



City of Hewitt

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2010**

PREPARED BY

**FINANCE DEPARTMENT
CITY OF HEWITT, TEXAS**

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INTRODUCTORY SECTION

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City of Hewitt

105 Tampico • P.O. Box 610 • Hewitt, Texas 76643-0610 • Phone (254) 666-6171

March 18, 2011

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, 2010, 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, 2010, 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 14,000 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 30th. Annual appropriated budgets are adopted for the General Fund and the Water & 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 1st. 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 1st, 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, 2009. This was the 7th 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,

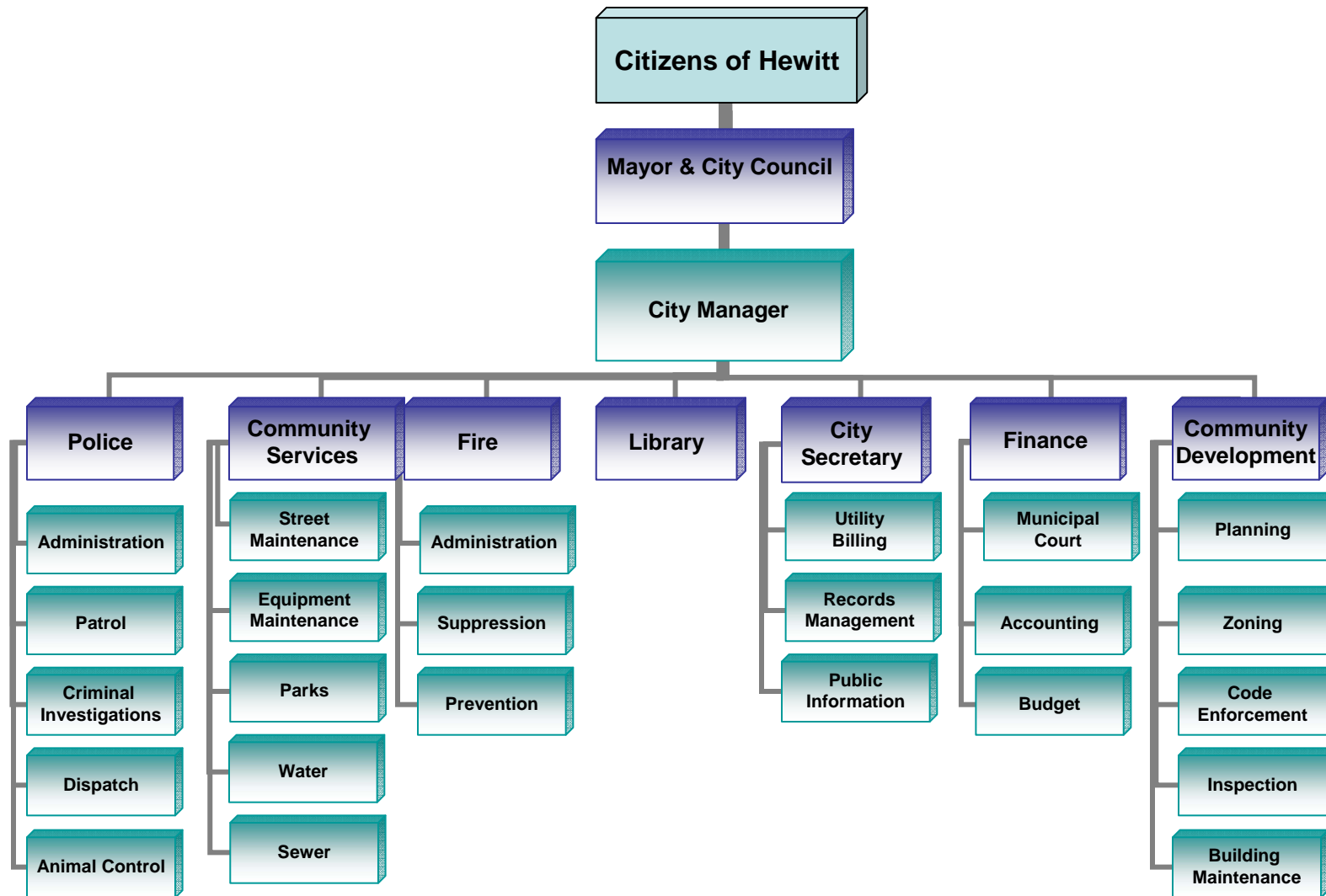


Adam Miles
City Manager



Lee Garcia, CPA, CGFO
Finance Director

City of Hewitt Functional Structure



CITY OF HEWITT, TEXAS

LIST OF ELECTED AND APPOINTED OFFICIALS

SEPTEMBER 30, 2010

Elected Officials	Position
Charlie Turner	Mayor
Vincent "Pike" Anderson	Mayor Pro-Tem
J. D. Copeland	Council Member
Bill Fuller	Council Member
A. J. Johnston	Council Member
Steve Lundquist	Council Member
Wilbert "Walky" Wachtendorf	Council Member

Appointed Officials	Position
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

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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, 2010, 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2011, 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 21, 2011

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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CITY OF HEWITT, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2010

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, 2010. 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, 2010, by \$22,337,107 (net assets). Of this amount, \$7,667,203 (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, 2009, by \$23,043,564 (net assets). Of this amount, \$4,511,109 (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, decreased \$2,315,644. *In the prior year*, the City's investment in capital assets, net of related debt, decreased \$412,308.
- As of September 30, 2010, the City of Hewitt's governmental funds reported ending fund balances of \$5,217,240. Of this amount, \$5,134,856 is unreserved 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 \$3,393,631. Of this amount, \$3,156,051 was unreserved fund balance available for use within the City's fiscal policies.
- As of September 30, 2010, the City of Hewitt's enterprise fund reported ending net assets of \$11,106,808. Of this amount \$4,902,809 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 \$10,596,919. Of this amount \$1,486,034 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.

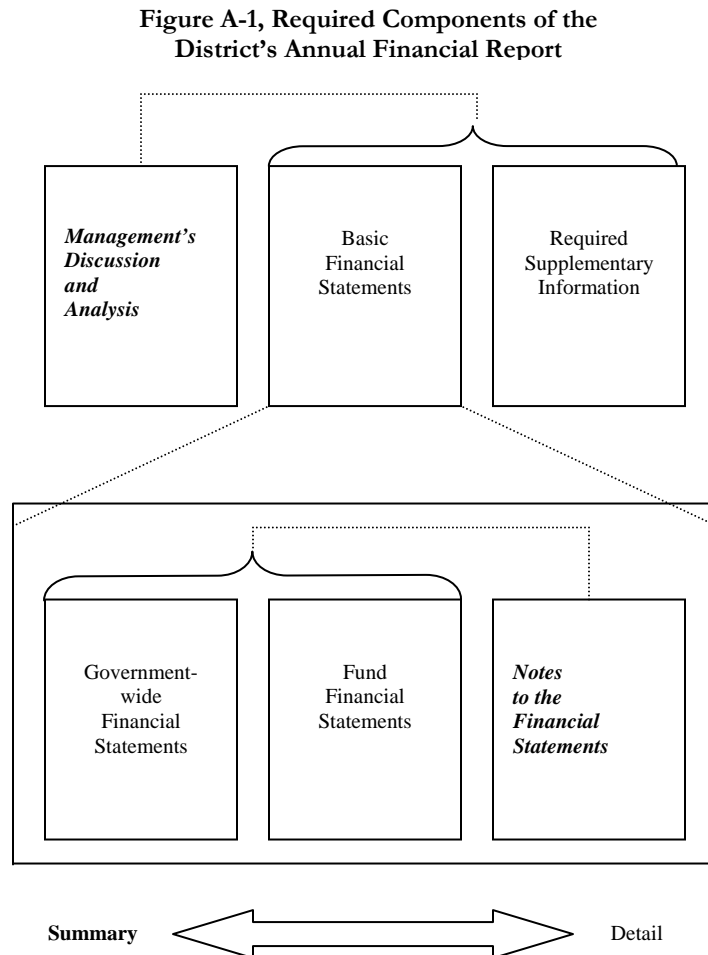


Figure A-2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of 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 \$22,337,107 at September 30, 2010, which is a slight decrease from September 30, 2009. (See Table A-1). The largest portion of the City’s net assets, \$14,383,199, 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	
	2010	2009	2010	2009	2010	2009
Current assets	\$ 5,548,541	\$ 3,707,061	\$ 22,425,515	\$ 12,584,095	\$ 27,974,056	\$ 16,291,156
Capital assets	<u>12,902,796</u>	<u>14,273,029</u>	<u>9,554,718</u>	<u>11,734,495</u>	<u>22,457,514</u>	<u>26,007,524</u>
Total assets	<u>18,451,337</u>	<u>17,980,090</u>	<u>31,980,233</u>	<u>24,318,590</u>	<u>50,431,570</u>	<u>42,298,680</u>
Long-term liabilities	136,264	142,497	1,240,431	1,314,664	1,376,695	1,457,161
Noncurrent liabilities	<u>7,084,774</u>	<u>5,390,948</u>	<u>19,632,994</u>	<u>12,407,007</u>	<u>26,717,768</u>	<u>17,797,955</u>
Total liabilities	<u>7,221,038</u>	<u>5,533,445</u>	<u>20,873,425</u>	<u>13,721,671</u>	<u>28,094,463</u>	<u>19,255,116</u>
Net assets:						
Invested in capital assets, net of related debt	8,383,521	9,178,437	5,999,678	7,520,406	14,383,199	16,698,843
Restricted	82,384	237,580	204,321	1,596,032	286,705	1,833,612
Unrestricted	<u>2,764,394</u>	<u>3,030,628</u>	<u>4,902,809</u>	<u>1,480,481</u>	<u>7,667,203</u>	<u>4,511,109</u>
Total net assets	\$ <u>11,230,299</u>	\$ <u>12,446,645</u>	\$ <u>11,106,808</u>	\$ <u>10,596,919</u>	\$ <u>22,337,107</u>	\$ <u>23,043,564</u>

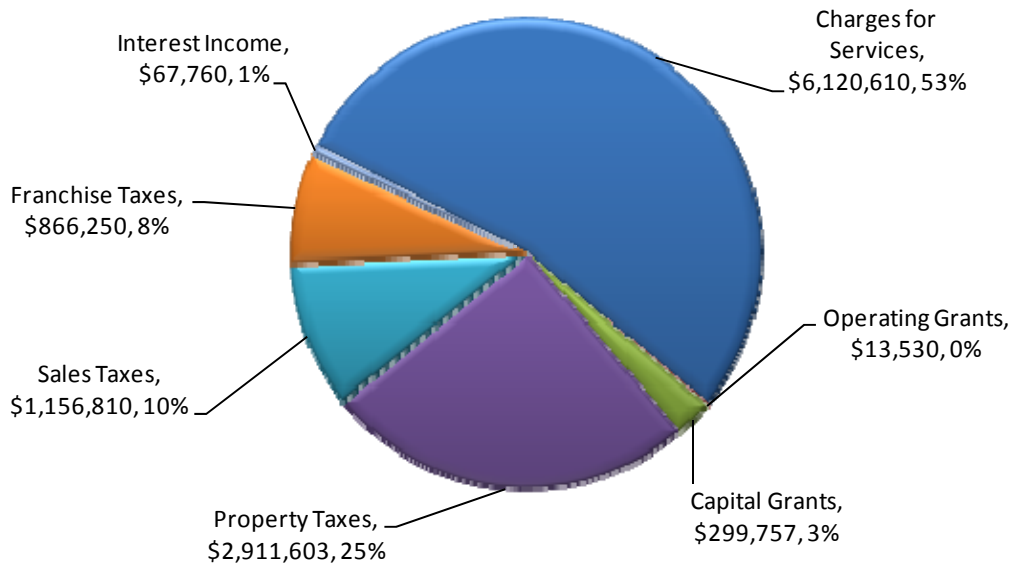
As of September 30, 2010, the City has positive balances in all three categories of net assets, both for the City as a whole, as well as for its governmental and business-type activities separately.

Changes in net assets. The City's total revenues were \$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 and sewer and sanitation fees of \$5,748,201 comprised 93.9% of the charges for services.

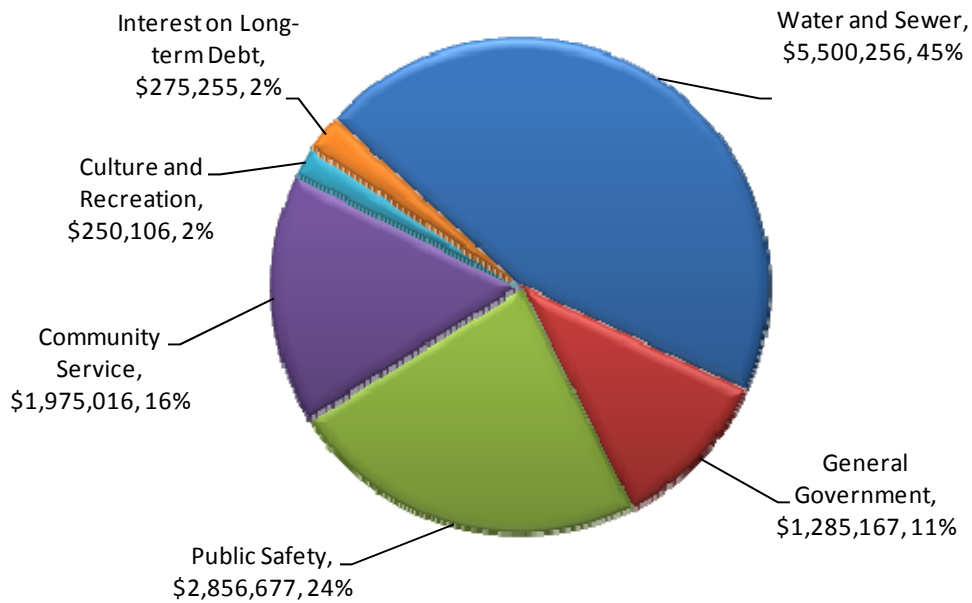
For the prior year, the City's total revenues were \$10,664,518. Property taxes comprised 26.4% or \$2,815,935 of the City's revenue. In addition, \$5,656,675 or 53.0% comes from charges for services. Water, sewer and sanitation fees of \$5,261,503 comprised 93.0% of the charges for services.

The total cost of all programs and services for September 30, 2010, was \$12,142,477. *For the prior year* ended September 30, 2009, the total cost of all programs and services was \$11,510,054.

City of Hewitt's Total Revenue 2009-2010, \$11,436,020



City of Hewitt's Total Expenses 2009-2010, \$12,142,477



Governmental Activities

- Property tax rates increased to \$.499828 per \$100 valuation after remaining at \$.4840 for seven years. Property tax income increased 3.4% due to continued commercial and residential growth.

- No fulltime employees were added in FY 09/10 and no employees in FY 08/09. No raises were given to employees in FY 09/10 and employees received only a 2% cost of living increase in FY 08/09.
- 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, 3,361, with average market values of \$132,419, average exemptions of \$26,283, and average taxable value of \$106,136. Prior year single family homestead residences were 3,323, with average market values of \$133,316, average exemptions of \$27,622, and average taxable value of \$105,694.
- State construction (Texas Department of Transportation) (TxDot) on Interstate 35 and the Hewitt exit continues, as well as state construction on widening parts of Hewitt Drive inside the City.

Business-type Activities

- City engineers have been working with TxDot's utility adjustment coordinator to widen Hewitt Drive between the Post Office and Sun Valley. The City has a 10" sewer force main and a 4" waterline in the highway. Work should be complete by the spring of 2011.
- 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, 2010. Governmental activities decreased the City of Hewitt's net assets by \$(1,216,346). Please see financial reports for additional information. The business-type activities increased net assets by \$509,889.

CITY OF HEWITT'S CHANGES NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 372,409	\$ 395,172	\$ 5,748,201	\$ 5,261,503	\$ 6,120,610	\$ 5,656,675
Operating grants	13,530	-	-	-	13,530	-
Capital grants	162,660	-	137,097	-	299,757	-
General revenues:						
Property taxes	2,911,603	2,815,935	-	-	2,911,603	2,815,935
Sales taxes	1,156,510	1,236,624	-	-	1,156,510	1,236,624
Franchise taxes	866,250	817,159	-	-	866,250	817,159
Investment earnings	16,319	30,985	51,441	107,140	67,760	138,125
Total revenues	5,499,281	5,295,875	5,936,739	5,368,643	11,436,020	10,664,518
Expenses:						
General government	1,285,167	1,101,267	-	-	1,285,167	1,101,267
Public safety	2,856,677	2,515,208	-	-	2,856,677	2,515,208
Community services	1,975,016	2,171,574	-	-	1,975,016	2,171,574
Culture and recreation	250,106	206,122	-	-	250,106	206,122
Water and sewer	-	-	5,500,256	5,296,090	5,500,256	5,296,090
Interest on long-term debt	275,255	219,793	-	-	275,255	219,793
Total expenses	6,642,221	6,213,964	5,500,256	5,296,090	12,142,477	11,510,054
Increases in net assets before transfers	(1,142,940)	(918,089)	436,483	72,553	(706,457)	(845,536)
Transfers	(73,406)	484,142	73,406	(484,142)	-	-
Change in net assets	(1,216,346)	(433,947)	509,889	(411,589)	(706,457)	(845,536)
Net assets, beginning	12,446,645	12,880,592	10,596,919	11,387,748	23,043,564	24,268,340
Prior period adjustment	-	-	-	(379,240)	-	(379,240)
Net assets, ending	\$ 11,230,299	\$ 12,446,645	\$ 11,106,808	\$ 10,596,919	\$ 22,337,107	\$ 23,043,564

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Highlights – General Fund

Actual versus Prior Year Actual

Governmental actual resources available in the current year were \$5,424,457 or 3.9% greater than the actual resources available in the prior year of \$5,219,413. Notable increases in actual resources were as follows: property taxes increased by \$102,076 or 3.6% and franchise taxes increased by \$54,856 or 7.2%.

Governmental actual expenditures in the current year were \$5,814,936, as compared to actual expenditures in the prior year of \$5,612,778, an increase of \$202,158 or 3.6%. 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 \$5,378,594 or \$(125,894) less than *budgeted resources* of \$5,504,488. Notable differences in *actual versus budgeted resources* were as follows: actual property taxes were more than budgeted property taxes by \$3,484; actual sales taxes were less than budgeted sales taxes by \$(233,310); actual franchise taxes were greater than budgeted franchise taxes by \$45,961; fines and fees were less than budgeted fines and fees by \$(72,178); and actual interest incomes were less than budgeted interest income by \$(26,988).

Governmental actual expenditures (budgetary basis) were \$5,805,794, or \$(126,526) less than budgeted expenditures of \$5,932,320. The most significant variances resulted from variances between *actual and budgeted expenditures* in the following departments: actual public safety expenses were greater than budgeted public safety expenses by \$50,502; actual general government expenses were less than budgeted general government expenses by \$(150,708).

Highlights – Proprietary Fund

Proprietary actual operating revenues in the current year were \$5,748,201, or \$486,698 and 9.3% higher, as compared to actual operating revenues in the prior year of \$5,261,503. Notable increases in actual revenues were as follows: water and sewer revenue increased by \$217,856, or 6.6%; with a new contract, sanitation sales increased by \$113,705, or 11.0%.

Proprietary actual expenses for the current year were \$4,673,635, or \$(129,957) and 2.7% less, as compared to actual expenses for the prior year of \$4,803,592. The most significant variances resulted from increases in the cost of water purchased from the City of Waco with the annual base charges increasing from \$733,436 to \$435,695, an increase of \$296,741.

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 \$2,610 of interest income. Capital outlays of \$235,613 were spent on a variety of projects. Expenditures for the prior year totaled \$167,938. The large decrease in expenditures was due to the completion of several projects in 2009.

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, 2010, the City had budgeted \$185,827 in the governmental fund and \$35,733 in the Enterprise Fund for various capital assets. The City actually spent \$11,928 less 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 33 and 34.

- The City's investment in capital assets as of September 30, 2010, net of related debt, decreased \$2,315,644. In the prior year, the City's total net capital assets decreased \$412,308.
- Total gross governmental capital assets as of September 30, 2010, are \$35,175,067. For the prior year, gross governmental capital assets were \$34,995,566.
- Total gross enterprise capital assets as of September 30, 2010, were \$20,264,291. For the prior year, gross enterprise capital assets were \$22,238,110.

Long-term Debt

At September 30, 2010, the City had \$25,970,000 in bonds and certificates of obligation, and \$355,290 in notes and leases outstanding. As of September 30, 2009, the City had \$17,131,000 in bonds and certificates of obligation, and \$499,496 in notes and leases outstanding. Debt issued helped fund the following projects:

- **Micro-Slurry Seal:** In 2010, 12 streets were selected and slurry seal work was completed. This is an annual process.
- **Jogging Track:** The City jogging track at Hewitt Park was resurfaced and upgraded.
- **Third Street and Warren Drive: 2010 bond funds were used to complete these street upgrades.**
- **Hardware/Software Upgrades:** City funds IT upgrades using 2010 bond funds.
- Complete resurfacing of bottom of 2-million gallon storage tanks completed using 2010 bond funds.
- Sewer improvements with the City, including lines and upgrade of lift station, included in 2010 bond funds.
- Elevated water storage of the north side of the City and ground water storage on the south side of the City are included in the 2010 bond funds.
- Land for the three sites for water storage and also land for public facilities included in the 2010 bond funds.

More detailed information about the City's long-term debt activity is presented in the notes to the financial statements on pages 34 – 38.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The City's adopted tax rate in effect for the fiscal year 2009/2010 is \$.4842; unchanged from the fiscal year 2004/2005.
- Net taxable appraised value for the fiscal year 2009/2010 is \$600,940,253, a 2.5% increase from the net appraised value for the prior year of 2008/2009, which was \$586,104,667.
- Net taxable appraised value for the upcoming 2009/2010 fiscal year is \$600,940,253.

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, finance@cityofhewitt.com, or log on to www.cityofhewitt.com.

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**BASIC
FINANCIAL STATEMENTS**

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CITY OF HEWITT, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,801,395	\$ 3,224,765	\$ 8,026,160
Receivables, net of allowance for uncollectibles	462,384	798,385	1,260,769
Restricted assets - cash and cash equivalents	67,980	12,968,793	13,036,773
Due from other governments	133,862	137,097	270,959
Internal balances	(24,226)	24,226	-
Deferred charges	107,146	151,659	258,805
Noncurrent assets:			
Investment in joint venture	-	5,120,590	5,120,590
Capital assets not being depreciated:			
Land	879,993	382,979	1,262,972
Construction in progress	51,980	425,674	477,654
Capital assets, net of accumulated depreciation:			
Buildings and system	1,994,378	18,617,912	20,612,290
Machinery and equipment	2,774,519	837,726	3,612,245
Infrastructure	29,474,197	-	29,474,197
Less: accumulated depreciation	(22,272,271)	(10,709,573)	(32,981,844)
Total noncurrent assets	<u>12,902,796</u>	<u>14,675,308</u>	<u>27,578,104</u>
 Total assets	 <u>18,451,337</u>	 <u>31,980,233</u>	 <u>50,431,570</u>
LIABILITIES			
Accounts payable	34,455	636,775	671,230
Accrued liabilities	34,707	7,124	41,831
Accrued interest payable	63,077	233,137	296,214
Customer deposits	4,025	363,395	367,420
Noncurrent liabilities:			
Due within one year	704,475	473,547	1,178,022
Due in more than one year	<u>6,380,299</u>	<u>19,159,447</u>	<u>25,539,746</u>
Total liabilities	<u>7,221,038</u>	<u>20,873,425</u>	<u>28,094,463</u>
NET ASSETS			
Invested in capital assets, net of related debt	8,383,521	5,999,678	14,383,199
Restricted for:			
Court security and technology	14,404	-	14,404
Debt service	67,980	204,321	272,301
Unrestricted	<u>2,764,394</u>	<u>4,902,809</u>	<u>7,667,203</u>
 Total net assets	 <u>\$ 11,230,299</u>	 <u>\$ 11,106,808</u>	 <u>\$ 22,337,107</u>

See accompanying notes to financial statements.

CITY OF HEWITT, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

<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	\$ 1,285,167	\$ 96,960	\$ -	\$ -
Public safety	2,856,677	244,213	-	162,660
Community services	1,975,016	14,081	-	-
Culture and recreation	250,106	17,155	13,530	-
Interest on long-term debt	<u>275,255</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>6,642,221</u>	<u>372,409</u>	<u>13,530</u>	<u>162,660</u>
Business-type activities:				
Water, sewer and sanitation	<u>5,500,256</u>	<u>5,748,201</u>	<u>-</u>	<u>137,097</u>
Total business-type activities	<u>5,500,256</u>	<u>5,748,201</u>	<u>-</u>	<u>137,097</u>
 Total primary government	 <u>\$ 12,142,477</u>	 <u>\$ 6,120,610</u>	 <u>\$ 13,530</u>	 <u>\$ 299,757</u>
General revenues:				
Property taxes				
Sales taxes				
Franchise taxes				
Unrestricted interest income				
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>
\$(1,188,207)	\$ -	\$(1,188,207)
(2,449,804)	-	(2,449,804)
(1,960,935)	-	(1,960,935)
(219,421)	-	(219,421)
<u>(275,255)</u>	<u>-</u>	<u>(275,255)</u>
<u>(6,093,622)</u>	<u>-</u>	<u>(6,093,622)</u>
<u>-</u>	<u>385,042</u>	<u>385,042</u>
<u>-</u>	<u>385,042</u>	<u>385,042</u>
<u>(6,093,622)</u>	<u>385,042</u>	<u>(5,708,580)</u>
2,911,603	-	2,911,603
1,156,510	-	1,156,510
866,250	-	866,250
16,319	51,441	67,760
<u>(73,406)</u>	<u>73,406</u>	<u>-</u>
<u>4,877,276</u>	<u>124,847</u>	<u>5,002,123</u>
(1,216,346)	509,889	(706,457)
<u>12,446,645</u>	<u>10,596,919</u>	<u>23,043,564</u>
<u>\$ 11,230,299</u>	<u>\$ 11,106,808</u>	<u>\$ 22,337,107</u>

CITY OF HEWITT, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	General	Capital Projects	Nonmajor Fund Hotel	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,475,559	\$ 2,201,787	\$ 124,049	\$ 4,801,395
Receivables, net of allowances for uncollectibles				
Taxes	388,365	-	4,020	392,385
Accounts	69,999	-	-	69,999
Cash and cash equivalents - restricted	67,980	-	-	67,980
Due from other governments	-	133,862	-	133,862
Due from other funds	-	10,797	-	10,797
	<u>\$ 3,001,903</u>	<u>\$ 2,346,446</u>	<u>\$ 128,069</u>	<u>\$ 5,476,418</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	16,843	11,725	5,887	34,455
Accrued liabilities	34,707	-	-	34,707
Due to other funds	35,023	-	-	35,023
Deferred revenue	150,968	-	-	150,968
Customer deposits	4,025	-	-	4,025
Total liabilities	<u>241,566</u>	<u>11,725</u>	<u>5,887</u>	<u>259,178</u>
Fund balances:				
Reserved for:				
Court security and technology	14,404	-	-	14,404
Debt service	67,980	-	-	67,980
Unreserved, reported in:				
General fund	2,677,953	-	-	2,677,953
Special revenue fund	-	-	122,182	122,182
Capital projects fund	-	2,334,721	-	2,334,721
Total fund balances	<u>2,760,337</u>	<u>2,334,721</u>	<u>122,182</u>	<u>5,217,240</u>
Total liabilities and fund balances	<u>\$ 3,001,903</u>	<u>\$ 2,346,446</u>	<u>\$ 128,069</u>	

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.	12,902,796
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	150,968
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(7,040,705)</u>
Net assets of governmental activities	<u>\$ 11,230,299</u>

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, 2010

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Fund Hotel</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes:				
Property	\$ 2,907,626	\$ -	\$ -	\$ 2,907,626
Sales	1,156,510	-	-	1,156,510
Franchise	808,850	-	-	808,850
Other	-	-	57,400	57,400
Intergovernmental	176,190	-	-	176,190
Licenses and permits	89,107	-	-	89,107
Fines and fees	197,822	-	-	197,822
Interest income	13,012	2,610	697	16,319
Miscellaneous	75,340	-	-	75,340
Total revenues	<u>5,424,457</u>	<u>2,610</u>	<u>58,097</u>	<u>5,485,164</u>
EXPENDITURES				
Current:				
General government	1,108,298	11,756	82,488	1,202,542
Public safety	2,878,044	-	-	2,878,044
Community services	673,763	-	-	673,763
Culture and recreation	217,047	-	-	217,047
Capital outlay	-	235,613	-	235,613
Debt service:				
Principal	711,368	-	-	711,368
Interest and fees	226,416	-	-	226,416
Bond issuance costs	-	17,756	-	17,756
Total expenditures	<u>5,814,936</u>	<u>265,125</u>	<u>82,488</u>	<u>6,162,549</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(390,479)</u>	<u>(262,515)</u>	<u>(24,391)</u>	<u>(677,385)</u>
OTHER FINANCING SOURCES				
Transfers in	675,000	-	-	675,000
Transfers out	(96,852)	(280,000)	-	(376,852)
Issuance of debt	-	2,200,000	-	2,200,000
Premium on debt issue	-	2,846	-	2,846
Total other financing sources	<u>578,148</u>	<u>1,922,846</u>	<u>-</u>	<u>2,500,994</u>
NET CHANGE IN FUND BALANCES	187,669	1,660,331	(24,391)	1,823,609
FUND BALANCES, BEGINNING	<u>2,572,668</u>	<u>674,390</u>	<u>146,573</u>	<u>3,393,631</u>
FUND BALANCES, ENDING	<u>\$ 2,760,337</u>	<u>\$ 2,334,721</u>	<u>\$ 122,182</u>	<u>\$ 5,217,240</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, 2010

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)	\$ 1,823,609
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 depreciation (\$1,613,064) and transfers of assets to business-type activities (\$371,554) exceeded capital outlays (\$614,385).	(1,370,233)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	18,867
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 the issuance of a certificate of obligation of \$2,200,000, plus premium on issuance of \$2,846, less bond issuance costs of \$17,756, plus the increase in net pension obligation of \$59,728, less principal repayments of \$711,368.	(1,533,450)
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 \$106,300, amortization of premiums on debt of \$36,320, amortization of issuance costs of \$9,282, and accrued interest of \$3,237).	(155,139)
Change in net assets of governmental activities (pages 15 - 16)	<u>\$ (1,216,346)</u>

See accompanying notes to financial statements.

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, 2010

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 2,904,142	\$ 2,904,142	\$ 2,907,626	\$ 3,484
Sales taxes	1,350,021	1,350,021	1,116,711	(193,511)
Franchise taxes	756,825	756,825	802,786	52,025
Intergovernmental	-	-	176,190	176,190
Licenses and permits	75,000	75,000	89,107	14,107
Fines and fees	270,000	270,000	197,822	(72,178)
Interest income	40,000	40,000	13,012	(26,988)
Miscellaneous	<u>108,500</u>	<u>108,500</u>	<u>75,340</u>	<u>(33,160)</u>
Total revenues	<u>5,504,488</u>	<u>5,504,488</u>	<u>5,378,594</u>	<u>(80,031)</u>
EXPENDITURES				
Current:				
General government	1,257,787	1,257,787	1,107,079	149,489
Public safety	2,824,986	2,824,986	2,875,488	(53,058)
Community services	699,593	699,593	667,609	25,830
Culture and recreation	210,170	210,170	217,834	(6,877)
Debt service	<u>939,784</u>	<u>939,784</u>	<u>937,784</u>	<u>2,000</u>
Total expenditures	<u>5,932,320</u>	<u>5,932,320</u>	<u>5,805,794</u>	<u>117,384</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(427,832)</u>	<u>(427,832)</u>	<u>(427,200)</u>	<u>37,353</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	445,000	445,000	675,000	230,000
Transfers out	<u>-</u>	<u>-</u>	<u>(96,852)</u>	<u>(96,852)</u>
Total other financing sources (uses)	<u>445,000</u>	<u>445,000</u>	<u>578,148</u>	<u>133,148</u>
NET CHANGE IN FUND BALANCES	17,168	17,168	150,948	170,501
FUND BALANCES, BEGINNING	<u>2,572,668</u>	<u>2,572,668</u>	<u>2,572,668</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 2,589,836</u>	<u>\$ 2,589,836</u>	<u>\$ 2,723,616</u>	<u>\$ 170,501</u>

See accompanying notes to financial statements.

CITY OF HEWITT, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2010

	Business-Type Activities - Enterprise Funds		
	Water, Sewer and Sanitation	Nonmajor- Stormwater Drainage	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 3,147,674	\$ 77,091	\$ 3,224,765
Accounts receivable, net of allowance for uncollectibles	767,615	30,770	798,385
Restricted cash and cash equivalents	12,968,793	-	12,968,793
Due from other governments	137,097	-	137,097
Due from other funds	35,023	-	35,023
Deferred charges	151,659	-	151,659
Total current assets	<u>17,207,861</u>	<u>107,861</u>	<u>17,315,722</u>
Noncurrent assets			
Investment in joint venture	5,120,590	-	5,120,590
Capital assets not being depreciated:			
Land	382,979	-	382,979
Construction in progress	425,674	-	425,674
Capital assets, net of accumulated depreciation:			
Buildings and system	18,208,168	409,744	18,617,912
Machinery and equipment	837,726	-	837,726
Less: accumulated depreciation	<u>(10,686,402)</u>	<u>(23,171)</u>	<u>(10,709,573)</u>
Total noncurrent assets	<u>14,288,735</u>	<u>386,573</u>	<u>14,675,308</u>
Total assets	<u>31,496,596</u>	<u>494,434</u>	<u>31,991,030</u>
LIABILITIES			
Current liabilities:			
Accounts payable	635,260	1,515	636,775
Accrued liabilities	5,914	1,210	7,124
Due to other funds	10,797	-	10,797
Customer deposits	363,395	-	363,395
Accrued interest payable	233,137	-	233,137
Compensated absences	45,357	2,080	47,437
Notes payable	5,350	-	5,350
Revenue bonds payable	420,760	-	420,760
Total current liabilities	<u>1,719,970</u>	<u>4,805</u>	<u>1,724,775</u>
Noncurrent liabilities:			
Compensated absences	30,541	1,400	31,941
Net pension obligation	20,931	-	20,931
Notes payable	90,794	-	90,794
Revenue bonds payable	19,015,781	-	19,015,781
Total noncurrent liabilities	<u>19,158,047</u>	<u>1,400</u>	<u>19,159,447</u>
Total liabilities	<u>20,878,017</u>	<u>6,205</u>	<u>20,884,222</u>
NET ASSETS			
Invested in capital assets, net of related debt	5,589,934	409,744	5,999,678
Restricted for			
Debt service	204,321	-	204,321
Unrestricted	<u>4,824,324</u>	<u>78,485</u>	<u>4,902,809</u>
Total net assets	<u>\$ 10,618,579</u>	<u>\$ 488,229</u>	<u>\$ 11,106,808</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, 2010

	Business-Type Activities - Enterprise Funds		
	Water, Sewer and Sanitation	Nonmajor- Stormwater Drainage	Total
OPERATING REVENUES			
Charges for sales and services pledged as security for revenue bonds:			
Water sales	\$ 3,495,724	\$ -	\$ 3,495,724
Sewer charges	740,821	-	740,821
Sanitation charges	1,145,181	-	1,145,181
Drainage fees	-	166,618	166,618
Other	199,630	227	199,857
Total operating revenues	<u>5,581,356</u>	<u>166,845</u>	<u>5,748,201</u>
OPERATING EXPENSES			
Personnel services	600,385	136,153	736,538
Contractual services	2,506,040	2,875	2,508,915
Utilities	497,977	419	498,396
Repairs and maintenance	133,863	11,989	145,852
Other	98,910	22,464	121,374
Depreciation	639,389	23,171	662,560
Total operating expenses	<u>4,476,564</u>	<u>197,071</u>	<u>4,673,635</u>
OPERATING INCOME (LOSS)	1,104,792	(30,226)	1,074,566
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental	137,097	-	137,097
Investment in joint venture	(266,141)	-	(266,141)
Interest earnings	51,392	49	51,441
Interest and fiscal charges	(560,480)	-	(560,480)
Total nonoperating revenues (expenses)	<u>(638,132)</u>	<u>49</u>	<u>(638,083)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	466,660	(30,177)	436,483
CAPITAL CONTRIBUTIONS	-	371,554	371,554
TRANSFERS IN	-	146,852	146,852
TRANSFERS OUT	<u>(445,000)</u>	<u>-</u>	<u>(445,000)</u>
CHANGE IN NET ASSETS	21,660	488,229	509,889
NET ASSETS, BEGINNING	<u>10,596,919</u>	<u>-</u>	<u>10,596,919</u>
NET ASSETS, ENDING	<u>\$ 10,618,579</u>	<u>\$ 488,229</u>	<u>\$ 11,106,808</u>

See accompanying notes to financial statements.

CITY OF HEWITT, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Business-Type Activities - Enterprise Funds		
	Water, Sewer and Sanitation	Nonmajor- Stormwater Drainage	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 5,494,639	\$ 136,075	\$ 5,630,714
Cash paid to suppliers	(614,042)	(131,463)	(745,505)
Cash paid to employees	(3,047,761)	(36,232)	(3,083,993)
Net cash provided (used) by operating activities	<u>1,832,836</u>	<u>(31,620)</u>	<u>1,801,216</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Investment in joint venture	(2,115,092)	-	(2,115,092)
Transfers to other funds	(445,000)	-	(445,000)
Transfers from other funds	-	146,852	146,852
Cash paid to other funds	(13,155)	-	(13,155)
Net cash provided (used) by noncapital financing activities	<u>(2,573,247)</u>	<u>146,852</u>	<u>(2,426,395)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Issuance of capital debt	7,775,000	-	7,775,000
Principal paid on capital debt	(568,838)	-	(568,838)
Interest paid on capital debt	(518,298)	-	(518,298)
Acquisition of capital assets	(1,220,611)	(38,190)	(1,258,801)
Net cash provided (used) by capital and related financing activities	<u>5,467,253</u>	<u>(38,190)</u>	<u>5,429,063</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	51,392	49	51,441
Net cash provided by investing activities	<u>51,392</u>	<u>49</u>	<u>51,441</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,778,234	77,091	4,855,325
CASH AND CASH EQUIVALENTS, BEGINNING	<u>11,338,233</u>	<u>-</u>	<u>11,338,233</u>
CASH AND CASH EQUIVALENTS, ENDING (including \$12,968,793, for the Water fund, reported in restricted accounts)	<u>\$ 16,116,467</u>	<u>\$ 77,091</u>	<u>\$ 16,193,558</u>

(continued)

CITY OF HEWITT, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Business-Type Activities - Enterprise Funds		
	Water, Sewer and Sanitation	Nonmajor- Stormwater Drainage	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 1,104,792	\$(30,226)	\$ 1,074,566
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	639,389	23,171	662,560
Changes in assets and liabilities:			
Decrease (increase) in assets:			
Accounts receivable	(93,582)	(30,770)	(124,352)
Increase (decrease) in liabilities:			
Accounts payable	189,029	1,515	190,544
Accrued liabilities	(46,811)	1,210	(45,601)
Customer deposits	6,865	-	6,865
Compensated absences	20,370	3,480	23,850
Net pension obligation	<u>12,784</u>	<u>-</u>	<u>12,784</u>
Net cash provided (used) by operating activities	<u>\$ 1,832,836</u>	<u>\$(31,620)</u>	<u>\$ 1,801,216</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
Contributions of capital assets	<u>\$ -</u>	<u>\$ 371,554</u>	<u>\$ 371,554</u>

See accompanying notes to financial statements.

CITY OF HEWITT, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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.

Fund Equity

In the fund financial statements, the governmental fund reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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 \$(7,040,705) difference are as follows:

Bonds payable	\$(6,785,954)
Notes payable	(148,254)
Capital lease payable	(110,892)
Less: deferred charge for issuance costs	107,146
Accrued interest payable	(63,077)
Compensated absences	(265,420)
Deferred loss on refunding	344,892
Bond premiums	(20,854)
TMRS, net pension obligation	<u>(98,292)</u>
 Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	 <u>\$(7,040,705)</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, 2010, is presented below:

	<u>General Fund</u>
Net change in fund balance - budgetary basis	\$ 150,948
Adjustment to expenditures for payables and accruals	(9,142)
Adjustment to revenues for receivables	<u>45,863</u>
Net change in fund balance - GAAP basis	<u>\$ 187,669</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	\$ 53,058
Culture and recreation	6,877

4. DETAILED NOTES ON ALL FUNDS

Deposits and Investments

A summary of the City's cash and cash equivalents at September 30, 2010, follows:

Cash in bank	\$ 16,505,693
Cash on hand	1,600
Texas Local Government Investment Pool	<u>4,765,059</u>
Total cash and cash equivalents	<u>\$ 21,272,352</u>

At September 30, 2010, the City's only investment is in Texas Local Government Investment Pool (TexPool). The weighted average maturity of TexPool is 34 days as of September 30, 2010.

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, 2010, 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	\$ 1,585	\$ -	\$ -	\$ 1,043,822	\$ 30,770	\$ 1,076,177
Taxes	388,365	-	4,020	-	-	392,385
Fines	273,655	-	-	-	-	273,655
Due from other governments	-	133,862	-	137,097	-	270,959
Gross receivables	663,605	133,862	4,020	1,180,919	30,770	2,013,176
Less: allowance for uncollectibles	(205,241)	-	-	(276,207)	-	(481,448)
Net total receivables	\$ 458,364	\$ 133,862	\$ 4,020	\$ 904,712	\$ 30,770	\$ 1,531,728

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:

	<u>Unavailable</u>
Delinquent property taxes receivable	\$ 82,554
Delinquent fines receivable	<u>68,414</u>
Total general fund	<u>\$ 150,968</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets

Capital asset activity for the year ended September 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 879,993	\$ -	\$ -	\$ 879,993
Construction in progress	36,903	15,077	-	51,980
Total assets not being depreciated	<u>916,896</u>	<u>15,077</u>	<u>-</u>	<u>931,973</u>
Capital assets, being depreciated:				
Buildings and systems	1,994,378	-	-	1,994,378
Machinery and equipment	2,320,831	488,679	(34,991)	2,774,519
Infrastructure	29,763,461	110,629	(399,893)	29,474,197
Total capital assets being depreciated	<u>34,078,670</u>	<u>599,308</u>	<u>(434,884)</u>	<u>34,243,094</u>
Less accumulated depreciation:				
Buildings and systems	(755,285)	(49,859)	-	(805,144)
Machinery and equipment	(1,730,486)	(207,466)	34,991	(1,902,961)
Infrastructure	(18,236,766)	(1,355,739)	28,339	(19,564,166)
Total accumulated depreciation	<u>(20,722,537)</u>	<u>(1,613,064)</u>	<u>63,330</u>	<u>(22,272,271)</u>
Total capital assets being depreciated, net	<u>13,356,133</u>	<u>(1,013,756)</u>	<u>(371,554)</u>	<u>11,970,823</u>
Governmental activities capital assets, net	<u>\$ 14,273,029</u>	<u>\$(998,679)</u>	<u>\$(371,554)</u>	<u>\$ 12,902,796</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 202,219	\$ 180,760	\$ -	\$ 382,979
Construction in progress	58,588	367,086	-	425,674
Total assets not being depreciated	<u>260,807</u>	<u>547,846</u>	<u>-</u>	<u>808,653</u>
Capital assets, being depreciated:				
Buildings and systems	17,580,955	1,036,957	-	18,617,912
Machinery and equipment	792,173	45,553	-	837,726
Total capital assets being depreciated	<u>18,373,128</u>	<u>1,082,510</u>	<u>-</u>	<u>19,455,638</u>
Less accumulated depreciation:				
Buildings and systems	(9,395,854)	(617,580)	-	(10,013,434)
Machinery and equipment	(651,159)	(44,980)	-	(696,139)
Total accumulated depreciation	<u>(10,047,013)</u>	<u>(662,560)</u>	<u>-</u>	<u>(10,709,573)</u>
Total capital assets being depreciated, net	<u>8,326,115</u>	<u>419,950</u>	<u>-</u>	<u>8,746,065</u>
Business-type activities capital assets, net	<u>\$ 8,586,922</u>	<u>\$ 967,796</u>	<u>\$ -</u>	<u>\$ 9,554,718</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		\$ 30,125
Public safety		160,403
Community services, including depreciation of general infrastructure assets		1,406,971
Culture and recreation		<u>15,565</u>
Total depreciation expense - governmental activities		<u>\$ 1,613,064</u>
Business-type activities:		
Water, sewer and sanitation		\$ 639,389
Drainage		<u>23,171</u>
Total depreciation expense - business-type activities		<u>\$ 662,560</u>

Interfund Transfers

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

	<u>Transfers In</u>		
	<u>General</u>	<u>Water, Sewer and Sanitation</u>	<u>Total</u>
Transfers out:			
General	\$ -	\$ 96,852	\$ 96,852
Capital projects	230,000	50,000	280,000
Water, sewer and sanitation	<u>445,000</u>	<u>-</u>	<u>445,000</u>
Total	<u>\$ 675,000</u>	<u>\$ 146,852</u>	<u>\$ 821,852</u>

Transfers to the Nonmajor Enterprise Fund were to fund drainage projects. The transfer to the General Fund in the amount of \$445,000 was to move unrestricted surplus in accordance with budgetary authorization. The transfer to the General Fund in the amount of \$230,000 was to return unrestricted amounts transferred to the Capital Projects Fund in prior years.

Capital Lease

The City has acquired vehicles and heavy equipment through the use of a lease purchase agreement. The lease agreement qualifies as a capital lease 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 \$485,177. 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, 2010, were as follows:

<u>Year Ending September 30,</u>	<u>Lease Obligation</u>
2011	\$ 114,940
Total	114,940
Less interest portion	(4,048)
Present value of minimum lease payments	<u>\$ 110,892</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%.	\$ 1,474,304
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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%.	1,095,000
\$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%.	2,016,650
\$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%.	<u>2,200,000</u>
	<u>\$ 6,785,954</u>

(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.

\$ 148,254

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>
2011	\$ 448,876	\$ 300,950
2012	472,622	269,711
2013	424,901	255,029
2014	438,117	239,884
2015	331,487	224,249
2016-2020	1,751,105	916,022
2021-2025	1,797,100	543,072
2026-2030	<u>1,270,000</u>	<u>196,750</u>
Total	<u>\$ 6,934,208</u>	<u>\$ 2,945,667</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%.	\$ 1,788,350
\$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%.	9,015,000
\$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%.	605,696
\$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>\$ 19,184,046</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>\$ 96,144</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>
2011	\$ 426,110	\$ 876,823
2012	443,665	802,392
2013	432,641	786,509
2014	450,736	769,526
2015	458,686	751,930
2016-2020	2,607,844	3,457,512
2021-2025	3,395,508	2,877,417
2026-2030	3,915,000	2,115,563
2031-2035	4,865,000	1,189,500
2036-2037	<u>2,285,000</u>	<u>158,400</u>
Total	<u>\$ 19,280,190</u>	<u>\$ 13,785,572</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt (Continued)

Long-term liability activity for the year ended September 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds	\$ 1,939,304	\$ -	\$(465,000)	\$ 1,474,304	\$ 301,240
Combination tax and revenue certificates of obligation	3,234,650	2,200,000	(123,000)	5,311,650	128,000
Deferred loss on refunding	(383,213)	-	38,321	(344,892)	(38,321)
Bond premiums	20,009	2,846	(2,001)	20,854	2,106
Notes payable	167,501	-	(19,247)	148,254	19,636
Leases payable	215,013	-	(104,121)	110,892	110,982
Compensated absences	159,120	214,763	(108,463)	265,420	180,922
TMRS net pension obligation	38,564	380,051	(320,323)	98,292	-
Governmental activities long-term liabilities	<u>\$ 5,390,948</u>	<u>\$ 2,797,660</u>	<u>\$(1,103,834)</u>	<u>\$ 7,084,774</u>	<u>\$ 704,565</u>
Business-type activities					
Revenue bonds	\$ 201,000	\$ -	\$(201,000)	\$ -	\$ -
Combination tax and certificates of obligation	11,150,350	7,775,000	(347,000)	18,578,350	297,000
General obligation bond	605,696	-	-	605,696	123,760
Deferred loss on refunding	269,304	-	(26,930)	242,374	26,930
Bond premiums	-	10,121	-	10,121	375
Note payable	116,982	-	(20,838)	96,144	5,350
Compensated absences	55,528	57,034	(33,184)	79,378	47,437
TMRS net pension obligation	8,147	81,347	(68,563)	20,931	-
Business-type activities long-term liabilities	<u>\$ 12,407,007</u>	<u>\$ 7,923,502</u>	<u>\$(697,515)</u>	<u>\$ 19,632,994</u>	<u>\$ 500,852</u>
Total long-term liabilities	<u>\$ 17,797,955</u>	<u>\$ 10,721,162</u>	<u>\$(1,801,349)</u>	<u>\$ 26,717,768</u>	<u>\$ 1,205,417</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 \$.156625 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, 2010, include interest and sinking accounts, unspent capital debt proceeds, and unspent debt proceeds related to the joint venture of \$204,321, \$6,843,330, and \$5,921,142, 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.

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 2009</u>	<u>Plan Year 2010</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)	\$ 460,746
Interest on Net Pension Obligation	3,503
Adjustment to the ARC	(2,852)
Annual Pension Cost	461,397
Contributions Made	(388,885)
Increase (Decrease) in Net Pension Obligation	72,512
Net Pension Obligation/(Asset), beginning of year	<u>46,711</u>
Net Pension Obligation/(Asset), ending of year	<u>\$ 119,223</u>

Accounting Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
09/30/08	\$ 243,773	\$ 243,773	100%	\$ -
09/30/09	386,995	340,284	87.9%	46,711
09/30/10	461,397	388,885	84.3	119,223

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Actuarial Valuation Date	12/31/07	12/31/08	12/31/09
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	30 years - closed	29 years - closed	28 years - closed
Asset valuation method	Amortized cost	Amortized cost	Amortized cost
Actuarial Assumptions:			
Investment rate of return	7%	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, 2010, 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>
12/31/2007	\$ 4,836,204	\$ 7,042,822	68.7%	\$ 2,206,618	\$ 2,734,654	80.7%
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%

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, 2010 is as follows:

Operating revenues	\$ 5,817,079
Operating expenses	(6,443,289)
Nonoperating revenues	<u>162,153</u>
Net income	<u>(464,057)</u>
Total assets	52,536,321
Total liabilities	<u>2,819,124</u>
Net assets	<u>\$ 49,253,140</u>

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STATISTICAL SECTION

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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

43

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

44 – 45

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

46

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

47 – 48

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 49

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 50

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 51

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 52

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 53

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 54

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**

55

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

56

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

57 – 58

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

59

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**

60

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

Table 15 – Principal Employers

61

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 62

Presents the number of persons the City employs by function.

Table 17 – Operating Indicators by Function/Program 63

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 64

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.

CITY OF HEWITT, TEXAS

NET ASSETS BY COMPONENT

LAST EIGHT FISCAL YEARS

(Accrual Basis of Accounting)

	Fiscal Year							
	2010	2009	2008	2007	2006	2005	2004	2003
Governmental activities:								
Invested in capital assets, net of related debt	\$ 8,383,521	\$ 9,178,437	\$ 9,704,551	\$ 10,485,235	\$ 9,950,923	\$ 9,567,083	\$ 9,625,994	\$ 868,598
Restricted	82,384	237,580	80,079	153,187	96,981	69,086	125,250	76,606
Unrestricted	<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>\$ 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>
Business-type activities:								
Invested in capital assets, net of related debt	\$ 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	204,321	1,596,032	905,058	585,948	401,258	386,834	368,196	1,596,032
Unrestricted	<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>\$ 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>
Primary government:								
Invested in capital assets, net of related debt	\$ 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	286,705	1,833,612	985,137	739,135	498,239	455,920	493,446	1,672,638
Unrestricted	<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>\$ 22,337,107</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.

TABLE 2

CITY OF HEWITT, TEXAS
CHANGES IN NET ASSETS
LAST EIGHT FISCAL YEARS
 (Accrual Basis of Accounting)

	Fiscal Year							
	2010	2009	2008	2007	2006	2005	2004	2003
EXPENSES								
Governmental activities:								
General government	\$ 1,285,167	\$ 1,101,267	\$ 1,016,854	\$ 946,782	\$ 931,073	\$ 1,042,750	\$ 863,108	\$ 909,811
Public safety	2,856,677	2,515,208	2,350,896	2,070,821	1,927,234	1,773,570	1,656,819	1,552,756
Community services	1,975,016	2,171,574	2,098,340	2,011,935	1,789,851	1,707,400	1,770,975	1,417,316
Culture and recreation	250,106	206,122	176,075	200,595	180,971	140,989	149,065	146,912
Interest on long-term debt	275,255	219,793	274,627	317,928	333,473	379,284	344,306	344,746
Total governmental activities expenses	<u>6,642,221</u>	<u>6,213,964</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>
Business-type activities:								
Water, sewer and sanitation	5,500,256	5,296,090	4,664,471	4,054,546	3,878,643	3,515,993	3,656,169	2,841,895
Total business-type activities expenses	<u>5,500,256</u>	<u>5,296,090</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>
Total primary government program expenses	<u>\$ 12,142,477</u>	<u>\$ 11,510,054</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>
PROGRAM REVENUES								
Governmental activities:								
Charges for services:								
General government	\$ 96,960	\$ 145,679	\$ 107,881	\$ 130,537	\$ 194,316	\$ 179,133	\$ 141,012	\$ 402,001
Public safety	244,213	228,611	321,240	334,925	332,861	361,580	341,824	959
Community services	14,081	11,197	21,456	20,603	15,265	12,496	11,743	-
Culture and recreation	17,155	9,685	9,829	62,086	8,437	11,686	9,312	17,656
Operating grants and contributions	13,530	-	-	-	26,866	37,508	56,968	82,683
Capital grants and contributions	162,660	-	19,135	269,662	823,288	281,304	70,065	-
Total governmental activities program revenues	<u>548,599</u>	<u>395,172</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>
Business-type activities:								
Charges for services:								
Water, sewer and sanitation	5,748,201	5,261,503	5,479,315	4,397,717	4,779,052	4,366,103	3,935,820	3,287,220
Capital grants and contributions	137,097	-	-	221,500	596,076	-	-	-
Total business-type activities program revenues	<u>5,885,298</u>	<u>5,261,503</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>
Total primary government program revenues	<u>\$ 6,433,897</u>	<u>\$ 5,656,675</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)

TABLE 2

CITY OF HEWITT, TEXAS

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

	Fiscal Year							
	2010	2009	2008	2007	2006	2005	2004	2003
NET (EXPENSE) REVENUES								
Governmental activities	\$(6,093,622)	\$(5,818,792)	\$(5,437,251)	\$(4,730,248)	\$(3,761,569)	\$(4,160,286)	\$(4,153,349)	\$(3,868,242)
Business-type activities	385,042	(34,587)	814,844	564,671	1,496,485	850,110	279,651	445,325
Total primary government net expense	<u>(5,708,580)</u>	<u>(5,853,379)</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>
GENERAL REVENUES AND OTHER								
CHANGES IN NET ASSETS								
Governmental activities:								
Taxes								
Property	2,911,603	2,815,935	2,625,714	2,470,783	2,270,107	2,109,893	1,871,411	1,637,001
Sales	1,156,510	1,236,624	1,331,737	1,255,126	1,132,771	979,858	896,750	839,063
Franchise	866,250	817,159	706,224	695,826	636,992	597,136	627,972	588,947
Investment earnings	16,319	30,985	170,489	210,483	200,649	106,799	40,404	28,686
Gain on sale of capital assets	-	-	13,983	2,127	6,851	2,695	-	-
Miscellaneous	-	-	-	-	-	-	-	33,331
Transfers	<u>(73,406)</u>	<u>484,142</u>	<u>484,142</u>	<u>514,142</u>	<u>514,142</u>	<u>639,244</u>	<u>638,836</u>	<u>765,459</u>
Total governmental activities	<u>4,877,276</u>	<u>5,384,845</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>
Business-type activities:								
Investment earnings	51,441	107,140	405,700	337,453	157,039	80,515	50,439	40,275
Transfers	<u>73,406</u>	<u>(484,142)</u>	<u>(484,142)</u>	<u>(514,142)</u>	<u>(514,142)</u>	<u>(639,244)</u>	<u>(638,836)</u>	<u>(765,459)</u>
Total business-type activities	<u>124,847</u>	<u>(377,002)</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>
Total primary government	<u>5,002,123</u>	<u>5,007,843</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>
CHANGE IN NET ASSETS								
Governmental activities	(1,216,346)	(433,947)	(104,962)	418,239	999,943	275,339	(77,976)	24,245
Business-type activities	<u>509,889</u>	<u>(411,589)</u>	<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>
Total primary government	<u>\$(706,457)</u>	<u>\$(845,536)</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>

Note:

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

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CITY OF HEWITT, TEXAS
FUND BALANCES
GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
 (Modified Accrual Basis of Accounting)

	Fiscal Year									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
General fund										
Reserved	\$ 82,384	\$ 103,718	\$ 80,079	\$ 153,187	\$ 96,981	\$ 69,086	\$ 125,250	\$ 126,606	\$ -	\$ -
Unreserved	<u>2,677,953</u>	<u>2,468,950</u>	<u>3,000,689</u>	<u>2,449,879</u>	<u>2,521,850</u>	<u>2,082,847</u>	<u>1,711,943</u>	<u>1,391,831</u>	<u>1,398,865</u>	<u>1,205,709</u>
Total general fund	<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>	<u>\$ 1,205,709</u>
All other governmental funds										
Reserved	\$ -	\$ 133,862	\$ -	\$ -	\$ 133,862	\$ 132,523	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	122,182	146,573	112,488	-	-	-	-	-	-	-
Capital projects funds	<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>	<u>8,397</u>
Total all other governmental funds	<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>	<u>\$ 8,397</u>
Total governmental funds	<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>	<u>\$ 1,214,106</u>

CITY OF HEWITT, TEXAS

**CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

LAST TEN FISCAL YEARS
(Modified Accrual Basis of Accounting)

	Fiscal Year			
	2010	2009	2008	2007
REVENUES				
Property taxes	\$ 2,907,626	\$ 2,805,550	\$ 2,621,780	\$ 2,461,711
Sales taxes	1,156,510	1,236,624	1,331,737	1,255,126
Franchise taxes	808,850	753,994	706,224	695,826
Other taxes	57,400	-	-	-
Intergovernmental	176,190	-	-	-
Licenses and permits	89,107	58,754	75,980	76,793
Fines	197,822	228,611	260,806	280,098
Interest income	16,319	30,985	170,489	210,483
Miscellaneous	75,340	170,742	120,691	191,260
Total revenues	<u>5,485,164</u>	<u>5,285,260</u>	<u>5,287,707</u>	<u>5,171,297</u>
EXPENDITURES				
General government	1,202,542	1,098,075	962,562	900,246
Public safety	2,878,044	2,395,889	2,351,412	1,988,056
Community services	673,763	813,889	1,010,811	576,505
Culture and recreation	217,047	199,979	180,573	189,076
Capital outlay	235,613	167,938	869,488	1,898,732
Debt service:				
Principal	711,368	790,345	709,270	714,504
Interest and fees	244,172	345,047	280,944	316,758
Total expenditures	<u>6,162,549</u>	<u>5,811,162</u>	<u>6,365,060</u>	<u>6,583,877</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(677,385)</u>	<u>(525,902)</u>	<u>(1,077,353)</u>	<u>(1,412,580)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	675,000	1,238,837	565,837	1,562,837
Transfers out	(376,852)	(754,695)	(81,695)	(1,048,695)
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	-	-	322,000	-
Sale of capital assets	-	-	13,983	2,127
Total other financing sources (uses)	<u>2,500,994</u>	<u>565,265</u>	<u>820,125</u>	<u>516,269</u>
NET CHANGE IN FUND BALANCES	<u>\$ 1,823,609</u>	<u>\$ 39,363</u>	<u>\$(257,228)</u>	<u>\$(896,311)</u>
DEBT SERVICE AS A PERCENT OF NONCAPITAL EXPENDITURES	<u>11.8%</u>	<u>16.0%</u>	<u>16.2%</u>	<u>27.6%</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									
		2006	2005	2004	2003	2002	2001				
\$	2,268,715	\$	2,099,204	\$	1,876,904	\$	1,628,200	\$	1,518,589	\$	1,440,262
	1,132,771		979,858		896,750		839,063		855,911		822,306
	636,992		597,136		627,972		588,947		626,979		539,515
	-		-		-		-		-		-
	26,866		37,508		56,968		82,683		-		-
	112,735		102,402		120,172		91,454		86,605		111,980
	305,774		337,002		316,304		310,547		333,924		239,408
	200,649		106,799		40,404		28,686		54,903		73,488
	132,370		125,491		67,415		50,987		37,190		63,571
	<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>		<u>3,290,530</u>
	884,462		1,001,576		852,639		863,784		762,696		682,252
	2,135,364		1,791,185		1,698,124		1,440,440		1,351,341		1,155,870
	657,670		604,693		481,993		456,678		408,301		398,525
	164,010		124,072		133,144		126,321		105,186		76,632
	416,904		10,324		356,002		1,611,307		482,874		546,275
	720,190		745,384		723,123		670,235		346,292		448,110
	338,922		400,052		342,711		385,832		303,233		332,672
	<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>		<u>3,640,336</u>
(<u>500,650</u>)	(<u>291,886</u>)	(<u>584,847</u>)	(<u>1,934,030</u>)	(<u>245,822</u>)	(<u>349,806</u>)
	514,142		639,244		638,836		765,459		154,403		201,084
	-		-		-		-		-		-
	-		-		2,078,039		-		1,420,000		-
	-		-		-		-		-		-
	-		-		-		-		-		-
	239,722		-		-		-		-		-
	6,851		8,300		-		-		-		-
	<u>760,715</u>		<u>647,544</u>		<u>2,716,875</u>		<u>765,459</u>		<u>1,574,403</u>		<u>201,084</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>(148,722)</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>

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>
2001	\$ 298,807	\$ 35,259	\$ 42,071	\$ 291,995	\$ 0.49995	\$ 334,066	87.4%
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%

Source: McLennan County Appraisal District

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
2001	\$ 0.259799	\$ 0.240151	\$ 0.49995	\$ 1.64000	\$ 1.571000	\$ 0.4566	\$ 0.107355
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

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	2010 Tax Roll			2001 Tax Roll		
	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	3	0.6%	\$ 2,794	3	1.0%
Clark, Richard S.	6,606	1	1.1%	-		- %
Schultz Industries Inc	4,232	2	0.7%	1,921	6	0.7%
TXU(Oncor) Electric Delivery Inc.	3,870	6	0.7%	4,067	1	1.4%
BRD Management Inc	4,476	4	0.8%	1,652	9	0.6%
Waco SNF Development LP	4,670	5	0.8%	-		- %
Midway Townhomes Ltd	3,722	7	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	0.5%	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	\$ 39,519		6.8%	\$ 23,565		8.2%

Source: McLennan County Appraisal District

TABLE 8

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>
2001	\$ 1,459,829	\$ 1,458,126	99.88%	\$ 880	\$ 1,459,006	99.94%
2002	1,523,810	1,501,398	98.53%	20,518	1,521,916	99.88%
2003	1,641,930	1,610,716	98.10%	26,644	1,637,360	99.72%
2004	1,865,188	1,831,975	98.22%	27,014	1,858,989	99.67%
2005	2,079,974	2,056,699	98.88%	19,966	2,076,665	99.84%
2006	2,256,955	2,231,047	98.85%	21,136	2,252,183	99.79%
2007	2,458,798	2,430,129	98.83%	23,346	2,453,475	99.78%
2008	2,620,292	2,591,335	98.89%	19,747	2,611,082	99.65%
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%	-	2,880,743	98.91%

Source: McLennan County Tax Assessor

CITY OF HEWITT, TEXAS
PRINCIPAL WATER CUSTOMERS
SEPTEMBER 30, 2010

Name of Customer	Average Monthly Consumption (gallons)	Average Monthly Bill
Midway Independent School District	612,408	\$ 5,015
The Courtyard	379,117	1,506
Four Seasons Apartments	302,142	4,273
Finish Line Car Care	270,467	1,069
Hanson Pipe	179,117	1,087
Kelly McDonald	163,975	844
Genie Car Wash	133,983	688
Royalton Village	129,583	637
Happy Endings	124,308	499
First Baptist Church	<u>70,658</u>	<u>370</u>
Total	<u>2,365,758</u>	<u>\$ 15,988</u>

Source: City of Hewitt administrative staff

WATER RATES
(Based on Monthly Billing)

Existing Rates Effective October 2010		Previous Rates Effective October 2009	
Usage	Rate	Usage	Rate
First 3,000 gallons	\$ 30.00 (minimum)*	First 3,000 gallons	\$ 28.00 (minimum)
Next 4,000 gallons	3.40 /m gallons	Next 4,000 gallons	2.98 /m gallons
Next 5,000 gallons	3.80 /m gallons	Next 5,000 gallons	3.45 /m gallons
Over 12,000 gallons	4.15 /m gallons	Over 12,000 gallons	3.87 /m gallons

Source: City of Hewitt administrative staff.

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			
2001	\$ 3,415	\$ 2,675	\$ 133	\$ 279	\$ 1,191	\$ -	\$ 1,325	\$ -	\$ -	\$ 9,018	15.18%	\$ 784
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

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		
2001	\$ 3,415	\$ 2,675	\$ 6,090	2.0%	\$ 529
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

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

CITY OF HEWITT, TEXAS

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF SEPTEMBER 30, 2010

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	\$ 11,257,078	01/28/10	0.07%	\$ 7,880
Midway Independent School District	108,410,683	06/29/10	19.40%	21,031,673
McLennan County	31,558,590	06/24/09	5.85%	1,846,178
McLennan County Community College	84,084,833	05/20/10	5.85%	<u>4,918,963</u>
Subtotal overlapping debt				27,804,693
Other debt				
City of Hewitt, Texas		09/30/10		<u>6,715,442</u>
Total direct and overlapping debt				<u>\$ 34,520,135</u>
Total direct and overlapping debt % of A.V.			5.78%	
Total direct and overlapping debt \$ of Capita			\$ 2,655	

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

CITY OF HEWITT, TEXAS

LEGAL DEBT MARGIN INFORMATION

LAST TEN FISCAL YEARS

(Taxable Assessed Value in Thousands)

	Fiscal Year			
	2010	2009	2008	2007
Total Assessed Value	\$ <u>597,371</u>	\$ <u>586,105</u>	\$ <u>543,331</u>	\$ <u>510,984</u>
Statutory tax levy limit for general obligation debt service	\$ 7,467,138	\$ 7,326,313	\$ 6,791,638	\$ 6,387,300
Current year general obligation debt service requirements	<u>937,784</u>	<u>1,135,392</u>	<u>990,214</u>	<u>1,031,262</u>
Excess of statutory limit for debt service over current requirements	\$ <u>6,529,354</u>	\$ <u>6,190,921</u>	\$ <u>5,801,424</u>	\$ <u>5,356,038</u>
Current requirements as a % of statutory limit	12.56%	15.50%	14.58%	16.15%

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					
2006	2005	2004	2003	2002	2001
\$ <u>468,433</u>	\$ <u>428,002</u>	\$ <u>383,215</u>	\$ <u>363,427</u>	\$ <u>305,754</u>	\$ <u>291,995</u>
\$ 5,855,413	\$ 5,350,025	\$ 4,790,188	\$ 4,542,838	\$ 3,821,925	\$ 3,649,938
<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>780,782</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>	\$ <u>2,869,156</u>
18.09%	21.41%	22.25%	23.25%	16.99%	21.39%

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	
2001	\$ 3,420,787	\$ 1,685,583	\$ 1,735,204	\$ 148,000	\$ 47,290	\$ 195,290	\$ 8.89
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	4,936,095	3,084,853	1,851,242	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

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>
2001	11,505	\$ 59,409	\$ 5,164	4.80%
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%

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>2010</u>		<u>2009</u>	
	<u>Employees</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Percentage of Total City Employment</u>
Midway ISD	1,110	12.91%	1,036	12.05%
EMSI	300	3.49%	300	3.49%
Davis Iron Works	93	1.08%	103	1.20%
Sturdisteel	95	1.10%	102	1.19%
City of Hewitt	86	1.00%	86	1.00%
Midway Transportation	33	0.38%	30	0.35%
Merry Maids	24	0.28%	23	0.27%
United Super IGA	29	0.34%	35	0.41%
Scott & White Clinic	15	0.17%	15	0.17%
Alliance Distributing	15	0.17%	16	0.19%
The Courtyard	60	0.70%	-	- %
Sleep Inn	17	0.20%	17	0.20%
Total	<u>1,877</u>	<u>21.82%</u>	<u>1,763</u>	<u>20.52%</u>

Source: City of Hewitt, Texas staff

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

TABLE 15

2008		2007		2006	
<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>
962	11.88%	889	12.52%	792	11.15%
273	3.37%	325	4.58%	325	4.58%
137	1.69%	130	1.83%	130	1.83%
108	1.33%	110	1.55%	110	1.55%
81	1.00%	71	1.00%	71	1.00%
36	0.44%	30	0.42%	30	0.42%
18	0.22%	30	0.42%	29	0.41%
29	0.36%	34	0.48%	20	0.28%
15	0.19%	20	0.28%	20	0.28%
20	0.25%	20	0.28%	20	0.28%
-	- %	-	- %	-	- %
<u>17</u>	<u>0.21%</u>	<u>17</u>	<u>0.24%</u>	<u>17</u>	<u>0.24%</u>
<u><u>1,696</u></u>	<u><u>20.94%</u></u>	<u><u>1,676</u></u>	<u><u>23.60%</u></u>	<u><u>1,564</u></u>	<u><u>22.02%</u></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,									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
General government and administration	15	15	14	14	14	14	14	14	14	12
Public safety	45	45	41	35	35	34	34	33	32	29
Community services	12	12	12	9	9	9	9	8	8	8
Culture and recreation	3.5	3.5	3.5	3.5	3.0	3.0	3.0	3.0	2.0	2.0
Water, sewer and sanitation	<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>	<u>9</u>
Total	<u>86.5</u>	<u>86.5</u>	<u>81.5</u>	<u>71.5</u>	<u>71.0</u>	<u>70.0</u>	<u>70.0</u>	<u>68.0</u>	<u>65.0</u>	<u>60.0</u>

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

Function/Program	Fiscal Year									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Public safety										
Fire protection:										
Number of fulltime employees	-	14	10	5	5	4	4	4	3	3
Number of volunteers	-	5	8	14	15	17	22	23	23	21
Number of emergency responses	-	533	448	502	530	416	357	414	397	422
Police protection:										
Number of sworn personnel	-	22	22	22	22	22	22	21	21	20
Number of citations issued	-	3,720	4,958	5,383	6,201	5,810	6,456	5,224	4,819	4,193
Cultural and recreation										
Libraries:										
Number of patrons using the library	-	53,000	49,846	49,846	44,763	38,633	30,436	-	-	-
Circulation	-	90,000	73,625	83,550	72,304	60,880	54,934	58,843	54,014	49,361
Parks and recreation:										
Number of parks - developed	-	2	2	2	2	2	2	2	2	2
Number of parks - undeveloped	-	1	1	1	1	1	1	-	-	-
Number of playgrounds	-	2	2	2	2	2	2	2	2	2
Water and sewer										
Number of water connections	-	5,803	5,813	5,754	5,670	5,559	5,409	5,273	5,063	5,049
Average daily consumption (thousands of gallons)	-	1,817	1,812	1,552	1,952	1,604	1,396	1,631	1,799	1,519
Number of sewer connections	-	5,173	5,172	5,113	5,032	4,918	4,772	4,648	4,445	4,438
Average daily sewage treatment (thousands of gallons)	-	1,570	1,574	1,350	1,677	1,369	1,202	1,418	1,537	1,307

Source: Quarterly Reports, City Staff

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

Function/Program	Fiscal Year									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Public safety										
Number of fire stations	-	2	2	2	2	2	2	2	2	2
Number of police stations	-	1	1	1	1	1	1	1	1	1
Number of patrol units	-	4	4	4	4	4	4	3	3	3
Other public works										
City acres	-	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	58	58	57	55
Cultural and recreation										
Libraries:										
Number of public libraries	-	1	1	1	1	1	1	1	1	1
Parks and recreation:										
Number of parks - developed	-	2	2	2	2	2	2	2	2	2
Number of parks - undeveloped	-	1	1	1	1	1	1	-	-	-
Number of playgrounds	-	4	4	4	4	4	4	4	4	4
Water and sewer										
Water mains (miles)	-	121	121	121	119	119	115	114	112	111
Water storage capacity (thousands of gallons)	-	4,478	4,478	4,478	4,478	4,478	4,478	3,878	3,878	3,878
Sanitary sewers (miles)	-	67	67	67	67	67	58	51	49	48
Sewer capacity (thousands of gallons)	-	2	2	2	2	2	2	2	2	2

COMPLIANCE SECTION

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**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 City Council
City of Hewitt, Texas

Members of the Council:

We have audited the 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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 21, 2011. 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 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 21, 2011