

Audit Report

CITY OF WILLIS, TEXAS
Willis, Texas

FOR THE YEAR ENDED
SEPTEMBER 30, 1999

Sauls & Pechacek, PA
Bellville, Texas

CITY OF WILLIS, TEXAS

AUDIT FOR THE YEAR ENDED SEPTEMBER 30, 1999

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AUDIT FOR THE YEAR ENDED SEPTEMBER 30, 1999

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SAULS & 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

We have audited the accompanying general purpose financial statements of the City of Willis, Texas, as of and for the year ended September 30, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Willis' management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our 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 we 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. We believe that our audit provides a reasonable basis for our opinion.

In our 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, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2000, on our consideration of the City of Willis' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our 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 our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.



Sauls and Pechacek

March 21, 2000

GENERAL PURPOSE FINANCIAL STATEMENTS

CITY OF WILLIS, TEXAS
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 SEPTEMBER 30, 1999

	Governmental Fund Types		
	General	Special Revenue	Debt Service
ASSETS			
<i>Cash and Temporary Investments</i>	\$ 363,069.83	\$ 16,092.40	\$ 26,196.02
<i>Receivables—</i>			
<i>Property Tax</i>	46,333.12	--	25,888.32
<i>Service Accounts</i>	42,097.22	--	--
<i>Allowance for Uncollectible Accounts</i>	(15,584.97)	--	(11,413.04)
<i>Due from State</i>	19,375.73	--	--
<i>Miscellaneous</i>	448.91	--	--
<i>Supplies Inventory</i>	--	--	--
<i>Due from Other Funds</i>	--	--	63,061.02
<i>Property, Plant, & Equipment (Net)</i>	--	--	--
<i>Restricted Assets—</i>			
<i>Cash & Temporary Investments</i>	--	--	--
<i>Amounts Available for Debt Service</i>	--	--	--
<i>Amounts to be Provided for Debt Service</i>	--	--	--
Total Assets	455,739.84	16,092.40	103,732.32
LIABILITIES			
<i>Accounts Payable</i>	21,954.32	--	--
<i>Payroll Withholdings</i>	2,654.59	--	--
<i>Current Portion — Capital Leases</i>	--	--	--
<i>Current Portion — Bonded Debt</i>	--	--	--
<i>Due to State</i>	15,754.10	--	--
<i>Customer Deposits</i>	--	--	--
<i>Due to Other Funds</i>	146,874.44	--	--
<i>Leases Payable—Future Maturities</i>	--	--	--
<i>General Obligation Bonds Payable</i>	--	--	--
<i>Revenue Bonds Payable</i>	--	--	--
<i>Miscellaneous</i>	--	--	--
<i>Deferred Revenue</i>	30,748.15	--	14,475.28
Total Liabilities	217,985.60	--	14,475.28
FUND EQUITY			
<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>	1,129.38	--	--
<i>Reserved for Hotel Occupancy Tax</i>	--	16,092.40	--
<i>Reserved for Retirement of Bonded Debt</i>	--	--	89,257.04
<i>Unreserved</i>	236,624.86	--	--
Total Fund Equity	237,754.24	16,092.40	89,257.04
Total Liabilities & Fund Equity	\$ 455,739.84	\$ 16,092.40	\$ 103,732.32

(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	1999	1998
\$ 420,426.81	\$ --	\$ --	\$ 825,785.06	\$ 741,623.92
--	--	--	72,221.44	80,693.30
117,936.84	--	--	160,034.06	224,223.17
(11,713.89)	--	--	(38,711.90)	(42,291.38)
--	--	--	19,375.73	28,573.82
--	--	--	448.91	7,080.53
7,587.70	--	--	7,587.70	14,838.26
83,813.42	--	--	146,874.44	86,698.58
4,233,912.67	1,068,687.00	--	5,302,599.67	5,326,074.62
27,929.61	--	--	27,929.61	373,281.33
--	--	89,257.04	89,257.04	75,490.04
--	--	45,742.96	45,742.96	651,607.60
<u>4,879,893.16</u>	<u>1,068,687.00</u>	<u>135,000.00</u>	<u>6,659,144.72</u>	<u>7,567,893.79</u>
23,491.08	--	--	45,445.40	20,204.66
--	--	--	2,654.59	831.50
--	--	--	--	65,323.40
10,000.00	--	100,000.00	110,000.00	105,000.00
--	--	--	15,754.10	21,901.58
47,112.85	--	--	47,112.85	44,915.72
--	--	--	146,874.44	86,698.58
--	--	--	--	431,774.24
--	--	35,000.00	35,000.00	135,000.00
1,240,000.00	--	--	1,240,000.00	1,250,000.00
--	--	--	--	251.63
--	--	--	45,223.43	52,258.24
<u>1,320,603.93</u>	<u>--</u>	<u>135,000.00</u>	<u>1,688,064.81</u>	<u>2,214,159.55</u>
3,880,524.69	--	--	3,880,524.69	3,499,250.44
--	1,068,687.00	--	1,068,687.00	1,657,547.42
--	--	--	--	12,315.81
(321,235.46)	--	--	(321,235.46)	(126,859.93)
--	--	--	1,129.38	382.42
--	--	--	16,092.40	--
--	--	--	89,257.04	75,490.04
--	--	--	236,624.86	235,608.04
<u>3,559,289.23</u>	<u>1,068,687.00</u>	<u>--</u>	<u>4,971,079.91</u>	<u>5,353,734.24</u>
<u>\$ 4,879,893.16</u>	<u>\$ 1,068,687.00</u>	<u>\$ 135,000.00</u>	<u>\$ 6,659,144.72</u>	<u>\$ 7,567,893.79</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, 1999**

	Operating Fund	Special Revenue Fund
	<u> </u>	<u> </u>
Revenues:		
Property Taxes	\$ 308,122.68	\$ --
Sales Tax	322,239.45	--
Franchise Tax, Street Rental	103,458.48	--
Hotel Occupancy Tax	--	16,124.02
Sanitation and Landfill	352,436.87	--
Fines and Court Costs	153,535.18	--
Permits, License and Inspection	26,906.36	--
Rental Income	90,000.00	--
Miscellaneous	76,575.91	--
Interest Earnings	15,578.08	--
Grants Revenue—		
Local Matching Grant Revenue	--	--
State Grant Revenue	--	--
Federal Grant Revenue	--	328,528.25
	<u> </u>	<u> </u>
Total Revenues	1,448,853.01	344,652.27
	<u> </u>	<u> </u>
Expenditures:		
City General	601,917.04	--
City Office	124,635.43	--
Police Department	530,013.09	--
Sanitation/Landfill	289,300.41	--
Treatment Facility	50,077.27	--
Street Department	108,457.96	--
Municipal Court	50,590.39	--
Hotel Occupancy Tax Expenditures	--	31.62
Grant Expenditures	--	328,528.25
Debt Service	--	--
	<u> </u>	<u> </u>
Total Expenditures	1,754,991.59	328,559.87
	<u> </u>	<u> </u>
Excess (Deficiency) of Revenues Over Expenditures	(306,138.58)	16,092.40
Other Sources (Uses):		
Sale of Treatment Center	805,000.00	--
Capital Lease Principal	(497,097.64)	--
Total Other Sources (Uses):	<u> </u>	<u> </u>
	307,902.36	--
Excess (Deficiency) of Revenues and Other Resources Over Expenditures and Other Uses	1,763.78	16,092.40
Fund Balance, October 1	<u> </u>	<u> </u>
	235,990.46	--
Fund Balance, September 30	<u> </u>	<u> </u>
	\$ 237,754.24	\$ 16,092.40

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Bank Error

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

Debt Service Fund	Totals (Memorandum Only)	
	Year Ended September 30, 1999	Year Ended September 30, 1998
\$ 125,017.17	\$ 439,139.85	\$ 389,463.63
--	322,239.45	275,007.01
--	103,458.48	107,531.79
--	16,124.02	--
--	352,436.87	325,059.63
--	153,535.18	142,572.22
--	26,906.36	20,490.74
--	90,000.00	119,250.00
--	76,575.91	12,378.03
1,243.39	16,821.47	19,146.99
--	--	21,651.20
--	--	52,746.00
--	328,528.25	41,741.75
<u>126,260.56</u>	<u>1,919,765.84</u>	<u>1,527,038.99</u>
--	601,917.04	172,520.45
--	124,635.43	137,292.53
--	530,013.09	420,927.19
--	289,300.41	272,622.66
--	50,077.27	41,505.14
--	108,457.96	210,729.98
--	50,590.39	49,761.41
--	31.62	--
--	328,528.25	116,138.95
<u>112,493.56</u>	<u>112,493.56</u>	<u>115,663.96</u>
<u>112,493.56</u>	<u>2,196,045.02</u>	<u>1,537,162.27</u>
13,767.00	(276,279.18)	(10,123.28)
--	805,000.00	--
--	(497,097.64)	(60,494.86)
--	<u>307,902.36</u>	<u>(60,494.86)</u>
13,767.00	31,623.18	(70,618.14)
<u>75,490.04</u>	<u>311,480.50</u>	<u>382,098.64</u>
<u>\$ 89,257.04</u>	<u>\$ 343,103.68</u>	<u>\$ 311,480.50</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, 1999**

	OPERATING FUND		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
<i>Property Taxes</i>	\$ 284,000	\$ 308,122.68	\$ 24,122.68
<i>Sales Tax</i>	255,000	322,239.45	67,239.45
<i>Franchise Tax, Street Rental</i>	130,000	103,458.48	(26,541.52)
<i>Sanitation and Landfill</i>	290,100	352,436.87	62,336.87
<i>Fines and Court Costs</i>	135,250	153,535.18	18,285.18
<i>Permits, License and Inspection</i>	25,000	26,906.36	1,906.36
<i>Rental Income</i>	117,000	90,000.00	(27,000.00)
<i>Miscellaneous</i>	11,100	76,575.91	65,475.91
<i>Interest Earnings</i>	15,000	15,578.08	578.08
<i>Hotel Occupancy Tax Revenue</i>	--	--	--
<i>Grants Revenue</i>	--	--	--
Total Revenues	1,262,450	1,448,853.01	186,403.01
Expenditures:			
<i>City General</i>	113,200	601,917.04	(488,717.04)
<i>City Office</i>	120,906	124,635.43	(3,729.43)
<i>Police Department</i>	477,720	530,013.09	(52,293.09)
<i>Sanitation/Landfill</i>	275,000	289,300.41	(14,300.41)
<i>Treatment Facility</i>	102,000	50,077.27	51,922.73
<i>Street Department</i>	101,235	108,457.96	(7,222.96)
<i>Municipal Court</i>	51,295	50,590.39	704.61
<i>Occupancy Tax Expenditures</i>	--	--	--
<i>Grant Expenditures</i>	--	--	--
<i>Debt Service</i>	--	--	--
Total Expenditures	1,241,356	1,754,991.59	(513,635.59)
Excess (Deficiency) of Revenues Over Expenditures	\$ 21,094	(306,138.58)	\$ (327,232.58)
Other Sources (Uses):			
<i>Sale of Treatment Center</i>		805,000.00	
<i>Capital Lease Principal Payments</i>		(497,097.64)	
Total Other Resources and Uses		307,902.36	
Excess (Deficiency) of Revenue and Other Resources Over Expend. and Other Uses		1,763.78	
Fund Balance, October 1		235,990.46	
Fund Balance, September 30		\$ 237,754.24	

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

SPECIAL REVENUE FUND

DEBT SERVICE FUND

SPECIAL REVENUE FUND			DEBT SERVICE FUND		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ --	\$ --	\$ --	\$ 136,000	\$ 125,017.17	\$ (10,982.83)
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	16,124.02	16,124.02	1,000	1,243.39	243.39
473,604	328,528.25	(145,075.75)	--	--	--
473,604	344,652.27	(128,951.73)	137,000	126,260.56	(10,739.44)
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	31.62	(31.62)	--	--	--
473,604	328,528.25	145,075.75	--	--	--
--	--	--	112,478	112,493.56	(15.56)
473,604	328,559.87	145,044.13	112,478.00	112,493.56	(15.56)
\$ --	16,092.40	\$ 16,092.40	\$ 24,522.00	13,767.00	\$ (10,755.00)
	--			--	
	--			--	
	16,092.40			13,767.00	
	--			75,490.04	
	\$ 16,092.40			\$ 89,257.04	

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, 1999*

	Water and Sewer Utility Fund	
	1999	1998
OPERATING REVENUE:		
<i>Charges for Water and Sewer Service</i>	\$ 608,419.63	\$ 674,024.73
<i>Water and Sewer Connections</i>	46,396.90	44,148.25
<i>Late Payment Penalties</i>	27,046.84	28,470.38
<i>Service Charges</i>	8,780.00	7,175.00
<i>Inspection Fees</i>	3,245.00	2,410.00
<i>Miscellaneous Income</i>	22,285.09	910.09
Total Operating Revenue	716,173.46	757,138.45
OPERATING EXPENSE:		
<i>Personnel – Operating</i>	259,049.12	238,823.23
<i>Personnel – Administration</i>	99,822.13	31,337.42
<i>Professional Fees</i>	2,032.89	--
<i>Maintenance and Repairs</i>	172,869.64	162,522.27
<i>Utilities</i>	114,856.24	114,598.57
<i>Supplies, Materials and Postage</i>	17,796.16	12,890.31
<i>Vehicle Expense</i>	10,682.14	11,426.14
<i>Other Operating Expense</i>	18,837.01	19,124.96
<i>Depreciation</i>	185,374.54	163,926.60
Total Operating Expense	881,319.87	754,649.50
Operating Income (Loss)	(165,146.41)	2,488.95
NON-OPERATING REVENUE (EXPENSE):		
<i>Interest Earnings</i>	22,784.37	47,407.12
<i>Interest Expense</i>	(63,875.00)	(64,287.50)
<i>Bond Paying Agent Fees</i>	(454.30)	--
Total Non-operating Revenue (Expense)	(41,544.93)	(16,880.38)
Net Income (Loss)	(206,691.34)	(14,391.43)
Retained Earnings (Deficit), October 1	(114,544.12)	(100,152.69)
Retained Earnings (Deficit), September 30	\$ (321,235.46)	\$ (114,544.12)

(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, 1999

EXHIBIT A-5

	1999	(Memorandum) 1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
<i>Cash Received from Customers</i>	\$ 806,010.90	\$ 674,616.91
<i>Cash Payments for Personnel Costs</i>	(358,871.25)	(270,160.65)
<i>Cash Payments for Operating Expenses</i>	(339,216.51)	(323,925.28)
Net Cash Provided by Operating Activities	107,923.14	80,530.98
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
<i>Interfund Loan (Out)</i>	--	(83,813.42)
<i>Net Inflow from Customer Deposits</i>	2,197.13	3,750.27
Net Cash (Used for) Noncapital Financing Activities	2,197.13	(80,063.15)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
<i>Acquisition and Construction of Capital Assets (Net)</i>	(371,628.19)	(468,174.69)
<i>Interest Received from Time Deposits and Investments</i>	22,784.37	47,407.12
<i>Principal Paid on Debt</i>	(10,000.00)	(10,000.00)
<i>Interest and Fees Paid on Debt</i>	(64,329.30)	(64,287.50)
Net Cash (Used for) Capital and Related Financial Activities	(423,173.12)	(495,055.07)
CASH FLOWS FROM INVESTING ACTIVITIES	--	--
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	(313,052.85)	(494,587.24)
CASH AND RESTRICTED CASH, October 1	761,409.27	1,255,996.51
CASH AND RESTRICTED CASH, September 30	448,356.42	761,409.27
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY PROVIDED BY OPERATING ACTIVITIES:		
<i>Operating Income (Loss)</i>	(165,146.41)	2,488.95
Adjustments to Reconcile Operating Income to Net Cash Provided By (Used For) Operating Activities –		
<i>Depreciation</i>	185,374.54	163,926.60
<i>Changes in Assets and Liabilities –</i>		
<i>(Increase) Decrease in Accounts Receivable</i>	67,297.17	(78,117.39)
<i>(Increase) Decrease in Inventory</i>	7,250.56	2,576.62
<i>Increase (Decrease) in Accounts Payable</i>	13,147.28	(10,343.80)
Total Adjustments	273,069.55	78,042.03
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 107,923.14	\$ 80,530.98

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

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, 1999

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, 1999

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, 1999, the City levied an ad valorem tax of \$.6449 per \$100 of assessed valuation which resulted in a levy of \$401,194 on the net assessed taxable valuation of \$62,204,151 for the 1998 tax year. Of the total \$.6449 per \$100 valuation rate, \$.1808 was allocated to general obligation debt retirement and \$.4641 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 \$951,597.87 and occurred during the month of April, 1999.
- C. Total amount of F.D.I.C. coverage at time of largest combined balance was \$206,432.39.
- D. Amount of securities pledged as of the date of the highest combined balance on deposit was \$2,013,866.60.

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 (CONTINUED)
 SEPTEMBER 30, 1999

F. Changes in Long-Term Debt (continued)

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, 1999 \$ 95,000

\$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, 1999 1,155,000

Total Revenue Bonds outstanding at September 30, 1999 \$ 1,250,000

The next five years annual debt service requirements to amortize all bonds outstanding at September 30, 1999, are as follows:

General Obligation Bonds			
<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 100,000	\$ 7,650	\$ 107,650
2001	35,000	1,575	36,575
2002	--	--	--
2003	--	--	--
2004	--	--	--
Subsequent	--	--	--
Total	<u>\$ 135,000</u>	<u>\$ 9,225</u>	<u>\$ 144,225</u>

Revenue Bonds			
<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 10,000	\$ 63,448	\$ 73,448
2001	20,000	63,010	83,010
2002	45,000	62,133	107,133
2003	60,000	60,148	120,148
2004	65,000	57,450	122,450
Subsequent	1,050,000	391,165	1,441,165
Total	<u>\$ 1,250,000</u>	<u>\$ 697,353</u>	<u>\$ 1,947,353</u>

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.

CITY OF WILLIS, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 1999

G. Restricted Assets

Cash and temporary investments restricted for retirement of bonded indebtedness and repayment of customer utility meter deposits at September 30, 1999, are as follows:

Waterworks and Sewer System Revenue Bonds, Series 1995-A & B –		
Utility Fund –		
Cash – Series 1995–A		\$ 1,015
Cash – Series 1995–B		5,415
Construction Fund –		
Temporary Investments		66,125
Total		<u>72,555</u>
Customer Utility Meter Deposits –		
Cash		
Temporary Investments		21,500
Total		<u>21,500</u>
Total Restricted Assets		<u>\$ 94,055</u>

H. Litigation

The City was not involved in litigation at September 30, 1999.

I. Contingent Liabilities

There were no unrecorded contingent liabilities as of September 30, 1999.

J. Changes in General Fixed Assets

During the year ended September 30, 1999, the following changes occurred in the City's General Fixed Assets: -

Balance October 1, 1998		\$ 1,657,547
Additions –		
Furniture & Equipment	41,185	
Land & Improvements	284,256	
Buildings and Improvements	<u>30,008</u>	
		355,449
Deletions –		
Furniture & Equipment	(75,600)	
Land & Improvements	<u>(868,709)</u>	
		<u>(944,309)</u>
Balance September 30, 1999		<u>\$ 1,068,687</u>

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%

CITY OF WILLIS, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 1999

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, 1999.

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 717 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. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25-year amortization period. When the City periodically adopts updated service credits and increases in annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period which began January, 1998. 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, 1998 valuation is effective for rates beginning January, 2000).

CITY OF WILLIS, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 1999

M. Pension Plan (continued)

Schedule of Actuarial Liabilities and Funding Progress

Fiscal Year End	9/30/94	9/30/95	9/30/96	9/30/97	9/30/98	9/30/99
Actuarial Valuation Date	12/31/93	12/31/94	12/31/95	12/31/96	12/31/97	12/31/98
Actuarial Value of Assets \$	348,689 \$	329,657 \$	390,367 \$	442,707 \$	529,001 \$	615,365
Actuarial Accrued Liability	332,548	297,069	357,560	399,048	516,332	619,105
Percentage Funded	104.9%	111.0%	109.2%	110.9%	102.5%	99.4%
Under (Over) Funded Actuarial						
Accrued Liability (UAAL)	(16,141)	(32,588)	(32,807)	(43,659)	(12,669)	3,740
Annual Covered Payroll	362,606	410,478	455,655	545,104	664,890	712,748
UAAL as a Percentage of						
Covered Payroll	--	--	--	--	--	--
Net Pension Obligation (NPO)						
at Beginning of Period	--	--	--	--	--	--
Annual Pension Cost—						
Annual Required						
Contribution (ARC)	11,754	15,851	14,292	14,920	19,760	30,139
Interest on NPO	--	--	--	--	--	--
Adjustment to the ARC	--	--	--	--	--	--
Total Pension Cost	11,754	15,851	14,292	14,920	19,760	30,139
Contributions Made	11,754	15,851	14,292	14,920	19,760	30,139
Increase in NPO	--	--	--	--	--	--
NPO at End of Period	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

N. Health Care Coverage

During the year ended September 30, 1999, 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, 1999, and the terms of coverage and contribution costs are included in the contractual provisions.

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, 1999, the overall pool reserve, plus stop-loss coverage was more than sufficient to cover all claims, both reported but unpaid and unreported claims.

CITY OF WILLIS, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 1999

O. Deficit Retained Earnings

The City's Unreserved Retained Earnings account for the Utility Fund reflects a deficit of \$321,235.46. 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 is approximately \$206,700 more than the September 30, 1998 Retained Earnings deficit.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WILLIS, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR 2000 ISSUES
YEAR ENDED SEPTEMBER 30, 1999

In accordance with Governmental Accounting Standards Board ("GASB") Technical Bulletin 98-1, "Disclosures about Year 2000 Issues," as amended by GASB Technical Bulletin 99-1, following are disclosures about year 2000 issues in general and of the stages of work in process or completed at year end by the City of Willis, Texas ("City") to address year 2000 issues for computer systems and other electronic equipment.

The year 2000 issue is the result of shortcomings in many electronic data-processing systems and other equipment that may adversely affect operations in the year 1999 and beyond. For many years, programmers eliminated the first two digits from a year when writing programs. For example, programmers would designate January 1, 1965 as "01/01/65" instead of "01/01/1965." On January 1, 2000 at 12:00:01 a.m., the internal clock in computers and other equipment will roll over from "12/31/99" to "01/01/00." Unfortunately, many programs (if not corrected) will not be able to distinguish between the year 2000 and the year 1900. This may cause the programs to process data inaccurately or to stop processing data altogether. Another factor that may cause problems in programs is the leap-year calculation. Some programs are unable to detect the year 2000 as a leap year.

Problems affecting a wide range of governmental activities will likely result if computers and other electronic equipment that are dependent upon date-sensitive coding are not corrected. These problems have the potential for causing a disruption to some government operations and may temporarily increase the cost of those operations.

There was no significant amount committed – contracted at September 30, 1999 – by the City to address year 2000 issues for computer systems and other electronic equipment.

The following stages of work have been identified by GASB Technical Bulletin 98-1, "Disclosures about Year 2000 Issues," as amended by GASB Technical Bulletin 99-1, as necessary to address the year 2000 issue. These stages were adapted by the GASB from U.S. Securities and Exchange Commission ("SEC"), *Division of Market Regulation Year 2000 ("Y2K") Work Program* (January 1998).

1. Awareness Stage – Encompasses establishing a budget and project plan for dealing with the year 2000 issue.
2. Assessment Stage – When the organization begins the actual process of identifying all of its systems (preparing an inventory) and individual components of the systems. An organization may decide to review all system components or, through a risk analysis, identify only mission-critical systems and equipment -- systems and equipment critical to conducting operations.
3. Remediation Stage – When the organization actually makes changes to systems and equipment. This stage deals primarily with the technical issues of converting existing systems, or switching to compliant systems. During this stage, decisions are made on how to address year 2000 system or equipment issues, and the required changes are made.
4. Validation/Testing Stage – When the organization validates and tests the changes made during the conversion process. The development of test data and test scripts, the running of test scripts, and the review of test results are crucial for this stage of the conversion process to be successful. If the testing results show anomalies, the tested area needs to be corrected and retested.

The City did not realize any significant complications regarding the year 2000 issue.

CITY OF WILLIS, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR 2000 ISSUES
YEAR ENDED SEPTEMBER 30, 1999

Disclosures as an Issuer of Municipal Securities

Since the City is an issuer of municipal securities, the following disclosures are made in accordance with U. S. Securities and Exchange Commission's "Statement of the Commission Regarding Disclosure of Year 2000 Issues and Consequences by Public Companies, Investment Advisors, Investment Companies, and Municipal Securities Issuers" (17 CFR Parts 231, 241, 271, 276), section III. C., "Guidance for Year 2000 Disclosure for Municipal Issuers" ("Statement"). These disclosures are made in addition to the applicable disclosures made in the preceding paragraphs of this note.

For issuers of municipal securities, year 2000 issues may be divided into three categories: internal, external and mechanical. These categories of issues are defined by the Statement as follows:

1. Internal Issues

Internal year 2000 issues may arise from an issuer's own operations and materially affect its creditworthiness and ability to make timely payment of its obligations.

2. External Issues

External year 2000 issues may arise from parties, other than an issuer, that provide payments that support the debt service on an issuer's municipal securities, or the impact of year 2000 problems facing other external parties on the issuer's own ability to satisfy its responsibilities.

3. Mechanical Issues

Mechanical year 2000 issues may arise if year 2000 problems disrupt the actual mechanical process used to send payments to bondholders or the ability to assess and collect ad valorem taxes and allocate receipts and disbursements to proper funds in a timely manner to make debt service payments when due. While year 2000 problems may not directly affect an issuer's ability to pay debt service, they may affect an issuer's general accounting and payment functions, which may be material to investors.

The City's management believes that each of these three categories of issues had been adequately considered in the planning and implementation of its work in preparing for the year 2000. However, consideration of issues did not guarantee that the City would become year 2000 compliant.

***COMBINING AND
INDIVIDUAL FUND STATEMENTS***

CITY OF WILLIS, TEXAS
GENERAL FUND
BALANCE SHEET
SEPTEMBER 30, 1999

EXHIBIT B-1

	1999	1998
ASSETS:		
<i>Cash and Temporary Investments</i>	\$ 363,069.83	\$ 280,891.10
<i>Receivables—</i>		
<i>Garbage Service</i>	42,097.22	38,989.16
<i>Property Tax</i>	46,333.12	49,551.35
<i>Allowance for Uncollectible Taxes</i>	(15,584.97)	(15,599.38)
<i>Due from State</i>	19,375.73	28,573.82
<i>Miscellaneous</i>	448.91	7,080.53
<i>Due from Other Funds</i>	--	--
Total Assets	<u>455,739.84</u>	<u>389,486.58</u>
LIABILITIES:		
<i>Accounts Payable</i>	21,954.32	9,860.86
<i>Payroll Withholdings</i>	2,654.59	831.50
<i>Due to State</i>	15,754.10	21,901.58
<i>Due to Other Funds</i>	146,874.44	86,698.58
<i>Miscellaneous</i>	--	251.63
<i>Deferred Revenue</i>	30,748.15	33,951.97
Total Liabilities	<u>217,985.60</u>	<u>153,496.12</u>
FUND EQUITY:		
<i>Reserved for Police Activity</i>	1,129.38	382.42
<i>Unreserved Fund Balance</i>	236,624.86	235,608.04
Total Equity	<u>237,754.24</u>	<u>235,990.46</u>
Total Liabilities and Fund Equity	<u>\$ 455,739.84</u>	<u>\$ 389,486.58</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, 1999

	1999		Variance – Favorable (Unfavorable)	1998 Actual
	Budget	Actual		
REVENUES:				
Ad Valorem Taxes	\$ 284,000	\$ 308,122.68	\$ 24,122.68	\$ 263,049.98
City Sales Taxes	255,000	322,239.45	67,239.45	275,007.01
Franchise Taxes and Street Rental	130,000	103,458.48	(26,541.52)	107,531.79
Sanitation and Landfill	290,100	352,436.87	62,336.87	325,059.63
Fines and Court Costs	135,250	153,535.18	18,285.18	142,572.22
Permits, License, and Inspection	25,000	26,906.36	1,906.36	20,490.74
Rental Income	117,000	90,000.00	(27,000.00)	119,250.00
Miscellaneous	11,100	76,575.91	65,475.91	12,378.03
Interest Earned	15,000	15,578.08	578.08	17,347.66
Total Revenues	1,262,450	1,448,853.01	186,403.01	1,282,687.06
EXPENDITURES:				
CITY GENERAL:				
<i>Purchased and Contracted Services</i>	44,200	69,274.45	(25,074.45)	53,672.76
<i>Maintenance and Repairs</i>	5,000	121,630.27	(116,630.27)	6,710.14
<i>Supplies and Materials</i>	--	69.71	(69.71)	--
<i>Other Operating Costs</i>	64,000	86,620.24	(22,620.24)	60,166.18
<i>Festival/Birthday Blast</i>	--	1,545.99	(1,545.99)	2,573.25
<i>Capital Outlay</i>	--	8,512.50	(8,512.50)	--
<i>Contingency Reserve</i>	--	314,263.88	(314,263.88)	49,398.12
Total City General	113,200	601,917.04	(488,717.04)	172,520.45
CITY OFFICE:				
<i>Personnel</i>	105,406	106,677.70	(1,271.70)	120,656.89
<i>Maintenance and Repairs</i>	4,000	2,876.45	1,123.55	3,604.34
<i>Supplies, Materials, and Postage</i>	5,000	5,249.48	(249.48)	6,790.72
<i>Utilities/Telephone</i>	6,500	9,831.80	(3,331.80)	6,240.58
<i>Capital Outlay</i>	--	--	--	--
Total City Office	120,906	124,635.43	(3,729.43)	137,292.53
POLICE DEPARTMENT:				
<i>Personnel</i>	379,720	376,324.73	3,395.27	317,877.26
<i>Professional Services</i>	--	--	--	1,289.00
<i>Maintenance and Repairs</i>	5,000	22,738.50	(17,738.50)	6,370.45
<i>Supplies, Materials, Uniforms & Postage</i>	10,000	7,270.74	2,729.26	10,388.09
<i>Vehicle Expense</i>	30,000	59,055.58	(29,055.58)	54,819.39
<i>Utilities/Telephone</i>	15,000	21,459.43	(6,459.43)	13,806.30
<i>Other Operating Costs</i>	9,000	10,491.29	(1,491.29)	9,200.16
<i>Capital Outlay</i>	29,000	32,672.82	(3,672.82)	7,176.54
<i>Debt Service – Interest</i>	--	--	--	--
Total Police Department	477,720	530,013.09	(52,293.09)	420,927.19

CITY OF WILLIS, TEXAS

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES

IN FUND BALANCE – BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 1999

	1999		Variance – Favorable (Unfavorable)	1998 Actual
	Budget	Actual		
SANITATION/LANDFILL:				
<i>Purchased and Contracted Services</i>	\$ 275,000	\$ 286,778.59	\$ (11,778.59)	\$ 269,838.66
<i>Maintenance and Repairs</i>	--	2,521.82	(2,521.82)	2,784.00
Total Landfill Department	275,000	289,300.41	(14,300.41)	272,622.66
TREATMENT FACILITY:				
<i>Purchased and Contracted Services</i>	102,000	--	102,000.00	--
<i>Debt Service – Interest</i>	--	50,077.27	(50,077.27)	41,505.14
Total Treatment Facility	102,000	50,077.27	51,922.73	41,505.14
STREET DEPARTMENT:				
<i>Personnel</i>	30,935	33,661.48	(2,726.48)	26,277.17
<i>Rentals</i>	2,000.00	--	2,000.00	--
<i>Maintenance and Repairs</i>	30,000	40,982.12	(10,982.12)	150,351.01
<i>Supplies, Materials, Uniforms & Postage</i>	8,800	9,537.35	(737.35)	8,263.60
<i>Vehicle Expense</i>	4,500	3,053.43	1,446.57	3,256.47
<i>Utilities</i>	25,000	21,223.58	3,776.42	22,581.73
Total Street Department	101,235	108,457.96	(7,222.96)	210,729.98
MUNICIPAL COURT:				
<i>Personnel</i>	39,295	38,960.21	334.79	33,687.03
<i>Purchases and Contracted Services</i>	8,300	8,165.15	134.85	12,628.56
<i>Maintenance and Repairs</i>	1,250	721.01	528.99	1,140.42
<i>Supplies, Materials, Uniforms & Postage</i>	1,950	2,307.56	(357.56)	2,007.98
<i>Other Operating Costs</i>	500	436.46	63.54	297.42
Total Municipal Court	51,295	50,590.39	704.61	49,761.41
Total Expenditures	1,241,356	1,754,991.59	(513,635.59)	1,305,359.36
Excess (Deficiency) of Revenues Over Expenditures	\$ 21,094	(306,138.58)	\$ (327,232.58)	(22,672.30)
OTHER RESOURCES AND USES:				
<i>Sale of Treatment Center</i>		805,000.00		(60,494.86)
<i>Capital Lease Principal Payments</i>		(497,097.64)		--
Total Other Resources and Uses		307,902.36		(60,494.86)
Excess (Deficiency) of Revenues and other resources Over Expenditures and Other Uses		1,763.78		(83,167.16)
Fund Balance, October 1		235,990.46		319,157.62
Fund Balance, September 30		\$ 237,754.24		\$ 235,990.46

CITY OF WILLIS, TEXAS
 SPECIAL REVENUE FUND
 COMBINING BALANCE SHEET
 SEPTEMBER 30, 1999

EXHIBIT B-3

	Texas Capital Fund	Hotel Occupancy Tax Fund	Totals	
			9-30-99	9-30-98
ASSETS				
<i>Cash</i>	\$ --	\$ 16,092.40	\$ 16,092.40	\$ --
<i>Due From Other Funds</i>	--	--	--	--
<i>Total Assets</i>	<u>--</u>	<u>16,092.40</u>	<u>16,092.40</u>	<u>--</u>
LIABILITIES				
<i>Accounts Payable</i>	--	--	--	--
<i>Due To Other Funds</i>	--	--	--	--
<i>Deferred Revenue</i>	--	--	--	--
<i>Total Liabilities</i>	--	--	--	--
FUND EQUITY				
<i>Fund Balance</i>	--	16,092.40	16,092.40	--
<i>Total Liab. & Fund Equity</i>	<u>\$ --</u>	<u>\$ 16,092.40</u>	<u>\$ 16,092.40</u>	<u>\$ --</u>

CITY OF WILLIS, TEXAS

EXHIBIT B-4

*SPECIAL REVENUE FUND
COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 1999*

	Texas Capital Fund	Hotel Occupancy Tax Fund	Totals	
			9-30-99	9-30-98
Revenues:				
<i>Local Sources</i>	\$ --	\$ 16,124.02	\$ 16,124.02	\$ 21,651.20
<i>State Sources</i>	--	--	--	52,746.00
<i>Federal Sources</i>	328,528.25	--	328,528.25	41,741.75
<i>Total Revenues</i>	328,528.25	16,124.02	344,652.27	116,138.95
Expenditures:				
<i>Utility Construction</i>	--	--	--	13,976.20
<i>Engineering Fees</i>	26,623.00	--	26,623.00	76,637.75
<i>Administration</i>	17,975.00	31.62	18,006.62	25,525.00
<i>Rural Development</i>	283,930.25	--	283,930.25	--
<i>Total Expenditures</i>	328,528.25	31.62	328,559.87	116,138.95
Excess (Deficit) Revenues Over Expenditures	--	16,092.40	16,092.40	--
Fund Balance, October 1	--	--	--	--
Fund Balance, Sept. 30	\$ --	\$ 16,092.40	\$ 16,092.40	\$ --

CITY OF WILLIS, TEXAS

DEBT SERVICE FUND

BALANCE SHEET

SEPTEMBER 30, 1999

EXHIBIT B-5

	1999	1998
ASSETS:		
<i>Temporary Investments</i>	\$ 26,196.02	\$ 72,604.88
<i>Property Tax Receivable</i>	25,888.32	31,141.95
<i>Allowance for Uncollectible Accounts</i>	(11,413.04)	(12,835.68)
<i>Due from Other Funds</i>	63,061.02	2,885.16
	<hr/>	<hr/>
Total Assets	103,732.32	93,796.31
	<hr/>	<hr/>
LIABILITIES:		
<i>Deferred Revenue</i>	14,475.28	18,306.27
FUND EQUITY:		
<i>Reserved for Retirement of Bonded Debt</i>	89,257.04	75,490.04
	<hr/>	<hr/>
Total Liabilities and Fund Equity	\$ 103,732.32	\$ 93,796.31
	<hr/>	<hr/>

CITY OF WILLIS, TEXAS
 DEBT SERVICE FUND
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED SEPTEMBER 30, 1999

EXHIBIT B-6

	1999		Variance- Favorable (Unfavorable)	1998 Actual
	Budget	Actual		
REVENUES:				
<i>Ad Valorem Taxes</i>	\$ 136,000	\$ 125,017.17	\$ (10,982.83)	\$ 126,413.65
<i>Interest Earned</i>	1,000	1,243.39	243.39	1,799.33
Total Revenues	<u>137,000</u>	<u>126,260.56</u>	<u>(10,739.44)</u>	<u>128,212.98</u>
EXPENDITURES:				
<i>Bond Principal</i>	95,000	95,000.00	--	90,000.00
<i>Bond Interest</i>	16,378	16,377.50	0.50	24,565.00
<i>Paying Agent Fees</i>	1,100	1,116.06	(16.06)	1,098.96
Total Expenditures	<u>112,478</u>	<u>112,493.56</u>	<u>(15.56)</u>	<u>115,663.96</u>
Excess of Revenues Over Expenditures	\$ <u>24,522</u>	<u>13,767.00</u>	\$ <u>(10,755.00)</u>	<u>12,549.02</u>
OTHER SOURCES AND (USES)		--		--
Fund Balance, October 1		<u>75,490.04</u>		<u>62,941.02</u>
Fund Balance, September 30		\$ <u>89,257.04</u>		\$ <u>75,490.04</u>

CITY OF WILLIS, TEXAS
WATER AND SEWER UTILITY FUND
BALANCE SHEET
SEPTEMBER 30, 1999

EXHIBIT B-7

	1999	1998
ASSETS:		
Current Assets—		
<i>Cash</i>	\$ 5,758.88	\$ 44.48
<i>Temporary Investments</i>	348,542.58	388,083.46
<i>Service Accounts Receivable</i>	117,936.84	185,234.01
<i>Allowance for Uncollectible Accounts</i>	(11,713.89)	(13,856.32)
<i>Due From Other Funds</i>	83,813.42	83,813.42
<i>Supplies Inventory</i>	7,587.70	14,838.26
Total Current Assets	551,925.53	658,157.31
Property, Plant and Equipment—		
<i>Utility System in Service</i>	6,302,102.51	5,932,616.76
<i>Accumulated Depreciation</i>	(2,449,464.09)	(2,264,089.56)
<i>Construction in Progress</i>	381,274.25	--
Total Property, Plant and Equipment	4,233,912.67	3,668,527.20
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>	72,554.96	351,781.33
<i>Meter Deposit</i>	21,500.00	21,500.00
Total Restricted Assets	94,054.96	373,281.33
Total Assets	4,879,893.16	4,699,965.84
LIABILITIES:		
Current Liabilities—		
<i>Accounts Payable</i>	23,491.08	10,343.80
<i>Customer Deposits Payable</i>	47,112.85	44,915.72
<i>Revenue Bonds Payable (Current)</i>	10,000.00	10,000.00
Total Current Liabilities	80,603.93	65,259.52
Long-Term Liabilities—		
<i>Revenue Bonds—Future Maturities</i>	1,240,000.00	1,250,000.00
Total Liabilities	1,320,603.93	1,315,259.52
FUND EQUITY:		
Contributed Capital	3,880,524.69	3,499,250.44
Retained Earnings—		
<i>Reserved for Retirement of Revenue Bonds</i>	--	12,315.81
<i>Unreserved</i>	(321,235.46)	(126,859.93)
Total Fund Equity	3,559,289.23	3,384,706.32
Total Liabilities and Fund Equity	\$ 4,879,893.16	\$ 4,699,965.84

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, 1999*

	Water and Sewer Utility Fund	
	1999	1998
OPERATING REVENUE:		
<i>Charges for Water and Sewer Service</i>	\$ 608,419.63	\$ 674,024.73
<i>Water and Sewer Connections</i>	46,396.90	44,148.25
<i>Late Payment Penalties</i>	27,046.84	28,470.38
<i>Service Charges</i>	8,780.00	7,175.00
<i>Inspection Fees</i>	3,245.00	2,410.00
<i>Miscellaneous Income</i>	22,285.09	910.09
Total Operating Revenue	716,173.46	757,138.45
OPERATING EXPENSE:		
<i>Personnel—Operating</i>	259,049.12	238,823.23
<i>Personnel—Administration</i>	99,822.13	31,337.42
<i>Professional Fees</i>	2,032.89	--
<i>Maintenance and Repairs</i>	172,869.64	162,522.27
<i>Utilities</i>	114,856.24	114,598.57
<i>Supplies, Materials and Postage</i>	17,796.16	12,890.31
<i>Vehicle Expense</i>	10,682.14	11,426.14
<i>Other Operating Expense</i>	18,837.01	19,124.96
<i>Depreciation</i>	185,374.54	163,926.60
Total Operating Expense	881,319.87	754,649.50
Operating Income (Loss)	(165,146.41)	2,488.95
NON-OPERATING REVENUE (EXPENSE):		
<i>Interest Earnings</i>	22,784.37	47,407.12
<i>Interest Expense</i>	(63,875.00)	(64,287.50)
<i>Bond Paying Agent Fees</i>	(454.30)	--
Total Non-operating Revenue (Expense)	(41,544.93)	(16,880.38)
Net Income (Loss)	(206,691.34)	(14,391.43)
Retained Earnings (Deficit), October 1	(114,544.12)	(100,152.69)
Retained Earnings (Deficit), September 30	\$ (321,235.46)	\$ (114,544.12)

SUPPLEMENTAL INFORMATION

CITY OF WILLIS, TEXAS

*ANALYSIS OF CHANGES IN AD VALOREM TAXES RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 1999*

Taxes Receivable, 10-1-98		\$	80,693.30
<i>Adjustments to Delinquent Taxes</i>			(355.74)
<i>1998 Original Roll</i>	\$	401,193.61	
<i>Errors and Corrections</i>		4,690.77	405,884.38
Total Taxes to be Accounted for			486,221.94

Tax Collections

<i>Current Collections</i>	383,255.43	
<i>Delinquent Collections</i>	30,745.07	414,000.50
Taxes Receivable, 9-30-99		72,221.44

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>
1998	\$ 401,193.61	\$ 4,690.77	\$ 383,255.43	\$ 22,628.95
1997	28,854.85	266.76	19,437.47	9,684.14
1996	7,943.80	497.74	3,512.43	4,929.11
1995	4,761.77	--	1,575.77	3,186.00
1994	4,522.61	197.46	1,554.79	3,165.28
1993	5,179.83	(9.13)	971.60	4,199.10
1992	4,072.03	(18.17)	910.52	3,143.34
1991	3,724.40	(65.37)	465.15	3,193.88
1990	5,007.72	(61.16)	570.93	4,375.63
1989 and Prior	16,626.29	(1,163.87)	1,746.41	13,716.01
Taxes Receivable, 9-30-99				\$ 72,221.44

Property Valuation:

<u>Year of Assessment</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
Market Value @ Jan. 1 -					
<i>Land</i>	\$ 21,352,280	\$ 17,753,950	\$ 17,567,960	\$ 15,527,150	\$ 14,952,760
<i>Improvements</i>	58,026,718	55,725,290	54,367,730	50,187,314	25,836,370
<i>Personal Property</i>	13,894,840	12,555,866	11,756,213	10,771,402	10,225,066
Total Market Value	93,273,838	86,035,106	83,691,903	76,485,866	51,014,196
<i>Exempt Property</i>	28,633,001	27,762,350	27,463,410	25,282,710	2,559,140
<i>Productivity Exemptions</i>	1,304,020	1,067,160	1,052,010	297,420	297,420
<i>Old Age Exemptions</i>	813,034	829,860	771,520	711,660	697,210
<i>Disabled Vet Exemptions</i>	142,380	137,380	164,749	39,880	37,380
<i>Proration & House Bill 366</i>	4,673	132,653	--	--	--
<i>Freeport</i>	172,579	91,923	489,390	170,044	709,275
Net Taxable Value	62,204,151	56,013,780	53,750,824	49,984,152	46,713,771

Tax Rate Per \$100 Value-

<i>Maintenance & Operation</i>	0.46410	0.44060	0.42405	0.40792	0.38982
<i>Debt Service</i>	0.18080	0.20430	0.21808	0.23706	0.25973
Total Rate	0.64490	0.64490	0.64213	0.64498	0.64955

Original Tax Levy	\$ 401,193.61	\$ 364,976.32	\$ 345,147.06	\$ 322,387.96	\$ 303,429.29
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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, 1999

Month	Water Usage In Gallons		Number of Customers Served	
	Pumped	Sold	Water	Sewer
October, 1998	20,327,300	12,601,200	1,480	1,259
November, 1998	16,787,000	13,950,700	1,484	1,264
December, 1998	16,381,900	14,100,000	1,482	1,262
January, 1999	16,298,100	14,271,000	1,483	1,269
February, 1999	14,447,700	13,256,000	1,495	1,277
March, 1999	16,051,500	12,189,200	1,501	1,287
April, 1999	17,829,800	12,700,500	1,519	1,297
May, 1999	16,871,300	13,419,900	1,530	1,304
June, 1999	11,171,200	14,155,000	1,543	1,319
July, 1999	16,900,200	15,514,400	1,556	1,329
August, 1999	21,230,800	23,770,900	1,561	1,331
September, 1999	26,685,200	17,312,300	1,563	1,334
Totals	210,982,000	177,241,100		
Average	17,581,833	14,770,092	1,516	1,294

CITY OF WILLIS, TEXAS
SCHEDULE OF CAPITAL LEASES PAYABLE
YEAR ENDED SEPTEMBER 30, 1999

Payable To, Purpose And Lawful Authority	Date Issued & Interest Rate	Maturity Schedule	Fund Payable From	Principal Balance 10-1-98	Current Year Transactions	
					Issued	Retired
GENERAL FUND:						
Chicord Financial Service <i>Rehabilitation Center Public Property Finance Act</i>	6-20-90 8.30%	168 Months @ \$8,125	General	\$ 469,347.64	\$ --	\$ 469,347.64
T. Warren Investments <i>Rehab Center Land Public Property Finance Act</i>	6-20-90 No Interest	168 Months @ \$375	General	27,750.00	--	27,750.00
Total				\$ 497,097.64	\$ --	\$ 497,097.64

Principal Balance 9-30-99	Interest Year Ended 9-30-99	Annual Requirements				Interest 10-01-01 To Maturity
		Year Ending 9-30-00		Year Ending 9-30-01		
		Principal	Interest	Principal	Interest	
\$ --	\$ 50,077.27	\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--	--	--
<u>\$ --</u>	<u>\$ 50,077.27</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

CITY OF WILLIS, TEXAS
ANALYSIS OF CHANGES IN DEBT
YEAR ENDED SEPTEMBER 30, 1999

Description	Date of Issue	Amount of Issue	Interest Rate	Principal Outstanding 10-1-98	Debt Issued	Debt Retired
GENERAL OBLIGATION DEBT:						
<i>Combination Tax & Revenue Certificates of Obligation, 1986 Series</i>	05-01-86	\$ 800,000	7.5% to 9.0%	\$ 230,000	\$ --	\$ 95,000
Total General Obligation Debt				230,000	--	95,000
WATER AND SEWER UTILITY FUND DEBT:						
<i>Waterworks and Sewer System Revenue Bonds, Series 1995-A</i>	11-01-95	110,000	3.7% to 5.4%	100,000	--	5,000
<i>Waterworks and Sewer System Revenue Bonds, Series 1995-B</i>	11-01-95	1,170,000	4.25% to 5.95%	1,160,000	--	5,000
Total Water & Sewer Utility Fund Debt				\$ 1,260,000	\$ --	\$ 10,000

Principal Outstanding 9-30-99	Interest Current Year	Requirements				Interest 10-1-01 To Maturity
		Year Ending 9-30-00		Year Ending 9-30-01		
		Principal	Interest	Principal	Interest	
\$ 135,000	\$ 16,378	\$ 100,000	\$ 7,650	\$ 35,000	\$ 1,575	\$ --
<u>135,000</u>	<u>16,378</u>	<u>100,000</u>	<u>7,650</u>	<u>35,000</u>	<u>1,575</u>	<u>--</u>
95,000	5,440	5,000	5,213	5,000	4,980	42,873
1,155,000	58,435	5,000	58,235	15,000	58,030	528,023
<u>\$ 1,250,000</u>	<u>\$ 63,875</u>	<u>\$ 10,000</u>	<u>\$ 63,448</u>	<u>\$ 20,000</u>	<u>\$ 63,010</u>	<u>\$ 570,896</u>

CITY OF WILLIS, TEXAS

EXHIBIT C-4-1

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

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
Total Due		359,789.38	308,198.75	800,000.00	1,467,988.13
Retired -					
Prior to Oct. 1, 1998		341,836.88	300,548.75	570,000.00	1,212,385.63
In 1998-99		10,302.50	6,075.00	95,000.00	111,377.50
Balance, Sept. 30, 1999		\$ 7,650.00	\$ 1,575.00	\$ 135,000.00	\$ 144,225.00

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, 1998		5,766.25	5,766.25	10,000.00	21,532.50
In 1998–99		2,720.00	2,720.00	5,000.00	10,440.00
Balance, Sept. 30, 1999		\$ 26,532.50	\$ 26,532.50	\$ 95,000.00	\$ 148,065.00

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

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

EXHIBIT C-4-3

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, 1998		58,720.00	58,720.00	10,000.00	127,440.00
In 1998–99		29,217.50	29,217.50	5,000.00	63,435.00
Balance, Sept. 30, 1999		\$ 322,143.75	\$ 322,143.75	\$ 1,155,000.00	\$ 1,799,287.50

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***

SAULS & PECHACEK

P.O. Box 549
Bellville, Texas 77418
979-865-3169

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

We have audited the financial statements of the City of Willis, Texas as of and for the year ended September 30, 1999, and have issued our report thereon dated March 16, 2000. We conducted our 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.

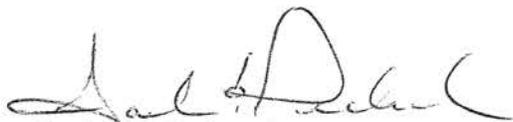
Compliance

As part of obtaining reasonable assurance about whether the City of Willis, Texas financial statements are free of material misstatement, we 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 our audit and, accordingly, we do not express such an opinion. The results of our 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 99-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Willis, Texas internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our 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. We noted no matters involving the internal control over financial reporting and its operation that we 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.



Sauls and Pechacek

March 21, 2000

CITY OF WILLIS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 1999

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.

An unqualified opinion was issued on compliance for major programs.

The audit disclosed no audit findings which are required to be reported in this schedule under OMB Circular A-133.

Major programs are as follows:

Texas Department of Housing and Community Affairs / Texas Capital Fund

The threshold used to distinguish between Type A and Type B federal programs was \$300,000.

The City was classified as a low risk 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>
99-1	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 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 have any prior year disclosures.

FEDERAL FINANCIAL ASSISTANCE SECTION

SAULS & PECHACEK
P.O. Box 549
Bellville, Texas 77418
979-865-3169

Independent Auditor's Report

Report on Compliance with Requirements Applicable
To each Major Program and Internal Control over Compliance
In Accordance With OMB Circular A-133

Honorable Mayor and Members of the City Council
City of Willis, Texas
P.O. Box 436
Willis, Texas 77378

Members of the City Council:

Compliance

We have audited the compliance of the City of Willis, Texas with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 1999. The City of Willis's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Willis's management. Our responsibility is to express an opinion on the City of Willis's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Willis's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Willis's compliance with those requirements.

In our opinion, the City of Willis complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 1999.

Internal Control Over Compliance

The management of the City of Willis is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Willis's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

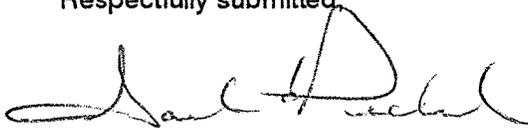
Independent Auditor's Report

Report on Compliance with Requirements Applicable
To each Major Program and Internal Control over Compliance
In Accordance With OMB Circular A-133

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we considered to be material weaknesses.

This report is intended for the information of the 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.

Respectfully submitted,



Sauls and Pechacek

March 21, 2000

CITY OF WILLIS, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 1999

<u>Pass-Through Grantor's Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Accrued or (Deferred) Revenue at 10-1-98</u>
	U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
	Passed Through The Texas Department of Housing and Community Affairs			
714929	Community Development	14.228	\$ <u>526,350</u>	\$ <u>---</u>
	Totals		\$ <u><u>526,350</u></u>	\$ <u><u>---</u></u>

Reconciliation With Special Revenue Fund -

Receipt of Federal Funds (per above)	\$ 328,528.25
Deferred Federal Revenue (per above)	---
Prior Year Deferred Revenue	<u>---</u>
Revenue from Federal Sources (per Exhibit B-4, Combining Statement of Revenue, Expenditures, and Changes in Fund Balance, Special Revenue Fund)	\$ <u><u>328,528.25</u></u>

Exhibit D

Federal Audit Period Transactions		Accrued or (Deferred) Revenue at 9-30-99	Memo Cumulative Local Matching
Receipts	Expenditures		
\$ <u>328,528.25</u>	\$ <u>328,528.25</u>	\$ <u> --</u>	\$ <u> --</u>
\$ <u><u>328,528.25</u></u>	\$ <u><u>328,528.25</u></u>	\$ <u><u> --</u></u>	\$ <u><u> --</u></u>

CITY OF WILLIS, TEXAS

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 1999**

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Willis, Texas and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

CITY OF WILLIS, TEXAS
COMMUNITY DEVELOPMENT BLOCK GRANT
FEDERAL PROGRAM PROJECT SCHEDULE
FISCAL YEAR ENDED SEPTEMBER 30, 1999

EXHIBIT D-1

Federal Financial Assistance Program: Texas Capital Fund/Texas Community Development Program
 Federal Grantor: U. S. Department of Housing and Urban Development
 Pass Through Grantor: Texas Department of Housing and Community Affairs
 CFDA Number: 14.228
 Project Number: 717142
 Contract Period: February 6, 1999 – February 5, 2001

	<u>Budget</u>	<u>Current</u>		<u>Cumulative</u>		<u>Variance— Favorable (Unfavorable)</u>
		<u>Federal</u>	<u>State</u>	<u>Federal</u>	<u>State</u>	
Revenue:						
<i>Federal</i>	\$ 526,350	\$ 328,528.25	\$ --	\$ 381,274.25	\$ --	\$ (145,075.75)
<i>Total</i>	\$ 526,350	\$ 328,528.25	\$ --	\$ 381,274.25	\$ --	\$ (145,075.75)
Expenditures:						
Federal—						
<i>Public Fac. Imprvts.</i>						
<i>Acquisition</i>	\$ 5,000	\$ --	\$ --	\$ --	\$ --	\$ 5,000.00
<i>Engineering</i>	69,650	25,704.00	--	69,450.00	--	200.00
<i>Water Improvements</i>	197,801	129,458.62	--	129,458.62	--	68,342.38
<i>Sewer Improvements</i>	218,899	155,390.63	--	155,390.63	--	63,508.37
<i>Administration</i>	35,000	17,975.00	--	26,975.00	--	8,025.00
<i>Total</i>	\$ 526,350	\$ 328,528.25	\$ --	\$ 381,274.25	\$ --	\$ 145,075.75
Excess (Deficit) of Revenues Over Expenditures	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

CITY OF WILLIS, TEXAS
*ELECTED OFFICIALS, ADMINISTRATIVE PERSONNEL,
 AND LEGAL COUNSEL*
 SEPTEMBER 30, 1999

<u>Position:</u>	<u>Name/Address:</u>	<u>Term Expires:</u>
Mayor	Ruth Castleschouldt	2001
Alderman Place No. 1	Thomas Belinoski	2000
Alderman Place No. 2	Robert Hill	2000
Alderwoman Place No. 3	Josey Billnoske	2001
Alderman Place No. 4	W. L. Bilnoski	2001
Alderman Place No. 5	Leonard Reed	2001
City Attorney	J. Ritchie Field P.O. Box 2804 Conroe, Texas 77305	Appointed By Council
City Secretary	Brenda Burns	Appointed By Council
City Coordinator	Michael Arthur	Appointed By Council