

*Audit Report*

**CITY OF WILLIS, TEXAS**

**Willis, Texas**

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2001**

**John R. Pechacek, CPA  
Bellville, Texas**

# CITY OF WILLIS, TEXAS

## AUDIT FOR THE YEAR ENDED SEPTEMBER 30, 2001

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CITY OF WILLIS, TEXAS

AUDIT FOR THE YEAR ENDED SEPTEMBER 30, 2001

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# ***John R. Pechacek***

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## **Independent Auditor's Report**

### Unqualified Opinion on General Purpose Financial Statements Submitted Together with Combining and Individual Fund Financial Statements, Supplementary Schedule of Expenditures of Federal Awards and Supporting Schedules as Supplementary Data

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

I have audited the accompanying general purpose financial statements of the City of Willis, Texas, as of and for the year ended September 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Willis' management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

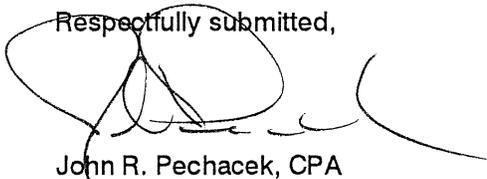
I conducted My audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Willis, Texas as of September 30, 2001, and the results of its operations and the cash flows of the proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 13, 2002, on my consideration of the City of Willis' internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the general purpose financial statements of the City of Willis, Texas, taken as a whole. The accompanying combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. Such information, has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Respectfully submitted,



John R. Pechacek, CPA

February 13, 2002

***GENERAL PURPOSE FINANCIAL STATEMENTS***

CITY OF WILLIS, TEXAS  
 COMBINED BALANCE SHEET  
 ALL FUND TYPES AND ACCOUNT GROUPS  
 SEPTEMBER 30, 2001

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<b>ASSETS</b>			
<i>Cash and Temporary Investments</i>	\$ 247,282.89	\$ 389,129.93	\$ 395.83
<i>Receivables—</i>			
<i>Property Tax</i>	61,754.62	--	21,046.53
<i>Service Accounts</i>	58,654.59	--	--
<i>Allowance for Uncollectible Accounts</i>	(17,087.09)	--	(10,055.32)
<i>Due from State</i>	33,296.30	--	--
<i>Miscellaneous</i>	543.91	--	--
<i>Supplies Inventory</i>	--	--	--
<i>Due from Other Funds</i>	136.25	--	--
<i>Due from Other Governments</i>	--	--	--
<i>Property, Plant, &amp; Equipment (Net)</i>	--	--	--
<i>Restricted Assets—</i>			
<i>Cash &amp; Temporary Investments</i>	--	--	--
<i>Amounts Available for Debt Service</i>	--	--	--
<i>Amounts to be Provided for Debt Service</i>	--	--	--
<b>Total Assets</b>	<b>384,581.47</b>	<b>389,129.93</b>	<b>11,387.04</b>
<b>LIABILITIES</b>			
<i>Accounts Payable</i>	36,107.00	--	--
<i>Payroll Withholdings</i>	2,791.31	--	--
<i>Current Portion – Capital Leases</i>	--	--	--
<i>Current Portion – Bonded Debt</i>	--	--	--
<i>Due to State</i>	14,916.20	--	--
<i>Customer Deposits</i>	--	--	--
<i>Due to Other Funds</i>	309,990.02	--	--
<i>Leases Payable—Future Maturities</i>	--	--	--
<i>General Obligation Bonds Payable</i>	--	--	--
<i>Revenue Bonds Payable</i>	--	--	--
<i>Other Long Term Debt Payable</i>	--	--	--
<i>Deferred Revenue</i>	44,667.53	--	10,991.21
<b>Total Liabilities</b>	<b>408,472.06</b>	<b>--</b>	<b>10,991.21</b>
<b>FUND EQUITY</b>			
<i>Contributed Capital</i>	--	--	--
<i>Investment in General Fixed Assets</i>	--	--	--
<i>Retained Earnings—</i>			
<i>Reserved for Revenue Bond Retirement</i>	--	--	--
<i>Unreserved (Deficit)</i>	--	--	--
<i>Fund Balance—</i>			
<i>Reserved for Police Activity</i>	--	--	--
<i>Reserved for Community/Economic Development</i>	--	338,141.24	--
<i>Reserved for Hotel Occupancy Tax</i>	--	50,988.69	--
<i>Reserved for Retirement of Bonded Debt</i>	--	--	395.83
<i>Unreserved</i>	(23,890.59)	--	--
<b>Total Fund Equity</b>	<b>(23,890.59)</b>	<b>389,129.93</b>	<b>395.83</b>
<b>Total Liabilities &amp; Fund Equity</b>	<b>\$ 384,581.47</b>	<b>\$ 389,129.93</b>	<b>\$ 11,387.04</b>

(The accompanying notes are an integral part of this financial statement.)

Proprietary Fund Types Water & Sewer Utility	Account Groups		Totals (Memorandum Only)	
	General Fixed Assets	General Long- Term Debt	2001	2000
\$ 184,656.81	\$ --	\$ --	\$ 821,465.46	\$ 769,968.86
--	--	--	82,801.15	86,204.68
175,294.77	--	--	233,949.36	179,677.15
(17,422.11)	--	--	(44,564.52)	(43,424.59)
--	--	--	33,296.30	16,124.03
--	--	--	543.91	448.91
11,888.11	--	--	11,888.11	15,891.22
309,853.77	--	--	309,990.02	196,627.38
--	--	--	--	16,640.00
4,187,274.66	1,175,496.00	--	5,362,770.66	5,544,336.60
134,769.20	--	--	134,769.20	125,373.20
--	--	--	--	88,223.77
--	--	39,238.00	39,238.00	169,625.23
<u>4,986,315.21</u>	<u>1,175,496.00</u>	<u>39,238.00</u>	<u>6,986,147.65</u>	<u>7,165,716.44</u>
16,577.79	--	--	52,684.79	44,788.20
--	--	--	2,791.31	2,829.01
--	--	28,087.00	28,087.00	21,166.00
45,000.00	--	--	45,000.00	55,000.00
--	--	--	14,916.20	15,728.50
53,316.90	--	--	53,316.90	49,610.39
--	--	--	309,990.02	196,627.38
--	--	11,151.00	11,151.00	27,887.00
--	--	--	--	--
1,175,000.00	--	--	1,175,000.00	1,220,000.00
--	--	--	--	173,796.00
--	--	--	55,658.74	56,057.50
<u>1,289,894.69</u>	<u>--</u>	<u>39,238.00</u>	<u>1,748,595.96</u>	<u>1,863,489.98</u>
4,087,513.74	--	--	4,087,513.74	3,890,581.34
--	1,175,496.00	--	1,175,496.00	1,381,746.40
--	--	--	--	--
(391,093.22)	--	--	(391,093.22)	(456,471.84)
--	--	--	--	1,728.30
--	--	--	388,141.24	102,938.38
--	--	--	50,988.69	29,921.31
--	--	--	395.83	88,223.77
--	--	--	(23,890.59)	263,558.80
<u>3,696,420.52</u>	<u>1,175,496.00</u>	<u>--</u>	<u>5,237,551.69</u>	<u>5,302,226.46</u>
<u>\$ 4,986,315.21</u>	<u>\$ 1,175,496.00</u>	<u>\$ 39,238.00</u>	<u>\$ 6,986,147.65</u>	<u>\$ 7,165,716.44</u>

**CITY OF WILLIS, TEXAS**

*COMBINED STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED SEPTEMBER 30, 2001*

	Operating Fund	Special Revenue Fund
	<u>                    </u>	<u>                    </u>
<b>Revenues:</b>		
<i>Property Taxes</i>	\$ 360,832.84	\$ --
<i>Sales Tax</i>	334,169.85	331,993.79
<i>Franchise Tax, Street Rental</i>	147,571.95	--
<i>Hotel Occupancy Tax</i>	--	21,067.38
<i>Sanitation and Landfill</i>	369,165.52	--
<i>Fines and Court Costs</i>	181,045.32	--
<i>Permits, License and Inspection</i>	28,955.81	--
<i>Rental Income</i>	11,525.00	--
<i>Miscellaneous</i>	23,964.09	--
<i>Interest Earnings</i>	22,294.10	5,800.18
<i>Grants Revenue--</i>		
<i>Local Matching Grant Revenue</i>	--	19,255.00
<i>State Grant Revenue</i>	--	--
<i>Federal Grant Revenue</i>	--	208,732.40
	<u>                    </u>	<u>                    </u>
<b>Total Revenues</b>	<b>1,479,524.48</b>	<b>586,848.75</b>
<b>Expenditures:</b>		
<i>City General</i>	177,859.43	--
<i>City Office</i>	218,258.31	--
<i>Police Department</i>	698,388.74	--
<i>Sanitation/Landfill</i>	358,501.24	--
<i>Treatment Facility</i>	--	--
<i>Street Department</i>	144,626.54	--
<i>Municipal Court</i>	64,541.27	--
<i>Hotel Occupancy Tax Expenditures</i>	--	--
<i>Grant Expenditures</i>	--	227,987.40
<i>Economic Development Expenditures</i>	--	102,591.11
<i>Debt Service</i>	--	--
	<u>                    </u>	<u>                    </u>
<b>Total Expenditures</b>	<b>1,662,175.53</b>	<b>330,578.51</b>
<b>Excess (Deficiency) of Revenues     Over Expenditures</b>	<b>(182,651.05)</b>	<b>256,270.24</b>
<b>Other Sources (Uses):</b>		
<i>Transfer (To) From Other Funds</i>	77,085.52	--
<i>Lease Proceeds – Police Cars</i>	16,500.00	--
<i>Loan Proceeds – Street Project</i>	--	--
<i>Loan Principal Payments</i>	(173,795.93)	--
<i>Capital Lease Principal</i>	(26,316.23)	--
<b>Total Other Sources (Uses):</b>	<u>(106,526.64)</u>	<u>                    </u>
<b>Excess (Deficiency) of Revenues and Other     Resources Over Expenditures and Other Uses</b>	<b>(289,177.69)</b>	<b>256,270.24</b>
<b>Fund Balance, October 1</b>	<u>265,287.10</u>	<u>132,859.69</u>
<b>Fund Balance, September 30</b>	<u>\$ (23,890.59)</u>	<u>\$ 389,129.93</u>

(The accompanying notes are an integral part of this financial statement.)

Debt Service Fund	Totals (Memorandum Only)	
	Year Ended September 30, 2001	Year Ended September 30, 2000
\$ 45,080.82	\$ 405,913.66	\$ 418,474.03
---	666,163.64	453,660.46
---	147,571.95	150,996.82
---	21,067.38	20,828.91
---	869,165.52	343,480.24
---	181,045.32	144,557.17
---	28,955.81	20,393.60
---	11,525.00	7,275.00
---	23,964.09	29,330.30
6.76	28,101.04	22,721.97
---	19,255.00	---
---	---	---
---	208,732.40	31,378.91
<u>45,087.58</u>	<u>2,111,460.81</u>	<u>1,643,097.41</u>
---	177,859.43	221,180.13
---	218,258.31	156,924.94
---	698,388.74	576,648.44
---	358,501.24	284,461.76
---	---	---
---	144,626.54	334,783.82
---	64,541.27	54,665.36
---	---	7,000.00
---	227,987.40	31,378.91
---	102,591.11	13,142.84
36,575.00	36,575.00	111,034.82
<u>36,575.00</u>	<u>2,029,329.04</u>	<u>1,791,221.02</u>
8,512.58	82,131.77	(148,123.61)
(96,340.52)	(19,255.00)	---
---	16,500.00	65,015.75
---	---	242,336.95
---	(173,795.93)	---
---	(26,316.23)	(15,962.21)
<u>(96,340.52)</u>	<u>(202,867.16)</u>	<u>291,390.49</u>
(87,827.94)	(120,735.39)	143,266.88
<u>88,223.77</u>	<u>486,370.56</u>	<u>343,103.68</u>
\$ <u>395.83</u>	\$ <u>365,635.17</u>	\$ <u>486,370.56</u>

**CITY OF WILLIS, TEXAS**

*COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES – BUDGET AND ACTUAL, ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED SEPTEMBER 30, 2001*

			OPERATING FUND			
			Budget	Actual	Variance Favorable (Unfavorable)	
<b>Revenues:</b>						
<i>Property Taxes</i>	\$	365,000	\$	360,832.84	\$	(4,167.16)
<i>Sales Tax</i>		390,000		334,169.85		(55,830.15)
<i>Franchise Tax, Street Rental</i>		125,000		147,571.95		22,571.95
<i>Sanitation and Landfill</i>		340,100		369,165.52		29,065.52
<i>Fines and Court Costs</i>		157,100		181,045.32		23,945.32
<i>Permits, License and Inspection</i>		26,500		28,955.81		2,455.81
<i>Rental Income</i>		9,000		11,525.00		2,525.00
<i>Miscellaneous</i>		20,500		23,964.09		3,464.09
<i>Interest Earnings</i>		20,000		22,294.10		2,294.10
<i>Hotel Occupancy Tax Revenue</i>		--		--		--
<i>Grants Revenue</i>		--		--		--
Total Revenues		<u>1,453,200</u>		<u>1,479,524.48</u>		<u>26,324.48</u>
<b>Expenditures:</b>						
<i>City General</i>		146,500		177,859.43		(31,359.43)
<i>City Office</i>		214,600		218,258.31		(3,658.31)
<i>Police Department</i>		593,050		698,388.74		(105,338.74)
<i>Sanitation/Landfill</i>		317,500		358,501.24		(41,001.24)
<i>Treatment Facility</i>		--		--		--
<i>Street Department</i>		120,700		144,626.54		(23,926.54)
<i>Municipal Court</i>		59,600		64,541.27		(4,941.27)
<i>Occupancy Tax Expenditures</i>		--		--		--
<i>Economic Development</i>		--		--		--
<i>Grant Expenditures</i>		--		--		--
<i>Debt Service</i>		--		--		--
Total Expenditures		<u>1,451,950</u>		<u>1,662,175.53</u>		<u>(210,225.53)</u>
Excess (Deficiency) of Revenues Over Expenditures	\$	<u>1,250</u>		<u>(182,651.05)</u>	\$	<u>(183,901.05)</u>
<b>Other Sources (Uses):</b>						
<i>Transfer (To) From Other Funds</i>				77,085.52		
<i>Lease Proceeds – Police Cars</i>				16,500.00		
<i>Loan Proceeds – Street Project</i>				--		
<i>Loan Principal Payments</i>				(173,795.93)		
<i>Capital Lease Principal Payments</i>				(26,316.23)		
Total Other Resources and Uses				<u>(106,526.64)</u>		
Excess (Deficiency) of Revenue and Other Resources Over Expend. and Other Uses				(289,177.69)		
<b>Fund Balance, October 1</b>				<u>265,287.10</u>		
<b>Fund Balance, September 30</b>			\$	<u>(23,890.59)</u>		

(The accompanying notes are an integral part of this financial statement.)

DEBT SERVICE FUND

Budget	Actual	Variance Favorable (Unfavorable)
\$ 47,075	\$ 45,080.82	\$ (1,994.18)
---	---	---
---	---	---
---	---	---
---	---	---
---	---	---
---	---	---
250	6.76	(243.24)
---	---	---
---	---	---
<u>47,325</u>	<u>45,087.58</u>	<u>(2,237.42)</u>
---	---	---
---	---	---
---	---	---
---	---	---
---	---	---
---	---	---
---	---	---
---	---	---
<u>37,575</u>	<u>36,575.00</u>	<u>1,000.00</u>
<u>37,575.00</u>	<u>36,575.00</u>	<u>1,000.00</u>
<u>\$ 9,750.00</u>	8,512.58	<u>\$ (1,237.42)</u>
	(96,340.52)	
	---	
	---	
	---	
	<u>(96,340.52)</u>	
	(87,827.94)	
	<u>88,223.77</u>	
	<u>\$ 395.83</u>	

**CITY OF WILLIS, TEXAS**

EXHIBIT A-4

*COMBINED STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN RETAINED EARNINGS – ALL PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED SEPTEMBER 30, 2001*

	Water and Sewer Utility Fund	
	2001	2000
<b>OPERATING REVENUE:</b>		
<i>Charges for Water and Sewer Service</i>	\$ 907,288.38	\$ 743,902.62
<i>Water and Sewer Connections</i>	45,922.23	53,662.51
<i>Late Payment Penalties</i>	36,825.08	26,924.99
<i>Service Charges</i>	12,940.02	11,365.00
<i>Inspection Fees</i>	3,850.00	3,447.00
<i>Miscellaneous Income</i>	7,024.35	10.09
<b>Total Operating Revenue</b>	<u>1,013,850.06</u>	<u>839,312.21</u>
<b>OPERATING EXPENSE:</b>		
<i>Personnel—Operating</i>	272,591.99	272,555.77
<i>Personnel—Administration</i>	65,211.51	110,063.25
<i>Professional Fees</i>	9,647.75	6,183.02
<i>Maintenance and Repairs</i>	158,009.04	168,718.16
<i>Utilities</i>	153,380.61	125,700.85
<i>Supplies, Materials and Postage</i>	16,873.48	18,241.83
<i>Vehicle Expense</i>	11,237.54	15,396.28
<i>Other Operating Expense</i>	15,319.11	19,216.55
<i>Depreciation</i>	200,843.32	192,658.86
<b>Total Operating Expense</b>	<u>903,114.35</u>	<u>928,734.57</u>
<b>Operating Income (Loss)</b>	<u>110,735.71</u>	<u>(89,422.36)</u>
<b>NON-OPERATING REVENUE (EXPENSE):</b>		
<i>Interest Earnings</i>	18,679.01	18,311.18
<i>Interest Expense</i>	(63,010.00)	(63,447.50)
<i>Bond Paying Agent Fees</i>	(1,026.10)	(677.70)
<b>Total Non-operating Revenue (Expense)</b>	<u>(45,357.09)</u>	<u>(45,814.02)</u>
<b>Net Income (Loss)</b>	65,378.62	(135,236.38)
<b>Retained Earnings (Deficit), October 1</b>	(456,471.84)	(321,235.46)
<b>Retained Earnings (Deficit), September 30</b>	<u>\$ (391,093.22)</u>	<u>\$ (456,471.84)</u>

(The accompanying notes are an integral part of this financial statement.)

**CITY OF WILLIS, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**ALL PROPRIETARY FUND TYPES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2001**

EXHIBIT A-5

	2001	(Memorandum) 2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
<i>Cash Received from Customers</i>	\$ 1,010,000.06	\$ 828,060.62
<i>Cash Payments for Personnel Costs</i>	(337,803.50)	(382,619.02)
<i>Cash Payments for Operating Expenses</i>	(400,478.66)	(369,352.08)
Net Cash Provided by Operating Activities	<u>271,717.90</u>	<u>76,089.52</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
<i>Interfund Loan (Out)</i>	--	--
<i>Net Inflow from Customer Deposits</i>	3,706.51	2,497.54
Net Cash (Used for) Noncapital Financing Activities	<u>3,706.51</u>	<u>2,497.54</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
<i>Acquisition and Construction of Capital Assets (Net)</i>	(250,491.03)	(111,279.74)
<i>Interest Received from Time Deposits and Investments</i>	18,679.01	18,311.18
<i>Principal Paid on Debt</i>	(20,000.00)	(10,000.00)
<i>Interest and Fees Paid on Debt</i>	(64,036.10)	(64,125.20)
Net Cash (Used for) Capital and Related Financial Activities	<u>(315,848.12)</u>	<u>(167,093.76)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	--	--
<b>NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH</b>	(40,423.71)	(88,506.70)
CASH AND RESTRICTED CASH, October 1	359,849.72	448,356.42
CASH AND RESTRICTED CASH, September 30	<u>319,426.01</u>	<u>359,849.72</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY PROVIDED BY OPERATING ACTIVITIES:</b>		
<i>Operating Income (Loss)</i>	110,735.71	(89,422.36)
Adjustments to Reconcile Operating Income to Net Cash Provided By (Used For) Operating Activities -		
<i>Depreciation</i>	200,843.32	192,658.86
Changes in Assets and Liabilities -		
<i>(Increase) Decrease in Accounts Receivable</i>	(41,618.49)	(14,175.92)
<i>(Increase) Decrease in Inventory</i>	4,003.11	(8,303.52)
<i>Increase (Decrease) in Accounts Payable</i>	(2,245.75)	(4,667.54)
Total Adjustments	<u>160,982.19</u>	<u>165,511.88</u>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<u>\$ 271,717.90</u>	<u>\$ 76,089.52</u>

(The accompanying notes are an integral part of this financial statement.)

# CITY OF WILLIS, TEXAS

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2001

## A. Reporting Entity

The City of Willis, Texas, is incorporated as a political subdivision under the laws of the State of Texas and, as such, is exempt from federal and state taxation. The City operates under the Mayor–Alderman form of government and provides the following services as authorized by the state statute: public safety (police), highways and streets, sanitation, recreation, education, public improvements, utilities (water and sanitary sewer), and general administrative services. The City receives funding from local, state, and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the City is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards* since the Mayor and Aldermen are responsible for governance of the City, are elected by the public, have decision making authority, the power to designate management, the responsibility to significantly influence operations and have primary accounting responsibility for fiscal matters.

## B. Summary of Significant Accounting Policies

### 1. Fund Accounting

The accounts of the City are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self–balancing accounts which are comprised of each fund's assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and for individual funds based upon the purposes for which they are to be expended and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into two fund types and three account groups as follows:

#### GOVERNMENTAL FUND TYPES

##### General Fund –

The General Fund is the fund which accounts for all financial resources and transactions except those required to be accounted for in another fund. This is a budgeted fund.

##### Special Revenue Fund –

The Special Revenue Fund is used to account for financial transactions and resources received under grants legally restricted to expenditure for specific purposes and where unused balances are to be returned to the grantor at the close of specified project periods. These are budgeted funds, and project accounting is employed to maintain the integrity for the various individual projects and sources of funds.

#### PROPRIETARY FUND TYPES

##### Utility Fund –

The Utility Fund is used to account for water and sanitary sewer utility operations that are financed and operated in a manner similar to private business enterprises. 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 be financed or recovered primarily through user charges. This fund is budgeted for administrative control purposes.

#### ACCOUNT GROUPS

##### General Fixed Assets –

The General Fixed Assets account group is used to account for property, plant and equipment used in the general operations of the City. No depreciation is provided, additions (including donations) and disposals are recorded or removed on the basis of historical cost or value at the date of acquisition.

# CITY OF WILLIS, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2001

## B. Summary of Significant Accounting Policies (continued)

### ACCOUNT GROUPS

#### General Long-Term Debt –

The General Long-Term Debt account group is used to account for debt instruments which are to be repaid from governmental funds. Liabilities for such debt are offset by a provision for the allocation of future resources to these obligations.

## 2. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. All major revenues are susceptible to accrual.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long term debt which is recognized when due.

The accrual basis of accounting is used for the proprietary fund types. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable.

## 3. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- a. Budgets for all funds are prepared by the City's administrative staff, reviewed and legally adopted by the City Council after public hearings as required by State law. Budgets are normally amended during the year to reflect changes in operating conditions.
- b. Budgets are strictly utilized by the City for overall planning and/or operations. Budgetary limitations are strictly imposed, and routine actual to budget comparative financial statements are prepared.
- c. The individual fund statements of revenues, expenditures, and changes in fund balance for the Governmental Fund Types present comparisons of legally adopted budgets with actual data on a budgetary basis.
- d. Unused appropriations, if any, for Governmental Fund Types which are budgeted annually, lapse at the end of the year.

## 4. Inventory

Supplies and materials for the utility fund are generally debited to inventory when purchased, and charged to expense as used. Inventories on the balance sheet are recorded at the lower of cost or replacement cost with appropriate adjustments made to the expense accounts of the affected department.

# CITY OF WILLIS, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2001

## B. Summary of Significant Accounting Policies (continued)

### 5. Ad Valorem Property Taxes

Ad valorem property tax is assessed on all taxable property within the corporate limits of the City as of January 1, not specifically exempted by state law or by the local governing body. Such taxes are generally levied on October 1, and are payable on or before January 31, of the following year. Ad valorem property taxes attach as an enforceable lien upon the property assessed. Net uncollected property taxes as of September 30, are not considered to be currently available and are, therefore, shown as deferred revenue. Penalties and interest are recorded as revenue when collected.

During the year ended September 30, 2001, the City levied an ad valorem tax of \$0.5243 per \$100 of assessed valuation which resulted in a levy of \$392,759 on the net assessed taxable valuation of \$74,911,024 for the 2000 tax year. Of the total \$0.5243 per \$100 valuation rate, \$0.0501 was allocated to general obligation debt retirement and \$0.4742 was allocated to general governmental services. State statutes allow the City to levy taxes up to a maximum of \$1.50 per \$100 of assessed valuation for general governmental services, however, the City can levy taxes without limit sufficient to meet the current general obligation debt service requirement.

### 6. Cash Shown on Cash Flow Statement

For the purpose of the Statement of Cash Flows, investments are considered to be cash equivalents if they are highly liquid with a maturity of one year or less.

### 7. Memorandum Totals

Totals captioned "Memorandum Only" are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in aggregation of this data.

## C. DEPOSITS AND INVESTMENTS

### Cash Deposits:

The City's funds are required to be deposited and invested under the terms of a depository contract. 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. City funds and taxes collected were adequately secured at all times and we disclosed the following:

- A. Financial Institution: Woodforest National Bank  
Willis, Texas
- B. Largest combined account balance amounted to \$1,060,178 and occurred during the month of , 2001.
- C. Total amount of F.D.I.C. coverage at time of largest combined balance was \$200,389.
- D. Amount of securities pledged as of the date of the highest combined balance on deposit was \$2,039,380.

# CITY OF WILLIS, TEXAS

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2001

## C. DEPOSITS AND INVESTMENTS (continued)

The Cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

- Category 1 - Deposits which are insured or collateralized with securities held by the entity or by its agent in the entity's name.
- Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- Category 3 - Deposits which are not collateralized.

Based on these three levels of risk all of the City's cash deposits are classified as category 1.

### Investments:

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year-end. These custodial risk categories are as follows:

- Category 1 - Investments that are insured, registered or held by the City or by its agent in the City's name.
- Category 2 - Investments that are uninsured and unregistered held by the counterparty's trust department or agent in the City's name.
- Category 3 - Uninsured and unregistered investments held by the counterparty, its trust department or its agent, but not in the City's name.

**CITY OF WILLIS, TEXAS**

NOTES TO THE FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2001

**C. DEPOSITS AND INVESTMENTS (continued)**

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

During the year ended September 30, 2001, the City's temporary investments consisted entirely of certificates of deposit and money market accounts with insured banking institutions.

**D. Loans**

The City issued no new loans during the year ended September 30, 2001. The City paid off the remaining balance on an operating note in the amount of \$173,796 for a street improvement project. The street improvement note had a maturity date of March 1, 2001. Details pertaining to this individual loan may be found in this report at schedule C-3.

**E. Capital Leases**

The City participated in two capital leases for the acquisition of police vehicles during the year ended September 30, 2001. The City also entered into a new capital lease agreement for the purchase of a Ford Taurus sedan. The leases contain non-appropriation clauses giving the City the right to void its obligation under leases in the event that funds are not available for appropriation by the City. Details pertaining to the individual capital leases may be found in this report at Schedule C-3. The City's future obligation under the outstanding leases is as follows:

Year Ending September 30	Interest Rate	General Fund		
		Principal	Interest	Total
2002	6.25-8.00%	\$ 28,087.00	\$ 1,926.00	\$ 30,013.00
2003	"	11,151.00	264.00	11,415.00
2004	"	--	--	--
Total		\$ 39,238.00	\$ 2,190.00	\$ 41,428.00

**F. Changes in Long-Term Debt**

The following is a summary of bond and long-term debt transactions of the City for the year ended September 30, 2001:

	General Obligation	Revenue	Total
Bonds Payable, October 1, 2000	\$ 35,000	\$ 1,240,000	\$ 1,275,000
Bonds Issued	--	--	--
Bonds Retired	35,000	20,000	55,000
Bonds Payable, September 30, 2001	\$ --	\$ 1,220,000	\$ 1,220,000

**CITY OF WILLIS, TEXAS**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2001

**F. Changes in Long-Term Debt(continued)**

Bonds payable at September 30, 2001, are comprised of the following individual issues:

**General Obligation Bonds –**

\$800,000 – 1986 Series, City of Willis Combination Tax and Revenue Certificates of Obligation due serially in annual installments beginning February 1, 1988. The annual principal amount due each year varies with final installment of \$35,000 due February 1, 2001. The total issue bears interest of between 7.5% and 9.00%.

Total General Obligation Bonds outstanding at September 30, 2001 \$     --

**Revenue Bonds –**

\$110,000 – 1995–A Series, City of Willis Waterworks and Sewer System Revenue Bonds due serially in annual installments of \$5,000 due August 1, 1998 through August 1, 2014, and \$10,000 due August 1, 2015 and 2016. This issue bears interest at an annual rate of 4.25% to 5.95%.

Total Series 1995–A Bonds outstanding at September 30, 2001 \$ 85,000

\$1,170,000 – 1995–B Series, City of Willis Waterworks and Sewer System Revenue Bonds due serially in annual installments ranging from \$5,000 to \$95,000 due August 1, 1998 through August 1, 2016. This issue bears interest at an annual rate of 3.70% to 5.40%.

Total Series 1995–B Bonds outstanding at September 30, 2001 1,135,000

Total Revenue Bonds outstanding at September 30, 2001 \$ 1,220,000

The next five years annual debt service requirements to amortize all bonds outstanding at September 30, 2001, are as follows:

<b>General Obligation Bonds</b>			
<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ --	\$ --	\$ --
2003	--	--	--
2004	--	--	--
2005	--	--	--
2006	--	--	--
Subsequent	--	--	--
Total	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

<b>Revenue Bonds</b>			
<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 45,000	\$ 62,133	\$ 107,133
2003	60,000	60,148	120,148
2004	65,000	57,450	122,450
2005	65,000	55,465	120,465
2006	70,000	51,415	121,415
Subsequent	915,000	284,285	1,199,285
Total	<u>\$ 1,220,000</u>	<u>\$ 570,896</u>	<u>\$ 1,790,896</u>

**CITY OF WILLIS, TEXAS**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2001

**F. Changes in Long-Term Debt(continued)**

**Significant Bond Resolution and Legal Requirements**

**Reserve Requirements –**

The Waterworks and Sewer System Revenue Bond Series 1995–A and Series 1995–B bond resolutions require the establishment of a reserve fund in an amount equal to the average annual debt service of the Series 1995–A and Series 1995–B bonds, the prior outstanding bonds, and any additional bonds.

**G. Restricted Assets**

Cash and temporary investments restricted for retirement of bonded indebtedness and repayment of customer utility meter deposits at September 30, 2001, are as follows:

**Waterworks and Sewer System Revenue Bonds, Series 1995–A & B –**

Utility Fund –		
	Cash – Series 1995–A	\$ 552
	Cash – Series 1995–B	2,716
Construction Fund –		
	Temporary Investments	110,001
	Total	<u>113,269</u>
Customer Utility Meter Deposits –		
	Cash	--
	Temporary Investments	21,500
	Total	<u>21,500</u>
	Total Restricted Assets	<u>\$ 134,769</u>

**H. Litigation**

The City was not involved in litigation at September 30, 2001.

**I. Contingent Liabilities**

There were no unrecorded contingent liabilities as of September 30, 2001.

**J. Changes in General Fixed Assets**

During the year ended September 30, 2001, the following changes occurred in the City's General Fixed Assets:

Balance October 1, 2000		\$ 1,068,687
Additions –		
	Furniture & Equipment	50,102
	Land & Improvements	--
	Buildings and Improvements	<u>56,707</u>
		106,809
Deletions –		
	Furniture & Equipment	--
	Land & Improvements	<u>--</u>
		--
Balance September 30, 2001		<u>\$ 1,175,496</u>

# CITY OF WILLIS, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2001

## K. Depreciation

Depreciation is recorded as an operating expense of the Proprietary Fund (Utility Fund) based on the straight-line method using the following estimated useful lives:

<u>Asset</u>	<u>Estimated Life</u>	<u>Annual Percentage</u>
Utility System	33 1/3 Years	3%

## L. Accumulated Unpaid Vacation and Sick Leave Benefits

The City had no material unbudgeted liability for accumulated unpaid vacation and sick leave benefits at September 30, 2001.

## M. Pension Plan

### Plan Description –

The city provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined contribution plan in the state-wide Texas Municipal Retirement System (TMRS), one of 745 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the city-financed monetary credits, with interest. At the date the plan began, the city granted monetary credits for service rendered before the plan began of a theoretical amount 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 as annually another type of monetary credit referred to as an updated service credit which 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.

Members can retire at ages 60 and above with 10 or more years of service or with 20 years of service regardless of age. A member is vested after 10 years. The plan provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

### Contributions –

The contribution rate for the employees is 6%, and the city matching percent is currently 1 1/2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective.

# CITY OF WILLIS, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2001

## M. Pension Plan (continued)

### Contributions – (continued)

The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2000 valuation is effective for rates beginning January, 2002).

### Schedule of Actuarial Liabilities and Funding Progress

Fiscal Year End	9/30/96	9/30/97	9/30/98	9/30/99	9/30/00	9/30/01
Actuarial Valuation Date	12/31/95	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00
Actuarial Value of Assets	\$ 390,367	\$ 442,707	\$ 529,001	\$ 615,365	\$ 738,648	\$ 875,473
Actuarial Accrued Liability	357,560	399,048	516,332	619,105	768,698	920,921
Percentage Funded	109.2%	110.9%	102.5%	99.4%	96.1%	95.1%
Under (Over) Funded Actuarial						
Accrued Liability (UAAL)	(32,807)	(43,659)	(12,669)	3,740	30,050	45,448
Annual Covered Payroll	455,655	545,104	664,890	712,748	838,158	854,526
UAAL as a Percentage of						
Covered Payroll	-7.2%	-8.0%	-1.9%	0.5%	3.6%	5.3%
Net Pension Obligation (NPO)						
at Beginning of Period	--	--	--	--	--	--
Annual Pension Cost—						
Annual Required						
Contribution (ARC)	14,292	14,920	19,760	30,139	37,906	43,043
Interest on NPO	--	--	--	--	--	--
Adjustment to the ARC	--	--	--	--	--	--
Total Pension Cost	14,292	14,920	19,760	30,139	37,906	43,043
Contributions Made	14,292	14,920	19,760	30,139	37,906	43,043
Increase in NPO	--	--	--	--	--	--
NPO at End of Period	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

## N. Health Care Coverage

During the year ended September 30, 2001, employees of the City of Willis were covered by a health insurance plan (the plan). The City contributed the cost of employee health, life, and accidental death and dismemberment and employees, at their option, authorized payroll withholdings to pay contributions for dependents. All contributions were paid to the Texas Municipal League Group Benefits Risk Pool acting on behalf of the self funded pool. The plan was authorized by Chapter 172 of the Local Government code, the Texas Political Subdivision Uniform Group Benefit Program.

The contract between the City of Willis and the Texas Municipal League Group Benefits Risk Pool was renewed October 1, 2001, and the terms of coverage and contribution costs are included in the contractual provisions.

# CITY OF WILLIS, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2001

## N. Health Care Coverage (continued)

In accordance with state statute, the City was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through the Durham Life Insurance Company, a commercial insurer licensed to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims exceeding \$100,000 and for aggregate loss. Financial statements for the Durham Life Insurance Company are filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

Representatives of the TML Group Benefits Risk Pool have indicated that there was no unfunded claim obligation as of September 30, 2001, the overall pool reserve, plus stop-loss coverage was more than sufficient to cover all claims, both reported but unpaid and unreported claims.

## O. Deficit Fund Equities

The City's Unreserved Retained Earnings account for the Utility Fund reflects a deficit of \$391,093.22. This deficit is the result of the City's failure to totally fund depreciation expense together with the increase of personnel costs. The City's Unreserved Retained Earnings deficit decreased by \$65,378.62 when compared to the September 30, 2000 Retained Earnings deficit.

The City's Unreserved Fund Balance account for the General Fund also reflects a deficit in the amount of \$23,890.59. This deficit is also the result of increased personnel costs, as well as, the repayment of a loan for a street improvement project, among other factors. The deficit increased by \$289,177.69 when compared to the September 30, 2001 Unreserved Fund Balance for the General Fund.

***COMBINING AND  
INDIVIDUAL FUND STATEMENTS***

**CITY OF WILLIS, TEXAS**

GENERAL FUND  
BALANCE SHEET  
SEPTEMBER 30, 2001

EXHIBIT B-1

	<u>2001</u>	<u>2000</u>
<b>ASSETS:</b>		
<i>Cash and Temporary Investments</i>	\$ 247,282.89	\$ 402,243.58
<i>Receivables-</i>		
<i>Garbage Service</i>	58,654.59	46,000.87
<i>Property Tax</i>	61,754.62	57,935.12
<i>Allowance for Uncollectible Taxes</i>	(17,087.09)	(18,115.13)
<i>Due from State</i>	33,296.30	16,124.03
<i>Miscellaneous</i>	543.91	448.91
<i>Due from Other Funds</i>	136.25	24,979.26
	<hr/>	<hr/>
Total Assets	<u>384,581.47</u>	<u>529,616.64</u>
<b>LIABILITIES:</b>		
<i>Accounts Payable</i>	36,107.00	25,964.66
<i>Payroll Withholdings</i>	2,791.31	2,829.01
<i>Due to State</i>	14,916.20	15,728.50
<i>Due to Other Funds</i>	309,990.02	179,987.38
<i>Miscellaneous</i>	--	--
<i>Deferred Revenue</i>	44,667.53	39,819.99
	<hr/>	<hr/>
Total Liabilities	<u>408,472.06</u>	<u>264,329.54</u>
<b>FUND EQUITY:</b>		
<i>Reserved for Police Activity</i>	--	1,728.30
<i>Unreserved Fund Balance</i>	(23,890.59)	263,558.80
	<hr/>	<hr/>
Total Equity	<u>(23,890.59)</u>	<u>265,287.10</u>
Total Liabilities and Fund Equity	<u>\$ 384,581.47</u>	<u>\$ 529,616.64</u>

## CITY OF WILLIS, TEXAS

## GENERAL FUND

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES

## IN FUND BALANCE – BUDGET AND ACTUAL

## FOR THE YEAR ENDED SEPTEMBER 30, 2001

EXHIBIT B-2

Page 1 of 2

	2001		Variance – Favorable (Unfavorable)	2000 Actual
	Budget	Actual		
<b>REVENUES:</b>				
Ad Valorem Taxes	\$ 365,000	\$ 360,832.84	\$ (4,167.16)	\$ 311,277.65
City Sales Taxes	390,000	334,169.85	(55,830.15)	338,421.14
Franchise Taxes and Street Rental	125,000	147,571.95	22,571.95	150,996.82
Sanitation and Landfill	340,100	369,165.52	29,065.52	343,480.24
Fines and Court Costs	157,100	181,045.32	23,945.32	144,557.17
Permits, License, and Inspection	26,500	28,955.81	2,455.81	20,393.60
Rental Income	9,000	11,525.00	2,525.00	7,275.00
Miscellaneous	20,500	23,964.09	3,464.09	29,330.30
Interest Earned	20,000	22,294.10	2,294.10	21,612.02
Total Revenues	1,453,200	1,479,524.48	26,324.48	1,367,343.94
<b>EXPENDITURES:</b>				
<b>CITY GENERAL:</b>				
<i>Purchased and Contracted Services</i>	44,000	51,706.01	(7,706.01)	70,361.97
<i>Maintenance and Repairs</i>	20,000	22,878.62	(2,878.62)	34,470.79
<i>Supplies and Materials</i>	--	--	--	--
<i>Other Operating Costs</i>	75,500	71,947.07	3,552.93	88,737.61
<i>Festival/Birthday Blast</i>	--	1,700.00	(1,700.00)	1,739.26
<i>Capital Outlay</i>	7,000	5,875.00	1,125.00	25,870.50
<i>Debt Service – Interest</i>	--	1,000.73	(1,000.73)	--
<i>Contingency Reserve</i>	--	22,752.00	(22,752.00)	--
Total City General	146,500	177,859.43	(31,359.43)	221,180.13
<b>CITY OFFICE:</b>				
<i>Personnel</i>	196,600	193,009.64	3,590.36	140,379.22
<i>Maintenance and Repairs</i>	3,000	5,338.98	(2,338.98)	33.15
<i>Supplies, Materials, and Postage</i>	5,000	6,029.09	(1,029.09)	5,710.64
<i>Utilities/Telephone</i>	10,000	13,880.60	(3,880.60)	10,801.93
<i>Capital Outlay</i>	--	--	--	--
Total City Office	214,600	218,258.31	(3,658.31)	156,924.94
<b>POLICE DEPARTMENT:</b>				
<i>Personnel</i>	499,050	533,057.63	(34,007.63)	389,418.56
<i>Professional Services</i>	--	142.37	(142.37)	3,608.00
<i>Maintenance and Repairs</i>	15,000	21,948.94	(6,948.94)	14,662.84
<i>Supplies, Materials, Uniforms &amp; Postage</i>	11,000	9,160.40	1,839.60	10,552.62
<i>Vehicle Expense</i>	30,000	64,197.53	(34,197.53)	30,597.25
<i>Utilities/Telephone</i>	22,000	32,213.06	(10,213.06)	21,182.22
<i>Other Operating Costs</i>	10,000	13,497.64	(3,497.64)	11,928.65
<i>Capital Outlay</i>	6,000	21,474.57	(15,474.57)	94,698.30
<i>Debt Service – Interest</i>	--	2,696.60	(2,696.60)	2,537.12
Total Police Department	593,050	698,388.74	(105,338.74)	579,185.56

**CITY OF WILLIS, TEXAS**

**GENERAL FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**

**IN FUND BALANCE – BUDGET AND ACTUAL**

**FOR THE YEAR ENDED SEPTEMBER 30, 2001**

	2001		Variance –	2000
	Budget	Actual	Favorable (Unfavorable)	Actual
<b>SANITATION/LANDFILL:</b>				
<i>Purchased and Contracted Services</i>	\$ 317,500	\$ 358,501.24	\$ (41,001.24)	\$ 284,461.76
<i>Maintenance and Repairs</i>	--	--	--	--
Total Landfill Department	317,500	358,501.24	(41,001.24)	284,461.76
<b>TREATMENT FACILITY:</b>				
<i>Purchased and Contracted Services</i>	--	--	--	--
<i>Debt Service – Interest</i>	--	--	--	--
Total Treatment Facility	--	--	--	--
<b>STREET DEPARTMENT:</b>				
<i>Personnel</i>	56,200	52,204.83	3,995.17	47,486.21
<i>Rentals</i>	--	483.11	(483.11)	582.04
<i>Maintenance and Repairs</i>	25,000	48,573.25	(23,573.25)	12,333.04
<i>Supplies, Materials, Uniforms &amp; Postage</i>	9,500	8,085.24	1,414.76	6,338.35
<i>Vehicle Expense</i>	5,000	4,551.83	448.17	5,411.24
<i>Utilities</i>	25,000	24,181.48	818.52	23,486.84
<i>Debt Service – Interest</i>	--	6,546.80	(6,546.80)	--
<i>Capital Outlay</i>	--	--	--	239,146.10
Total Street Department	120,700	144,626.54	(23,926.54)	334,783.82
<b>MUNICIPAL COURT:</b>				
<i>Personnel</i>	45,100	43,797.22	1,302.78	42,034.22
<i>Purchases and Contracted Services</i>	10,000	18,206.35	(8,206.35)	9,612.00
<i>Maintenance and Repairs</i>	1,000	219.00	781.00	757.72
<i>Supplies, Materials, Uniforms &amp; Postage</i>	2,500	1,953.31	546.69	1,994.72
<i>Other Operating Costs</i>	1,000	365.39	634.61	266.70
Total Municipal Court	59,600	64,541.27	(4,941.27)	54,665.36
Total Expenditures	1,451,950	1,662,175.53	(210,225.53)	1,631,201.57
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,250	(182,651.05)	\$ (183,901.05)	(263,857.63)
<b>OTHER RESOURCES AND USES:</b>				
<i>Transfer (To) From Other Funds</i>		77,085.52		--
<i>Lease Proceeds – Automobiles</i>		16,500.00		65,015.75
<i>Loan Proceeds – Street Project</i>		--		242,336.95
<i>Loan Principal Payments</i>		(173,795.93)		--
<i>Capital Lease Principal Payments</i>		(26,316.23)		(15,962.21)
Total Other Resources and Uses		(106,526.64)		291,390.49
Excess (Deficiency) of Revenues and other resources Over Expenditures and Other Uses		(289,177.69)		27,532.86
Fund Balance, October 1		265,287.10		237,754.24
Fund Balance, September 30		\$ (23,890.59)		\$ 265,287.10

**CITY OF WILLIS, TEXAS**  
*SPECIAL REVENUE FUND*  
*COMBINING BALANCE SHEET*  
*SEPTEMBER 30, 2001*

	<u>Economic Development Corporation</u>	<u>Community Development Corporation</u>	<u>Texas Capital Fund</u>
ASSETS			
<i>Cash</i>	\$ 193,184.40	\$ 144,956.84	\$ --
<i>Due from Other Governments</i>	--	--	--
<i>Due From Other Funds</i>	--	--	--
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	<u>193,184.40</u>	<u>144,956.84</u>	<u>--</u>
LIABILITIES			
<i>Accounts Payable</i>	--	--	--
<i>Due To Other Funds</i>	--	--	--
<i>Deferred Revenue</i>	--	--	--
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	<u>--</u>	<u>--</u>	<u>--</u>
FUND EQUITY			
<i>Fund Balance</i>	193,184.40	144,956.84	--
	<hr/>	<hr/>	<hr/>
<i>Total Liab. &amp; Fund Equity</i>	<u>\$ 193,184.40</u>	<u>\$ 144,956.84</u>	<u>\$ --</u>

Sewer Expansion Grant	Planning/ Capacity Fund Grant	Hotel Occupancy Tax Fund	Totals	
			9-30-01	9-30-00
\$ --	\$ --	\$ 50,988.69	\$ 389,129.93	\$ 132,859.69
--	--	--	--	16,640.00
--	--	--	--	--
<u>--</u>	<u>--</u>	<u>50,988.69</u>	<u>389,129.93</u>	<u>149,499.69</u>
--	--	--	--	--
--	--	--	--	16,640.00
--	--	--	--	--
--	--	--	--	--
<u>--</u>	<u>--</u>	<u>50,988.69</u>	<u>389,129.93</u>	<u>132,859.69</u>
\$ <u><u>--</u></u>	\$ <u><u>--</u></u>	\$ <u><u>50,988.69</u></u>	\$ <u><u>389,129.93</u></u>	\$ <u><u>149,499.69</u></u>

**CITY OF WILLIS, TEXAS**

*SPECIAL REVENUE FUND*

*COMBINING STATEMENT OF REVENUE, EXPENDITURES*

*AND CHANGES IN FUND BALANCE*

FOR THE YEAR ENDED SEPTEMBER 30, 2001

	<u>Economic Development Corporation</u>	<u>Community Development Corporation</u>	<u>Texas Capital Fund</u>
<b>Revenues:</b>			
<i>Local Sources</i>	\$ 169,287.08	\$ 168,506.89	\$ --
<i>State Sources</i>	--	--	--
<i>Federal Sources</i>	--	--	8,025.00
	<hr/>	<hr/>	<hr/>
<i>Total Revenues</i>	169,287.08	168,506.89	8,025.00
	<hr/>	<hr/>	<hr/>
<b>Expenditures:</b>			
<i>Utility Construction</i>	--	--	--
<i>Purchased &amp; Contracted Services</i>	18,115.49	18,095.49	--
<i>Engineering Fees</i>	--	--	--
<i>Administration</i>	--	--	8,025.00
<i>Supplies &amp; Materials</i>	256.00	53.96	--
<i>Other Operating Costs</i>	9,201.43	161.76	--
<i>Capital Outlay</i>	--	56,706.98	--
<i>Rural Development</i>	--	--	--
	<hr/>	<hr/>	<hr/>
<i>Total Expenditures</i>	27,572.92	75,018.19	8,025.00
	<hr/>	<hr/>	<hr/>
Excess (Deficit) Revenues Over Expenditures	141,714.16	93,488.70	--
<b>Fund Balance, October 1</b>	<hr/> 51,470.24	<hr/> 51,468.14	<hr/> --
<b>Fund Balance, Sept. 30</b>	<u>\$ 193,184.40</u>	<u>\$ 144,956.84</u>	<u>\$ --</u>

Sewer Expansion Grant	Planning/ Capacity Fund Grant	Hotel Occupancy Tax Fund	Totals	
			9-30-01	9-30-00
\$ 15,645.00	\$ 3,610.00	\$ 21,067.38	\$ 378,116.35	\$ 136,910.13
--	--	--	--	--
177,907.40	22,800.00	--	208,732.40	31,378.91
193,552.40	26,410.00	21,067.38	586,848.75	168,289.04
--	--	--	--	--
32,133.50	--	--	68,344.48	12,523.92
--	--	--	--	--
15,645.00	--	--	23,670.00	28,322.26
--	--	--	309.96	107.58
--	--	--	9,363.19	511.34
145,773.90	26,410.00	--	228,890.88	--
--	--	--	--	10,056.65
193,552.40	26,410.00	--	330,578.51	51,521.75
--	--	21,067.38	256,270.24	116,767.29
--	--	29,921.31	132,859.69	16,092.40
\$ --	\$ --	\$ 50,988.69	\$ 389,129.93	\$ 132,859.69

**CITY OF WILLIS, TEXAS**

*DEBT SERVICE FUND*

*BALANCE SHEET*

*SEPTEMBER 30, 2001*

EXHIBIT B-5

	2001	2000
<b>ASSETS:</b>		
<i>Temporary Investments</i>	\$ 395.83	\$ 389.07
<i>Property Tax Receivable</i>	21,046.53	28,269.56
<i>Allowance for Uncollectible Accounts</i>	(10,055.32)	(12,032.05)
<i>Due from Other Funds</i>	--	87,834.70
	<hr/>	<hr/>
Total Assets	11,387.04	104,461.28
	<hr/>	<hr/>
<b>LIABILITIES:</b>		
<i>Deferred Revenue</i>	10,991.21	16,237.51
	<hr/>	<hr/>
<b>FUND EQUITY:</b>		
<i>Reserved for Retirement of Bonded Debt</i>	395.83	88,223.77
	<hr/>	<hr/>
Total Liabilities and Fund Equity	\$ 11,387.04	\$ 104,461.28
	<hr/>	<hr/>

CITY OF WILLIS, TEXAS  
DEBT SERVICE FUND  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2001

EXHIBIT B-6

	2001		Variance— Favorable (Unfavorable)	2000 Actual
	Budget	Actual		
<b>REVENUES:</b>				
<i>Ad Valorem Taxes</i>	\$ 47,075	\$ 45,080.82	\$ (1,994.18)	\$ 107,196.38
<i>Interest Earned</i>	250	6.76	(243.24)	268.05
Total Revenues	<u>47,325</u>	<u>45,087.58</u>	<u>(2,237.42)</u>	<u>107,464.43</u>
<b>EXPENDITURES:</b>				
<i>Bond Principal</i>	35,000	35,000.00	--	100,000.00
<i>Bond Interest</i>	1,575	1,575.00	--	7,650.00
<i>Paying Agent Fees</i>	1,000	--	1,000.00	847.70
Total Expenditures	<u>37,575</u>	<u>36,575.00</u>	<u>1,000.00</u>	<u>108,497.70</u>
Excess of Revenues Over Expenditures	\$ <u>9,750</u>	8,512.58	\$ <u>(1,237.42)</u>	(1,033.27)
<b>OTHER SOURCES AND (USES)</b>				
<i>Transfer (To) From Other Fund</i>		(96,340.52)		--
Fund Balance, October 1		<u>88,223.77</u>		<u>89,257.04</u>
Fund Balance, September 30		\$ <u>395.83</u>		\$ <u>88,223.77</u>

CITY OF WILLIS, TEXAS  
WATER AND SEWER UTILITY FUND  
BALANCE SHEET  
SEPTEMBER 30, 2001

EXHIBIT B-7

	2001	2000
<b>ASSETS:</b>		
Current Assets—		
<i>Cash</i>	\$ 6,006.81	\$ 5,826.52
<i>Temporary Investments</i>	178,650.00	228,650.00
<i>Service Accounts Receivable</i>	175,294.77	133,676.28
<i>Allowance for Uncollectible Accounts</i>	(17,422.11)	(13,277.41)
<i>Due From Other Funds</i>	309,853.77	83,813.42
<i>Supplies Inventory</i>	11,888.11	15,891.22
<b>Total Current Assets</b>	<b>664,271.35</b>	<b>454,580.03</b>
Property, Plant and Equipment—		
<i>Utility System in Service</i>	6,842,276.88	6,413,382.25
<i>Accumulated Depreciation</i>	(2,842,966.27)	(2,642,122.95)
<i>Construction in Progress</i>	187,964.05	391,330.90
<b>Total Property, Plant and Equipment</b>	<b>4,187,274.66</b>	<b>4,162,590.20</b>
Restricted Assets—		
<i>1977 Water and Sewer Revenue Bond Fund</i>	--	--
<i>1981 Water and Sewer Jr. Lien Revenue Bond</i>	--	--
<i>1995 Water and Sewer Revenue Bond Fund</i>	113,269.20	103,873.20
<i>Meter Deposit</i>	21,500.00	21,500.00
<b>Total Restricted Assets</b>	<b>134,769.20</b>	<b>125,373.20</b>
<b>Total Assets</b>	<b>4,986,315.21</b>	<b>4,742,543.43</b>
<b>LIABILITIES:</b>		
Current Liabilities—		
<i>Accounts Payable</i>	16,577.79	18,823.54
<i>Customer Deposits Payable</i>	53,316.90	49,610.39
<i>Revenue Bonds Payable (Current)</i>	45,000.00	20,000.00
<b>Total Current Liabilities</b>	<b>114,894.69</b>	<b>88,433.93</b>
Long-Term Liabilities—		
<i>Revenue Bonds—Future Maturities</i>	1,175,000.00	1,220,000.00
<b>Total Liabilities</b>	<b>1,289,894.69</b>	<b>1,308,433.93</b>
<b>FUND EQUITY:</b>		
Contributed Capital	4,087,513.74	3,890,581.34
Retained Earnings—		
<i>Reserved for Retirement of Revenue Bonds</i>	--	--
<i>Unreserved</i>	(391,093.22)	(456,471.84)
<b>Total Fund Equity</b>	<b>3,696,420.52</b>	<b>3,434,109.50</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 4,986,315.21</b>	<b>\$ 4,742,543.43</b>

**CITY OF WILLIS, TEXAS**

EXHIBIT B-8

*COMBINED STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN RETAINED EARNINGS – ALL PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED SEPTEMBER 30, 2001*

	Water and Sewer Utility Fund	
	2001	2000
<b>OPERATING REVENUE:</b>		
<i>Charges for Water and Sewer Service</i>	\$ 907,288.38	\$ 743,902.62
<i>Water and Sewer Connections</i>	45,922.23	53,662.51
<i>Late Payment Penalties</i>	36,825.08	26,924.99
<i>Service Charges</i>	12,940.02	11,365.00
<i>Inspection Fees</i>	3,850.00	3,447.00
<i>Miscellaneous Income</i>	7,024.35	10.09
<b>Total Operating Revenue</b>	<u>1,013,850.06</u>	<u>839,312.21</u>
<b>OPERATING EXPENSE:</b>		
<i>Personnel—Operating</i>	272,591.99	272,555.77
<i>Personnel—Administration</i>	65,211.51	110,063.25
<i>Professional Fees</i>	9,647.75	6,183.02
<i>Maintenance and Repairs</i>	158,009.04	168,718.16
<i>Utilities</i>	153,380.61	125,700.85
<i>Supplies, Materials and Postage</i>	16,873.48	18,241.83
<i>Vehicle Expense</i>	11,237.54	15,396.28
<i>Other Operating Expense</i>	15,319.11	19,216.55
<i>Depreciation</i>	200,843.32	192,658.86
<b>Total Operating Expense</b>	<u>903,114.35</u>	<u>928,734.57</u>
<b>Operating Income (Loss)</b>	<u>110,735.71</u>	<u>(89,422.36)</u>
<b>NON-OPERATING REVENUE (EXPENSE):</b>		
<i>Interest Earnings</i>	18,679.01	18,311.18
<i>Interest Expense</i>	(63,010.00)	(63,447.50)
<i>Bond Paying Agent Fees</i>	(1,026.10)	(677.70)
<b>Total Non-operating Revenue (Expense)</b>	<u>(45,357.09)</u>	<u>(45,814.02)</u>
<b>Net Income (Loss)</b>	<u>65,378.62</u>	<u>(135,236.38)</u>
<b>Retained Earnings (Deficit), October 1</b>	<u>(456,471.84)</u>	<u>(321,235.46)</u>
<b>Retained Earnings (Deficit), September 30</b>	<u>\$ (391,093.22)</u>	<u>\$ (456,471.84)</u>

***SUPPLEMENTAL INFORMATION***

**CITY OF WILLIS, TEXAS**

EXHIBIT C-1

*ANALYSIS OF CHANGES IN AD VALOREM TAXES RECEIVABLE  
FOR THE YEAR ENDED SEPTEMBER 30, 2001*

<b>Taxes Receivable, 10-1-00</b>		\$	86,204.68
<i>Adjustments to Delinquent Taxes</i>			(4,964.84)
<i>2000 Original Roll</i>	\$	392,758.66	
<i>Errors and Corrections</i>		3,877.05	396,635.71
<b>Total Taxes to be Accounted for</b>			<u>477,875.55</u>

**Tax Collections**

<i>Current Collections</i>		369,033.91	
<i>Delinquent Collections</i>		26,040.49	395,074.40
<b>Taxes Receivable, 9-30-01</b>			<u>82,801.15</u>

**Tax Collections, Adjustments and Balance by Year of Assessment:**

<u>Year Assessed</u>	<u>Beg. Balance</u>	<u>Adjustments</u>	<u>Collections</u>	<u>End. Balance</u>
2000	\$ 392,758.66	\$ 3,877.05	\$ 369,033.91	\$ 27,601.80
1999	29,771.27	(1,023.43)	15,521.40	13,226.44
1998	12,130.94	(76.43)	4,580.96	7,473.55
1997	6,523.31	62.23	2,005.67	4,579.87
1996	3,802.00	163.38	1,161.80	2,803.58
1995	2,932.62	113.31	619.11	2,426.82
1994	3,009.18	(9.42)	259.14	2,740.62
1993	4,078.18	(44.80)	284.36	3,749.02
1992	3,044.10	(10.03)	312.71	2,721.36
1991 and Prior	20,913.08	(4,139.65)	1,295.34	15,478.09
<b>Taxes Receivable, 9-30-01</b>				<u>\$ 82,801.15</u>

**Property Valuation:**

<u>Year of Assessment</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
<b>Market Value @ Jan. 1 -</b>					
<i>Land</i>	\$ 24,894,060	\$ 21,825,250	\$ 21,352,280	\$ 17,753,950	\$ 17,567,960
<i>Improvements</i>	65,851,701	62,762,921	58,026,718	55,725,290	54,367,730
<i>Personal Property</i>	16,366,394	14,556,851	13,894,840	12,555,866	11,756,213
<b>Total Market Value</b>	<u>107,112,155</u>	<u>99,145,022</u>	<u>93,273,838</u>	<u>86,035,106</u>	<u>83,691,903</u>
<i>Exempt Property</i>	29,035,911	28,700,521	28,633,001	27,762,350	27,463,410
<i>Productivity Exemptions</i>	1,939,210	2,428,695	1,304,020	1,067,160	1,052,010
<i>Over 65 Exemptions</i>	799,637	793,100	813,034	829,860	771,520
<i>Disabled Vet Exemptions</i>	174,380	149,880	142,380	137,380	164,749
<i>Proration &amp; House Bill 366</i>	5,519	4,009	4,673	132,653	--
<i>Free/Abate</i>	246,474	117,975	172,579	91,923	489,390
<b>Net Taxable Value</b>	<u>74,911,024</u>	<u>66,950,842</u>	<u>62,204,151</u>	<u>56,013,780</u>	<u>53,750,824</u>

**Tax Rate Per \$100 Value--**

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
<i>Maintenance &amp; Operation</i>	0.47420	0.46410	0.46410	0.44060	0.42405
<i>Debt Service</i>	0.05010	0.18080	0.18080	0.20430	0.21808
<b>Total Rate</b>	<u>0.52430</u>	<u>0.64490</u>	<u>0.64490</u>	<u>0.64490</u>	<u>0.64213</u>

<b>Original Tax Levy</b>	\$	<u>392,758.66</u>	\$	<u>420,451.29</u>	\$	<u>401,193.61</u>	\$	<u>364,976.32</u>	\$	<u>345,147.06</u>
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**CITY OF WILLIS, TEXAS**

EXHIBIT C-2

*WATER AND SEWER UTILITY FUND*

*SCHEDULE OF WATER USAGE AND NUMBER OF CUSTOMERS SERVED*

*FOR THE YEAR ENDED SEPTEMBER 30, 2001*

Month	Water Usage In Gallons		Number of Customers Served	
	Pumped	Sold	Water	Sewer
October, 2000	19,705,100	15,105,200	1,646	1,409
November, 2000	17,741,400	10,666,100	1,631	1,399
December, 2000	17,769,200	12,165,500	1,633	1,403
January, 2001	17,233,200	13,664,800	1,633	1,404
February, 2001	15,549,500	11,800,200	1,646	1,419
March, 2001	17,253,350	11,775,900	1,650	1,420
April, 2001	18,159,650	13,955,600	1,653	1,418
May, 2001	20,579,500	14,009,500	1,665	1,426
June, 2001	19,017,650	15,541,500	1,681	1,438
July, 2001	21,467,850	15,980,300	1,686	1,439
August, 2001	25,502,700	18,209,600	1,700	1,449
September, 2001	18,396,400	19,259,300	1,700	1,455
Totals	228,375,500	172,133,500		
Average	19,031,292	14,344,458	1,660	1,423

**CITY OF WILLIS, TEXAS**

**SCHEDULE OF CAPITAL LEASES AND LOANS PAYABLE  
YEAR ENDED SEPTEMBER 30, 2001**

Payable To, Purpose And Lawful Authority	Date Issued & Interest Rate	Maturity Schedule	Fund Payable From	Principal Balance 10-1-00	Current Year Transactions	
					Issued	Retired
<b>Capital Leases Payable:</b>						
Ford Motor Credit 2000 Ford Crown Victoria P71's(Two) Public Property Finance Act	11-09-99 6.25%	36 Months @ \$1,426.08	General	\$ 33,347	\$ --	\$ 15,467
Ford Motor Credit 2000 Ford Crown Victoria Public Property Finance Act	05-12-00 8.00%	36 Months @ \$562.49	General	15,706	--	5,699
Ford Motor Credit 2001 Ford Taurus Sedan Public Property Finance Act	10-09-00 7.85%	36 Months @ \$512.56	General	--	16,500	5,150
<b>Total Capital Leases Payable</b>				<b>\$ 49,053</b>	<b>\$ 16,500</b>	<b>\$ 26,316</b>
<b>Loans Payable:</b>						
Woodforest National Bank ** Street Improvement Project	09-01-00 8.260%	03-01-01	General	173,796	--	173,796
<b>Total Loans Payable</b>				<b>\$ 173,796</b>	<b>\$ --</b>	<b>\$ 173,796</b>
<b>Total Capital Leases and Loans Payable</b>				<b>\$ 222,849</b>	<b>\$ 16,500</b>	<b>\$ 200,112</b>

\*\*

Original loan amount was \$242,337 and was dated 03-30-00. Payments were received from Albertson's and Entergy totaling \$ 68,541. These payments were applied to original note and then a new note dated 09-01-00 was issued for the balance of \$173,796.

Principal Balance 9-30-01	Interest Year Ended 9-30-01	Annual Requirements				Interest 10-01-03 To Maturity
		Year Ending 9-30-02		Year Ending 9-30-03		
		Principal	Interest	Principal	Interest	
\$ 17,880	\$ 1,646	\$ 16,462	\$ 651	\$ 1,419	\$ 7	--
10,007	1,051	6,172	577	3,835	103	--
11,350	1,001	5,453	698	5,897	254	--
<u>\$ 39,237</u>	<u>\$ 3,698</u>	<u>\$ 28,087</u>	<u>\$ 1,926</u>	<u>\$ 11,151</u>	<u>\$ 364</u>	<u>--</u>
--	6,547	--	--	--	--	--
<u>\$ --</u>	<u>\$ 6,547</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
<u>\$ 39,237</u>	<u>\$ 10,245</u>	<u>\$ 28,087</u>	<u>\$ 1,926</u>	<u>\$ 11,151</u>	<u>\$ 364</u>	<u>--</u>

**CITY OF WILLIS, TEXAS**  
**ANALYSIS OF CHANGES IN DEBT**  
**YEAR ENDED SEPTEMBER 30, 2001**

Description	Date of Issue	Amount of Issue	Interest Rate	Principal Outstanding 10-1-00	Debt Issued	Debt Retired
<b>GENERAL OBLIGATION DEBT:</b>						
<i>Combination Tax &amp; Revenue Certificates of Obligation, 1986 Series</i>	05-01-86	\$ 800,000	7.5% to 9.0%	\$ 35,000	\$ --	\$ 35,000
<b>Total General Obligation Debt</b>				<b>35,000</b>	<b>--</b>	<b>35,000</b>
<b>WATER AND SEWER UTILITY FUND DEBT:</b>						
<i>Waterworks and Sewer System Revenue Bonds, Series 1995-A</i>	11-01-95	110,000	3.7% to 5.4%	90,000	--	5,000
<i>Waterworks and Sewer System Revenue Bonds, Series 1995-B</i>	11-01-95	1,170,000	4.25% to 5.95%	1,150,000	--	15,000
<b>Total Water &amp; Sewer Utility Fund Debt</b>				<b>1,240,000</b>	<b>--</b>	<b>20,000</b>

Principal Outstanding 9-30-01	Interest Current Year	Requirements				Interest 10-1-03 To Maturity
		Year Ending 9-30-02		Year Ending 9-30-03		
		Principal	Interest	Principal	Interest	
\$ --	\$ 1,575	\$ --	\$ --	\$ --	\$ --	\$ --
<u>--</u>	<u>1,575</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
85,000	4,980	5,000	4,740	5,000	4,495	33,638
1,135,000	58,030	40,000	57,393	55,000	55,653	414,977
<u>\$ 1,220,000</u>	<u>\$ 63,010</u>	<u>\$ 45,000</u>	<u>\$ 62,133</u>	<u>\$ 60,000</u>	<u>\$ 60,148</u>	<u>\$ 448,615</u>

**CITY OF WILLIS, TEXAS**

*REPAYMENT SCHEDULE – 1986 SERIES  
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION*

EXHIBIT C-4-1

Fiscal Year Ending Sept. 30	Interest Rate	Semi-Annual Interest Due		Annual Principal Due February 1	Total Annual Requirements
		February 1	August 1		
1987	--	\$ 51,590.63	\$ 34,393.75	\$ --	\$ 85,984.38
1988	9.00%	34,393.75	33,268.75	25,000.00	92,662.50
1989	9.00%	33,268.75	31,918.75	30,000.00	95,187.50
1990	8.50%	31,918.75	30,431.25	35,000.00	97,350.00
1991	7.50%	30,431.25	28,931.25	40,000.00	99,362.50
1992	7.75%	28,931.25	27,575.00	35,000.00	91,506.25
1993	8.00%	27,575.00	25,975.00	40,000.00	93,550.00
1994	8.20%	25,975.00	24,130.00	45,000.00	95,105.00
1995	8.40%	24,130.00	21,400.00	65,000.00	110,530.00
1996	8.60%	21,400.00	17,960.00	80,000.00	119,360.00
1997	8.70%	17,960.00	14,262.50	85,000.00	117,222.50
1998	8.80%	14,262.50	10,302.50	90,000.00	114,565.00
1999	8.90%	10,302.50	6,075.00	95,000.00	111,377.50
2000	9.00%	6,075.00	1,575.00	100,000.00	107,650.00
2001	9.00%	1,575.00	--	35,000.00	36,575.00
<b>Total Due</b>		<b>359,789.38</b>	<b>308,198.75</b>	<b>800,000.00</b>	<b>1,467,988.13</b>
<b>Retired—</b>					
Prior to Oct. 1, 2000		358,214.38	308,198.75	765,000.00	1,431,413.13
In 2000-01		1,575.00	--	35,000.00	36,575.00
<b>Balance, Sept. 30, 2001</b>		<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>

Total Amount of Issue: \$ 800,000.00  
 Date of Issue: May 1, 1986  
 Paying Agent: Texas Commerce Bank, N.A.  
 Houston, Texas  
 Prepayment Option: Bonds maturing February 1, 1997 through February 1, 2001, inclusive, are callable for prior redemption on February 1, 1996 or any interest payment thereafter at par.

**CITY OF WILLIS, TEXAS**  
 REPAYMENT SCHEDULE – SERIES 1995–A  
 WATERWORKS AND SEWER SYSTEM REVENUE BONDS

EXHIBIT C–4–2

Fiscal Year Ending Sept. 30	Interest Rate	Semi–Annual Interest Due		Annual Principal Due August 1	Total Annual Requirements
		February 1	August 1		
1997	4.25%	\$ 2,936.25	2,936.25	\$ 5,000.00	\$ 10,872.50
1998	4.40%	2,830.00	2,830.00	5,000.00	10,660.00
1999	4.55%	2,720.00	2,720.00	5,000.00	10,440.00
2000	4.65%	2,606.25	2,606.25	5,000.00	10,212.50
2001	4.80%	2,490.00	2,490.00	5,000.00	9,980.00
2002	4.90%	2,370.00	2,370.00	5,000.00	9,740.00
2003	5.00%	2,247.50	2,247.50	5,000.00	9,495.00
2004	5.10%	2,122.50	2,122.50	5,000.00	9,245.00
2005	5.20%	1,995.00	1,995.00	5,000.00	8,990.00
2006	5.30%	1,865.00	1,865.00	5,000.00	8,730.00
2007	5.40%	1,732.50	1,732.50	5,000.00	8,465.00
2008	5.50%	1,597.50	1,597.50	5,000.00	8,195.00
2009	5.60%	1,460.00	1,460.00	5,000.00	7,920.00
2010	5.70%	1,320.00	1,320.00	5,000.00	7,640.00
2011	5.80%	1,177.50	1,177.50	5,000.00	7,355.00
2012	5.85%	1,032.50	1,032.50	5,000.00	7,065.00
2013	5.85%	886.25	886.25	5,000.00	6,772.50
2014	5.90%	740.00	740.00	5,000.00	6,480.00
2015	5.90%	592.50	592.50	10,000.00	11,185.00
2016	5.95%	297.50	297.50	10,000.00	10,595.00
Total Due		35,018.75	35,018.75	110,000.00	180,037.50
Retired–					
Prior to Oct. 1, 2000		11,092.50	11,092.50	20,000.00	42,185.00
In 2000–01		2,490.00	2,490.00	5,000.00	9,980.00
Balance, Sept. 30, 2001		\$ 21,436.25	\$ 21,436.25	\$ 85,000.00	\$ 127,872.50

Total Amount of Issue: \$110,000  
 Date of Issue: November 1, 1995  
 Paying Agent: Bank of New York

**CITY OF WILLIS, TEXAS**

**EXHIBIT C-4-3**

*REPAYMENT SCHEDULE – SERIES 1995-B  
WATERWORKS AND SEWER SYSTEM REVENUE BONDS*

Fiscal Year Ending Sept. 30	Interest Rate	Semi-Annual Interest Due		Annual Principal Due August 1	Total Annual Requirements
		February 1	August 1		
1997	3.70%	\$ 29,406.25	29,406.25	\$ 5,000.00	\$ 63,812.50
1998	3.85%	29,313.75	29,313.75	5,000.00	63,627.50
1999	4.00%	29,217.50	29,217.50	5,000.00	63,435.00
2000	4.10%	29,117.50	29,117.50	5,000.00	63,235.00
2001	4.25%	29,015.00	29,015.00	15,000.00	73,030.00
2002	4.35%	28,696.25	28,696.25	40,000.00	97,392.50
2003	4.45%	27,826.25	27,826.25	55,000.00	110,652.50
2004	4.55%	26,602.50	26,602.50	60,000.00	113,205.00
2005	4.65%	25,237.50	25,237.50	60,000.00	110,475.00
2006	4.75%	23,842.50	23,842.50	65,000.00	112,685.00
2007	4.85%	22,298.75	22,298.75	65,000.00	109,597.50
2008	4.95%	20,722.50	20,722.50	75,000.00	116,445.00
2009	5.05%	18,866.25	18,866.25	75,000.00	112,732.50
2010	5.15%	16,972.50	16,972.50	80,000.00	113,945.00
2011	5.25%	14,912.50	14,912.50	90,000.00	119,825.00
2012	5.30%	12,550.00	12,550.00	90,000.00	115,100.00
2013	5.30%	10,165.00	10,165.00	95,000.00	115,330.00
2014	5.35%	7,647.50	7,647.50	95,000.00	110,295.00
2015	5.35%	5,106.25	5,106.25	95,000.00	105,212.50
2016	5.40%	2,565.00	2,565.00	95,000.00	100,130.00
Total Due		410,081.25	410,081.25	1,170,000.00	1,990,162.50
Retired—					
Prior to Oct. 1, 2000		117,055.00	117,055.00	20,000.00	254,110.00
In 2000-01		29,015.00	29,015.00	15,000.00	73,030.00
Balance, Sept. 30, 2001		\$ <u>264,011.25</u>	\$ <u>264,011.25</u>	\$ <u>1,135,000.00</u>	\$ <u>1,663,022.50</u>

Total Amount of Issue: \$ 1,170,000  
 Date of Issue: November 1, 1995  
 Paying Agent: Bank of New York

***OVERALL COMPLIANCE AND  
INTERNAL CONTROLS SECTION***

# ***John R. Pechacek***

***Certified Public Accountant***

P.O. Box 549 • Bellville, Texas 77418-0549 • 979.865.3169 • Fax 979.865.9829

## **Independent Auditor's Report**

### **Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

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

I have audited the financial statements of the City of Willis, Texas as of and for the year ended September 30, 2001, and have issued my report thereon dated February 13, 2002. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

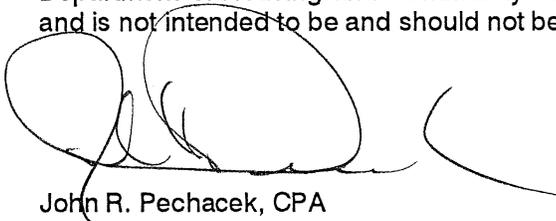
#### **Compliance**

As part of obtaining reasonable assurance about whether the City of Willis, Texas financial statements are free of material misstatement, I performed tests of the City of Willis, Texas compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 01-01.

#### **Internal Control Over Financial Reporting**

In planning and performing my audit, I considered the City of Willis, Texas internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I considered to be material weaknesses.

This report is intended solely for the information and use of the Mayor, City Council, management, the Texas Department of Housing and Community Affairs and appropriate federal agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.



John R. Pechacek, CPA

February 13, 2002

**CITY OF WILLIS, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2001**

**A. Summary of Auditor's Results**

An unqualified opinion was issued on the general purpose financial statements.

The audit disclosed no noncompliance which is material to the general purpose financial statements.

The City did not meet the criteria to be classified as a "Single Audit" auditee in the context of OMB Circular A-133.

**B. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards**

<u>Reference #</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
01-1	Unfavorable Budget Variances	\$ --

**C. Findings and Questioned Costs for Federal Awards**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	NONE	\$ --

**D. Statement of Corrective Action Planned – Current Year Disclosures**

Due to the increase in revenue in the departments with unfavorable budget variances, City officials increased expenditures to match the unexpected revenue. The overexpenditure in several departments was due to accounting entries which records the entire of cost of assets acquired through a capital lease and also recognizes the lease proceeds. The majority of the other departments were due to a increase in payroll costs, as well as other variables. The administration and staff are now aware that either the budget will need to be amended prior to the expenditure of additional funds or the expenditure will need to be delayed until future fiscal periods and appropriations made accordingly.

**E. Statement of Corrective Action Taken – Prior Year Disclosures**

The City did not appropriately address the prior year disclosure regarding unfavorable budget variances.

**CITY OF WILLIS, TEXAS**  
*ELECTED OFFICIALS, ADMINISTRATIVE PERSONNEL,*  
*AND LEGAL COUNSEL*  
 SEPTEMBER 30, 2001

<u>Position:</u>	<u>Name/Address:</u>	<u>Term Expires:</u>
Mayor	<b>Ruth Castleschouldt</b>	2003
Alderman Place No. 1	<b>Richard Matheson</b>	2002
Alderman Place No. 2	<b>John F. Lovelady</b>	2002
Alderwoman Place No. 3	<b>Josey Billnoske</b>	2003
Alderman Place No. 4	<b>W. L. Bilnoski</b>	2003
Alderman Place No. 5	<b>Leonard Reed</b>	2003
City Attorney	<b>J. Ritchie Field</b> P.O. Box 2804 Conroe, Texas 77305	Appointed By Council
City Secretary	<b>Brenda Burns</b>	Appointed By Council
City Coordinator	<b>Michael Arthur</b>	Appointed By Council