

Audit Report

CITY OF WILLIS, TEXAS
Willis, Texas

**FOR THE YEAR ENDED
SEPTEMBER 30, 1998**

Sauls & Pechacek, PA
Bellville, Texas

CITY OF WILLIS, TEXAS

AUDIT FOR THE YEAR ENDED SEPTEMBER 30, 1998

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
INDEPENDENT AUDITOR'S REPORT.....	1	
GENERAL PURPOSE FINANCIAL STATEMENTS		
Combined Balance Sheet--All Fund Types and Account Groups.....	2-3	A-1
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance--All Governmental Funds.....	4-5	A-2
Statement of Revenues, Expenditures and Changes in Fund Balance--Budget and Actual, All Governmental Funds.....	6-7	A-3
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings--All Proprietary Fund Types.....	8	A-4
Statement of Cash Flows--All Proprietary Fund Types.....	9	A-5
Notes to the Financial Statements.....	10-20	
COMBINING AND INDIVIDUAL FUND STATEMENTS		
General Fund--		
Balance Sheet.....	21	B-1
Statement of Revenues, Expenditures and Changes in Fund Balance--Budget and Actual.....	22-23	B-2
Special Revenue Fund--		
Combining Balance Sheet.....	24	B-3
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	25	B-4
Debt Service Fund--		
Balance Sheet.....	26	B-5
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual.....	27	B-6
Water and Sewer Utility Fund--		
Balance Sheet.....	28	B-7
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings--All Proprietary Fund Types.....	29	B-8
SUPPLEMENTAL INFORMATION		
Analysis of Changes in Ad Valorem Taxes Receivable.....	30	C-1
Schedule of Water Usage and Number of Customers Served.....	31	C-2
Schedule of Capital Leases Payable.....	32-33	C-3
Analysis of Changes in Debt.....	34-35	C-4
Repayment Schedule--		
Series 1986 Combination Tax and Revenue Certificates of Obligation.....	36	C-4-1
Series 1995--A Waterworks and Sewer System Revenue Bonds.....	37	C-4-2
Series 1995--B Waterworks and Sewer System Revenue Bonds.....	38	C-4-3
OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION		
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39	
Schedule of Findings and Questioned Costs.....	40	
ELECTED OFFICIALS, ADMINISTRATIVE PERSONNEL AND LEGAL COUNSEL.....		
	41	

SAULS & PECHACEK

P.O. Box 549
Bellville, Texas 77418
409-865-3169

Independent Auditor's Report

Unqualified Opinion on General Purpose Financial Statements Submitted Together with Combining and Individual Fund Financial Statements 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, 1998, 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, 1998, 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 13, 1999, 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

May 12, 1999

GENERAL PURPOSE FINANCIAL STATEMENTS

CITY OF WILLIS, TEXAS
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 SEPTEMBER 30, 1998

	Governmental Fund Types		
	General	Special Revenue	Debt Service
ASSETS			
Cash	\$ 11,730.02	\$ --	\$ --
Temporary Investments	269,161.08	--	72,604.88
Receivables—			
Property Tax	49,551.35	--	31,141.95
Service Accounts	38,989.16	--	--
Allowance for Uncollectible Accounts	(15,599.38)	--	(12,835.68)
Due from State	28,573.82	--	--
Miscellaneous	7,080.53	--	--
Supplies Inventory	--	--	--
Due from Other Funds	--	--	2,885.16
Property, Plant, & Equipment (Net)	--	--	--
Restricted Assets—			
Cash & Temporary Investments	--	--	--
Amounts Available for Debt Service	--	--	--
Amounts to be Provided for Debt Service	--	--	--
Total Assets	389,486.58	--	93,796.31
LIABILITIES			
Accounts Payable	9,860.86	--	--
Payroll Withholdings	831.50	--	--
Current Portion — Capital Leases	--	--	--
Current Portion — Bonded Debt	--	--	--
Due to State	21,901.58	--	--
Customer Deposits	--	--	--
Due to Other Funds	86,698.58	--	--
Leases Payable—Future Maturities	--	--	--
General Obligation Bonds Payable	--	--	--
Revenue Bonds Payable	--	--	--
Miscellaneous	251.63	--	--
Deferred Revenue	33,951.97	--	18,306.27
Total Liabilities	153,496.12	--	18,306.27
FUND EQUITY			
Contributed Capital	--	--	--
Investment in General Fixed Assets	--	--	--
Retained Earnings—			
Reserved for Revenue Bond Retirement	--	--	--
Unreserved (Deficit)	--	--	--
Fund Balance—			
Reserved for Police Activity	382.42	--	--
Reserved for Retirement of Bonded Debt	--	--	75,490.04
Unreserved	235,608.04	--	--
Total Fund Equity	235,990.46	--	75,490.04
Total Liabilities & Fund Equity	\$ 389,486.58	\$ --	\$ 93,796.31

(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	1998	1997
\$ 44.48	\$ ---	\$ ---	\$ 11,774.50	\$ 89,060.95
388,083.46	---	---	729,849.42	722,664.19
---	---	---	80,693.30	88,511.27
185,234.01	---	---	224,223.17	138,059.36
(13,856.32)	---	---	(42,291.38)	(28,064.51)
---	---	---	28,573.82	---
---	---	---	7,080.53	16,721.19
14,838.26	---	---	14,838.26	17,414.88
83,813.42	---	---	86,698.58	52,749.45
3,668,527.20	1,657,547.42	---	5,326,074.62	5,015,320.71
373,281.33	---	---	373,281.33	815,113.87
---	---	75,490.04	75,490.04	62,941.02
---	---	651,607.60	651,607.60	848,069.04
<u>4,699,965.84</u>	<u>1,657,547.42</u>	<u>727,097.64</u>	<u>7,567,893.79</u>	<u>7,838,561.42</u>
10,343.80	---	---	20,204.66	36,983.48
---	---	---	831.50	2,349.24
---	---	65,323.40	65,323.40	78,579.33
10,000.00	---	95,000.00	105,000.00	100,000.00
---	---	---	21,901.58	6,927.29
44,915.72	---	---	44,915.72	41,165.45
---	---	---	86,698.58	52,749.45
---	---	431,774.24	431,774.24	512,430.73
---	---	135,000.00	135,000.00	230,000.00
1,250,000.00	---	---	1,250,000.00	1,260,000.00
---	---	---	251.63	250.00
---	---	---	52,258.24	85,559.18
<u>1,315,259.52</u>	<u>---</u>	<u>727,097.64</u>	<u>2,214,159.55</u>	<u>2,406,994.15</u>
3,499,250.44	---	---	3,499,250.44	3,499,250.44
---	1,657,547.42	---	1,657,547.42	1,650,370.88
12,315.81	---	---	12,315.81	122.87
(126,859.93)	---	---	(126,859.93)	(100,275.56)
---	---	---	382.42	38.10
---	---	---	75,490.04	62,941.02
---	---	---	235,608.04	319,119.52
<u>3,384,706.32</u>	<u>1,657,547.42</u>	<u>---</u>	<u>5,353,734.24</u>	<u>5,431,567.27</u>
<u>\$ 4,699,965.84</u>	<u>\$ 1,657,547.42</u>	<u>\$ 727,097.64</u>	<u>\$ 7,567,893.79</u>	<u>\$ 7,838,561.42</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, 1998**

	Operating Fund	Special Revenue Fund
	<u> </u>	<u> </u>
Revenues:		
<i>Property Taxes</i>	\$ 263,049.98	\$ --
<i>Sales Tax</i>	275,007.01	--
<i>Franchise Tax, Street Rental</i>	107,531.79	--
<i>Sanitation and Landfill</i>	325,059.63	--
<i>Fines and Court Costs</i>	142,572.22	--
<i>Permits, License and Inspection</i>	20,490.74	--
<i>Rental Income</i>	119,250.00	--
<i>Miscellaneous</i>	12,378.03	--
<i>Interest Earnings</i>	17,347.66	--
<i>Grants Revenue--</i>		
<i>Local Matching Grant Revenue</i>	--	21,651.20
<i>State Grant Revenue</i>	--	52,746.00
<i>Federal Grant Revenue</i>	--	41,741.75
	<u> </u>	<u> </u>
Total Revenues	1,282,687.06	116,138.95
Expenditures:		
<i>City General</i>	172,520.45	--
<i>City Office</i>	137,292.53	--
<i>Police Department</i>	420,927.19	--
<i>Sanitation/Landfill</i>	272,622.66	--
<i>Treatment Facility</i>	41,505.14	--
<i>Street Department</i>	210,729.98	--
<i>Municipal Court</i>	49,761.41	--
<i>Grant Expenditures</i>	--	116,138.95
<i>Debt Service</i>	--	--
	<u> </u>	<u> </u>
Total Expenditures	1,305,359.36	116,138.95
Excess (Deficiency) of Revenues Over Expenditures	(22,672.30)	--
Other Sources (Uses):		
<i>Capital Lease Principal</i>	<u>(60,494.86)</u>	<u> </u>
Excess (Deficiency) of Revenues and Other Resources Over Expenditures and Other Uses	(83,167.16)	--
Fund Balance, October 1	<u>319,157.62</u>	<u> </u>
Fund Balance, September 30	<u>\$ 235,990.46</u>	<u>\$ --</u>

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

Debt Service Fund	Totals (Memorandum Only)	
	Year Ended September 30, 1998	Year Ended September 30, 1997
\$ 126,413.65	\$ 389,463.63	\$ 382,106.24
--	275,007.01	228,921.57
--	107,531.79	99,681.30
--	325,059.63	254,495.11
--	142,572.22	102,502.55
--	20,490.74	9,541.42
--	119,250.00	117,850.00
--	12,378.03	23,046.79
1,799.33	19,146.99	12,351.09
--	21,651.20	36,096.55
--	52,746.00	--
--	41,741.75	749,242.99
<u>128,212.98</u>	<u>1,527,038.99</u>	<u>2,015,835.61</u>
--	172,520.45	133,371.00
--	137,292.53	96,101.59
--	420,927.19	481,550.76
--	272,622.66	219,836.01
--	41,505.14	45,950.31
--	210,729.98	90,791.07
--	49,761.41	45,427.46
--	116,138.95	785,339.54
<u>115,663.96</u>	<u>115,663.96</u>	<u>118,347.30</u>
<u>115,663.96</u>	<u>1,537,162.27</u>	<u>2,016,715.04</u>
12,549.02	(10,123.28)	(879.43)
--	(60,494.86)	(76,485.90)
12,549.02	(70,618.14)	(77,365.33)
<u>62,941.02</u>	<u>382,098.64</u>	<u>459,463.97</u>
<u>\$ 75,490.04</u>	<u>\$ 311,480.50</u>	<u>\$ 382,098.64</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, 1998**

	OPERATING FUND		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
<i>Property Taxes</i>	\$ 287,000	\$ 263,049.98	\$ (23,950.02)
<i>Sales Tax</i>	235,000	275,007.01	40,007.01
<i>Franchise Tax, Street Rental</i>	105,000	107,531.79	2,531.79
<i>Sanitation and Landfill</i>	225,000	325,059.63	100,059.63
<i>Fines and Court Costs</i>	102,000	142,572.22	40,572.22
<i>Permits, License and Inspection</i>	10,000	20,490.74	10,490.74
<i>Rental Income</i>	117,000	119,250.00	2,250.00
<i>Miscellaneous</i>	5,110	12,378.03	7,268.03
<i>Interest Earnings</i>	10,000	17,347.66	7,347.66
<i>Grants Revenue</i>	--	--	--
Total Revenues	1,096,110	1,282,687.06	186,577.06
Expenditures:			
<i>City General</i>	242,650	172,520.45	70,129.55
<i>City Office</i>	149,600	137,292.53	12,307.47
<i>Police Department</i>	390,480	420,927.19	(30,447.19)
<i>Sanitation/Landfill</i>	210,500	272,622.66	(62,122.66)
<i>Treatment Facility</i>	102,000	41,505.14	60,494.86
<i>Street Department</i>	94,000	210,729.98	(116,729.98)
<i>Municipal Court</i>	48,750	49,761.41	(1,011.41)
<i>Grant Expenditures</i>	--	--	--
<i>Debt Service</i>	--	--	--
Total Expenditures	1,237,980	1,305,359.36	(67,379.36)
Excess (Deficiency) of Revenues Over Expenditures	\$ (141,870)	(22,672.30)	\$ 119,197.70
Other Sources (Uses):			
<i>Capital Lease Principal</i>		(60,494.86)	
Excess (Deficiency) of Revenue and Other Resources Over Expend. and Other Uses		(83,167.16)	
Fund Balance, October 1		319,157.62	
Fund Balance, September 30		\$ 235,990.46	

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

SPECIAL REVENUE FUND			DEBT SERVICE FUND		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ --	\$ --	\$ --	\$ 140,500	\$ 126,413.65	\$ (14,086.35)
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	650	1,799.33	1,149.33
<u>1,098,816</u>	<u>116,138.95</u>	<u>(982,677.05)</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>1,098,816</u>	<u>116,138.95</u>	<u>(982,677.05)</u>	<u>141,150</u>	<u>128,212.98</u>	<u>(12,937.02)</u>
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
1,098,816	116,138.95	982,677.05	--	--	--
<u>--</u>	<u>--</u>	<u>--</u>	<u>115,765</u>	<u>115,663.96</u>	<u>101.04</u>
<u>1,098,816</u>	<u>116,138.95</u>	<u>982,677.05</u>	<u>115,765.00</u>	<u>115,663.96</u>	<u>101.04</u>
\$ <u><u>--</u></u>	\$ <u><u>--</u></u>	\$ <u><u>--</u></u>	\$ <u><u>25,385.00</u></u>	\$ <u><u>12,549.02</u></u>	\$ <u><u>(12,835.98)</u></u>
	--			--	
	--			--	
	--			12,549.02	
	--			62,941.02	
	\$ <u><u>--</u></u>		\$ <u><u>75,490.04</u></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, 1998

	Water and Sewer Utility Fund	
	1998	1997
OPERATING REVENUE:		
<i>Charges for Water and Sewer Service</i>	\$ 674,024.73	\$ 636,942.54
<i>Water and Sewer Connections</i>	44,148.25	61,055.26
<i>Late Payment Penalties</i>	28,470.38	25,002.65
<i>Service Charges</i>	7,175.00	6,539.14
<i>Inspection Fees</i>	2,410.00	
<i>Miscellaneous Income</i>	910.09	3,330.00
Total Operating Revenue	757,138.45	732,869.59
OPERATING EXPENSE:		
<i>Personnel—Operating</i>	238,823.23	184,145.79
<i>Personnel—Administration</i>	31,337.42	27,920.77
<i>Professional Fees</i>	0.00	321.05
<i>Maintenance and Repairs</i>	162,522.27	105,381.49
<i>Utilities</i>	114,598.57	106,749.21
<i>Supplies, Materials and Postage</i>	12,890.31	19,214.94
<i>Vehicle Expense</i>	11,426.14	12,331.25
<i>Other Operating Expense</i>	19,124.96	18,255.98
<i>Depreciation</i>	163,926.60	146,596.15
Total Operating Expense	754,649.50	620,916.63
Operating Income (Loss)	2,488.95	111,952.96
NON-OPERATING REVENUE (EXPENSE):		
<i>Interest Earnings</i>	47,407.12	82,819.06
<i>Interest Expense</i>	(64,287.50)	(68,337.79)
<i>Bond Paying Agent Fees</i>	0.00	(1,502.00)
Total Non-operating Revenue (Expense)	(16,880.38)	12,979.27
Net Income (Loss)	(14,391.43)	124,932.23
Retained Earnings (Deficit), October 1	(100,152.69)	(225,084.92)
Retained Earnings (Deficit), September 30	\$ (114,544.12)	\$ (100,152.69)

(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, 1998

EXHIBIT A-5

	1998	(Memorandum) 1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
<i>Cash Received from Customers</i>	\$ 674,616.91	\$ 706,521.30
<i>Cash Payments for Personnel Costs</i>	(270,160.65)	(212,066.56)
<i>Cash Payments for Operating Expenses</i>	(323,925.28)	(232,000.47)
Net Cash Provided by Operating Activities	80,530.98	262,454.27
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
<i>Interfund Loan (Out)</i>	(83,813.42)	--
<i>Net Inflow from Customer Deposits</i>	3,750.27	2,716.05
Net Cash (Used for) Noncapital Financing Activities	(80,063.15)	2,716.05
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
<i>Acquisition and Construction of Capital Assets (Net)</i>	(468,174.69)	(619,902.58)
<i>Interest Received from Time Deposits and Investments</i>	47,407.12	82,819.06
<i>Principal Paid on Debt</i>	(10,000.00)	(70,566.26)
<i>Interest and Fees Paid on Debt</i>	(64,287.50)	(54,486.79)
Net Cash (Used for) Capital and Related Financial Activities	(495,055.07)	(662,136.57)
CASH FLOWS FROM INVESTING ACTIVITIES	--	--
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	(494,587.24)	(396,966.25)
CASH AND RESTRICTED CASH, October 1	1,255,996.51	1,652,962.76
CASH AND RESTRICTED CASH, September 30	761,409.27	1,255,996.51
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY PROVIDED BY OPERATING ACTIVITIES:		
<i>Operating Income</i>	2,488.95	111,952.96
Adjustments to Reconcile Operating Income to Net Cash Provided By (Used For) Operating Activities –		
<i>Depreciation</i>	163,926.60	146,596.15
Changes in Assets and Liabilities –		
<i>(Increase) Decrease in Accounts Receivable</i>	(78,117.39)	(12,617.81)
<i>(Increase) Decrease in Inventory</i>	2,576.62	--
<i>Increase (Decrease) in Accounts Payable</i>	(10,343.80)	16,522.97
Total Adjustments	78,042.03	150,501.31
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 80,530.98	\$ 262,454.27

(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, 1998

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, 1998

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, 1998, the City levied an ad valorem tax of \$.6449 per \$100 of assessed valuation which resulted in a levy of \$364,976 on the net assessed taxable valuation of \$56,013,780 for the 1997 tax year. Of the total \$.6449 per \$100 valuation rate, \$.2043 was allocated to general obligation debt retirement and \$.4406 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. Cash and Investments

During the year under audit, the City had cash deposits with two commercial financial institutions. The City's deposits at September 30, 1998, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank. Although the pledged securities were not held by the City of Willis, the deposits were deemed collateralized under Texas law. All funds were properly secured at all times.

In addition, the following information is disclosed regarding coverage of combined balances on the date of the highest deposit:

- a.

1) <u>Woodforest National Bank</u>	(2) <u>Wells Fargo Bank</u>
Willis, Texas	Willis, Texas
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was (1) \$2,084,6720 Market Value and (2) \$1,308,567 Market Value.
- c. Largest cash, savings and time deposit combined account balance amounted to (1) \$799,694 and (2) \$894,898 and occurred during the month of (1) March, 1998 and (2) October, 1997.

CITY OF WILLIS, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 1998

C. Cash and Investments (continued)

- d. Total amount of FDIC coverage at the time of largest combined balance was (1) \$200,483, and (2) \$168,408.

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.

Temporary Investments

Statutes authorize the City to invest in obligation of the U.S. Treasury of the State of Texas, certain U.S. agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, common trust funds, and other investments specifically allowed by the Public Funds Investment Act of 1987 (Article 842a.-2 Vernon's Civil Statutes).

During the year ended September 30, 1998, the City's temporary investments consisted entirely of certificates of deposit and money market accounts with insured banking institutions.

Similar to cash deposits, investments held at a financial institution can be categorized according to three levels of risk. These three levels of risk are:

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

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

D. Loans

The City had no loans issued or outstanding during the year ended September 30, 1998.

CITY OF WILLIS, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 1998

E. Capital Leases

The City has entered into a capital lease for the acquisition of land and buildings that is leased to Montgomery County for use as a detention center. This lease contains a non-appropriation clause which gives the City the right to void its obligation under this lease in the event that funds are not available for appropriation by the City. The lease is for a period of 168 months beginning June 20, 1990, and bears interest at the rate of 8.30% on the unpaid principal balance. This lease is payable at the rate of \$8,500 per month. The City's future obligation under the outstanding leases is as follows:

Year Ending September 30	General Fund			
	Interest Rate	Principal	Interest	Total
1999	8.3%	\$ 65,323	\$ 36,677	\$ 102,000
2000	8.3%	70,568	31,432	102,000
2001	8.3%	76,265	25,735	102,000
2002	8.3%	82,454	19,546	102,000
2003	8.3%	89,176	12,824	102,000
Subsequent	8.3%	113,311	5,689	119,000
Total		<u>\$ 497,098</u>	<u>\$ 131,902</u>	<u>\$ 629,000</u>

Utility Fund

The City has no obligations for capital leases in the Utility Fund as of September 30, 1998.

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, 1998:

	General Obligation	Revenue	Total
Bonds Payable, October 1, 1997	\$ 320,000	\$ 1,270,000	\$ 1,590,000
Bonds Issued	--	--	--
Bonds Retired	90,000	10,000	100,000
Bonds Payable, September 30, 1998	<u>\$ 230,000</u>	<u>\$ 1,260,000</u>	<u>\$ 1,490,000</u>

Bonds payable at September 30, 1998, 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, 1998 \$ 230,000

CITY OF WILLIS, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 1998

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, 1997 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, 1998 \$ 100,000

\$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, 1997 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, 1998 1,160,000

Total Revenue Bonds outstanding at September 30, 1998 \$ 1,260,000

The next five years annual debt service requirements to amortize all bonds outstanding at September 30, 1998, are as follows:

General Obligation Bonds			
<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 95,000	\$ 16,378	\$ 111,378
2000	100,000	7,650	107,650
2001	35,000	1,575	36,575
2002	--	--	--
2003	--	--	--
Subsequent	--	--	--
Total	<u>\$ 230,000</u>	<u>\$ 25,603</u>	<u>\$ 255,603</u>

Revenue Bonds			
<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 10,000	\$ 63,875	\$ 73,875
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
Subsequent	1,115,000	448,615	1,563,615
Total	<u>\$ 1,260,000</u>	<u>\$ 761,228</u>	<u>\$ 2,021,228</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, 1998

G. Restricted Assets

Cash and temporary investments restricted for retirement of bonded indebtedness and repayment of customer utility meter deposits at September 30, 1998, are as follows:

Waterworks and Sewer System Revenue Bonds, Series 1995-A & B –		
Interest and Sinking Fund –		
Cash – Series 1995-A	\$	1,830
Cash – Series 1995-B		10,486
Construction Fund –		
Temporary Investments		<u>339,466</u>
Total		<u>351,781</u>
Customer Utility Meter Deposits –		
Cash		--
Temporary Investments		<u>21,500</u>
Total		<u>21,500</u>
Total Restricted Assets	\$	<u><u>373,281</u></u>

H. Litigation

The City was not involved in litigation at September 30, 1998.

I. Contingent Liabilities

There were no unrecorded contingent liabilities as of September 30, 1998.

J. Changes in General Fixed Assets

During the year ended September 30, 1997, the following changes occurred in the City's General Fixed Assets:

Balance October 1, 1997	\$	1,650,371
Additions –		
Equipment		7,177
Deletions		<u>--</u>
Balance September 30, 1998	\$	<u><u>1,657,547</u></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%

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, 1998.

CITY OF WILLIS, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 1998

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 700 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, 1997. 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, 1997 valuation is effective for rates beginning January, 1999).

CITY OF WILLIS, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 1998

M. Pension Plan (continued)

Schedule of Actuarial Liabilities and Funding Progress

Fiscal Year End	9/30/93	9/30/94	9/30/95	9/30/96	9/30/97	9/30/98
Actuarial Valuation Date	12/31/92	12/31/93	12/31/94	12/31/95	12/31/96	12/31/97
Actuarial Value of Assets \$	290,834 \$	348,689 \$	329,657 \$	390,367 \$	442,707 \$	529,001
Actuarial Accrued Liability	273,970	332,548	297,069	357,560	399,048	516,332
Percentage Funded	106.2%	104.9%	111.0%	109.2%	110.9%	102.5%
Under (Over) Funded Actuarial						
Accrued Liability (UAAL)	(16,864)	(16,141)	(32,588)	(32,807)	(43,659)	(12,669)
Annual Covered Payroll	359,128	362,606	410,478	455,655	545,104	664,890
UAAL as a Percentage of						
Covered Payroll	--	--	--	--	--	--
Net Pension Obligation (NPO)						
at Beginning of Period	--	--	--	--	--	--
Annual Pension Cost—						
Annual Required						
Contribution (ARC)	12,123	11,754	15,851	14,292	14,920	19,760
Interest on NPO	--	--	--	--	--	--
Adjustment to the ARC	--	--	--	--	--	--
Total Pension Cost	12,123	11,754	15,851	14,292	14,920	19,760
Contributions Made	12,123	11,754	15,851	14,292	14,920	19,760
Increase in NPO	--	--	--	--	--	--
NPO at End of Period	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

N. Health Care Coverage

During the year ended September 30, 1998, 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, 1998, 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, 1998, 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, 1998

O. Deficit Retained Earnings

The City's Unreserved Retained Earnings account for the Utility Fund reflects a deficit of \$114,544.12. This deficit is the result of the City's failure to totally fund depreciation expense and is approximately \$14,400 more than the September 30, 1997 Retained Earnings deficit.

P. Year 2000 Issues

In accordance with GASB Technical Bulletin 98-1, "Disclosures about Year 2000 Issues," following are disclosures about year 2000 issue in general and of the City's progress and commitments at year end in dealing with this issue.

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 but not yet payable by the City at September 30, 1998, to make computer systems and other electronic equipment 2000-compliant.

The following stages of work have been identified by GASB Technical Bulletin 98-1, "Disclosures about Year 2000 Issues," as necessary to implement a year-2000 compliant system. 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 for year 2000 compliance or, through a risk analysis, identify only mission-critical systems and equipment—systems and equipment critical to conducting operations—to check for compliance.
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 make the systems year 2000-compliant, and the required system 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.

P. Year 2000 Issues (continued)

The City currently is in the assessment stage as defined above.

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 has been adequately considered in the planning and implementation of its work in preparing for the year 2000.

***COMBINING AND
INDIVIDUAL FUND STATEMENTS***

CITY OF WILLIS, TEXAS
 GENERAL FUND
 BALANCE SHEET
 SEPTEMBER 30, 1998

EXHIBIT B-1

	1998	1997
ASSETS:		
Cash	\$ 11,730.02	\$ 50,409.67
Temporary Investments	269,161.08	250,038.10
Receivables—		
Garbage Service	38,989.16	52,107.30
Property Tax	49,551.35	34,436.80
Allowance for Uncollectible Taxes	(15,599.38)	(10,421.46)
Due from State	28,573.82	--
Miscellaneous	7,080.53	16,721.19
Due from Other Funds	--	21,551.88
Total Assets	389,486.58	414,843.48
LIABILITIES:		
Accounts Payable	9,860.86	13,275.92
Payroll Withholdings	831.50	2,349.24
Due to State	21,901.58	6,927.29
Due to Other Funds	86,698.58	31,197.57
Miscellaneous	251.63	250.00
Deferred Revenue	33,951.97	41,685.84
Total Liabilities	153,496.12	95,685.86
FUND EQUITY:		
Reserved for Police Activity	382.42	38.10
Unreserved Fund Balance	235,608.04	319,119.52
Total Equity	235,990.46	319,157.62
Total Liabilities and Fund Equity	\$ 389,486.58	\$ 414,843.48

CITY OF WILLIS, TEXAS

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES

IN FUND BALANCE – BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 1998

EXHIBIT B-2

Page 1 of 2

	1998		Variance – Favorable (Unfavorable)	1997 Actual
	Budget	Actual		
REVENUES:				
Ad Valorem Taxes	\$ 287,000	\$ 263,049.98	\$ (23,950.02)	\$ 244,874.36
City Sales Taxes	235,000	275,007.01	40,007.01	228,921.57
Franchise Taxes and Street Rental	105,000	107,531.79	2,531.79	99,681.30
Sanitation and Landfill	225,000	325,059.63	100,059.63	254,495.11
Fines and Court Costs	102,000	142,572.22	40,572.22	102,502.55
Permits, License, and Inspection	10,000	20,490.74	10,490.74	9,541.42
Rental Income	117,000	119,250.00	2,250.00	117,850.00
Miscellaneous	5,110	12,378.03	7,268.03	23,046.79
Interest Earned	10,000	17,347.66	7,347.66	11,610.57
Total Revenues	1,096,110	1,282,687.06	186,577.06	1,092,523.67
EXPENDITURES:				
CITY GENERAL:				
<i>Purchased and Contracted Services</i>	37,800	53,672.76	(15,872.76)	47,685.39
<i>Maintenance and Repairs</i>	30,000	6,710.14	23,289.86	5,347.31
<i>Other Operating Costs</i>	74,850	60,166.18	14,683.82	64,885.13
<i>Festival/Birthday Blast</i>	--	2,573.25	(2,573.25)	15,453.17
<i>Contingency Reserve</i>	100,000	49,398.12	50,601.88	--
Total City General	242,650	172,520.45	70,129.55	133,371.00
CITY OFFICE:				
<i>Personnel</i>	135,600	120,656.89	14,943.11	64,660.23
<i>Maintenance and Repairs</i>	4,000	3,604.34	395.66	4,716.94
<i>Supplies, Materials, and Postage</i>	5,000	6,790.72	(1,790.72)	6,181.91
<i>Utilities/Telephone</i>	5,000	6,240.58	(1,240.58)	7,707.82
<i>Capital Outlay</i>	--	--	--	12,834.69
Total City Office	149,600	137,292.53	12,307.47	96,101.59
POLICE DEPARTMENT:				
<i>Personnel</i>	317,500	317,877.26	(377.26)	334,909.01
<i>Professional Services</i>	--	1,289.00	(1,289.00)	--
<i>Maintenance and Repairs</i>	13,000	6,370.45	6,629.55	5,884.54
<i>Supplies, Materials, Uniforms & Postage</i>	9,980	10,388.09	(408.09)	10,123.16
<i>Vehicle Expense</i>	32,000	54,819.39	(22,819.39)	30,388.86
<i>Utilities/Telephone</i>	12,000	13,806.30	(1,806.30)	13,150.79
<i>Other Operating Costs</i>	4,000	9,200.16	(5,200.16)	4,740.37
<i>Capital Outlay</i>	2,000	7,176.54	(5,176.54)	79,424.20
<i>Debt Service – Interest</i>	--	--	--	2,929.83
Total Police Department	390,480	420,927.19	(30,447.19)	481,550.76

CITY OF WILLIS, TEXAS

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES

IN FUND BALANCE – BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 1998

	1998		Variance –	1997
	Budget	Actual	Favorable (Unfavorable)	Actual
SANITATION/LANDFILL:				
<i>Purchased and Contracted Services</i>	\$ 210,000	\$ 269,838.66	\$ (59,838.66)	\$ 219,836.01
<i>Professional Services</i>	500	2,784.00	(2,284.00)	--
Total Landfill Department	<u>210,500</u>	<u>272,622.66</u>	<u>(62,122.66)</u>	<u>219,836.01</u>
TREATMENT FACILITY:				
<i>Purchased and Contracted Services</i>	102,000	--	102,000.00	--
<i>Debt Service – Interest</i>	--	41,505.14	(41,505.14)	45,950.31
Total Treatment Facility	<u>102,000</u>	<u>41,505.14</u>	<u>60,494.86</u>	<u>45,950.31</u>
STREET DEPARTMENT:				
<i>Personnel</i>	29,000	26,277.17	2,722.83	22,537.23
<i>Rentals</i>	1,000.00	--	1,000.00	--
<i>Maintenance and Repairs</i>	35,000	150,351.01	(115,351.01)	32,814.69
<i>Supplies, Materials, Uniforms & Postage</i>	5,000	8,263.60	(3,263.60)	8,318.46
<i>Vehicle Expense</i>	4,000	3,256.47	743.53	4,735.18
<i>Utilities</i>	20,000	22,581.73	(2,581.73)	22,385.51
Total Street Department	<u>94,000</u>	<u>210,729.98</u>	<u>(116,729.98)</u>	<u>90,791.07</u>
MUNICIPAL COURT:				
<i>Personnel</i>	31,750	33,687.03	(1,937.03)	28,650.72
<i>Purchases and Contracted Services</i>	13,000	12,628.56	371.44	12,969.69
<i>Maintenance and Repairs</i>	1,500	1,140.42	359.58	995.83
<i>Supplies, Materials, Uniforms & Postage</i>	2,000	2,007.98	(7.98)	2,248.41
<i>Other Operating Costs</i>	500	297.42	202.58	562.81
Total Municipal Court	<u>48,750</u>	<u>49,761.41</u>	<u>(1,011.41)</u>	<u>45,427.46</u>
Total Expenditures	<u>1,237,980</u>	<u>1,305,359.36</u>	<u>(67,379.36)</u>	<u>1,113,028.20</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ <u>(141,870)</u>	<u>(22,672.30)</u>	\$ <u>119,198</u>	<u>(20,504.53)</u>
OTHER RESOURCES AND USES:				
<i>Capital Lease Principal Payments</i>		(60,494.86)		(76,485.90)
<i>Interfund Transfers In (Out)</i>		--		--
Excess (Deficiency) of Revenues and other resources Over Expenditures and Other Uses		<u>(83,167.16)</u>		<u>(96,990.43)</u>
Fund Balance, October 1		<u>319,157.62</u>		<u>416,148.05</u>
Fund Balance, September 30		\$ <u>235,990.46</u>		\$ <u>319,157.62</u>

CITY OF WILLIS, TEXAS
 SPECIAL REVENUE FUND
 COMBINING BALANCE SHEET
 SEPTEMBER 30, 1998

EXHIBIT B-3

	Texas Capital Fund	Texas Housing Demo Fund	TCDP Grant # 714929	TCDP Grant # 703969	Totals	
					9-30-98	9-30-97
ASSETS						
<i>Cash</i>	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 32,198.73
<i>Due From Other Funds</i>	--	--	--	--	--	--
<i>Total Assets</i>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>32,198.73</u>
LIABILITIES						
<i>Accounts Payable</i>	--	--	--	--	--	--
<i>Due To Other Funds</i>	--	--	--	--	--	17,448.57
<i>Deferred Revenue</i>	--	--	--	--	--	14,750.16
<i>Total Liabilities</i>	--	--	--	--	--	32,198.73
FUND EQUITY						
<i>Fund Balance</i>	--	--	--	--	--	--
<i>Total Liab. & Fund Equity</i>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 32,198.73</u>

CITY OF WILLIS, TEXAS

*SPECIAL REVENUE FUND
COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 1998*

	Texas Capital Fund	Texas Housing Demo Fund	TCDP Grant # 714929	TCDP Grant # 703969	Totals	
					9-30-98	9-30-97
Revenues:						
<i>Local Sources</i>	\$ --	\$ --	\$ 5,800.00	\$ 15,851.20	\$ 21,651.20	\$ 36,096.55
<i>State Sources</i>	52,746.00	--	--	--	52,746.00	--
<i>Federal Sources</i>	--	40,749.25	412.50	580.00	41,741.75	749,242.99
<i>Total Revenues</i>	<u>52,746.00</u>	<u>40,749.25</u>	<u>6,212.50</u>	<u>16,431.20</u>	<u>116,138.95</u>	<u>785,339.54</u>
Expenditures:						
<i>Utility Construction</i>	--	--	--	13,976.20	13,976.20	652,576.15
<i>Engineering Fees</i>	43,746.00	31,899.25	412.50	580.00	76,637.75	12,862.50
<i>Administration</i>	9,000.00	8,850.00	5,800.00	1,875.00	25,525.00	19,946.89
<i>Rural Development</i>	--	--	--	--	--	99,954.00
<i>Total Expenditures</i>	<u>52,746.00</u>	<u>40,749.25</u>	<u>6,212.50</u>	<u>16,431.20</u>	<u>116,138.95</u>	<u>785,339.54</u>
Excess (Deficit) Revenues Over Expenditures	--	--	--	--	--	--
Fund Balance, October 1	--	--	--	--	--	--
Fund Balance, Sept. 30	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

CITY OF WILLIS, TEXAS
 DEBT SERVICE FUND
 BALANCE SHEET
 SEPTEMBER 30, 1998

EXHIBIT B-5

	1998	1997
ASSETS:		
<i>Temporary Investments</i>	\$ 72,604.88	\$ 31,743.45
<i>Property Tax Receivable</i>	31,141.95	36,403.97
<i>Allowance for Uncollectible Accounts</i>	(12,835.68)	(7,280.79)
<i>Due from Other Funds</i>	2,885.16	31,197.57
	<hr/>	<hr/>
Total Assets	93,796.31	92,064.20
	<hr/>	<hr/>
LIABILITIES:		
<i>Deferred Revenue</i>	18,306.27	29,123.18
	<hr/>	<hr/>
FUND EQUITY:		
<i>Reserved for Retirement of Bonded Debt</i>	75,490.04	62,941.02
	<hr/>	<hr/>
Total Liabilities and Fund Equity	\$ 93,796.31	\$ 92,064.20
	<hr/>	<hr/>

CITY OF WILLIS, TEXAS
 DEBT SERVICE FUND
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED SEPTEMBER 30, 1998

EXHIBIT B-6

	1998		Variance-- Favorable (Unfavorable)	1997 Actual
	Budget	Actual		
REVENUES:				
<i>Ad Valorem Taxes</i>	\$ 140,500	\$ 126,413.65	\$ (14,086.35)	\$ 137,231.88
<i>Interest Earned</i>	650	1,799.33	1,149.33	740.52
Total Revenues	141,150	128,212.98	(12,937.02)	137,972.40
EXPENDITURES:				
<i>Bond Principal</i>	90,000	90,000.00	--	85,000.00
<i>Bond Interest</i>	24,565	24,565.00	--	32,222.50
<i>Paying Agent Fees</i>	1,200	1,098.96	101.04	1,124.80
Total Expenditures	115,765	115,663.96	101.04	118,347.30
Excess of Revenues Over Expenditures	\$ <u>25,385</u>	12,549.02	\$ <u>(12,835.98)</u>	19,625.10
OTHER SOURCES AND (USES)		--		--
Fund Balance, October 1		62,941.02		43,315.92
Fund Balance, September 30		\$ <u>75,490.04</u>		\$ <u>62,941.02</u>

CITY OF WILLIS, TEXAS
WATER AND SEWER UTILITY FUND
BALANCE SHEET
SEPTEMBER 30, 1998

EXHIBIT B-7

	1998	1997
ASSETS:		
Current Assets—		
Cash	\$ 44.48	\$ --
Temporary Investments	388,083.46	440,882.64
Service Accounts Receivable	185,234.01	103,622.56
Allowance for Uncollectible Accounts	(13,856.32)	(10,362.26)
Due From Other Funds	83,813.42	--
Supplies Inventory	14,838.26	17,414.88
Total Current Assets	<u>658,157.31</u>	<u>551,557.82</u>
Property, Plant and Equipment—		
Utility System in Service	5,932,616.76	4,886,538.27
Accumulated Depreciation	(2,264,089.56)	(2,100,162.96)
Construction in Progress	--	578,574.52
Total Property, Plant and Equipment	<u>3,668,527.20</u>	<u>3,364,949.83</u>
Restricted Assets—		
1977 Water and Sewer Revenue Bond Fund	--	42.91
1981 Water and Sewer Jr. Lien Revenue Bond	--	79.96
1995 Water and Sewer Revenue Bond Fund	351,781.33	793,491.00
Meter Deposit	21,500.00	21,500.00
Total Restricted Assets	<u>373,281.33</u>	<u>815,113.87</u>
Total Assets	<u>4,699,965.84</u>	<u>4,731,621.52</u>
LIABILITIES:		
Current Liabilities—		
Accounts Payable	10,343.80	21,358.32
Customer Deposits Payable	44,915.72	41,165.45
Revenue Bonds Payable (Current)	10,000.00	10,000.00
Total Current Liabilities	<u>65,259.52</u>	<u>72,523.77</u>
Long-Term Liabilities—		
Revenue Bonds—Future Maturities	1,250,000.00	1,260,000.00
Total Liabilities	<u>1,315,259.52</u>	<u>1,332,523.77</u>
FUND EQUITY:		
Contributed Capital	3,499,250.44	3,499,250.44
Retained Earnings—		
Reserved for Retirement of Revenue Bonds	12,315.81	122.87
Unreserved	(126,859.93)	(100,275.56)
Total Fund Equity	<u>3,384,706.32</u>	<u>3,399,097.75</u>
Total Liabilities and Fund Equity	<u>\$ 4,699,965.84</u>	<u>\$ 4,731,621.52</u>

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, 1998**

	Water and Sewer Utility Fund	
	1998	1997
OPERATING REVENUE:		
<i>Charges for Water and Sewer Service</i>	\$ 674,024.73	\$ 636,942.54
<i>Water and Sewer Connections</i>	44,148.25	61,055.26
<i>Late Payment Penalties</i>	28,470.38	25,002.65
<i>Service Charges</i>	7,175.00	6,539.14
<i>Inspection Fees</i>	2,410.00	3,330.00
<i>Miscellaneous Income</i>	910.09	--
Total Operating Revenue	757,138.45	732,869.59
OPERATING EXPENSE:		
<i>Personnel—Operating</i>	238,823.23	184,145.79
<i>Personnel—Administration</i>	31,337.42	27,920.77
<i>Professional Fees</i>	--	321.05
<i>Maintenance and Repairs</i>	162,522.27	105,381.49
<i>Utilities</i>	114,598.57	106,749.21
<i>Supplies, Materials and Postage</i>	12,890.31	19,214.94
<i>Vehicle Expense</i>	11,426.14	12,331.25
<i>Other Operating Expense</i>	19,124.96	18,255.98
<i>Depreciation</i>	163,926.60	146,596.15
Total Operating Expense	754,649.50	620,916.63
Operating Income (Loss)	2,488.95	111,952.96
NON-OPERATING REVENUE (EXPENSE):		
<i>Interest Earnings</i>	47,407.12	82,819.06
<i>Interest Expense</i>	(64,287.50)	(68,337.79)
<i>Bond Paying Agent Fees</i>	--	(1,502.00)
Total Non-operating Revenue (Expense)	(16,880.38)	12,979.27
Net Income (Loss)	(14,391.43)	124,932.23
Retained Earnings (Deficit), October 1	(100,152.69)	(225,084.92)
Retained Earnings (Deficit), September 30	\$ (114,544.12)	\$ (100,152.69)

SUPPLEMENTAL INFORMATION

CITY OF WILLIS, TEXAS

*ANALYSIS OF CHANGES IN AD VALOREM TAXES RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 1998*

Taxes Receivable, 10-1-97		\$ 88,511.27
<i>Adjustments to Delinquent Taxes</i>		(5,696.85)
<i>1997 Original Roll</i>	\$ 364,976.32	
<i>Errors and Corrections</i>	3,469.38	368,445.70
Total Taxes to be Accounted for		<u>451,260.12</u>

Tax Collections		
<i>Current Collections</i>	339,590.85	
<i>Delinquent Collections</i>	30,975.97	370,566.82
Taxes Receivable, 9-30-98		<u>80,693.30</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>
1997	\$ 364,976.32	\$ 3,469.38	\$ 339,590.85	\$ 28,854.85
1996	23,986.06	(38.31)	16,003.95	7,943.80
1995	12,099.28	12.63	7,350.14	4,761.77
1994	7,582.55	(25.86)	3,034.08	4,522.61
1993	6,664.51	12.97	1,497.65	5,179.83
1992	4,944.88	(121.51)	751.34	4,072.03
1991	4,845.31	(252.11)	868.80	3,724.40
1990	5,660.71	(233.51)	419.48	5,007.72
1989	4,090.96	(205.58)	342.93	3,542.45
1988 and Prior	18,637.01	(4,845.57)	707.60	13,083.84
Taxes Receivable, 9-30-98				<u>\$ 80,693.30</u>

Property Valuation:

<u>Year of Assessment</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Market Value @ Jan. 1 -					
<i>Land</i>	\$ 17,753,950	\$ 17,567,960	\$ 15,527,150	\$ 14,952,760	\$ 15,340,110
<i>Improvements</i>	55,725,290	54,367,730	50,187,314	25,836,370	25,186,371
<i>Personal Property</i>	12,555,866	11,756,213	10,771,402	10,225,066	9,970,079
Total Market Value	<u>86,035,106</u>	<u>83,691,903</u>	<u>76,485,866</u>	<u>51,014,196</u>	<u>50,496,560</u>
<i>Exempt Property</i>	27,762,350	27,463,410	25,282,710	2,559,140	3,109,458
<i>Productivity Exemptions</i>	1,067,160	1,052,010	297,420	297,420	371,760
<i>Old Age Exemptions</i>	829,860	771,520	711,660	697,210	652,210
<i>Disabled Vet Exemptions</i>	137,380	164,749	39,880	37,380	33,140
<i>Proration & House Bill 366</i>	132,653	--	--	--	--
<i>Freeport</i>	91,923	489,390	170,044	709,275	--
Net Taxable Value	<u>56,013,780</u>	<u>53,750,824</u>	<u>49,984,152</u>	<u>46,713,771</u>	<u>46,329,992</u>

Tax Rate Per \$100 Value -

<i>Maintenance & Operation</i>	0.44060	0.42405	0.40792	0.38982	0.36452
<i>Debt Service</i>	0.20430	0.21808	0.23706	0.25973	0.26528
Total Rate	<u>0.64490</u>	<u>0.64213</u>	<u>0.64498</u>	<u>0.64955</u>	<u>0.62980</u>

Original Tax Levy	<u>\$ 364,976.32</u>	<u>\$ 345,147.06</u>	<u>\$ 322,387.96</u>	<u>\$ 303,429.29</u>	<u>\$ 291,786.29</u>
--------------------------	----------------------	----------------------	----------------------	----------------------	----------------------

Principal Outstanding 9-30-98	Interest Current Year	Requirements				Interest 10-1-00 To Maturity
		Year Ending 9-30-99		Year Ending 9-30-00		
		Principal	Interest	Principal	Interest	
\$ 230,000	\$ 24,565	\$ 95,000	\$ 16,378	\$ 100,000	\$ 7,650	\$ 1,575
<u>230,000</u>	<u>24,565</u>	<u>95,000</u>	<u>16,378</u>	<u>100,000</u>	<u>7,650</u>	<u>1,575</u>
100,000	5,660	5,000	5,440	5,000	5,213	47,853
1,160,000	58,628	5,000	58,435	5,000	58,235	586,053
<u>\$ 1,260,000</u>	<u>\$ 64,288</u>	<u>\$ 10,000</u>	<u>\$ 63,875</u>	<u>\$ 10,000</u>	<u>\$ 63,448</u>	<u>\$ 633,905</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, 199		327,574.38	290,246.25	480,000.00	1,097,820.63
In 1997-98		14,262.50	10,302.50	90,000.00	114,565.00
Balance, Sept. 30, 1998		\$ 17,952.50	\$ 7,650.00	\$ 230,000.00	\$ 255,602.50

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, 1997		2,936.25	2,936.25	5,000.00	10,872.50
In 1997–98		2,830.00	2,830.00	5,000.00	10,660.00
Balance, Sept. 30, 1998		\$ 29,252.50	\$ 29,252.50	\$ 100,000.00	\$ 158,505.00

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, 1997		29,406.25	29,406.25	5,000.00	63,812.50
In 1997–98		29,313.75	29,313.75	5,000.00	63,627.50
Balance, Sept. 30, 1998		\$ 351,361.25	\$ 351,361.25	\$ 1,160,000.00	\$ 1,862,722.50

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
409-865-3169

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, 1998, and have issued our report thereon dated May 12, 1999. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 management and others within the organization, the Mayor and City Council, and federal and state awarding 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

May 12, 1999

CITY OF WILLIS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 1998

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.

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

NONE

C. Findings and Questioned Costs for Federal Awards

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

CITY OF WILLIS, TEXAS
ELECTED OFFICIALS, ADMINISTRATIVE PERSONNEL,
AND LEGAL COUNSEL
SEPTEMBER 30, 1998

<u>Position:</u>	<u>Name/Address:</u>	<u>Term Expires:</u>
Mayor	Ruth Castleschouldt	1999
Alderman Place No. 1	Thomas Belinoski	1998
Alderman Place No. 2	Robert Hill	1998
Alderwoman Place No. 3	Josey Billnoske	1999
Alderman Place No. 4	W. L. Bilnoski	1999
Alderman Place No. 5	Bill Van Alstyne	1999
City Attorney	J. Ritchie Field P.O. Box 2804 Conroe, Texas 77305	Appointed By Council
City Secretary	Brenda Burns	Appointed By Council
City Coordinator/ Police Chief	Michael Arthur	Appointed By Council