



# *City of Hewitt*

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2011**

**PREPARED BY**

**FINANCE DEPARTMENT  
CITY OF HEWITT, TEXAS**



**CITY OF HEWITT, TEXAS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**TABLE OF CONTENTS**  
**SEPTEMBER 30, 2011**

	<b><u>Page Number</u></b>
<b>INTRODUCTORY SECTION</b>	
Letter of Transmittal .....	i – iii
Organizational Structure .....	iv
Elected and Appointed Officials .....	v
GFOA Certificate of Achievement .....	vi
 <b>FINANCIAL SECTION</b>	
Independent Auditors’ Report.....	1 – 2
Management’s Discussion and Analysis .....	3 – 13
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets .....	14
Statement of Activities .....	15 – 16
Fund Financial Statements	
Balance Sheet – Governmental Funds .....	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds.....	18

**(continued)**

**CITY OF HEWITT, TEXAS**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**TABLE OF CONTENTS**

**(Continued)**

**SEPTEMBER 30, 2011**

**Page  
Number**

**FINANCIAL SECTION (Continued)**

Fund Financial Statements (Continued)

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities .....	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – Budget Basis .....	20
Statement of Net Assets – Proprietary Fund .....	21
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund.....	22
Statement of Cash Flows – Proprietary Fund.....	23 – 24
Notes to Financial Statements.....	25 – 43

**(continued)**

**CITY OF HEWITT, TEXAS**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**TABLE OF CONTENTS  
(Continued)  
SEPTEMBER 30, 2011**

	<u><b>Table</b></u>	<u><b>Page Number</b></u>
<b>STATISTICAL SECTION</b>		
Net Assets by Component .....	1	44
Changes in Net Assets .....	2	45 – 48
Fund Balances of Governmental Funds .....	3	49
Changes in Fund Balances of Governmental Funds .....	4	50 – 51
Assessed Value and Estimated Actual Value of Taxable Property .....	5	52
Direct and Overlapping Governments – Property Tax Rates.....	6	53
Principal Property Taxpayers .....	7	54
Property Tax Levies and Collections .....	8	55
Principal Water Customers and Water Rates .....	8a	56
Ratios of Outstanding Debt by Type .....	9	57
Ratios of General Obligation Bonded Debt Outstanding.....	10	58
Direct and Overlapping Governmental Activities Debt.....	11	59
Legal Debt Margin Information.....	12	60 – 61
Pledged Revenue Coverage.....	13	62
Demographic and Economic Statistics .....	14	63

**(continued)**

**CITY OF HEWITT, TEXAS**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**TABLE OF CONTENTS  
(Continued)  
SEPTEMBER 30, 2011**

	<b><u>Table</u></b>	<b><u>Page Number</u></b>
<b>STATISTICAL SECTION</b>		
Principal Employers .....	15	64 – 65
Fulltime Equivalent City Government Employees by Function .....	16	66
Operating Indicators by Function .....	17	67
Capital Asset Statistics by Function.....	18	68
<b>COMPLIANCE SECTION</b>		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....		69 – 70

# **INTRODUCTORY SECTION**

**THIS PAGE LEFT BLANK INTENTIONALLY**





March 16, 2012

To the Honorable Mayor, Members of the Governing Council, and Citizens of the City of Hewitt, Texas:

The Comprehensive Annual Financial Report for the City of Hewitt, Texas, for the fiscal year ended September 30, 2011, is hereby submitted. This report is published to provide the City Council, City staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the City government and management is responsible for the contents of this report.

City management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The internal control structure is designed to provide reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and, (2) the valuation of costs and benefits requires estimates and judgments by management.

In accordance with the City Charter, the financial statements have been audited by Pattillo, Brown & Hill, LLP, a firm of licensed certified public accountants. The goal of an independent audit is to provide reasonable assurance that the financial statements of the City of Hewitt are free of material misstatement. The independent auditors rendered an unqualified opinion that the City of Hewitt's financial statements for the fiscal year ended September 30, 2011 are fairly presented in conformity with GAAP. The independent auditor's report is presented as a component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Hewitt's MD&A can be found immediately following the report of the independent auditors.

## **Profile of the City of Hewitt**

In 1893 John Warren bought the township of Hewitt from John Blydenburgh for \$4,911.64 and named it Hewitt after a director of the Missouri, Kansas & Texas (M.K.T.) Railroad. After the Civil War, when the railroads came to Texas, the MKT (or Katy) was the first to enter from the north and in 1882 a station was established in Hewitt.

The City was incorporated June 25, 1960. Through the years Hewitt has been McLennan County's second largest municipality and part of the Waco Metroplex. Hewitt is a safe, friendly, family oriented community of 13,000 residents, located five miles south of Waco. Residents enjoy affordable homes, quiet, safe neighborhoods, and a positive community spirit. The City also welcomes businesses and has land available at affordable prices.

The City of Hewitt operates under a Council-Manager form of government. Policy-making and legislative authority are vested in a City Council consisting of the mayor and six other members. The City Council is responsible, among other things, for passing ordinances, adopting the budget, and hiring the City's manager, attorney, and municipal judge. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City government, and for appointing the heads of various departments. The Council members are elected by district on a non-partisan basis to serve two-year terms. The mayor is chosen from among and by the City Council. The City also provides the following services as authorized by its charter: public safety (police and fire), street maintenance, library services, public improvements, planning and zoning and general administrative services. In addition to general government activities, the City also provides water and wastewater services and a community center.

The City Charter establishes the fiscal year, which begins October 1st and ends September 30<sup>th</sup>. Annual appropriated budgets are adopted for the General Fund and the Water and Sewer Fund. Also, project-length financial plans are adopted for all Capital Projects Funds.

Prior to August 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the next October 1<sup>st</sup>. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted on the proposed budget and tax rate. Prior to October 1<sup>st</sup>, the budget is legally enacted through passage of an ordinance.

## **Long-term Financial Planning**

The City Council maintains a Capital Improvements Plan covering the current and upcoming four years. The CIP identifies and prioritizes the capital projects which are needed to maintain, upgrade and improve the City's facilities and infrastructure, such as streets, parks, water and sewer lifts, plants and lines.

## Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Hewitt, Texas, for its comprehensive annual financial report for the fiscal year ended September 30, 2010. This was the 8<sup>th</sup> consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the City staff. A sincere thanks is extended to all the staff for the effort put forth on this report.

In closing, without the leadership and support of the governing body of the City of Hewitt, preparation of this report would not have been possible.

Respectfully submitted,

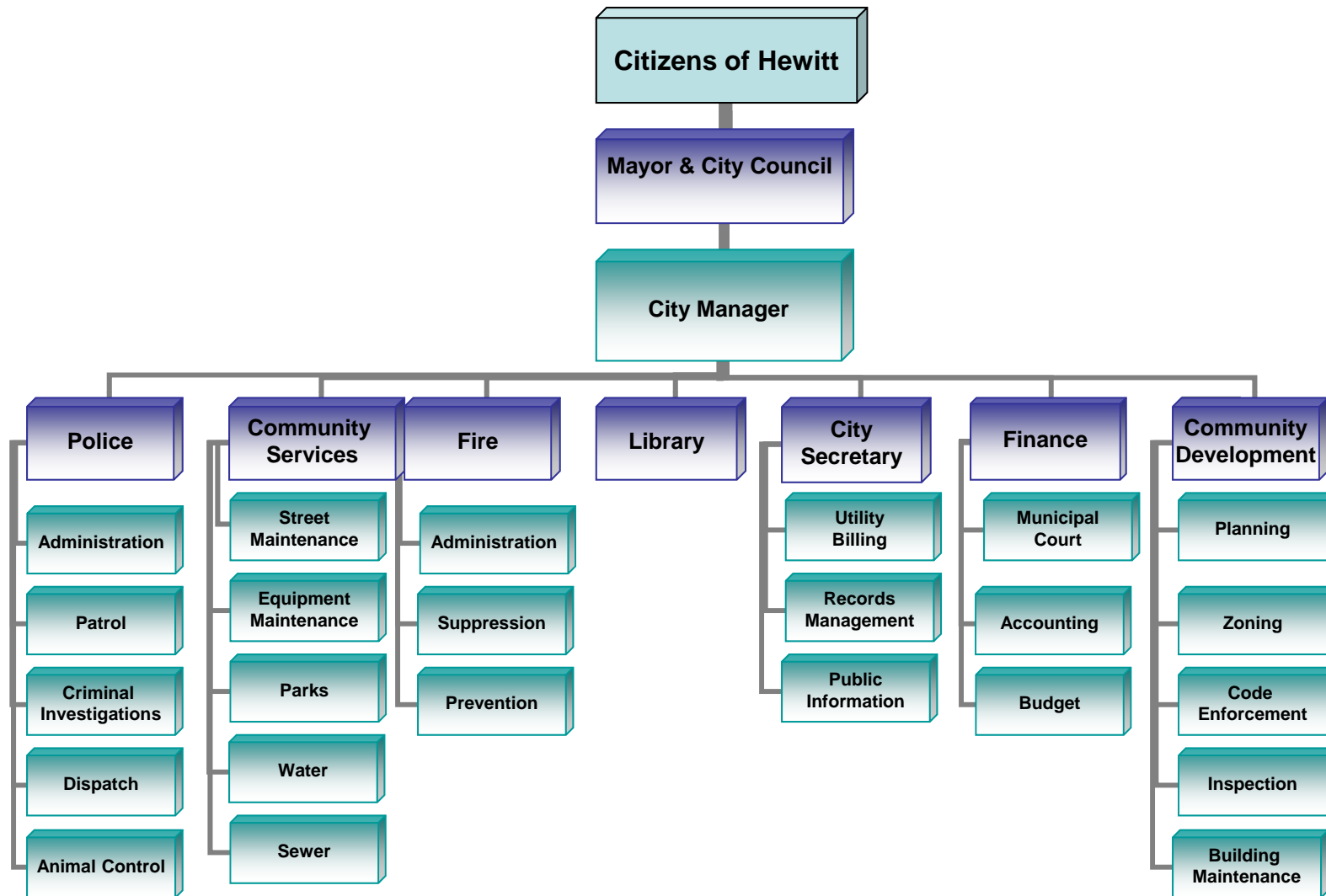


Adam Miles  
City Manager



Lee Garcia, CPA, CGFO  
Finance Director

# City of Hewitt Functional Structure



**CITY OF HEWITT, TEXAS**

**LIST OF ELECTED AND APPOINTED OFFICIALS**

**SEPTEMBER 30, 2011**

<b>Elected Officials</b>	<b>Position</b>
Wilbert "Walky" Wachtendorf	Mayor
Charlie Turner	Mayor Pro-Tem
Ed Passalugo	Council Member
Bill Fuller	Council Member
Ronnie McNeil	Council Member
James Vidrine	Council Member
Vincent "Pike" Anderson	Council Member

<b>Appointed Officials</b>	<b>Position</b>
Adam Miles	City Manager
Lydia Lopez	City Secretary
James Barton	Police Chief
Paul Holroyd	Community Services Director
Glen Arthur	Fire Chief
Bruce Braley	Community Development Director
Lee H. Garcia, CPA, CGFO	Finance Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Hewitt  
Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A stylized handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

# **FINANCIAL SECTION**

**THIS PAGE LEFT BLANK INTENTIONALLY**



**INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor and  
Members of the City Council  
City of Hewitt, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hewitt, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hewitt, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hewitt, Texas, as of September 30, 2011, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in the notes to the financial statements, the District adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2012, on our consideration of the City of Hewitt, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Pattillo, Brown & Hill, L.L.P.*

March 16, 2012

**MANAGEMENT'S  
DISCUSSION AND ANALYSIS**

**THIS PAGE LEFT BLANK INTENTIONALLY**

## CITY OF HEWITT, TEXAS

### MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2011

This section of the City of Hewitt's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2011. Please read it in conjunction with the City's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Hewitt exceeded its liabilities as of September 30, 2011, by \$22,739,034 (net assets). Of this amount, \$7,947,302 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. *In the prior year*, the City's assets exceeded its liabilities as of September 30, 2010, by \$22,337,107 (net assets). Of this amount, \$7,667,203 (unrestricted net assets) could have been used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's investment in capital assets, net of related debt, increased \$12,002. *In the prior year*, the City's investment in capital assets, net of related debt, decreased \$2,315,644.
- As of September 30, 2011, the City of Hewitt's governmental funds reported ending fund balances of \$4,072,990. Of this amount, \$3,359,492 is unassigned fund balance available for use within the City's fund designation and fiscal policies. *In the prior year*, the City's governmental funds reported ending fund balances of \$5,217,240. Of this amount, \$2,334,221 was unreserved fund balance available for use within the City's fiscal policies.
- As of September 30, 2011, the City of Hewitt's enterprise fund reported ending net assets of \$12,021,300. Of this amount \$4,687,473 is unrestricted net assets available for use with the City's fund designation and fiscal policies. *In the prior year*, the City's Enterprise Funds reported ending net assets of \$11,106,808. Of this amount \$4,902,809 was unrestricted net assets available for use with the City's fiscal policies.
- The total cost of the City's programs represents the inclusion of the City Council's funding priorities including: employee compensation and insurance, maintenance of the water system, and equipment for maintenance and operations.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management’s discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The two statements are: *government-wide financial statements* that provide both long-term and *short-term* information about the City’s overall financial status; and the *fund financial statements* that focus on individual parts of the government, reporting the City’s operations in more detail than the government-wide statements.
- The *governmental funds statements* tell how general government services were financed in the short term as well as what remains for future spending.
- *Proprietary fund statements* offer short- and long-term financial information about the activities the government operates like businesses, such as its water and sewer services.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1, Required Components of the District’s Annual Financial Report

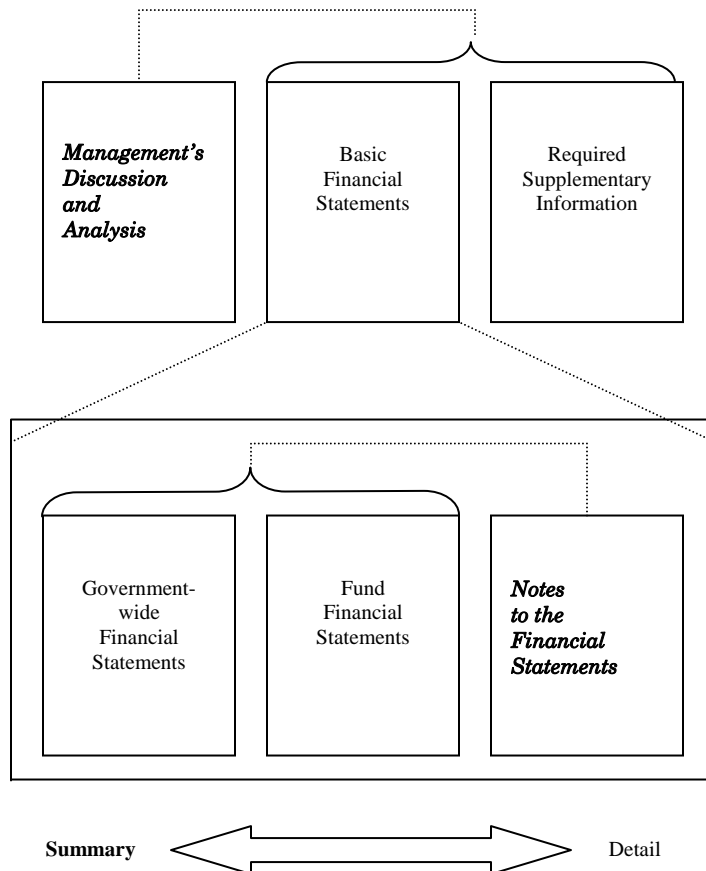


Figure A-2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

**Government-wide Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

**Figure A-2. Major Features of the City’s Government-wide and Fund Financial Statements**

Type of Statements	Government-wide	Governmental Fund	Proprietary Fund
Scope	Entire City’s government	The activities of the city that are not proprietary.	Activities the city operates similar to private businesses: water and sewer
Required financial statements	♦ Statement of net assets	♦ Balance sheet	♦ Statement of net assets
	♦ Statement of activities	♦ Statement of revenues, expenditures & changes in fund balances	♦ Statement of revenues, expenses and changes in fund net assets ♦ Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

The two government-wide statements report the City’s net assets and how they have changed. Net assets—the difference between the City’s assets and liabilities—are one way to measure the City’s financial health or *position*.

- Over time, increases or decreases in the City’s net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City’s tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City’s basic services are included here, such as general government, public safety, public works, culture and recreation.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the City’s most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City establishes other funds to control and manage money for particular purposes or to show that it is properly using certain bond revenues.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City’s basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.
- *Capital Projects funds*—The City uses three separate capital project funds to account for resources to be used for the acquisition and construction of major infrastructure assets. These projects are funded by the issuance of debt and/or transfers of excess unreserved fund balance for projects that may extend over more than one fiscal year.

## **FINANCIAL ANALYSIS OF THE CITY AS A WHOLE – GOVERNMENT-WIDE FINANCIAL ANALYSIS**

*Net assets.* The City’s combined net assets were \$22,739,034 at September 30, 2011, which is a slight increase from September 30, 2010. (See Table A-1). The largest portion of the City’s net assets, \$14,395,201, reflects its investment in capital assets (e.g., land, building, equipment, improvements and infrastructure) less any outstanding debt used to acquire those assets. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



## CITY OF HEWITT'S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Current assets	\$ 4,645,249	\$ 5,548,541	\$ 21,032,251	\$ 17,304,925	\$ 25,677,500	\$ 22,853,466
Capital assets	<u>13,463,873</u>	<u>12,902,796</u>	<u>11,293,760</u>	<u>9,554,718</u>	<u>24,757,633</u>	<u>22,457,514</u>
Total assets	<u>18,109,122</u>	<u>18,451,337</u>	<u>32,326,011</u>	<u>26,859,643</u>	<u>50,435,133</u>	<u>45,310,980</u>
Long-term liabilities	375,747	136,264	927,329	1,240,431	1,303,076	1,376,695
Noncurrent liabilities	<u>7,015,641</u>	<u>7,084,774</u>	<u>19,377,382</u>	<u>19,632,994</u>	<u>26,393,023</u>	<u>26,717,768</u>
Total liabilities	<u>7,391,388</u>	<u>7,221,038</u>	<u>20,304,711</u>	<u>20,873,425</u>	<u>27,696,099</u>	<u>28,094,463</u>
Net assets:						
Invested in capital assets, net of related debt	7,392,397	8,383,521	7,002,804	5,999,678	14,395,201	14,383,199
Restricted	65,508	82,384	331,023	204,321	396,531	286,705
Unrestricted	<u>3,259,829</u>	<u>2,764,394</u>	<u>4,687,473</u>	<u>4,902,809</u>	<u>7,947,302</u>	<u>7,667,203</u>
Total net assets	<u>\$ 10,717,734</u>	<u>\$ 11,230,299</u>	<u>\$ 12,021,300</u>	<u>\$ 11,106,808</u>	<u>\$ 22,739,034</u>	<u>\$ 22,337,107</u>

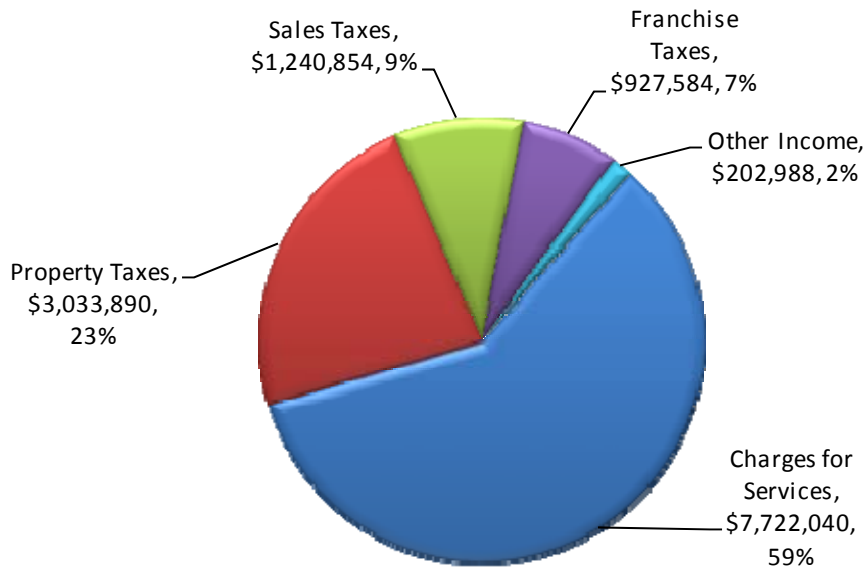
As of September 30, 2011, the City has positive balances in all three categories of net assets, both for the City as a whole, as well as for its governmental and business-type activities separately.

***Changes in net assets.*** The City's total revenues were \$13,127,356. Property taxes comprised 23.1% or \$3,033,890 of the City's revenue. In addition, \$7,722,040 or 58.8% comes from charges for services. Water and sewer and sanitation fees of \$7,192,890 comprised 93.2% of the charges for services.

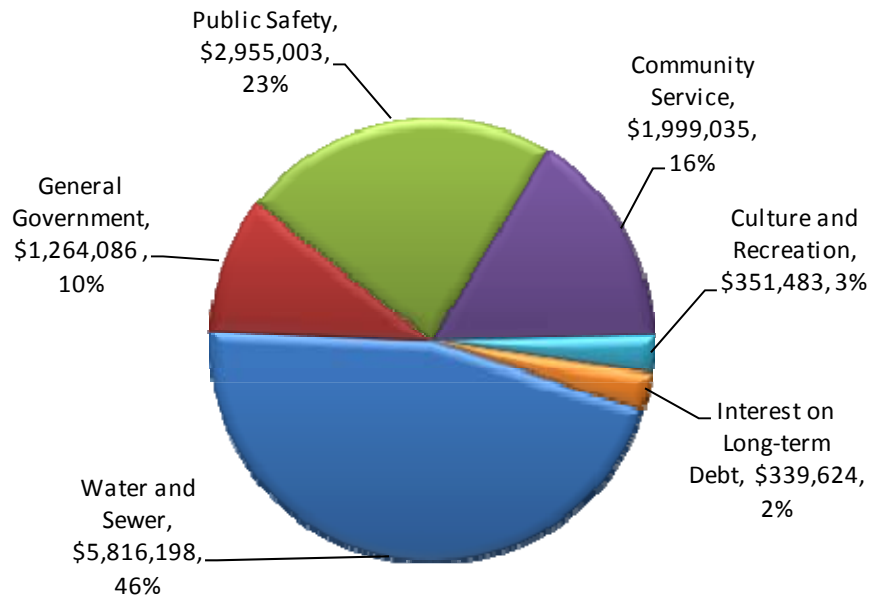
*For the prior year,* the City's total revenues were \$11,436,020. Property taxes comprised 25.5% or \$2,911,603 of the City's revenue. In addition, \$6,120,610 or 53.5% comes from charges for services. Water, sewer and sanitation fees of \$5,748,201 comprised 93.0% of the charges for services.

The total cost of all programs and services for September 30, 2011, was \$12,725,429. *For the prior year ended September 30, 2010,* the total cost of all programs and services was \$12,142,477.

**City of Hewitt's Total Revenue 2010-2011, \$13,127,356**



**City of Hewitt's Total Expenses 2010-2011, \$12,725,429**



***Governmental Activities***

- Property tax rates for fiscal year 2010-2011 are at \$.499828 per \$100. Property tax income increased 2.6% due to continued commercial and residential growth.

- No fulltime employees were added in FY 10/11 and no employees in FY 09/10. No raises were given to employees in FY 10/11 or 09/10 and employees received only a 3% cost of living increase in FY 10/11 and a 2% cost of living increase in FY 09/10.
- Hewitt continues to be the only city in the county that offers the full residential homestead exemption of 20% of taxable value. As a result, the real tax rate for residential homeowners is \$.399828 per \$100 valuation.
- Single family homestead residences available, 3,355, with average market values of \$134,093, average exemptions of \$26,430, and average taxable value of \$107,753. Prior year single family homestead residences were 3,361, with average market values of \$132,419, average exemptions of \$26,283, and average taxable value of \$106,136.
- State construction (Texas Department of Transportation) (TxDot) on Interstate 35 and the Hewitt exit continues and includes an overpass from Spring Valley Road (FM 2113) onto Interstate 35.

***Business-type Activities***

- An additional 2.5 million gallons of water storage capacity was added at the Ritchey Road Plant.
- The City is also coordinating with the WMARSS (Waco Metropolitan Area Regional Sewer System) during its expansion at Bullhide Creek. The City is involved in the regional sewer system and will be working with them to coordinate their expansion activity with TxDot's activities, as well as coordinating any additional upgrades or improvements to sewer lines deemed necessary for the growth and betterment of the City's infrastructure.

**Analysis of the City's Operations** – The following table provides a summary of the City's operations for the year ended September 30, 2011. Governmental activities decreased the City of Hewitt's net assets by \$(512,565). Please see financial reports for additional information. The business-type activities increased net assets by \$914,492.

## CITY OF HEWITT'S CHANGES NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 529,150	\$ 372,409	\$ 7,192,890	\$ 5,748,201	\$ 7,722,040	\$ 6,120,610
Operating grants	18,471	13,530	-	-	18,471	13,530
Capital grants	51,787	162,660	-	137,097	51,787	299,757
General revenues:						
Property taxes	3,033,890	2,911,603	-	-	3,033,890	2,911,603
Sales taxes	1,240,854	1,156,510	-	-	1,240,854	1,156,510
Franchise taxes	927,584	866,250	-	-	927,584	866,250
Investment earnings	20,469	16,319	61,561	51,441	82,030	67,760
Gain on sale of capital assets	19,000	-	31,700	-	50,700	-
<b>Total revenues</b>	<b>5,841,205</b>	<b>5,499,281</b>	<b>7,286,151</b>	<b>5,936,739</b>	<b>13,127,356</b>	<b>11,436,020</b>
Expenses:						
General government	1,264,086	1,285,167	-	-	1,264,086	1,285,167
Public safety	2,955,003	2,856,677	-	-	2,955,003	2,856,677
Community services	1,999,035	1,975,016	-	-	1,999,035	1,975,016
Culture and recreation	351,483	250,106	-	-	351,483	250,106
Water and sewer	-	-	5,816,198	5,500,256	5,816,198	5,500,256
Interest on long-term debt	339,624	275,255	-	-	339,624	275,255
<b>Total expenses</b>	<b>6,909,231</b>	<b>6,642,221</b>	<b>5,816,198</b>	<b>5,500,256</b>	<b>12,725,429</b>	<b>12,142,477</b>
Increases in net assets before transfers	( 1,068,026)	( 1,142,940)	1,469,953	436,483	401,927	( 706,457)
Transfers	555,461	( 73,406)	( 555,461)	73,406	-	-
Change in net assets	( 512,565)	( 1,216,346)	914,492	509,889	401,927	( 706,457)
Net assets, beginning	11,230,299	12,446,645	11,106,808	10,596,919	22,337,107	23,043,564
Net assets, ending	<u>\$ 10,717,734</u>	<u>\$ 11,230,299</u>	<u>\$ 12,021,300</u>	<u>\$ 11,106,808</u>	<u>\$ 22,739,034</u>	<u>\$ 22,337,107</u>

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

### Highlights – General Fund

#### Actual versus Prior Year Actual

**Governmental actual resources available in the current year** were \$5,766,532 or 6.3% greater than the actual resources available in the prior year of \$5,424,457. Notable increases in actual resources were as follows: property taxes increased by \$128,310 or 4.4%, franchise taxes increased by \$62,920 or 7.8%, and sales tax increased by \$84,344 or 7.3%.

**Governmental actual expenditures in the current year** were \$6,068,752 as compared to actual expenditures in the prior year of \$5,814,936, an increase of \$253,816 or 4.4%. The most significant variances resulted from increases in actual expenditures reflected in increases of personnel expenditures. Personnel expenditures include salaries, retirement, health, dental, life and long-term disability insurance, taxes and workers' compensation expense.

## **Actual versus Budgeted**

*Governmental actual resources available (budgetary basis)* were \$5,727,003 or \$173,527 more than *budgeted resources* of \$5,553,476. Notable differences in *actual versus budgeted resources* were as follows: actual property taxes were more than budgeted property taxes by \$150,086; actual sales taxes were less than budgeted sales taxes by \$(11,457); actual franchise taxes were greater than budgeted franchise taxes by \$31,052; fines and fees were less than budgeted fines and fees by \$(14,136); and actual interest incomes were less than budgeted interest income by \$(57,209).

*Governmental actual expenditures (budgetary basis)* were \$5,787,659, or \$(133,987) less than budgeted expenditures of \$5,921,646. The most significant variances resulted from variances between *actual and budgeted expenditures* in the following departments: actual public safety expenses were more than budgeted public safety expenses by \$(218,271) actual general government expenses were less than budgeted general government expenses by \$378,260.

### **Highlights – Proprietary Fund**

*Proprietary actual operating revenues in the current year* were \$7,192,890, or \$1,444,689 and 25.1% higher, as compared to actual operating revenues in the prior year of \$5,748,201. Notable increases in actual revenues were as follows: water and sewer revenue increased by \$1,331,391, or 31.4%; with a new contract, sanitation sales increased by \$37,350, or 3.3%.

*Proprietary actual expenses for the current year* were \$5,103,833, or \$430,198 and 8.4% more, as compared to actual expenses for the prior year of \$4,673,635. The most significant variances resulted from increases in repairs and maintenance, which increased from \$145,852 to \$590,375, an increase of \$444,523.

### **Highlights – Capital Projects Funds**

- The City uses a Capital Projects Fund to account for major capital projects the City undertakes. Revenues for the year consisted of \$2,919 of interest income. Capital outlays of \$1,785,757 were spent on a variety of projects. Expenditures for the prior year totaled \$265,125. The large increase in expenditures was due to the completion of several projects in 2011.

For further information, please see the following financial statements and accompanying notes.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

During the year ending September 30, 2011, the City had budgeted \$159,181 in the governmental fund and \$92,784 in the Enterprise Fund for various capital assets. The City actually spent \$102,448 more than budgeted for capital assets, not including capital projects.

More detailed information about the City's capital asset activity is presented in the notes to the financial statements on pages 34 and 35.

- The City's investment in capital assets as of September 30, 2011, net of related debt, decreased \$12,002. In the prior year, the City's total investment in capital assets, net of related debt, decreased \$2,315,644.
- Total gross governmental capital assets as of September 30, 2011, are \$37,287,127. For the prior year, gross governmental capital assets were \$35,175,067.
- Total gross enterprise capital assets as of September 30, 2011, were \$22,637,594. For the prior year, gross enterprise capital assets were \$20,264,291.

### **Long-term Debt**

At September 30, 2011, the City had \$25,120,000 in bonds and certificates of obligation, and \$792,678 in notes and leases outstanding. As of September 30, 2010, the City had \$25,970,000 in bonds and certificates of obligation, and \$355,290 in notes and leases outstanding. Debt issued helped fund the following projects:

- **Micro-Slurry Seal:** In 2011, 11 streets were selected and slurry seal work was completed. This is an annual process.
- **Third Street and Warren Drive:** 2010 bond funds were used to complete these street upgrades.
- **Hardware/Software Upgrades:** City completed IT upgrades using 2010 bond funds.
- **Water Storage Capacity:** Water storage capacity increased by 2.5 million gallons using 2010 bond funds.
- **Water Towers:** Elevated water tower sites on the north side and east side of the City purchased using 2010 bond funds.
- **Old Temple Road and Spring Valley Drive:** Purchased site for new public facilities for City Hall, library, police and fire at the intersection of Old Temple Road and Spring Valley Drive.

More detailed information about the City's long-term debt activity is presented in the notes to the financial statements on pages 35 – 39.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- The City's adopted tax rate in effect for the fiscal year 2010/2011 is \$.499828.
- Net taxable appraised value for the fiscal year 2010/2011 is \$597,371,347, a .6% increase from the net appraised value for the prior year of 2009/2010, which was \$600,940,253, a decrease of \$3,568,906.
- Revenue lost through exemptions for the fiscal year 2010/2011, is \$695,418, an increase from revenue lost through exemptions for the prior year of 2009/2010 of \$612,794.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Hewitt at (254) 666-6171, email: [cityhall@cityofhewitt.com](mailto:cityhall@cityofhewitt.com), [finance@cityofhewitt.com](mailto:finance@cityofhewitt.com), or log on to [www.cityofhewitt.com](http://www.cityofhewitt.com).

**THIS PAGE LEFT BLANK INTENTIONALLY**



**BASIC  
FINANCIAL STATEMENTS**

**THIS PAGE LEFT BLANK INTENTIONALLY**

# CITY OF HEWITT, TEXAS

## STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,639,314	\$ 10,588,345	\$ 14,227,659
Receivables, net of allowance for uncollectibles	508,921	898,449	1,407,370
Restricted assets - cash and cash equivalents	65,508	1,232,885	1,298,393
Due from other governments	184,299	17,136	201,435
Internal balances	150,000	( 150,000)	-
Deferred charges	97,207	144,039	241,246
Noncurrent assets:			
Investment in joint venture	-	8,301,397	8,301,397
Capital assets not being depreciated:			
Land	2,042,575	383,979	2,426,554
Construction in progress	-	292,332	292,332
Capital assets, net of accumulated depreciation:			
Buildings and system	1,994,378	20,964,680	22,959,058
Machinery and equipment	3,114,477	996,603	4,111,080
Infrastructure	30,135,697	-	30,135,697
Less: accumulated depreciation	( 23,823,254)	( 11,343,834)	( 35,167,088)
Total noncurrent assets	13,463,873	19,595,157	33,059,030
 Total assets	18,109,122	32,326,011	50,435,133
<b>LIABILITIES</b>			
Accounts payable	229,731	298,182	527,913
Accrued liabilities	94,172	58,892	153,064
Accrued interest payable	48,394	199,795	248,189
Customer deposits	3,450	370,460	373,910
Noncurrent liabilities:			
Due within one year	749,571	586,001	1,335,572
Due in more than one year	6,266,070	18,791,381	25,057,451
Total liabilities	7,391,388	20,304,711	27,696,099
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	7,392,397	7,002,804	14,395,201
Restricted for:			
Debt service	65,508	331,023	396,531
Unrestricted	3,259,829	4,687,473	7,947,302
 Total net assets	\$ 10,717,734	\$ 12,021,300	\$ 22,739,034

**See accompanying notes to financial statements.**

**CITY OF HEWITT, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 1,264,086	\$ 167,107	\$ -	\$ -
Public safety	2,955,003	331,424	-	51,787
Community services	1,999,035	12,491	-	-
Culture and recreation	351,483	18,128	18,471	-
Interest on long-term debt	<u>339,624</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>6,909,231</u>	<u>529,150</u>	<u>18,471</u>	<u>51,787</u>
Business-type activities:				
Water, sewer and sanitation	<u>5,816,198</u>	<u>7,192,890</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>5,816,198</u>	<u>7,192,890</u>	<u>-</u>	<u>-</u>
 Total primary government	 <u>\$ 12,725,429</u>	 <u>\$ 7,722,040</u>	 <u>\$ 18,471</u>	 <u>\$ 51,787</u>
General revenues:				
Property taxes				
Sales taxes				
Franchise taxes				
Unrestricted interest income				
Gain on sale of capital assets				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets, beginning				
Net assets, ending				

See accompanying notes to financial statements.

Net (Expenses) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$( 1,096,979)	\$ -	\$( 1,096,979)
( 2,571,792)	-	( 2,571,792)
( 1,986,544)	-	( 1,986,544)
( 314,884)	-	( 314,884)
<u>( 339,624)</u>	<u>-</u>	<u>( 339,624)</u>
<u>( 6,309,823)</u>	<u>-</u>	<u>( 6,309,823)</u>
-	<u>1,376,692</u>	<u>1,376,692</u>
-	<u>1,376,692</u>	<u>1,376,692</u>
<u>( 6,309,823)</u>	<u>1,376,692</u>	<u>( 4,933,131)</u>
3,033,890	-	3,033,890
1,240,854	-	1,240,854
927,584	-	927,584
20,469	61,561	82,030
19,000	31,700	50,700
<u>555,461</u>	<u>( 555,461)</u>	<u>-</u>
<u>5,797,258</u>	<u>( 462,200)</u>	<u>5,335,058</u>
( 512,565)	914,492	401,927
<u>11,230,299</u>	<u>11,106,808</u>	<u>22,337,107</u>
<u>\$ 10,717,734</u>	<u>\$ 12,021,300</u>	<u>\$ 22,739,034</u>

**THIS PAGE LEFT BLANK INTENTIONALLY**

**CITY OF HEWITT, TEXAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2011**

	General	Capital Projects	Nonmajor Fund Hotel	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,036,567	\$ 518,021	\$ 84,726	\$ 3,639,314
Receivables, net of allowances for uncollectibles				
Taxes	428,082	-	12,817	440,899
Accounts	68,022	-	-	68,022
Cash and cash equivalents - restricted	65,508	-	-	65,508
Due from other governments	50,437	133,862	-	184,299
Due from other funds	250,000	-	-	250,000
Total assets	\$ 3,898,616	\$ 651,883	\$ 97,543	\$ 4,648,042
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	228,295	-	1,436	229,731
Accrued liabilities	94,172	-	-	94,172
Due to other funds	-	100,000	-	100,000
Deferred revenue	147,699	-	-	147,699
Customer deposits	3,450	-	-	3,450
Total liabilities	473,616	100,000	1,436	575,052
Fund balances:				
Restricted for:				
Debt service	65,508	-	-	65,508
Tourism	-	-	96,107	96,107
Assigned for:				
Capital projects fund	-	551,883	-	551,883
Unassigned	3,359,492	-	-	3,359,492
Total fund balances	3,425,000	551,883	96,107	4,072,990
Total liabilities and fund balances	\$ 3,898,616	\$ 651,883	\$ 97,543	

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

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	13,463,873
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	147,699
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	( 6,966,828)
Net assets of governmental activities	\$ 10,717,734

**See accompanying notes to financial statements.**

**CITY OF HEWITT, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	General	Capital Projects	Nonmajor Fund Hotel	Total Governmental Funds
<b>REVENUES</b>				
Taxes:				
Property	\$ 3,035,936	\$ -	\$ -	\$ 3,035,936
Sales	1,240,854	-	-	1,240,854
Franchise	871,770	-	-	871,770
Other	-	-	55,814	55,814
Intergovernmental	70,258	-	-	70,258
Licenses and permits	135,512	-	-	135,512
Fines and fees	265,864	-	-	265,864
Interest income	17,341	2,919	209	20,469
Miscellaneous	128,997	-	-	128,997
Total revenues	<u>5,766,532</u>	<u>2,919</u>	<u>56,023</u>	<u>5,825,474</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,256,884	152,998	-	1,409,882
Public safety	3,049,396	-	-	3,049,396
Community services	645,017	-	-	645,017
Culture and recreation	250,800	-	82,098	332,898
Capital outlay	-	1,632,759	-	1,632,759
Debt service:				
Principal	558,502	-	-	558,502
Interest and fees	308,153	-	-	308,153
Total expenditures	<u>6,068,752</u>	<u>1,785,757</u>	<u>82,098</u>	<u>7,936,607</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 302,220)</u>	<u>( 1,782,838)</u>	<u>( 26,075)</u>	<u>( 2,111,133)</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	555,461	-	-	555,461
Capital leases	390,722	-	-	390,722
Proceeds from sale of capital assets	20,700	-	-	20,700
Total other financing sources	<u>966,883</u>	<u>-</u>	<u>-</u>	<u>946,183</u>
<b>NET CHANGE IN FUND BALANCES</b>	664,663	( 1,782,838)	( 26,075)	( 1,144,250)
<b>FUND BALANCES, BEGINNING</b>	<u>2,760,337</u>	<u>2,334,721</u>	<u>122,182</u>	<u>5,217,240</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 3,425,000</u>	<u>\$ 551,883</u>	<u>\$ 96,107</u>	<u>\$ 4,072,990</u>

See accompanying notes to financial statements.



## CITY OF HEWITT, TEXAS

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Amounts reported for governmental activities in the  
statement of activities (pages 15 - 16) are different because:

Net change in fund balances - total governmental funds (page 18)	\$( 1,144,250)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$2,317,178) exceeded depreciation (\$1,691,841) and deletions of assets (\$64,260).	561,077
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	( 3,269)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of principal repayments of \$558,502, less the decrease in net pension obligation of \$15,615, less the issuance of capital leases of \$390,722.	152,165
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds (compensated absences of \$46,817, amortization of premiums on debt of \$36,215, amortization of issuance costs of \$9,939, less change in accrued interest of \$(14,683)).	<u>( 78,288)</u>
Change in net assets of governmental activities (pages 15 - 16)	<u>\$( 512,565)</u>

See accompanying notes to financial statements.

**THIS PAGE LEFT BLANK INTENTIONALLY**

**CITY OF HEWITT, TEXAS**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

**GENERAL FUND - BUDGETARY BASIS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 2,885,850	\$ 2,885,850	\$ 3,035,936	\$ 150,086
Sales taxes	1,250,000	1,250,000	1,238,543	( 11,457)
Franchise taxes	803,500	803,500	834,552	31,052
Intergovernmental	137,576	137,576	70,258	( 67,318)
Licenses and permits	55,000	55,000	135,512	80,512
Fines and fees	280,000	280,000	265,864	( 14,136)
Interest income	74,550	74,550	17,341	( 57,209)
Miscellaneous	<u>67,000</u>	<u>67,000</u>	<u>128,997</u>	<u>61,997</u>
Total revenues	<u>5,553,476</u>	<u>5,553,476</u>	<u>5,727,003</u>	<u>173,527</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,354,436	1,354,436	976,176	378,260
Public safety	2,825,774	2,825,774	3,044,045	( 218,271)
Community services	621,935	621,935	650,458	( 28,523)
Culture and recreation	252,734	252,734	250,325	2,409
Debt service	<u>866,767</u>	<u>866,767</u>	<u>866,655</u>	<u>112</u>
Total expenditures	<u>5,921,646</u>	<u>5,921,646</u>	<u>5,787,659</u>	<u>133,987</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>( 368,170)</u>	<u>( 368,170)</u>	<u>( 60,656)</u>	<u>39,540</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	595,000	595,000	555,461	( 39,539)
Transfers out	( 445,000)	( 445,000)	-	445,000
Capital leases	-	-	390,722	390,722
Proceeds from sale of capital assets	<u>-</u>	<u>-</u>	<u>20,700</u>	<u>20,700</u>
Total other financing sources (uses)	<u>150,000</u>	<u>150,000</u>	<u>966,883</u>	<u>816,883</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>( 218,170)</u>	<u>( 218,170)</u>	<u>906,227</u>	<u>856,423</u>
<b>FUND BALANCES, BEGINNING</b>	<u>2,760,337</u>	<u>2,760,337</u>	<u>2,760,337</u>	<u>-</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 2,542,167</u>	<u>\$ 2,542,167</u>	<u>\$ 3,666,564</u>	<u>\$ 856,423</u>

See accompanying notes to financial statements.

**CITY OF HEWITT, TEXAS**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUND**  
**SEPTEMBER 30, 2011**

	Business-Type Activities - Enterprise Funds		
	Water, Sewer and Sanitation	Nonmajor- Stormwater Drainage	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 10,290,689	\$ 297,656	\$ 10,588,345
Accounts receivable, net of allowance for uncollectibles	869,645	28,804	898,449
Restricted cash and cash equivalents	1,232,885	-	1,232,885
Due from other governments	17,136	-	17,136
Due from other funds	23,357	-	23,357
Deferred charges	144,039	-	144,039
Total current assets	<u>12,577,751</u>	<u>326,460</u>	<u>12,904,211</u>
Noncurrent assets			
Investment in joint venture	8,301,397	-	8,301,397
Capital assets not being depreciated:			
Land	383,979	-	383,979
Construction in progress	292,332	-	292,332
Capital assets, net of accumulated depreciation:			
Buildings and system	20,526,597	438,083	20,964,680
Machinery and equipment	996,603	-	996,603
Less: accumulated depreciation	( 11,268,411)	( 75,423)	( 11,343,834)
Total noncurrent assets	<u>19,232,497</u>	<u>362,660</u>	<u>19,595,157</u>
Total assets	<u>31,810,248</u>	<u>689,120</u>	<u>32,499,368</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	298,182	-	298,182
Accrued liabilities	57,392	1,500	58,892
Due to other funds	-	173,357	173,357
Customer deposits	370,460	-	370,460
Accrued interest payable	199,795	-	199,795
Compensated absences	55,445	337	55,782
Notes payable	5,624	-	5,624
Leases payable	59,250	-	59,250
Revenue bonds payable	465,345	-	465,345
Total current liabilities	<u>1,511,493</u>	<u>175,194</u>	<u>1,686,687</u>
Noncurrent liabilities:			
Compensated absences	37,333	227	37,560
Net pension obligation	23,493	-	23,493
Notes payable	85,170	-	85,170
Leases payable	122,028	-	122,028
Revenue bonds payable	18,523,130	-	18,523,130
Total noncurrent liabilities	<u>18,791,154</u>	<u>227</u>	<u>18,791,381</u>
Total liabilities	<u>20,302,647</u>	<u>175,421</u>	<u>20,478,068</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	6,640,144	362,660	7,002,804
Restricted for			
Debt service	331,023	-	331,023
Unrestricted	4,536,434	151,039	4,687,473
Total net assets	<u>\$ 11,507,601</u>	<u>\$ 513,699</u>	<u>\$ 12,021,300</u>

**See accompanying notes to financial statements.**

**CITY OF HEWITT, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water, Sewer and Sanitation</u>	<u>Nonmajor- Stormwater Drainage</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Charges for sales and services pledged as security for revenue bonds:			
Water sales	\$ 4,458,723	\$ -	\$ 4,458,723
Sewer charges	1,109,213	-	1,109,213
Sanitation charges	1,182,531	-	1,182,531
Drainage fees	-	248,880	248,880
Other	193,533	10	193,543
Total operating revenues	<u>6,944,000</u>	<u>248,890</u>	<u>7,192,890</u>
<b>OPERATING EXPENSES</b>			
Personnel services	628,803	129,968	758,771
Contractual services	2,322,523	1,451	2,323,974
Utilities	520,932	452	521,384
Repairs and maintenance	573,931	16,444	590,375
Other	120,263	23,075	143,338
Depreciation	713,739	52,252	765,991
Total operating expenses	<u>4,880,191</u>	<u>223,642</u>	<u>5,103,833</u>
<b>OPERATING INCOME</b>	2,063,809	25,248	2,089,057
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment in joint venture	111,430	-	111,430
Interest earnings	61,339	222	61,561
Interest and fiscal charges	( 823,795)	-	( 823,795)
Gain on sale of capital assets	31,700	-	31,700
Total nonoperating revenues (expenses)	<u>( 619,326)</u>	<u>222</u>	<u>( 619,104)</u>
<b>INCOME BEFORE TRANSFERS</b>	1,444,483	25,470	1,469,953
<b>TRANSFERS OUT</b>	<u>( 555,461)</u>	<u>-</u>	<u>( 555,461)</u>
<b>CHANGE IN NET ASSETS</b>	889,022	25,470	914,492
<b>NET ASSETS, BEGINNING</b>	<u>10,618,579</u>	<u>488,229</u>	<u>11,106,808</u>
<b>NET ASSETS, ENDING</b>	<u>\$ 11,507,601</u>	<u>\$ 513,699</u>	<u>\$ 12,021,300</u>

See accompanying notes to financial statements.

**CITY OF HEWITT, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Business-Type Activities - Enterprise Funds		
	Water, Sewer and Sanitation	Nonmajor- Stormwater Drainage	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 6,849,035	\$ 250,856	\$ 7,099,891
Cash paid to suppliers	( 441,544)	( 133,352)	( 574,896)
Cash paid to employees	( 3,874,727)	( 42,179)	( 3,916,906)
Net cash provided by operating activities	<u>2,532,764</u>	<u>75,325</u>	<u>2,608,089</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Investment in joint venture	( 3,069,377)	-	( 3,069,377)
Due to other funds	-	173,357	173,357
Transfers to other funds	( 555,461)	-	( 555,461)
Cash paid to other funds	<u>869</u>	<u>-</u>	<u>869</u>
Net cash provided (used) by noncapital financing activities	<u>( 3,623,969)</u>	<u>173,357</u>	<u>( 3,450,612)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal paid on capital debt	( 426,110)	-	( 426,110)
Interest paid on capital debt	( 857,137)	-	( 857,137)
Acquisition of capital assets	<u>( 2,279,780)</u>	<u>( 28,339)</u>	<u>( 2,308,119)</u>
Net cash used by capital and related financing activities	<u>( 3,563,027)</u>	<u>( 28,339)</u>	<u>( 3,591,366)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	<u>61,339</u>	<u>222</u>	<u>61,561</u>
Net cash provided by investing activities	<u>61,339</u>	<u>222</u>	<u>61,561</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	( 4,592,893)	220,565	( 4,372,328)
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>16,116,467</u>	<u>77,091</u>	<u>16,193,558</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b> (including \$1,232,885, for the Water fund, reported in restricted accounts)	<u>\$ 11,523,574</u>	<u>\$ 297,656</u>	<u>\$ 11,821,230</u>

(continued)

**CITY OF HEWITT, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**(Continued)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Business-Type Activities - Enterprise Funds		
	Water, Sewer and Sanitation	Nonmajor- Stormwater Drainage	Total
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income	\$ 2,063,809	\$ 25,248	\$ 2,089,057
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	713,739	52,252	765,991
Changes in assets and liabilities:			
Decrease (increase) in assets:			
Accounts receivable	( 106,521)	1,966	( 104,555)
Due from other governments	119,961	-	119,961
Due from other funds	11,666	-	11,666
Increase (decrease) in liabilities:			
Accounts payable	( 337,078)	( 1,515)	( 338,593)
Accrued liabilities	51,478	290	51,768
Due to other funds	( 10,797)	-	( 10,797)
Customer deposits	7,065	-	7,065
Compensated absences	16,880	( 2,916)	13,964
Net pension obligation	2,562	-	2,562
	\$ 2,532,764	\$ 75,325	\$ 2,608,089
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>			
Contributions of capital assets	\$ -	\$ -	\$ -

**See accompanying notes to financial statements.**

# CITY OF HEWITT, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The City of Hewitt, Texas (the “City”) is a municipal corporation governed by an elected mayor and six-member City Council. Generally accepted accounting principles require financial statements to present the government and its component units, entities for which the government is considered financially accountable. The City has identified no component units for which it is considered to be financially accountable.

#### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The City has no fiduciary activities or component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. The major individual governmental funds and major individual Enterprise Funds are separated as separate columns in the fund financial statements.

(continued)



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

The **Capital Projects Fund** is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The City reports the following major proprietary fund:

The **Water, Sewer and Sanitation Fund** is used to account for the activities of the necessary for the provision of water, sewer and sanitation services to customers.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

(continued)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

(Continued)

The effect of interfund activity has been eliminated from the government-wide financial statements, except for interfund services provided between various functions of the City.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

### D. Assets, Liabilities, and Net Assets or Equity

#### **Deposits and Investments**

For purposes of the statement of cash flows, the City considers all highly liquid investments (investments with original maturities less than 90 days, including restricted assets) to be cash equivalents.

State statutes authorize the City to invest in obligations of the United States or its agencies and instrumentalities and state or local governments, commercial paper, guaranteed investment contracts, repurchase agreements, and certain governmental investment pools. The City's local investment policy limits the City to invest in obligations of the United States or its agencies and instrumentalities, fully collateralized repurchase agreements by obligations of the United States or its agencies and instrumentalities, money market mutual funds, and local government investment pools.

Investments are reported at fair value. The governmental investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

(continued)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities, and Net Assets or Equity (Continued)**

**Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectibles.

Property taxes are levied on October 1 and attach as an enforceable lien on property as of January 1. Statements are mailed on October 1, or as soon thereafter as possible, and are due upon receipt. All unpaid taxes become delinquent if not paid before February 1 of the following year.

**Restricted Assets**

Certain proceeds of the City’s debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by the applicable bond covenants.

**Capital Assets**

Capital assets, which include property, plant, equipment, infrastructure, and water rights, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

**(continued)**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**D. Assets, Liabilities, and Net Assets or Equity** (Continued)

**Capital Assets** (Continued)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	40
Machinery and equipment	5 - 10
Infrastructure	5 - 40
Distribution and collection systems	25 - 40

**Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation on an anniversary basis. In the event of termination, an employee is reimbursed for all accumulated, unused vacation. An employee with greater than 10 years of service is reimbursed for any unused sick leave upon retirement, not to exceed 60 days. Under Chapter 143 of the Local Government Code, some civil service employees are eligible to receive payment for all unused sick leave if separated from the City for any reason. All applicable vacation and applicable sick pay is accrued when incurred in the government-wide and proprietary fund financial statements.

**Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

(continued)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### D. Assets, Liabilities, and Net Assets or Equity (Continued)

#### Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by resolution of the City Council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

**2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets**

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$6,966,828 difference are as follows:

Bonds payable	\$( 6,356,713)
Notes payable	( 129,885)
Capital lease payable	( 390,722)
Less: deferred charge for issuance costs	97,207
Accrued interest payable	( 48,394)
Compensated absences	( 312,237)
Deferred loss on refunding	306,571
Bond premiums	( 18,748)
TMRS, net pension obligation	<u>( 113,907)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	 <u>\$( 6,966,828)</u>

**3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information**

An annual budget is adopted on a cash basis for the General Fund. Project-length budgets are adopted for the Capital Projects Fund.

Prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed operating budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing those expenditures.

Public hearings are conducted at which all interested persons’ comments concerning the budget are heard. Prior to September 30, the budget is legally enacted through passage of an ordinance by the City Council.

The appropriated budget is prepared by fund and department. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, transfers of appropriations between funds requires approval by the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level. No supplemental budgetary appropriations were made during the year.

Encumbrances are not used by the City.

(continued)

**3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)**

**Budgetary Information** (Continued)

The budget for the General Fund is adopted on the cash basis, which differs from generally accepted accounting principles (GAAP). In order to provide a meaningful comparison of actual results with the budget, the actual and budget amounts are presented in accordance with the City’s budgetary basis in the financial statements of the individual funds. A reconciliation of the net change in fund balance for the year ended September 30, 2011, is presented below:

	<u>General Fund</u>
Net change in fund balance - budgetary basis	\$ 906,227
Adjustment to expenditures for payables and accruals	( 281,093)
Adjustment to revenues for receivables	<u>39,529</u>
Net change in fund balance - GAAP basis	<u>\$ 664,663</u>

**Expenditures over Appropriations**

Expenditures exceeded appropriations in the General Fund in various functions. The following overruns were funded by reduced expenditures in other functions.

Public safety	\$ 223,622
Community services	23,082

**4. DETAILED NOTES ON ALL FUNDS**

**Deposits and Investments**

A summary of the City’s cash and cash equivalents at September 30, 2011, follows:

Cash in bank	\$ 14,211,197
Cash on hand	1,800
Texas Local Government Investment Pool	<u>1,357,003</u>
Total cash and cash equivalents	<u>\$ 15,570,000</u>

At September 30, 2011, the City’s only investment is in Texas Local Government Investment Pool (TexPool). The weighted average maturity of TexPool is 48 days as of September 30, 2011.

*Interest Rate Risk.* In accordance with its investment policy, the City manages its exposure to declines in fair market values by: (a) structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, (b) investing operating funds primarily in short-term certificates of deposit, securities, money market mutual funds or government investment pools, and (c) diversifying maturities and staggering purchase dates to minimize the impact of market movements over time. It is the City’s policy not to invest in securities maturing more than two years from the date of purchase. For repurchase agreements, the maximum maturity is 120 days, and money market mutual funds must have a dollar-weighted average stated maturity of 90 days or less. Finally, the composite portfolio must maintain a weighted average maturity of 365 days or less.

(continued)

4. **DETAILED NOTES ON ALL FUNDS** (Continued)

**Deposits and Investments**

*Credit Risk.* The City's investment policy limits investments in government investment pools and money market mutual funds to those that are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. As of September 30, 2011, the City's investment in TexPool was rated AAA by Standard & Poor's.

TexPool is a public funds investment pool created pursuant to the Interlocal Cooperation Act of the State of Texas. The City has delegated the authority to hold legal title to the Pool as custodian and to make investment purchases with the City's funds. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. TexPool operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than fair value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

**Receivables**

Receivables as of year-end for the City's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds			Enterprise Funds		Total
	General	Capital Projects	Nonmajor Funds	Water, Sewer and Sanitation	Nonmajor Funds	
Receivables:						
Accounts	\$ 831	\$ -	\$ -	\$ 1,150,343	\$ 28,804	\$ 1,179,978
Taxes	428,082	-	12,187	-	-	440,269
Fines	268,764	-	-	-	-	268,764
Due from other governments	50,437	133,862	-	17,136	-	201,435
Gross receivables	748,114	133,862	12,187	1,167,479	28,804	2,090,446
Less: allowance for uncollectibles	( 201,573)	-	-	( 280,698)	-	( 482,271)
Net total receivables	\$ 546,541	\$ 133,862	\$ 12,187	\$ 886,781	\$ 28,804	\$ 1,608,175

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the General Fund were as follows:

	Unavailable
Delinquent property taxes receivable	\$ 80,508
Delinquent fines receivable	67,191
Total general fund	\$ 147,699

(continued)



#### 4. DETAILED NOTES ON ALL FUNDS (Continued)

##### Capital Assets

Capital asset activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 879,993	\$ 1,162,582	\$ -	\$ 2,042,575
Construction in progress	51,980	-	( 51,980)	-
Total assets not being depreciated	<u>931,973</u>	<u>1,162,582</u>	<u>( 51,980)</u>	<u>2,042,575</u>
Capital assets, being depreciated:				
Buildings and systems	1,994,378	-	-	1,994,378
Machinery and equipment	2,774,519	493,096	( 153,138)	3,114,477
Infrastructure	29,474,197	661,500	-	30,135,697
Total capital assets being depreciated	<u>34,243,094</u>	<u>1,154,596</u>	<u>( 153,138)</u>	<u>35,244,552</u>
Less accumulated depreciation:				
Buildings and systems	( 805,144)	( 48,859)	-	( 854,003)
Machinery and equipment	( 1,902,961)	( 290,016)	140,858	( 2,052,119)
Infrastructure	( 19,564,166)	( 1,352,966)	-	( 20,917,132)
Total accumulated depreciation	<u>( 22,272,271)</u>	<u>( 1,691,841)</u>	<u>140,858</u>	<u>( 23,823,254)</u>
Total capital assets being depreciated, net	<u>11,970,823</u>	<u>( 537,245)</u>	<u>( 12,280)</u>	<u>11,421,298</u>
Governmental activities capital assets, net	<u>\$ 12,902,796</u>	<u>\$ 625,337</u>	<u>\$ ( 64,260)</u>	<u>\$ 13,463,873</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 382,979	\$ 1,000	\$ -	\$ 383,979
Construction in progress	425,674	194,931	( 328,273)	292,332
Total assets not being depreciated	<u>808,653</u>	<u>195,931</u>	<u>( 328,273)</u>	<u>676,311</u>
Capital assets, being depreciated:				
Buildings and systems	18,617,912	2,346,768	-	20,964,680
Machinery and equipment	837,726	290,607	( 131,730)	996,603
Total capital assets being depreciated	<u>19,455,638</u>	<u>2,637,375</u>	<u>( 131,730)</u>	<u>21,961,283</u>
Less accumulated depreciation:				
Buildings and systems	( 10,013,434)	( 765,991)	131,730	( 10,647,695)
Machinery and equipment	( 696,139)	-	-	( 696,139)
Total accumulated depreciation	<u>( 10,709,573)</u>	<u>( 765,991)</u>	<u>131,730</u>	<u>( 11,343,834)</u>
Total capital assets being depreciated, net	<u>8,746,065</u>	<u>1,871,384</u>	<u>-</u>	<u>10,617,449</u>
Business-type activities capital assets, net	<u>\$ 9,554,718</u>	<u>\$ 2,067,315</u>	<u>\$ ( 328,273)</u>	<u>\$ 11,293,760</u>

(continued)

4. **DETAILED NOTES ON ALL FUNDS** (Continued)

**Capital Assets** (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
General government	\$ 58,146
Public safety	198,847
Community services, including depreciation of general infrastructure assets	1,417,001
Culture and recreation	<u>17,847</u>
Total depreciation expense - governmental activities	\$ <u>1,691,841</u>
Business-type activities:	
Water, sewer and sanitation	\$ 713,739
Drainage	<u>52,252</u>
Total depreciation expense - business-type activities	\$ <u>765,991</u>

**Interfund Transfers**

The following schedule briefly summarizes the City's transfer activity:

	<u>Transfers In</u>
	<u>General</u>
Transfers out:	
Water, sewer and sanitation	\$ <u>555,461</u>
Total	\$ <u>555,461</u>

Transfers to the Nonmajor Enterprise Fund were to fund drainage projects. The transfer to the General Fund in the amount of \$555,461 was to move unrestricted surplus in accordance with budgetary authorization.

**Capital Lease**

The City has acquired vehicles, heavy equipment, and mobile radio upgrades through the use of lease purchase agreements. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date.

The gross amount of the asset recorded under the capital leases was \$572,000. Amortization of assets held under capital leases is included with depreciation expense.

(continued)

**4. DETAILED NOTES ON ALL FUNDS (Continued)**

**Capital Lease** (Continued)

The net present value of minimum lease payments as of September 30, 2011, were as follows:

<u>Year Ending September 30,</u>	<u>Lease Obligation</u>
2012	\$ 172,041
2013	172,041
2014	172,041
2015	43,124
2016	<u>43,124</u>
Total	602,371
Less interest portion	<u>30,371</u>
Present value of minimum lease payments	<u>\$ 572,000</u>

**Long-term Debt**

The City issues general obligation bonds and certificates of obligation to provide funds for the acquisition and construction of major capital assets, primarily street and utility improvements. General obligation bonds and certificates of obligation have been issued for both governmental and business-type activities. General obligation bonds and certificates of obligation are direct obligations and pledge the full faith and credit of the City.

The City also issues bonds for utility improvements where the City pledges certain income derived from the acquired or construction assets to pay debt services. Net water sales and sewer charges are pledged on debt of the Water, Sewer and Sanitation Fund.

Governmental activities debt currently outstanding is as follows:

**General Obligation Bond**

\$3,145,000 2009 General Obligation Refunding Bonds, due in annual installments of \$70,880 to \$600,000 through 2019, interest at 1.00% to 3.85%.

\$ 1,173,063

**Combination Tax and Revenue Certificates of Obligation**

\$1,450,000 2001 Combination Tax and Revenue Certificates of Obligation due in annual installments of \$25,000 to \$125,000 through 2020, interest at 4.2% to 5.0%.

1,020,000

\$2,069,650 2004 Combination Tax and Revenue Certificates of Obligation due in annual installments of \$53,000 to \$312,700 through 2024, interest at 3.5% to 4.3%.

1,963,650

\$2,200,000 2010 Combination Tax and Revenue Certificates of Obligation due in annual installments of \$10,000 to \$280,000 through 2030, interest at 3.0% to 4.625%.

2,200,000

\$ 6,356,713

(continued)

4. **DETAILED NOTES ON ALL FUNDS** (Continued)

**Long-term Debt** (Continued)

**Notes Payable**

Note payable to a bank due on demand, but if no demand is made, then due in monthly installments of \$2,306 through December 31, 2016, at which time all remaining principal and accrued interest are due in full, interest at 6.27%, secured by land.

\$ 129,885

Annual debt service requirements to maturity of governmental activities debt are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 472,622	\$ 269,711
2013	424,901	255,029
2014	438,117	239,884
2015	331,487	224,249
2016	345,384	211,263
2017-2021	1,779,471	843,920
2022-2026	1,653,350	467,361
2027-2030	<u>1,041,266</u>	<u>133,250</u>
Total	\$ <u>6,486,598</u>	\$ <u>2,644,667</u>

(continued)

**4. DETAILED NOTES ON ALL FUNDS (Continued)**

**Long-term Debt** (Continued)

**Combination Tax and Revenue Certificates of Obligation**

\$1,835,350 2004 Combination Tax and Revenue Certificates of Obligation due in annual installments of \$47,000 to \$277,300 through 2024, interest at 3.5% to 4.3%.	\$ 1,741,350
\$9,250,000 2007 Combination Tax and Revenue Certificates of Obligation due in annual installments of \$235,000 to \$625,000 through 2032, interest at 3.75% to 5%.	8,765,000
\$3,145,000 2009 General Obligation Refunding Bonds, due in annual installments of \$70,880 to \$600,000 through 2019, interest at 1.00% to 3.85%.	481,936
\$7,775,000 2010 Combination Tax and Revenue Certificates of Obligation due in annual installments of \$5,000 to \$1,170,000 through 2037, interest at 3.0% to 4.625%.	<u>7,775,000</u>
	<u>\$ 18,763,286</u>

**Note Payable**

Note payable to City of Waco, Texas due in annual installments of \$5,350 to \$37,335 through 2024, interest at 3.65%	<u>\$ 90,794</u>
---	------------------

Annual debt service requirements to maturity of business-type activities debt are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 443,665	\$ 802,392
2013	432,641	786,509
2014	450,736	769,526
2015	458,686	751,930
2016	476,258	733,891
2017-2021	2,720,550	3,351,755
2022-2026	3,526,544	2,737,717
2027-2031	4,085,000	1,944,705
2032-2036	5,090,000	976,213
2037	<u>1,170,000</u>	<u>54,113</u>
Total	<u>\$ 18,854,080</u>	<u>\$ 12,908,751</u>

(continued)

#### 4. DETAILED NOTES ON ALL FUNDS (Continued)

##### Long-term Debt (Continued)

Long-term liability activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
General obligation bonds	\$ 1,474,304	\$ -	\$( 301,241)	\$ 1,173,063	\$ 318,960
Combination tax and revenue certificates of obligation	5,311,650	-	( 128,000)	5,183,650	133,000
Deferred loss on refunding	( 344,892)	-	38,321	( 306,571)	( 38,321)
Bond premiums	20,854	-	( 2,106)	18,748	2,106
Notes payable	148,254	-	( 18,369)	129,885	20,662
Leases payable	110,892	390,722	( 110,892)	390,722	100,343
Compensated absences	265,420	152,985	( 106,168)	312,237	212,821
TMRS net pension obligation	98,292	414,529	( 398,914)	113,907	-
Governmental activities long-term liabilities	<u>\$ 7,084,774</u>	<u>\$ 958,236</u>	<u>\$( 1,027,369)</u>	<u>\$ 7,015,641</u>	<u>\$ 749,571</u>
<b>Business-type activities</b>					
Combination tax and certificates of obligation	\$ 18,578,350	\$ -	\$( 297,000)	\$ 18,281,350	\$ 307,000
General obligation bond	605,696	-	( 123,760)	481,936	131,040
Deferred loss on refunding	242,374	-	( 26,930)	215,444	26,930
Bond premiums	10,121	-	( 375)	9,746	375
Note payable	96,144	-	( 5,350)	90,794	5,624
Leases payable	-	181,277	-	181,277	59,250
Compensated absences	79,378	45,715	( 31,751)	93,342	55,782
TMRS net pension obligation	20,931	68,010	( 65,448)	23,493	-
Business-type activities long-term liabilities	<u>\$ 19,632,994</u>	<u>\$ 295,002</u>	<u>\$( 550,614)</u>	<u>\$ 19,377,382</u>	<u>\$ 586,001</u>
Total long-term liabilities	<u>\$ 26,717,768</u>	<u>\$ 1,253,238</u>	<u>\$( 1,577,983)</u>	<u>\$ 26,393,023</u>	<u>\$ 1,335,572</u>

No direct debt limitation is imposed on the City under current state law or city charter. However, administratively, the Attorney General of the State of Texas will permit allocation of \$1.25 of the maximum tax rate per \$100 valuation for general obligation debt service. The City's current tax rate for debt service is \$.139771 per \$100 valuation.

Historically, General Fund resources have been used to liquidate the liability for compensated absences for governmental activities.

(continued)

#### 4. DETAILED NOTES ON ALL FUNDS (Continued)

##### Restricted Assets

The balance of restricted asset accounts in the major Enterprise Fund as of September 30, 2011, include interest and sinking accounts, unspent capital debt proceeds, and unspent debt proceeds related to the joint venture of \$331,023, \$555,027, and \$346,835, respectively.

##### Employee Pension and Retirement Programs

###### **Plan Description**

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P. O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<u>Plan Year 2010</u>	<u>Plan Year 2011</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% repeating, transfers	100% repeating, transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

###### **Contributions**

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

(continued)

4. **DETAILED NOTES ON ALL FUNDS** (Continued)

**Employee Pension and Retirement Programs** (Continued)

**Contributions** (Continued)

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

Annual Required Contribution (ARC)	\$ 480,995
Interest on Net Pension Obligation	8,942
Adjustment to the ARC	( 7,398)
Annual Pension Cost	482,539
Contributions Made	( 464,362)
Increase (Decrease) in Net Pension Obligation	18,177
Net Pension Obligation/(Asset), beginning of year	<u>119,223</u>
Net Pension Obligation/(Asset), ending of year	<u>\$ 137,400</u>

Accounting Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
09/30/09	\$ 386,995	\$ 340,284	87.9%	\$ 46,711
09/30/10	461,397	388,885	84.3%	119,223
09/30/11	482,539	464,361	96.2%	137,400

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Actuarial Valuation Date	12/31/08	12/31/09	12/31/10
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Remaining amortization period	29 years - closed	28 years - closed	28 years - closed
Asset valuation method	Amortized cost	Amortized cost	Amortized cost
Actuarial Assumptions:			
Investment rate of return	7.5%	7.5%	7.5%
Projected salary increases	varies by age and service	varies by age and service	varies by age and service
Inflation	3.0%	3.0%	3.0%
Cost-of-living adjustments	2.1%	2.1%	2.1%

(continued)



**4. DETAILED NOTES ON ALL FUNDS (Continued)**

**Employee Pension and Retirement Programs (Continued)**

**Contributions (Continued)**

The funded status as of December 31, 2011, the most recent actuarial valuation date, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Percentage Funded</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Annual Covered Payroll</u>	<u>Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll</u>
12/31/2008	\$ 4,715,694	\$ 7,298,176	64.6%	\$ 2,582,482	\$ 2,791,872	92.5%
12/31/2009	5,041,526	8,009,570	62.9%	2,968,044	3,153,659	94.1%
12/31/2010	7,723,966	10,603,102	72.8%	2,879,136	3,242,679	88.8%

**Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City’s risk management program encompasses obtaining property and liability insurance through Texas Municipal League (TML), an Intergovernmental Risk-Pool. The City has not had any significant reduction in insurance coverage and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years. The participation of the City in TML is limited to payment of premiums. The City has various deductible amounts ranging from \$500 to \$5,000 on various policies. At year-end, the City did not have any significant claims.

**Joint Venture**

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. The City participates in the following joint venture:

**Waco Metropolitan Area Regional Sewer System**

The City has entered into an interlocal agreement with six neighboring cities under which the cities participate in the operation of a regional sewer plant, Waco Metropolitan Area Regional Sewer System (WMARSS). The WMARSS board consists of the city managers from each of the seven participating cities. Each city is entitled to or responsible for a percentage of the net income/loss equal to the respective city’s ownership percentage.

(continued)

**4. DETAILED NOTES ON ALL FUNDS (Continued)**

**Joint Venture** (Continued)

Summarized information of the WMARSS for the fiscal year ended September 30, 2011, is as follows:

Operating revenues	\$ 10,647,569
Operating expenses	( 491,046)
Nonoperating revenues	<u>76,720</u>
Net income	<u>10,233,243</u>
Total assets	62,929,908
Total liabilities	<u>2,979,468</u>
Net assets	\$ <u>59,950,440</u>

**Change in Accounting Principles**

For fiscal year 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions.*" GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that compromise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the City reclassifying fund balances of its governmental funds.

# **STATISTICAL SECTION**

**THIS PAGE LEFT BLANK INTENTIONALLY**

# STATISTICAL SECTION

Statistical information is presented in five categories: Financial Trend information, Revenue Capacity information, Debt Capacity information, Demographic and Economic information, and Operating information. Following below are the five categories and a brief explanation of the information presented in each statistical table.

## Page

### **Financial Trend Information**

#### **Table 1 – Schedule of Net Assets by Component**

44

Presents the three components of net assets shown separately for governmental and business-type activities with a total for the primary government. This schedule is a summary of the City's net assets for the last five fiscal years. Information can be obtained from the Statement of Net Assets in the financial statements for each of the fiscal years.

#### **Table 2 – Schedule of Changes in Net Assets by Component**

45 – 48

Presents expenses by function, program revenues by category, net (expense) revenue, general revenues and other changes in net assets and total changes in net assets shown separately for governmental and business-type activities. Also presents most significant charges for services revenue categorized by function. This schedule is a summary of the changes in net assets for the last five years. Information can be obtained from the Statement of Activities in the financial statements for each of the fiscal years.

#### **Table 3 – Schedule of Fund Balances, Governmental Funds**

49

Presents reserved and unreserved fund balances for both the General Fund and all other governmental funds. Unreserved fund balances is presented by fund type. This schedule is a summary of the governmental funds fund balances for the last 10 years.

#### **Table 4 – Schedule of Changes in Fund Balances, Governmental Funds**

50 – 51

Presents revenues by source, expenditures by function, other financing sources (uses) and other changes in fund balances, and the total change in fund balances for total governmental funds. Interest and principal expenditures are shown separately. Also presents a ratio of total debt service expenditures to non-capital expenditures. This information can be obtained from the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances in the financial statements for each of the fiscal years.

## **Revenue Capacity Data**

### **Table 5 – Assessed Value and Estimated Actual Value of Taxable Property** 52

Presents, for property tax, assessed value of taxable property for each component and total estimated actual value of taxable property. This schedule presents real estate classes by type for the last 10 levy years. Provides taxable assessed valuation, City tax rate, estimated actual valuation and the percent total for each fiscal year. The estimated actual valuation is the market value of land, improvements, real and non-real personal property prior to tax exemptions. This information is obtained from the McLennan County Tax Appraisal District.

### **Table 6 – Direct and Overlapping Property Tax Rates** 53

Presents each individual taxing authority's direct tax rate as well as the total direct rate applied to the revenue base. Legal restrictions on the ability to raise direct rates are noted. This information is obtained from the McLennan County Tax Appraisal District.

### **Table 7 – Principal Property Taxpayers** 54

Presents, for the current year and the year 9 years prior, the 10 largest payers in terms of tax revenue and their percentage of the total revenue base. This information is obtained from the McLennan County Tax Appraisal District.

### **Table 8 – Property Tax Levies and Collections** 55

Presents the amount levied for each year, the amount collected prior to the end of the year and the percentage of the total levy that amount represents, the amount of the levy collected in subsequent years, total amount collected to date and the percentage of the total levy that has been collected to date. This information is obtained from the McLennan County Tax Appraisal District.

### **Table 8a – Principal Water Customers and Water Rates** 56

Presents water rates and top 10 water customers within the City supporting the water revenue base. Please see additional information on the water system in the Operating Information section (last section) of these tables.

## **Debt Capacity Information**

### **Table 9 – Ratios of Outstanding Debt by Type** 57

Presents each type of outstanding debt individually divided between debt related to governmental activities and debt related to business-type activities with a total for the primary government. Includes an outstanding debt ratio calculated by dividing total debt by total per capita personal income. See Table 14 for population and personal income demographic and economic information.

**Debt Capacity Information** (Continued)**Table 10 – Ratios of General Bonded Debt Outstanding**

58

Presents each type of general bonded debt, including general obligation bonds individually and in total. This schedule is required to have two ratios, net general bonded debt compared to the estimated actual valuation and net general bonded debt per capita.

**Table 11 – Direct and Overlapping Governmental Activities Debt**

59

Presents, for each type of debt attributable to governmental activities of an overlapping government, the following for the current year: total debt outstanding, percentage of overlap between the reporting and overlapping government, and the product of the debt outstanding and the percentage overlap. Percentage overlap is calculated by dividing the amount of the revenue base from which the debt will be repaid contained within the overlapping area by total revenue base of the overlapping government. Information is obtained from the Municipal Advisory Council of Texas, the State Information Depository.

**Table 12 – Legal Debt Margin Information**

60 – 61

Presents, for the past 10 years, the legal debt limit and total net debt applicable to the limit as a percentage of the debt limit. No direct outstanding debt limitation is imposed on the City under current state law or the City Charter. Article XI, Section 5, of the Texas Constitution is applicable to the City and limits its maximum ad valorem rate to \$2.50 per \$100 of assessed valuation for all City purposes. Administratively, the Attorney General of Texas will permit allocation of \$1.25 of the maximum tax rate for general obligation debt service.

**Table 13 – Pledged Revenue Coverage**

62

Presents, for debt backed by pledged revenues, gross revenues, operating expenses, net revenues, principal and interest requirements and a coverage ratio. Pledged revenues are primarily water and sewer payments from residents and businesses served by the City.

**Demographic and Economic Information****Table 14 – Demographic and Economic Statistics**

63

Presents population, total personal income, per capita personal income, and unemployment rate.

**Table 15 – Principal Employers**

64 - 65

For the current year and prior year, identifies the principal employers, the number of persons each employs and the percentage of total employment that each represents.

**Operating Information**

**Table 16 – Fulltime Equivalent City Government Employees by Function/Program** 66

Presents the number of persons the City employs by function.

**Table 17 – Operating Indicators by Function/Program** 67

Presents available indicators of demand or level of service by function. Included are statistics for the past 10 years, for fire and police service, library and park usage and water and sewer activity.

**Table 18 – Capital Assets Statistics by Function** 68

Presents volume, usage or nature of capital assets by function. Included are number of fire and police stations and patrol units, City acreage and street infrastructure, number of libraries and parks, and information on the water and sewer infrastructure.



**TABLE 1**

**CITY OF HEWITT, TEXAS**

**NET ASSETS BY COMPONENT**

**LAST NINE FISCAL YEARS**

(Accrual Basis of Accounting)

	Fiscal Year								
	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Governmental activities:</b>									
Invested in capital assets									
net of related debt	\$ 7,392,397	\$ 8,383,521	\$ 9,178,437	\$ 9,704,551	\$ 10,485,235	\$ 9,950,923	\$ 9,567,083	\$ 9,625,994	\$ 868,598
Restricted	65,508	82,384	237,580	80,079	153,187	96,981	69,086	125,250	76,606
Unrestricted	<u>3,259,829</u>	<u>2,764,394</u>	<u>3,030,628</u>	<u>3,095,962</u>	<u>2,347,132</u>	<u>2,519,411</u>	<u>1,931,203</u>	<u>1,540,789</u>	<u>1,519,241</u>
Total governmental activities net assets	<u>\$ 10,717,734</u>	<u>\$ 11,230,299</u>	<u>\$ 12,446,645</u>	<u>\$ 12,880,592</u>	<u>\$ 12,985,554</u>	<u>\$ 12,567,315</u>	<u>\$ 11,567,372</u>	<u>\$ 11,292,033</u>	<u>\$ 2,464,445</u>
<b>Business-type activities:</b>									
Invested in capital assets									
net of related debt	\$ 7,002,804	\$ 5,999,678	\$ 7,514,853	\$ 7,401,047	\$ 7,846,563	\$ 7,341,311	\$ 6,084,091	\$ 6,283,119	\$ 7,520,406
Restricted	331,023	204,321	1,596,032	905,058	585,948	401,258	386,834	368,196	1,596,032
Unrestricted	<u>4,687,473</u>	<u>4,902,809</u>	<u>1,486,034</u>	<u>3,081,643</u>	<u>2,218,835</u>	<u>2,520,795</u>	<u>2,653,057</u>	<u>2,181,286</u>	<u>1,480,481</u>
Total business-type activities net assets	<u>\$ 12,021,300</u>	<u>\$ 11,106,808</u>	<u>\$ 10,596,919</u>	<u>\$ 11,387,748</u>	<u>\$ 10,651,346</u>	<u>\$ 10,263,364</u>	<u>\$ 9,123,982</u>	<u>\$ 8,832,601</u>	<u>\$ 10,596,919</u>
<b>Primary government:</b>									
Invested in capital assets									
net of related debt	\$ 14,395,201	\$ 14,383,199	\$ 16,693,290	\$ 17,105,598	\$ 18,331,798	\$ 17,292,234	\$ 15,651,174	\$ 15,909,113	\$ 8,389,004
Restricted	396,531	286,705	1,833,612	985,137	739,135	498,239	455,920	493,446	1,672,638
Unrestricted	<u>7,947,302</u>	<u>7,667,203</u>	<u>4,516,662</u>	<u>6,177,605</u>	<u>4,565,967</u>	<u>5,040,206</u>	<u>4,584,260</u>	<u>3,722,075</u>	<u>2,999,722</u>
Total primary government net assets	<u>\$ 22,739,034</u>	<u>\$ 22,337,107</u>	<u>\$ 23,043,564</u>	<u>\$ 24,268,340</u>	<u>\$ 23,636,900</u>	<u>\$ 22,830,679</u>	<u>\$ 20,691,354</u>	<u>\$ 20,124,634</u>	<u>\$ 13,061,364</u>

**Note:**

The implementation of GASB 34 in fiscal year 2003 affected the presentation of information from that year forward. In fiscal year 2004, the City capitalizaed the net value of contributed streets.

**CITY OF HEWITT, TEXAS**

**CHANGES IN NET ASSETS**

**LAST EIGHT FISCAL YEARS**

(Accrual Basis of Accounting)

	Fiscal Year		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>EXPENSES</b>			
Governmental activities:			
General government	\$ 1,264,086	\$ 1,285,167	\$ 1,101,267
Public safety	2,955,003	2,856,677	2,515,208
Community services	1,999,035	1,975,016	2,171,574
Culture and recreation	351,483	250,106	206,122
Interest on long-term debt	<u>339,624</u>	<u>275,255</u>	<u>219,793</u>
Total governmental activities expenses	<u>6,909,231</u>	<u>6,642,221</u>	<u>6,213,964</u>
Business-type activities:			
Water, sewer and sanitation	<u>5,816,198</u>	<u>5,500,256</u>	<u>5,296,090</u>
Total business-type activities expenses	<u>5,816,198</u>	<u>5,500,256</u>	<u>5,296,090</u>
 Total primary government program expenses	 <u>\$ 12,725,429</u>	 <u>\$ 12,142,477</u>	 <u>\$ 11,510,054</u>
<b>PROGRAM REVENUES</b>			
Governmental activities:			
Charges for services:			
General government	\$ 167,107	\$ 96,960	\$ 145,679
Public safety	331,424	244,213	228,611
Community services	12,491	14,081	11,197
Culture and recreation	18,128	17,155	9,685
Operating grants and contributions	18,471	13,530	-
Capital grants and contributions	<u>51,787</u>	<u>162,660</u>	<u>-</u>
Total governmental activities program revenues	<u>599,408</u>	<u>548,599</u>	<u>395,172</u>
Business-type activities:			
Charges for services:			
Water, sewer and sanitation	7,192,890	5,748,201	5,261,503
Capital grants and contributions	<u>-</u>	<u>137,097</u>	<u>-</u>
Total business-type activities program revenues	<u>7,192,890</u>	<u>5,885,298</u>	<u>5,261,503</u>
 Total primary government program revenues	 <u>\$ 7,792,298</u>	 <u>\$ 6,433,897</u>	 <u>\$ 5,656,675</u>

TABLE 2

Fiscal Year					
2008	2007	2006	2005	2004	2003
\$ 1,016,854	\$ 946,782	\$ 931,073	\$ 1,042,750	\$ 863,108	\$ 909,811
2,350,896	2,070,821	1,927,234	1,773,570	1,656,819	1,552,756
2,098,340	2,011,935	1,789,851	1,707,400	1,770,975	1,417,316
176,075	200,595	180,971	140,989	149,065	146,912
<u>274,627</u>	<u>317,928</u>	<u>333,473</u>	<u>379,284</u>	<u>344,306</u>	<u>344,746</u>
<u>5,916,792</u>	<u>5,548,061</u>	<u>5,162,602</u>	<u>5,043,993</u>	<u>4,784,273</u>	<u>4,371,541</u>
<u>4,664,471</u>	<u>4,054,546</u>	<u>3,878,643</u>	<u>3,515,993</u>	<u>3,656,169</u>	<u>2,841,895</u>
<u>4,664,471</u>	<u>4,054,546</u>	<u>3,878,643</u>	<u>3,515,993</u>	<u>3,656,169</u>	<u>2,841,895</u>
\$ <u>10,581,263</u>	\$ <u>9,602,607</u>	\$ <u>9,041,245</u>	\$ <u>8,559,986</u>	\$ <u>8,440,442</u>	\$ <u>7,213,436</u>
\$ 107,881	\$ 130,537	\$ 194,316	\$ 179,133	\$ 141,012	\$ 402,001
321,240	334,925	332,861	361,580	341,824	959
21,456	20,603	15,265	12,496	11,743	-
9,829	62,086	8,437	11,686	9,312	17,656
-	-	26,866	37,508	56,968	82,683
<u>19,135</u>	<u>269,662</u>	<u>823,288</u>	<u>281,304</u>	<u>70,065</u>	<u>-</u>
<u>479,541</u>	<u>817,813</u>	<u>1,401,033</u>	<u>883,707</u>	<u>630,924</u>	<u>503,299</u>
5,479,315	4,397,717	4,779,052	4,366,103	3,935,820	3,287,220
<u>-</u>	<u>221,500</u>	<u>596,076</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>5,479,315</u>	<u>4,619,217</u>	<u>5,375,128</u>	<u>4,366,103</u>	<u>3,935,820</u>	<u>3,287,220</u>
\$ <u>5,958,856</u>	\$ <u>5,437,030</u>	\$ <u>6,776,161</u>	\$ <u>5,249,810</u>	\$ <u>4,566,744</u>	\$ <u>3,790,519</u>

(continued)

**CITY OF HEWITT, TEXAS**

**CHANGES IN NET ASSETS  
(Continued)  
LAST NINE FISCAL YEARS  
(Accrual Basis of Accounting)**

	Fiscal Year		
	2011	2010	2009
<b>NET (EXPENSE) REVENUES</b>			
Governmental activities	\$( 6,309,823)	\$( 6,093,622)	\$( 5,818,792)
Business-type activities	<u>1,376,692</u>	<u>385,042</u>	<u>( 34,587)</u>
Total primary government net expense	<u>( 4,933,131)</u>	<u>( 5,708,580)</u>	<u>( 5,853,379)</u>
 <b>GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS</b>			
Governmental activities:			
Taxes			
Property	3,033,890	2,911,603	2,815,935
Sales	1,240,854	1,156,510	1,236,624
Franchise	927,584	866,250	817,159
Investment earnings	20,469	16,319	30,985
Gain on sale of capital assets	19,000	-	-
Miscellaneous	-	-	-
Transfers	<u>555,461</u>	<u>( 73,406)</u>	<u>484,142</u>
Total governmental activities	<u>5,797,258</u>	<u>4,877,276</u>	<u>5,384,845</u>
Business-type activities:			
Investment earnings	61,561	51,441	107,140
Gain on sale of capital assets	31,700	-	-
Transfers	<u>( 555,461)</u>	<u>73,406</u>	<u>( 484,142)</u>
Total business-type activities	<u>( 462,200)</u>	<u>124,847</u>	<u>( 377,002)</u>
Total primary government	<u>5,335,058</u>	<u>5,002,123</u>	<u>5,007,843</u>
 <b>CHANGE IN NET ASSETS</b>			
Governmental activities	( 512,565)	( 1,216,346)	( 433,947)
Business-type activities	<u>914,492</u>	<u>509,889</u>	<u>( 411,589)</u>
Total primary government	<u>\$ 401,927</u>	<u>\$( 706,457)</u>	<u>\$( 845,536)</u>

Note:

The implementation of GASB 34 in fiscal year 2003 affected the presentation of information from that year forward.

TABLE 2

Fiscal Year					
2008	2007	2006	2005	2004	2003
\$( 5,437,251)	\$( 4,730,248)	\$( 3,761,569)	\$( 4,160,286)	\$( 4,153,349)	\$( 3,868,242)
<u>814,844</u>	<u>564,671</u>	<u>1,496,485</u>	<u>850,110</u>	<u>279,651</u>	<u>445,325</u>
<u>( 4,622,407)</u>	<u>( 4,165,577)</u>	<u>( 2,265,084)</u>	<u>( 3,310,176)</u>	<u>( 3,873,698)</u>	<u>( 3,422,917)</u>
2,625,714	2,470,783	2,270,107	2,109,893	1,871,411	1,637,001
1,331,737	1,255,126	1,132,771	979,858	896,750	839,063
706,224	695,826	636,992	597,136	627,972	588,947
170,489	210,483	200,649	106,799	40,404	28,686
13,983	2,127	6,851	2,695	-	-
-	-	-	-	-	33,331
<u>484,142</u>	<u>514,142</u>	<u>514,142</u>	<u>639,244</u>	<u>638,836</u>	<u>765,459</u>
<u>5,332,289</u>	<u>5,148,487</u>	<u>4,761,512</u>	<u>4,435,625</u>	<u>4,075,373</u>	<u>3,892,487</u>
405,700	337,453	157,039	80,515	50,439	40,275
-	-	-	-	-	-
<u>( 484,142)</u>	<u>( 514,142)</u>	<u>( 514,142)</u>	<u>( 639,244)</u>	<u>( 638,836)</u>	<u>( 765,459)</u>
<u>( 78,442)</u>	<u>( 176,689)</u>	<u>( 357,103)</u>	<u>( 558,729)</u>	<u>( 588,397)</u>	<u>( 725,184)</u>
<u>5,253,847</u>	<u>4,971,798</u>	<u>4,404,409</u>	<u>3,876,896</u>	<u>3,486,976</u>	<u>3,167,303</u>
( 104,962)	418,239	999,943	275,339	( 77,976)	24,245
<u>736,402</u>	<u>387,982</u>	<u>1,139,382</u>	<u>291,381</u>	<u>( 308,746)</u>	<u>( 279,859)</u>
<u>\$ 631,440</u>	<u>\$ 806,221</u>	<u>\$ 2,139,325</u>	<u>\$ 566,720</u>	<u>\$( 386,722)</u>	<u>\$( 255,614)</u>

**THIS PAGE LEFT BLANK INTENTIONALLY**

CITY OF HEWITT, TEXAS

FUND BALANCES  
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS  
(Modified Accrual Basis of Accounting)

	Fiscal Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
General fund										
Reserved	\$ -	\$ 82,384	\$ 103,718	\$ 80,079	\$ 153,187	\$ 96,981	\$ 69,086	\$ 125,250	\$ 126,606	\$ -
Restricted	65,508	-	-	-	-	-	-	-	-	-
Unreserved	-	2,677,953	2,468,950	3,000,689	2,449,879	2,521,850	2,082,847	1,711,943	1,391,831	1,398,865
Unrestricted	<u>3,359,492</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total general fund	<u>\$ 3,425,000</u>	<u>\$ 2,760,337</u>	<u>\$ 2,572,668</u>	<u>\$ 3,080,768</u>	<u>\$ 2,603,066</u>	<u>\$ 2,618,831</u>	<u>\$ 2,151,933</u>	<u>\$ 1,837,193</u>	<u>\$ 1,518,437</u>	<u>\$ 1,398,865</u>
All other governmental funds										
Reserved	\$ -	\$ -	\$ 133,862	\$ -	\$ -	\$ 133,862	\$ 132,523	\$ -	\$ -	\$ -
Restricted	96,107	-	-	-	-	-	-	-	-	-
Assigned	551,883	-	-	-	-	-	-	-	-	-
Unreserved, reported in:										
Special revenue funds	-	122,182	146,573	112,488	-	-	-	-	-	-
Capital projects funds	<u>-</u>	<u>2,334,721</u>	<u>540,528</u>	<u>161,012</u>	<u>1,008,430</u>	<u>1,755,114</u>	<u>1,963,287</u>	<u>2,054,892</u>	<u>178,980</u>	<u>1,143,822</u>
Total all other governmental funds	<u>\$ 647,990</u>	<u>\$ 2,456,903</u>	<u>\$ 820,963</u>	<u>\$ 273,500</u>	<u>\$ 1,008,430</u>	<u>\$ 1,888,976</u>	<u>\$ 2,095,810</u>	<u>\$ 2,054,892</u>	<u>\$ 178,980</u>	<u>\$ 1,143,822</u>
Total governmental funds	<u>\$ 4,072,990</u>	<u>\$ 5,217,240</u>	<u>\$ 3,393,631</u>	<u>\$ 3,354,268</u>	<u>\$ 3,611,496</u>	<u>\$ 4,507,807</u>	<u>\$ 4,247,743</u>	<u>\$ 3,892,085</u>	<u>\$ 1,697,417</u>	<u>\$ 2,542,687</u>

# CITY OF HEWITT, TEXAS

## CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

**LAST TEN FISCAL YEARS**  
(Modified Accrual Basis of Accounting)

	Fiscal Year			
	2011	2010	2009	2008
<b>REVENUES</b>				
Property taxes	\$ 3,035,936	\$ 2,907,626	\$ 2,805,550	\$ 2,621,780
Sales taxes	1,240,854	1,156,510	1,236,624	1,331,737
Franchise taxes	871,770	808,850	753,994	706,224
Other taxes	55,814	57,400	-	-
Intergovernmental	70,258	176,190	-	-
Licenses and permits	135,512	89,107	58,754	75,980
Fines	265,864	197,822	228,611	260,806
Interest income	20,469	16,319	30,985	170,489
Miscellaneous	128,997	75,340	170,742	120,691
Total revenues	<u>5,825,474</u>	<u>5,485,164</u>	<u>5,285,260</u>	<u>5,287,707</u>
<b>EXPENDITURES</b>				
General government	1,409,882	1,202,542	1,098,075	962,562
Public safety	3,049,396	2,878,044	2,395,889	2,351,412
Community services	645,017	673,763	813,889	1,010,811
Culture and recreation	332,898	217,047	199,979	180,573
Capital outlay	1,632,759	235,613	167,938	869,488
Debt service:				
Principal	558,502	711,368	790,345	709,270
Interest and fees	308,153	244,172	345,047	280,944
Total expenditures	<u>7,936,607</u>	<u>6,162,549</u>	<u>5,811,162</u>	<u>6,365,060</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 2,111,133)</u>	<u>( 677,385)</u>	<u>( 525,902)</u>	<u>( 1,077,353)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	675,000	1,238,837	565,837
Transfers out	555,461	( 376,852)	( 754,695)	( 81,695)
Debt issued	-	2,200,000	2,539,304	-
Premium on debt issued	-	2,846	20,009	-
Payment to refunded bond escrow agent	-	-	( 2,478,190)	-
Capital lease	390,722	-	-	322,000
Sale of capital assets	20,700	-	-	13,983
Total other financing sources (uses)	<u>966,883</u>	<u>2,500,994</u>	<u>565,265</u>	<u>820,125</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>\$( 1,144,250)</u>	<u>\$ 1,823,609</u>	<u>\$ 39,363</u>	<u>\$( 257,228)</u>
<b>DEBT SERVICE AS A PERCENT OF NONCAPITAL EXPENDITURES</b>	<u>15.4%</u>	<u>17.2%</u>	<u>16.0%</u>	<u>16.2%</u>

Note:

Capital outlay includes the use of bond proceeds for capital projects and the expense for items that do not meet the capitalization threshold.



TABLE 4

Fiscal Year					
2007	2006	2005	2004	2003	2002
\$ 2,461,711	\$ 2,268,715	\$ 2,099,204	\$ 1,876,904	\$ 1,628,200	\$ 1,518,589
1,255,126	1,132,771	979,858	896,750	839,063	855,911
695,826	636,992	597,136	627,972	588,947	626,979
-	-	-	-	-	-
-	26,866	37,508	56,968	82,683	-
76,793	112,735	102,402	120,172	91,454	86,605
280,098	305,774	337,002	316,304	310,547	333,924
210,483	200,649	106,799	40,404	28,686	54,903
191,260	132,370	125,491	67,415	50,987	37,190
<u>5,171,297</u>	<u>4,816,872</u>	<u>4,385,400</u>	<u>4,002,889</u>	<u>3,620,567</u>	<u>3,514,101</u>
900,246	884,462	1,001,576	852,639	863,784	762,696
1,988,056	2,135,364	1,791,185	1,698,124	1,440,440	1,351,341
576,505	657,670	604,693	481,993	456,678	408,301
189,076	164,010	124,072	133,144	126,321	105,186
1,898,732	416,904	10,324	356,002	1,611,307	482,874
714,504	720,190	745,384	723,123	670,235	346,292
316,758	338,922	400,052	342,711	385,832	303,233
<u>6,583,877</u>	<u>5,317,522</u>	<u>4,677,286</u>	<u>4,587,736</u>	<u>5,554,597</u>	<u>3,759,923</u>
( 1,412,580)	( 500,650)	( 291,886)	( 584,847)	( 1,934,030)	( 245,822)
1,562,837	514,142	639,244	638,836	765,459	154,403
( 1,048,695)	-	-	-	-	-
-	-	-	2,078,039	-	1,420,000
-	-	-	-	-	-
-	-	-	-	-	-
-	239,722	-	-	-	-
2,127	6,851	8,300	-	-	-
<u>516,269</u>	<u>760,715</u>	<u>647,544</u>	<u>2,716,875</u>	<u>765,459</u>	<u>1,574,403</u>
<u>\$( 896,311)</u>	<u>\$ 260,065</u>	<u>\$ 355,658</u>	<u>\$ 2,132,028</u>	<u>\$( 1,168,571)</u>	<u>\$ 1,328,581</u>
<u>32.5%</u>	<u>33.7%</u>	<u>36.6%</u>	<u>24.7%</u>	<u>33.8%</u>	<u>36.8%</u>

**THIS PAGE LEFT BLANK INTENTIONALLY**

## CITY OF HEWITT, TEXAS

## ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

LAST TEN FISCAL YEARS  
(Amounts expressed in thousands)

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Less: Tax-exempt Property</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>	<u>Estimated Actual Taxable Value</u>	<u>Assessed Value as Percentage of Actual Value</u>
2002	\$ 325,787	\$ 33,575	\$ 53,608	\$ 305,754	\$ 0.49995	\$ 359,362	85.1%
2003	396,725	38,884	72,182	363,427	0.45500	435,609	83.4%
2004	419,602	39,350	75,737	383,215	0.48420	458,952	83.5%
2005	474,543	38,158	84,699	428,002	0.48420	512,701	83.5%
2006	513,916	44,932	90,415	468,433	0.48420	558,848	83.8%
2007	562,363	46,795	98,174	510,984	0.48420	609,158	83.9%
2008	599,035	49,963	105,667	543,331	0.48420	648,998	83.7%
2009	648,818	53,736	116,449	586,105	0.48420	702,554	83.4%
2010	676,374	51,180	126,614	600,940	0.48420	727,554	82.6%
2011	689,989	46,514	139,132	597,371	0.49983	736,503	81.1%

Source: McLennan County Appraisal District

Note: Use the certified value from the Tax Assessor's monthly report.

## CITY OF HEWITT, TEXAS

## DIRECT AND OVERLAPPING PROPERTY TAX RATES

(rate per \$1,000 of assessed value)

## LAST TEN FISCAL YEARS

Fiscal Year	City of Hewitt Direct Rates			Overlapping Rates			
	Basic Operating Rate	General Obligation Debt Service	Total Direct Rate	Midway Independent School District	Lorena Independent School District	McLennan County	McLennan County Junior College District
2002	\$ 0.303574	\$ 0.196376	\$ 0.49995	\$ 1.64000	\$ 1.591000	\$ 0.4696	\$ 0.119709
2003	0.204549	0.250451	0.45500	1.60200	1.689351	0.4286	0.116527
2004	0.223517	0.260683	0.48420	1.62200	1.689351	0.4407	0.126046
2005	0.213066	0.271134	0.48420	1.62200	1.754570	0.4449	0.126046
2006	0.273672	0.210528	0.48420	1.50650	1.700000	0.4599	0.121076
2007	0.275449	0.208751	0.48420	1.50650	1.581534	0.4519	0.120362
2008	0.289990	0.194210	0.48420	1.29000	1.248406	0.4652	0.153002
2009	0.295606	0.188594	0.48420	1.32000	1.247370	0.4647	0.151134
2010	0.327575	0.156625	0.48420	1.32000	1.247450	0.4647	0.156332
2011	0.360057	0.139771	0.49983	1.32000	1.270000	0.4643	0.156306

Source: McLennan County Appraisal District

Notes: Overlapping rates are those of local and county governments that apply to property owners with the City of Hewitt, Texas. Not all overlapping rates apply to all City of Hewitt, Texas property owners, e.g., the rates for school taxes apply to either Midway or Lorena Independent School District.

No direct funded debt limitation is imposed on the City under current state law or the City Charter. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem rate to \$2.50 per \$100 of assessed valuation for all City purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.25 of the maximum tax rate for general obligation debt service.

TABLE 7

**CITY OF HEWITT, TEXAS**  
**PRINCIPAL PROPERTY TAXPAYERS**  
**CURRENT YEAR AND NINE YEARS AGO**

Taxpayer	2011			2002		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Davis Iron Works	\$ 3,323	7	0.6%	\$ 2,794	3	1.0%
Clark, Richard S.	6,606	1	1.1%	-		- %
Schultz Industries Inc	4,232	4	0.7%	1,921	6	0.7%
TXU(Oncor) Electric Delivery Inc.	3,870	5	0.6%	4,067	1	1.4%
BRD Management Inc	4,476	3	0.7%	1,652	9	0.6%
Waco SNF Development LP	4,670	2	0.8%	-		- %
Midway Townhomes Ltd	3,722	6	0.6%	-		- %
Hewitt Investment Ltd	3,000	8	0.5%	-		- %
Southwestern Bell Telephone Co	-		- %	2,977	2	1.0%
Midway Transportation Inc	-		- %	-		- %
Davis Iron Works Operations	2,645	10	0.4%	1,919	7	0.7%
Hoppenstein Properties Inc	2,975	9	0.5%	-		- %
Eleven Fourteen Corp	-		- %	-		- %
Texas Auto Lease	-		- %	-		- %
Fred Dewald Properties	-		- %	1,657	8	0.6%
Shannon Dewey Etal	-		- %	2,471	5	0.8%
FSF Four Seasons Assoc., LP	-		- %	2,636	4	0.9%
EMSI	-		- %	1,471	10	0.5%
Total	\$ <u>39,519</u>		<u>6.5%</u>	\$ <u>23,565</u>		<u>8.2%</u>

Source: McLennan County Appraisal District

**CITY OF HEWITT, TEXAS**  
**PROPERTY TAX LEVIES AND COLLECTIONS**  
**LAST TEN FISCAL YEARS**

<u>Fiscal Year Ended</u>	<u>Taxes Levied for the Fiscal Year</u>	<u>Collected With the Fiscal Year of the Levy</u>		<u>Collections in Subsequent Years</u>	<u>Total Collections to Date</u>	
		<u>Amount</u>	<u>Percentage of Levy</u>		<u>Amount</u>	<u>Percentage of Levy</u>
2002	\$ 1,523,810	\$ 1,501,398	98.53%	\$ 20,603	\$ 1,522,001	99.88%
2003	1,641,930	1,610,716	98.10%	26,926	1,637,642	99.74%
2004	1,865,188	1,831,975	98.22%	27,206	1,859,181	99.68%
2005	2,079,974	2,056,699	98.88%	20,369	2,077,068	99.86%
2006	2,256,955	2,231,047	98.85%	22,847	2,253,894	99.86%
2007	2,458,798	2,430,129	98.83%	26,000	2,456,129	99.89%
2008	2,620,292	2,591,335	98.89%	24,489	2,615,824	99.83%
2009	2,840,575	2,787,992	98.15%	38,914	2,826,906	99.52%
2010	2,912,627	2,880,743	98.91%	17,251	2,897,994	99.50%
2011	2,989,574	2,941,968	98.41%	-	2,941,968	98.41%

Source: McLennan County Tax Assessor

**CITY OF HEWITT, TEXAS**  
**PRINCIPAL UTILITY CUSTOMERS**  
**SEPTEMBER 30, 2011**

Principal Water Customers	Average Monthly Consumption (gallons)	Average Monthly Bill (\$)	Principal Wastewater Customers	Average Monthly Consumption (gallons)	Average Monthly Bill (\$)
Midway Independent School District	759,350	\$ 5,285	Four Seasons Apartments	324,985	\$ 1,028
The Courtyard	328,817	1,320	Finish Line Car Care	198,646	247
Four Seasons Apartments	358,858	4,468	Midway Independent School District	137,062	172
Finish Line Car Care	247,242	982	Midway Little League	123,000	28
Hanson Pipe	190,983	1,222	Genie Car Wash	111,392	138
City of Hewitt	207,833	-	Happy Endings	107,285	133
Genie Car Wash	130,758	712	Pointwest Bank	73,754	93
Royalton Village	144,717	736	Cefco Food Stores	71,431	88
Midway Little League	130,758	712	Sleep Inn & Suites	68,323	84
Happy Endings	124,950	529	Schultz Industries	63,108	78
<b>Total</b>	<b>2,624,266</b>	<b>\$ 15,966</b>	<b>Total</b>	<b>1,278,986</b>	<b>\$ 2,089</b>

**WATER RATES**  
*(Based on Monthly Billing)*

Existing Rates Effective October 2010	Inside City
<b>Residential, Commercial and Builder's Water Rates</b>	
For a 3/4 inch service:	
For the first 3,000 gallons, minimum	\$30.00
For the next 4,000 gallons, per 1,000 gallons	3.40
For the next 5,000 gallons, per 1,000 gallons	3.80
For the next 12,000 gallons, per 1,000 gallons	4.15

**WASTEWATER RATES**  
*(Based on Monthly Billing)*

Existing Rates Effective October 2011	Rates Effective 10/01/11
<b>Residential Sewer Service</b>	
First 5,000 gallons	\$15.00
5,000 to 20,000 gallons	1.75
<b>Industrial Institutional, or Commercial Sewer</b>	
First 20,000 gallons	31.00
Over 20,000 gallons, per 1,000 gallons	1.75

*City of Hewitt, Code of Ordinances, Sec. 78-102*

Source: City of Hewitt administrative staff.

**THIS PAGE LEFT BLANK INTENTIONALLY**



**TABLE 9**

**CITY OF HEWITT, TEXAS**  
**RATIOS OF OUTSTANDING DEBT BY TYPE**  
**LAST TEN FISCAL YEARS**

Fiscal Year	Governmental Activities				Business-type Activities					Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Certificates of Obligation	Capital Leases	Notes Payable	Revenue Bonds	General Obligation Bonds	Certificates of Obligation	Notes Payable	Capital Leases			
2002	\$ 3,370	\$ 3,905	\$ 38	\$ 268	\$ 698	\$ -	\$ 1,285	\$ -	\$ -	\$ 9,564	16.10%	\$ 801
2003	2,945	3,690	19	256	534	-	1,245	-	350	9,039	15.21%	735
2004	2,505	5,510	-	250	365	-	3,035	246	236	12,147	20.45%	972
2005	2,045	5,240	-	235	245	-	2,990	212	119	11,086	18.66%	869
2006	1,670	5,030	122	218	235	-	2,940	175	-	10,390	17.49%	809
2007	1,280	4,780	62	203	224	-	12,140	156	-	18,845	31.72%	1,455
2008	915	4,515	322	186	213	-	12,085	138	-	18,374	30.93%	1,413
2009	1,939	3,235	215	167	201	606	11,150	117	-	17,630	29.68%	1,356
2010	1,474	5,312	111	148	-	606	10,803	96	-	18,550	31.22%	1,427
2011	1,173	5,184	390	128	-	482	18,281	91	182	25,911	43.61%	1,993

Source: See Table 14 for personal income and population information.

## CITY OF HEWITT, TEXAS

## RATIOS OF GENERAL BONDED DEBT OUTSTANDING

## LAST TEN FISCAL YEARS

Fiscal Year	General Bonded Debt Outstanding			Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Certificates of Obligation	Total		
2002	\$ 3,370	\$ 3,905	\$ 7,275	2.2%	\$ 609
2003	2,945	3,690	6,635	1.8%	539
2004	2,505	5,510	8,015	1.8%	641
2005	2,045	5,240	7,285	1.6%	571
2006	1,670	5,030	6,700	1.3%	521
2007	1,280	4,780	6,060	1.1%	468
2008	915	4,515	5,430	0.9%	419
2009	1,939	3,235	5,174	0.8%	398
2010	1,474	5,312	6,786	0.9%	522
2011	1,173	5,184	6,357	1.1%	469

Source: See Table 5 for property value data and Table 14 for population data.

Note: General obligation debt carried in the Enterprise Fund is self-supporting.

## CITY OF HEWITT, TEXAS

## DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF SEPTEMBER 30, 2011

Government Unit	Debt Outstanding	As of	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt
Debt repaid with property taxes				
Lorena Independent School District	\$ 10,312,261	08/31/11	1.24%	\$ 127,872
Midway Independent School District	96,299,909	08/31/11	17.65%	16,996,934
McLennan County	24,967,939	04/30/11	5.35%	1,335,785
McLennan County Community College	81,270,000	08/31/11	5.35%	<u>4,347,945</u>
Subtotal overlapping debt				22,808,536
Other debt				
City of Hewitt, Texas		09/30/11		<u>6,356,714</u>
Total direct and overlapping debt				<u>\$ 29,165,250</u>
Total direct and overlapping debt % of A.V.			4.88%	
Total direct and overlapping debt \$ of Capita			\$ 2,153	

Excludes general obligation bonds reported in the Enterprise Funds and the amount available for repayment in the Debt Service Fund.

\* Gross Debt

Source: Municipal Advisory Council of Texas, 03/05/2012

**CITY OF HEWITT, TEXAS**  
**LEGAL DEBT MARGIN INFORMATION**  
**LAST TEN FISCAL YEARS**  
(Taxable Assessed Value in Thousands)

	Fiscal Year			
	2011	2010	2009	2008
Total Assessed Value	\$ <u>597,371</u>	\$ <u>597,371</u>	\$ <u>586,105</u>	\$ <u>543,331</u>
Statutory tax levy limit for general obligation debt service	\$ 7,467,138	\$ 7,467,138	\$ 7,326,313	\$ 6,791,638
Current year general obligation debt service requirements	<u>831,882</u>	<u>937,784</u>	<u>1,135,392</u>	<u>990,214</u>
Excess of statutory limit for debt service over current requirements	\$ <u>6,635,256</u>	\$ <u>6,529,354</u>	\$ <u>6,190,921</u>	\$ <u>5,801,424</u>
Current requirements as a % of statutory limit	11.14%	12.56%	15.50%	14.58%

Notes:

No direct outstanding debt limitation is imposed on the City under current state law or the City Charter. Article XI, Section 5 of the Texas Constitution is applicable to the City and limits its maximum ad valorem rate to \$2.50 per \$100 of assessed valuation for all City purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.25 of the maximum tax rate for general obligation debt service.

**TABLE 12**

Fiscal Year					
2007	2006	2005	2004	2003	2002
\$ <u>510,984</u>	\$ <u>468,433</u>	\$ <u>428,002</u>	\$ <u>383,215</u>	\$ <u>363,427</u>	\$ <u>305,754</u>
\$ 6,387,300	\$ 5,855,413	\$ 5,350,025	\$ 4,790,188	\$ 4,542,838	\$ 3,821,925
<u>1,031,262</u>	<u>1,059,112</u>	<u>1,145,436</u>	<u>1,065,834</u>	<u>1,056,067</u>	<u>649,525</u>
\$ <u>5,356,038</u>	\$ <u>4,796,301</u>	\$ <u>4,204,589</u>	\$ <u>3,724,354</u>	\$ <u>3,486,771</u>	\$ <u>3,172,400</u>
16.15%	18.09%	21.41%	22.25%	23.25%	16.99%

**CITY OF HEWITT, TEXAS**  
**PLEDGED REVENUE COVERAGE**  
**LAST TEN FISCAL YEARS**

Fiscal Year	Water/Sewer Revenue Bonds and Certificates of Obligation						Coverage
	Utility	Less:	Net	Debt Service			
	Operating Revenue (1)	Operating Expenses (2)	Available Revenue	Principal	Interest	Total	
2002	\$ 3,367,111	\$ 1,712,046	\$ 1,655,065	\$ 158,000	\$ 40,730	\$ 198,730	\$ 8.33
2003	3,327,495	2,199,996	1,127,499	204,000	113,438	317,438	3.55
2004	3,986,259	2,953,606	1,032,653	214,000	102,658	316,658	3.26
2005	4,446,618	2,717,833	1,728,785	165,000	91,088	256,088	6.75
2006	4,936,091	3,084,853	1,851,238	60,000	156,403	216,403	8.55
2007	4,735,170	3,003,004	1,732,166	61,000	77,208	138,208	12.53
2008	5,319,343	2,769,082	2,550,261	66,000	482,566	548,566	4.65
2009	5,261,503	4,022,370	1,239,133	72,000	477,963	549,963	2.25
2010	5,581,356	4,476,564	1,104,792	548,000	461,771	1,009,771	1.09
2011	6,944,000	4,880,191	2,063,809	420,760	873,410	1,294,170	1.59

Notes: (1) Total revenue including interest

(2) Total Operating expenses less depreciation

## CITY OF HEWITT, TEXAS

## DEMOGRAPHIC AND ECONOMIC STATISTICS

## LAST TEN CALENDAR YEARS

<u>Calendar Year</u>	<u>Population</u>	<u>Personal Income (dollars in thousands) (1)</u>	<u>Per Capita Personal Income</u>	<u>Unemployment Rate (2)</u>
2002	11,944	\$ 59,409	\$ 4,974	5.40%
2003	12,300	59,409	4,830	6.00%
2004	12,500	59,409	4,753	4.90%
2005	12,750	59,409	4,660	4.60%
2006	12,850	59,409	4,623	4.40%
2007	12,950	59,409	4,588	4.30%
2008	12,950	59,409	4,588	4.80%
2009	13,000	59,409	4,570	7.80%
2010	13,000	59,409	4,570	8.20%
2011	13,549	66,126	4,881	8.00%

Source: (1) U. S. Census for 1990 and 2000, City of Hewitt, Texas

(2) U. S. Department of Labor, Bureau of Labor Statistics, Waco, TX Metropolitan Statistical Area

**CITY OF HEWITT, TEXAS**

**PRINCIPAL EMPLOYERS**

**CURRENT AND PRIOR YEARS**

<u>Employer</u>	<u>2011</u>		<u>2010</u>	
	<u>Employees</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Percentage of Total City Employment</u>
Midway ISD	1,027	11.94%	1,110	12.91%
EMSI	315	3.66%	300	3.49%
Davis Iron Works	73	0.85%	93	1.08%
Sturdisteel	100	1.16%	95	1.10%
City of Hewitt	86	1.00%	86	1.00%
Midway Transportation	30	0.35%	33	0.38%
Merry Maids	21	0.24%	24	0.28%
United Super IGA	29	0.34%	29	0.34%
Scott & White Clinic	8	0.09%	15	0.17%
Alliance Distributing	15	0.17%	15	0.17%
The Courtyard	60	0.70%	60	0.70%
Sleep Inn	17	0.20%	17	0.20%
<b>Total</b>	<b><u>1,781</u></b>	<b><u>20.70%</u></b>	<b><u>1,877</u></b>	<b><u>21.82%</u></b>

<u>Employer</u>	<u>2006</u>	
	<u>Employees</u>	<u>Percentage of Total City Employment</u>
Midway ISD		
EMSI		
Davis Iron Works		
Sturdisteel	792	11.15%
City of Hewitt	325	4.58%
Midway Transportation	130	1.83%
Merry Maids	110	1.55%
United Super IGA	71	1.00%
Scott & White Clinic	30	0.42%
Alliance Distributing	29	0.41%
The Courtyard	20	0.28%
Sleep Inn	20	0.28%
	20	0.28%
<b>Total</b>	<b>-</b>	<b>- %</b>
	<b><u>17</u></b>	<b><u>0.24%</u></b>
	<b><u>1,564</u></b>	<b><u>22.02%</u></b>

Source: City of Hewitt staff.

Note: Similar information for the prior four years was not readily available.



**TABLE 15**

2009		2008		2007	
<u>Employees</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Percentage of Total City Employment</u>
1,036	12.05%	962	11.88%	889	12.52%
300	3.49%	273	3.37%	325	4.58%
103	1.20%	137	1.69%	130	1.83%
102	1.19%	108	1.33%	110	1.55%
86	1.00%	81	1.00%	71	1.00%
30	0.35%	36	0.44%	30	0.42%
23	0.27%	18	0.22%	30	0.42%
35	0.41%	29	0.36%	34	0.48%
15	0.17%	15	0.19%	20	0.28%
16	0.19%	20	0.25%	20	0.28%
-	- %	-	- %	-	- %
<u>17</u>	<u>0.20%</u>	<u>17</u>	<u>0.21%</u>	<u>17</u>	<u>0.24%</u>
<u>1,763</u>	<u>20.52%</u>	<u>1,696</u>	<u>20.94%</u>	<u>1,676</u>	<u>23.60%</u>

**CITY OF HEWITT, TEXAS**  
**FULLTIME EQUIVALENT CITY GOVERNMENT EMPLOYEES**  
**BY FUNCTION/PROGRAM**  
**LAST TEN FISCAL YEARS**

Function/Program	Fulltime Equivalent Employees as of June 30,									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
General government and administration	15	15	15	14	14	14	14	14	14	14
Public safety	45	45	45	41	35	35	34	34	33	32
Community services	12	12	12	12	9	9	9	9	8	8
Culture and recreation	4.0	3.5	3.5	3.5	3.5	3.0	3.0	3.0	3.0	2.0
Water, sewer and sanitation	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>9</u>
Total	<u><u>87.0</u></u>	<u><u>86.5</u></u>	<u><u>86.5</u></u>	<u><u>81.5</u></u>	<u><u>71.5</u></u>	<u><u>71.0</u></u>	<u><u>70.0</u></u>	<u><u>70.0</u></u>	<u><u>68.0</u></u>	<u><u>65.0</u></u>

Source: Various City departments

TABLE 17

**CITY OF HEWITT, TEXAS**  
**OPERATING INDICATORS BY FUNCTION/PROGRAM**  
**LAST TEN FISCAL YEARS**

Function/Program	Fiscal Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
<b>Public safety</b>										
Fire protection:										
Number of fulltime employees	14	1	14	10	5	5	4	4	4	3
Number of volunteers	3	4	5	8	14	15	17	22	23	23
Number of emergency responses	609	548	533	448	502	530	416	357	414	397
Police protection:										
Number of sworn personnel	22	22	22	22	22	22	22	22	21	21
Number of citations issued	2,753	2,691	3,720	4,958	5,383	6,201	5,810	6,456	5,224	4,819
<b>Cultural and recreation</b>										
Libraries:										
Number of patrons using the library	152,536	142,775	53,000	49,846	49,846	44,763	38,633	30,436	-	-
Circulation	195,374	178,965	90,000	73,625	83,550	72,304	60,880	54,934	58,843	54,014
Parks and recreation:										
Number of parks - developed	2	2	2	2	2	2	2	2	2	2
Number of parks - undeveloped	1	1	1	1	1	1	1	1	-	-
Number of playgrounds	2	2	2	2	2	2	2	2	2	2
<b>Water and sewer</b>										
Number of water connections	5,871	5,850	5,803	5,813	5,754	5,670	5,559	5,409	5,273	5,063
Average daily consumption (thousands of gallons)	1,958	1,542	1,817	1,812	1,552	1,952	1,604	1,396	1,631	1,799
Number of sewer connections	5,217	5,209	5,173	5,172	5,113	5,032	4,918	4,772	4,648	4,445
Average daily sewage treatment (thousands of gallons)	1,698	1,352	1,570	1,574	1,350	1,677	1,369	1,202	1,418	1,537

Source: Quarterly Reports, City Staff

**TABLE 18**

**CITY OF HEWITT, TEXAS  
CAPITAL ASSET STATISTICS BY FUNCTION  
LAST TEN FISCAL YEARS**

Function/Program	Fiscal Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
<b>Public safety</b>										
Number of fire stations	2	2	2	2	2	2	2	2	2	2
Number of police stations	1	1	1	1	1	1	1	1	1	1
Number of patrol units	4	4	4	4	4	4	4	4	3	3
<b>Other public works</b>										
City acres	4,392	4,392	4,392	4,392	4,392	4,392	4,392	4,392	4,392	4,392
Streets (miles)	67	67	67	67	67	67	67	58	58	57
<b>Cultural and recreation</b>										
<b>Libraries:</b>										
Number of public libraries	1	1	1	1	1	1	1	1	1	1
<b>Parks and recreation:</b>										
Number of parks - developed	2	2	2	2	2	2	2	2	2	2
Number of parks - undeveloped	1	1	1	1	1	1	1	1	-	-
Number of playgrounds	4	4	4	4	4	4	4	4	4	4
<b>Water and sewer</b>										
Water mains (miles)	123	121	121	121	121	119	119	115	114	112
Water storage capacity (thousands of gallons)	6,943	4,478	4,478	4,478	4,478	4,478	4,478	4,478	3,878	3,878
Sanitary sewers (miles)	71	67	67	67	67	67	67	58	51	49
Sewer capacity (thousands of gallons)	3	2	2	2	2	2	2	2	2	2

Source: Various City departments

# **COMPLIANCE SECTION**

**THIS PAGE LEFT BLANK INTENTIONALLY**



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Members of the City Council  
City of Hewitt, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hewitt, Texas (the “City”) as of and for the year ended September 30, 2011, which collectively comprise the City’s basic financial statements and have issued our report thereon dated March 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Pattillo, Brown & Hill, L.L.P.

March 16, 2012