0.40	495	1,294	85,000	86,789
2006	0.75	4,412	5,401	90,000	99,813
2007	1.20	5,159	5,365	95,000	105,524
2008	1.60	6,392	17,300	90,000	113,692
2009	2.00	32,574	43,578	100,000	176,152
2010	2.30	45,033	45,032	100,000	190,065
2011	2.50	43,883	43,882	100,000	187,765
2012	2.70	42,632	42,633	105,000	190,265
2013	2.80	41,215	41,215	110,000	192,430
2014	2.95	39,675	39,675	120,000	199,350
2015	3.05	37,905	37,905	125,000	200,810
2016	3.15	35,998	35,999	135,000	206,997
2017	3.25	33,872	33,872	250,000	317,744
2018	3.35	29,810	29,810	255,000	314,620
2019	3.45	25,539	25,539	265,000	316,078
2020	3.55	20,967	20,967	270,000	311,934
2021	3.65	16,175	16,175	280,000	312,350
2022	3.70	11,065	11,066	290,000	312,131
2023	3.80	5,700	5,700	300,000	311,400
Total Due		478,816	502,907	3,245,000	4,226,723
Retired through 2013		222,110	246,199	955,000	1,423,309
Balance September 2013		<u>\$ 256,706</u>	<u>\$ 256,708</u>	<u>\$ 2,290,000</u>	<u>\$ 2,803,414</u>

CITY OF WILLIS, TEXAS
Combination Tax & Revenue Certificates of Obligation, Series 2005
Business-Type Activities

FYE September	Interest Rate	Interest Due		Principal August 1	Total
		February 1	August 1		
2006	5.125	\$ 15,375	\$ 15,375	\$ 20,000	\$ 50,750
2007	5.125	14,863	14,863	20,000	49,726
2008	5.125	14,350	14,350	20,000	48,700
2009	5.125	13,838	13,838	20,000	47,676
2010	5.125	13,325	13,325	20,000	46,650
2011	5.125	12,813	12,813	25,000	50,626
2012	5.125	12,172	12,172	25,000	49,344
2013	5.125	11,531	11,531	25,000	48,062
2014	5.125	10,891	10,891	25,000	46,782
2015	5.125	10,250	10,250	30,000	50,500
2016	5.125	9,481	9,481	30,000	48,962
2017	5.125	8,713	8,713	30,000	47,426
2018	5.125	7,944	7,944	35,000	50,888
2019	5.125	7,047	7,047	35,000	49,094
2020	5.125	6,150	6,150	35,000	47,300
2021	5.125	5,253	5,253	35,000	45,506
2022	5.125	4,356	4,356	40,000	48,712
2023	5.125	3,331	3,331	40,000	46,662
2024	5.125	2,306	2,306	45,000	49,612
2025	5.125	1,153	1,153	45,000	47,306
Total Due		185,142	185,142	600,000	970,284
Retired through 2013		108,267	108,267	175,000	391,534
Balance September 2013		\$ 76,875	\$ 76,875	\$ 425,000	\$ 578,750

CITY OF WILLIS, TEXAS
Combination Tax and Revenue Certificates of Obligation -Series 2007
Business-Type Activities

<u>FYE</u> <u>September</u>	<u>Interest</u> <u>Rate</u>	<u>Interest Due</u>		<u>Principal</u> <u>August 1</u>	<u>Total</u>
		<u>February 1</u>	<u>August 1</u>		
2007	5.09	\$ -	\$ 2,573	\$ 15,000	\$ 17,573
2008	5.09	7,890	7,890	10,000	25,780
2009	5.09	7,635	7,635	85,920	101,190
2010	5.09	5,448	5,448	10,000	20,896
2011	5.09	5,194	5,194	10,000	20,388
2012	5.09	4,940	4,940	10,000	19,880
2013	5.09	4,685	4,685	15,000	24,370
2014	5.09	4,303	4,303	15,000	23,606
2015	5.09	3,921	3,921	15,000	22,842
2016	5.09	3,540	3,540	15,000	22,080
2017	5.09	3,158	3,158	15,000	21,316
2018	5.09	2,776	2,776	15,000	20,552
2019	5.09	2,394	2,394	20,000	24,788
2020	5.09	1,885	1,885	20,000	23,770
2021	5.09	1,376	1,376	20,000	22,752
2022	5.09	867	867	20,000	21,734
2023	5.09	359	359	14,080	14,798
Total Due		60,371	62,944	325,000	448,315
Retired through 2013		35,792	38,365	155,920	230,077
Balance September 2013		<u>\$ 24,579</u>	<u>\$ 24,579</u>	<u>\$ 169,080</u>	<u>\$ 218,238</u>

CITY OF WILLIS, TEXAS
Combination Tax & Revenue Certificates of Obligation, Series 2010
Business-Type Activities

FYE September	Interest Rate	Interest Due		Principal August 1	Total
		February 1	August 1		
2011	1.000	\$ 8,769	\$ 6,775	\$ -	\$ 15,544
2012	1.000	6,775	6,775	5,000	18,550
2013	1.000	6,750	6,750	5,000	18,500
2014	1.000	6,725	6,725	5,000	18,450
2015	1.000	6,700	6,700	5,000	18,400
2016	1.000	6,675	6,675	5,000	18,350
2017	1.000	6,650	6,650	5,000	18,300
2018	1.000	6,625	6,625	5,000	18,250
2019	1.000	6,600	6,600	5,000	18,200
2020	1.000	6,575	6,575	5,000	18,150
2021	1.000	6,550	6,550	5,000	18,100
2022	1.000	6,525	6,525	5,000	18,050
2023	1.000	6,500	6,500	5,000	18,000
2024	1.000	6,475	6,475	100,000	112,950
2025	1.000	5,975	5,975	105,000	116,950
2026	1.000	5,450	5,450	155,000	165,900
2027	1.000	4,675	4,675	185,000	194,350
2028	1.000	3,750	3,750	185,000	192,500
2029	1.000	2,825	2,825	185,000	190,650
2030	1.000	1,900	1,900	190,000	193,800
2031	1.000	950	950	190,000	191,900
Total Due		120,419	118,425	1,355,000	1,593,844
Retired through 2013		22,294	20,300	10,000	52,594
Balance September 2013		<u>\$ 98,125</u>	<u>\$ 98,125</u>	<u>\$ 1,345,000</u>	<u>\$ 1,541,250</u>

CITY OF WILLIS, TEXAS
Waterworks & Sewer System Revenue Bonds, Series 2012
Business-Type Activities

FYE September	Interest Rate	Interest Due		Principal August 1	Total
		February 1	August 1		
2013	0.45	\$ -	\$ 92,208	\$ -	\$ 92,208
2014	0.45	44,378	44,378	65,000	153,756
2015	0.70	44,232	44,232	65,000	153,464
2016	0.98	44,004	44,004	70,000	158,008
2017	1.21	43,661	43,661	70,000	157,322
2018	1.45	43,238	43,238	70,000	156,476
2019	1.68	42,730	42,730	75,000	160,460
2020	1.93	42,100	42,100	75,000	159,200
2021	2.18	41,377	41,377	80,000	162,754
2022	2.35	40,505	40,505	80,000	161,010
2023	2.51	39,564	39,564	85,000	164,128
2024	2.64	38,497	38,498	85,000	161,995
2025	2.74	37,376	37,376	90,000	164,752
2026	2.82	36,143	36,143	95,000	167,286
2027	2.87	34,803	34,803	95,000	164,606
2028	2.92	33,440	33,440	100,000	166,880
2029	2.98	31,980	31,980	105,000	168,960
2030	3.01	30,415	30,415	105,000	165,830
2031	3.06	28,835	28,835	110,000	167,670
2032	3.11	27,152	27,152	115,000	169,304
2033	3.17	25,364	25,364	115,000	165,728
2034	3.24	23,541	23,541	120,000	167,082
2035	3.29	21,597	21,597	125,000	168,194
2036	3.33	19,541	19,541	130,000	169,082
2037	3.37	17,376	17,376	135,000	169,752
2038	3.38	15,101	15,101	140,000	170,202
2039	3.39	12,735	12,735	140,000	165,470
2040	3.39	10,363	10,363	145,000	165,726
2041	3.40	7,905	7,905	150,000	165,810
2042	3.40	5,355	5,355	155,000	165,710
2043	3.40	2,723	2,723	160,000	165,446
Total Due		886,031	978,240	3,150,000	5,014,271
Retired through 2013		-	92,208	-	92,208
Balance September 2013		<u>\$ 886,031</u>	<u>\$ 886,032</u>	<u>\$ 3,150,000</u>	<u>\$ 4,922,063</u>

CITY OF WILLIS, TEXAS
Tax and Revenue Certificates of Obligation, Series 2012
Business-Type Activities

FYE September	Interest Rate	Interest Due		Principal March 1	Total
		February 1	August 1		
2014	5.00	\$ 131,192	\$ 121,100	\$ -	\$ 252,292
2015	5.00	121,100	121,100	-	242,200
2016	5.00	121,100	121,100	-	242,200
2017	5.00	121,100	121,100	-	242,200
2018	5.00	121,100	121,100	-	242,200
2019	5.00	121,100	121,100	-	242,200
2020	5.00	121,100	121,100	-	242,200
2021	5.00	121,100	121,100	-	242,200
2022	5.00	121,100	121,100	-	242,200
2023	5.00	121,100	121,100	-	242,200
2024	5.00	121,100	121,100	-	242,200
2025	5.00	121,100	121,100	-	242,200
2026	5.00	121,100	121,100	-	242,200
2027	5.00	121,100	121,100	180,000	422,200
2028	5.00	116,600	116,600	265,000	498,200
2029	5.00	109,975	109,975	280,000	499,950
2030	5.00	102,975	102,975	285,000	490,950
2031	5.00	95,850	95,850	300,000	491,700
2032	5.00	88,350	88,350	570,000	746,700
2033	5.00	77,663	77,663	590,000	745,326
2034	5.00	66,600	66,600	615,000	748,200
2035	5.00	54,300	54,300	640,000	748,600
2036	5.00	41,500	41,500	665,000	748,000
2037	5.00	28,200	28,200	690,000	746,400
2038	5.00	14,400	14,400	720,000	748,800
Total Due		2,501,905	2,491,813	5,800,000	10,793,718
Retired through 2013		-	-	-	-
Balance September 2013		<u>\$ 2,501,905</u>	<u>\$ 2,491,813</u>	<u>\$ 5,800,000</u>	<u>\$10,793,718</u>

CITY OF WILLIS, TEXAS
Tax and Revenue Certificates of Obligation, Series 2012-A
Business-Type Activities

<u>FYE</u> <u>September</u>	<u>Interest</u> <u>Rate</u>	<u>Interest Due</u>		<u>Principal</u> <u>March 1</u>	<u>Total</u>
		<u>February 1</u>	<u>August 1</u>		
2013		\$ 8,089	\$ 14,000	\$ -	\$ 22,089
2014	3.50	13,213	13,213	45,000	71,426
2015	3.50	12,425	12,425	45,000	69,850
2016	3.50	11,637	11,637	45,000	68,274
2017	3.50	10,850	10,850	50,000	71,700
2018	3.50	9,975	9,975	50,000	69,950
2019	3.50	9,100	9,100	55,000	73,200
2020	3.50	8,138	8,138	55,000	71,276
2021	3.50	7,175	7,175	60,000	74,350
2022	3.50	6,125	6,125	60,000	72,250
2023	3.50	5,075	5,075	60,000	70,150
2024	3.50	4,025	4,025	65,000	73,050
2025	3.50	2,887	2,887	65,000	70,774
2026	3.50	1,750	1,750	70,000	73,500
2027	3.50	525	525	75,000	76,050
Total Due		110,989	116,900	800,000	1,027,889
Retired through 2013		8,089	14,000	-	22,089
Balance September 2013		<u>\$ 102,900</u>	<u>\$ 102,900</u>	<u>\$ 800,000</u>	<u>\$ 1,005,800</u>