



City of Heath, Texas

Comprehensive Annual Financial Report

For the Year Ended September 30, 2009

CITY OF HEATH, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2009

Prepared by
Finance Department

Laurie Mays, Finance Director

CITY OF HEATH, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2009

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Introductory Section

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February 8, 2010

The Honorable Mayor and Members of the City Council:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Heath, Texas for the year ended September 30, 2009. The purpose of the report is to provide the Council, management, staff, the public and other interested parties with detailed information reflecting the City's financial condition.

THE REPORT

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the City. All disclosure necessary to enable the reader to gain an understanding of the City's financial activities have been included.

Rutledge, Crain & Company, P.C. has issued an unqualified opinion on the City of Heath's financial statements for the year ended September 30, 2009. The independent auditors' report is located at the front of the financial section of this report.

Management's discussion and analysis immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter and should be read in conjunction with it.

PROFILE OF THE GOVERNMENT

The City of Heath is located in southwestern Rockwall County along the eastern shore of Lake Ray Hubbard. Heath is conveniently positioned just minutes from Interstate Highway 30 to the north and U. S. Highway 80 to the south providing easy access to the Dallas/Fort Worth Metroplex. Once a small farming community, the City has tripled in population since 1990. The City is primarily residential but has seen growth in its commercial development over the past few years. The City updated its Comprehensive Master Plan during 2008 and, within the guidelines set forth in the Comprehensive Master Plan, is actively pursuing alternatives to realize growth in its commercial tax base.

The City of Heath was incorporated in 1959 under the general laws of the State of Texas. The City operates under a Council-Manager form of government. Policy-making and legislative authority are vested in a governing council consisting of the Mayor and six other at-large members. The term of office is two years, with the terms of the Mayor and two of the Council members expiring in even numbered years and the terms of the other four Council members expiring in odd-numbered years. The City Manager is the chief administrative and executive officer of the City.

The City provides a full range of services including police and fire protection, construction and maintenance of streets and municipal buildings, parks and recreation, planning and zoning, economic development, and general administrative services. In addition to general governmental activities, the City provides water, sewer, and sanitation services. Sewage treatment is provided by the North Texas Municipal Water District (NTMWD) and IESI Solid Waste Management provides sanitation collection. NTMWD provides water to the City of Rockwall who, in turn, provides water to the City of Heath.

ECONOMIC CONDITION AND OUTLOOK

Our economy experienced moderate growth during fiscal year 2009 when compared to the growth experienced in fiscal year 2008. New residential building construction declined in 2009 by 19 permits. The number of all other permits issued decreased from 530 in 2008 to 483 in 2009. The value of new construction, along with other additions, added an estimated \$71.4 million of new taxable value to our tax rolls for the upcoming year, up 7% from the previous year's value of \$1 billion. Sales tax collections decreased by 3% from the previous year.

The fiscal year 2010 budget was developed assuming the economic downturn would impact interest rates and new construction. The property tax rate remained stable for the 18th consecutive year and remains the lowest rate in the immediate area. Various user fees were increased to cover the cost of providing the service. Water and sewer rates increased slightly to cover the increasing cost of providing these services. Healthy fund balances were maintained in both the General Fund and the Utility Fund.

The City completed several capital improvement projects during the current fiscal year including: Shepherd's Glen Lift Station; the widening and reconstruction of Rush Creek Drive and Cove Ridge Road; the reconstruction of the Rush Creek Lift Station; and the water line upgrade at Cove Ridge Road. Several other projects were started during the current fiscal year including: White Road pavement widening and landscaping; the extension of a 12 inch water transmission line at Rabbit Ridge and FM 550; the Cove Ridge Lift Station reconstruction; Phase I of the FM 740 utility relocation; and the extension of a 12 inch water line at Rabbit Ridge and FM 549. Several future projects were identified including: construction of a 1.5 million gallon water tower; infiltration and inflow analysis; and construction of the Public Works Center equipment shed.

FINANCIAL INFORMATION

Accounting System and Budgetary Control - In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from the control. The evaluation of costs and benefits requires estimates and judgments by management. We believe that the City's current system of internal accounting controls adequately safeguards assets and provided reasonable assurance of proper recording of financial transactions.

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual budget approved by the City Council. Activities of the general fund, enterprise funds, and debt service fund are included in the annual budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the divisional level. The City also maintains an encumbrance

Activities of the general fund, enterprise funds, and debt service fund are included in the annual budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the divisional level. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. The Finance Department generates monthly reports that detail expenditures and revenue on a division and line item level. The reports provide monthly expenditures with year-to-date totals along with a comparison to budget giving a budget balance and expended percentage. As demonstrated by the statements and schedules included in the financial section of this report, the City continues meeting its responsibilities for sound financial management.

Tax Rates – All eligible property within the City is subject to assessment, levy, and collection of an ad valorem tax sufficient to provide for the payment of principal and interest on outstanding bonds within the limits prescribed by law, and the payment of maintenance and operation costs as approved by the City Council.

Under state law, the City is limited to a maximum tax rate of \$2.50 per \$100 assessed valuation. The tax rate adopted by the City Council has historically been substantially lower than the maximum provided by law. Allocations of property tax levy by purpose for fiscal year 2009 remained unchanged for the fourth consecutive year at \$.2786 for maintenance and operations and \$.0647 for debt service on each one hundred dollars of assessed value

Cash Management – The City earned investment income of \$160,000 on all investments for the year ended September 30, 2009 compared to \$551,000 in the previous fiscal year. Interest earnings began increasing in 2005 topping out in fiscal year 2008. Fiscal year 2010 interest revenue is expected to decline as bond proceeds are spent to complete capital improvement projects and interest rates continue to decline.

The objectives of the City's investment policy are to minimize credit and market risks while maintaining liquidity and a competitive yield on investments. Accordingly, deposits were either insured by federal depository insurance or collateralized.

Employee Retirement System - The City is a member of the Texas Municipal Retirement System. All eligible employees are covered by supplemental disability benefits, life benefits, and retirement benefits based upon contributions of the employer and employee plus interest earnings on the individual employee account. This year employee contributions were 7% of gross salary with a matching rate of 9.8% contributed by the City. The City's contribution rate increased to 10.66% in 2009.

Other Post Employment Benefits – The City does not offer other post employment benefits and is therefore not impacted by any related liabilities.

Risk Management – All risk coverage is provided by the Texas Municipal League Intergovernmental Risk Pool.

OTHER INFORMATION

Independent Audit – The City of Heath's financial statements have been audited by Rutledge, Crain & Company, P.C. Their responsibility is to express an opinion on the City's financial statements. They conducted the audit in accordance with auditing standards generally accepted in the United States. Those standards require that they plan and perform the audit to obtain reasonable assurance that the City's financial statements are free of material misstatements. The independent auditor issued an

unqualified opinion concluding that the statements are presented fairly in accordance with generally accepted accounting principles. The independent auditor's report is included in the CAFR.

Awards – In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized CAFR that satisfies both generally accepted accounting principles (GAAP) and applicable legal requirements. The City of Heath will submit a CAFR to the GFOA to be considered for the Certificate of Achievement award.

In addition, the City has submitted its annual budget for the fiscal year beginning October 1, 2009, to the GFOA to determine its eligibility for the Distinguished Budget Presentation Award.

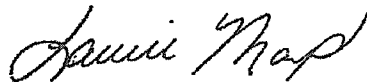
Acknowledgments – The preparation of the CAFR on a timely basis was made possible by the dedicated service of the entire staff of the finance department and our independent auditors. We would like to express sincere appreciation to all employees who contributed to its preparation.

We would also like to thank the Mayor and City Council members for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Sincerely,

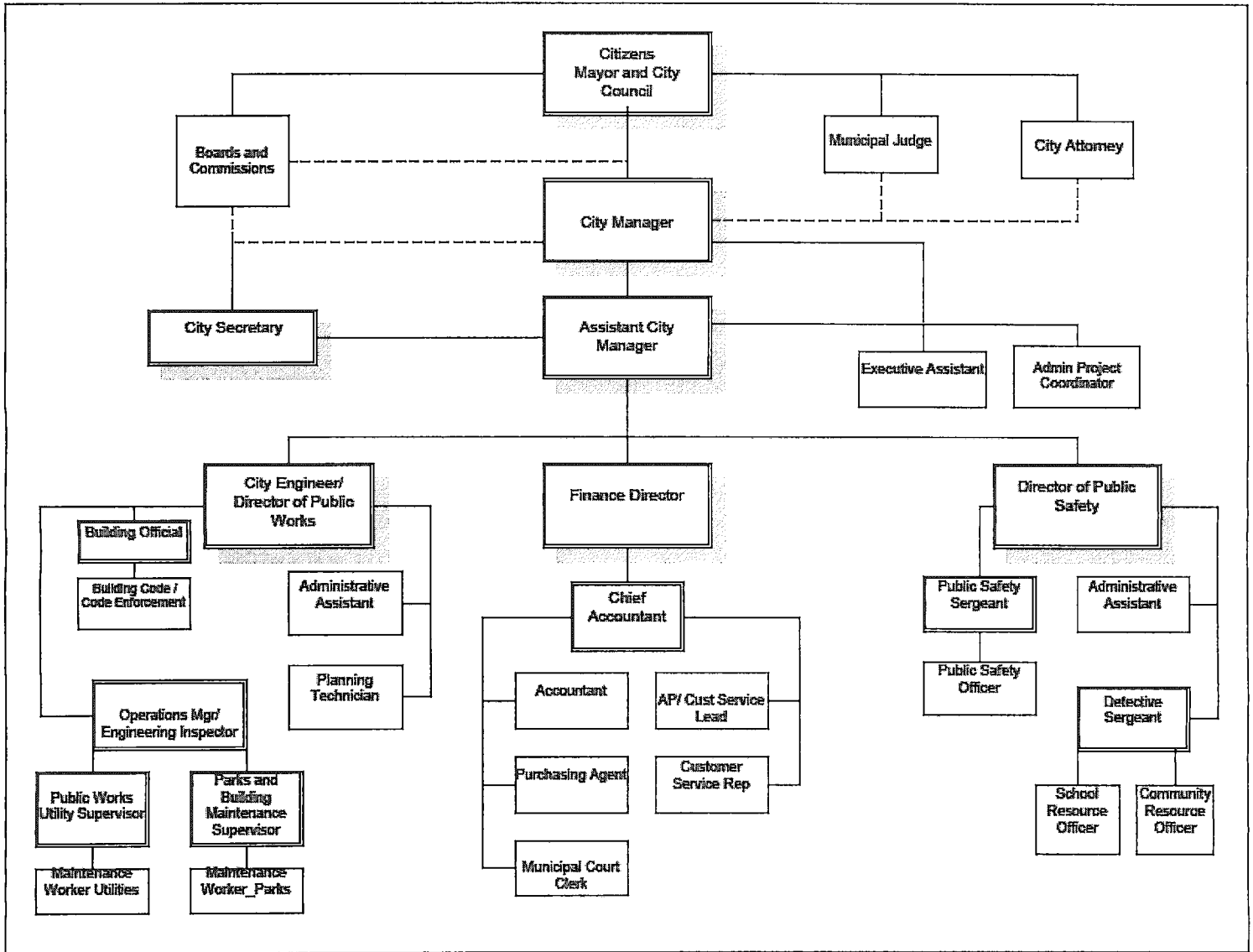


Ed Thatcher
City Manager



Laurie Mays
Director of Finance

CITY OF HEATH, TEXAS
ORGANIZATIONAL CHART
SEPTEMBER 30, 2009



CITY OF HEATH, TEXAS

PRINCIPAL OFFICIALS

SEPTEMBER 30, 2009

CITY COUNCIL

John Ratcliffe, Mayor

Julie Zurek, Mayor Pro-Tem

Robert Hille, Council Member, Place 1

Karen Lewis, Council Member, Place 2

Steve McKimmey, Council Member, Place 4

Lorne Liechty, Council Member, Place 5

Rich Krause, Council Member, Place 6

CITY STAFF

Ed Thatcher, City Manager

Kim Dobbs, Assistant City Manager

Stephanie Galanides, City Secretary

Laurie Mays, Finance

Pete Eckert, City Attorney

Roy Stacy, Municipal Court Judge

Terry Garrett, Department of Public Safety

Pedram Farahnak, Public Works

Financial Section

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RUTLEDGE CRAIN & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS

2401 Garden Park Court, Suite B
Arlington, Texas 76013

INDEPENDENT AUDITORS' REPORT

City Council
City of Heath, Texas
200 Laurence
Heath, Texas

Members of the City Council:

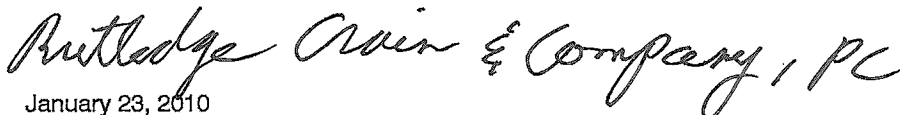
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Heath, Texas, (the City) as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Heath, Texas' management. Our responsibility is to express an opinion 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. 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 Heath, Texas, as of September 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison schedules on pages 11 through 18 and page 55 through 56, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the City of Heath, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.


January 23, 2010

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis provides a narrative overview and analysis of the financial activities of the City of Heath "City" for the fiscal year ended September 30, 2009. We encourage readers to consider the information presented here in conjunction with information furnished in the City's letter of transmittal, which can be found in the introductory section of this report.

Financial Highlights

- City assets exceeded City liabilities at year end by \$42,055,369 (net assets). Of this amount, \$4,798,206 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designations as described below.
- Total net assets increased by \$1,696,382 (4.2%) during the year. The net assets in the governmental activities increased \$1,129,901 and the net assets in the business type activities increased \$566,481.
- The combined ending fund balances of the City's governmental funds decreased \$2,246,740 during the year to \$9,275,380 at year end. This 19% decrease from the prior year is largely attributable to capital purchases and construction funded by the November 2007 Certificate of Obligation.
- The unreserved portion of the General Fund fund balance increased \$310,708 during the year to \$1,760,597 at year end or 38% of total General Fund expenditures and transfers out.
- Total City debt decreased by \$932,428 during the year due to scheduled debt retirements and deferred discounts and premiums.

Overview of the Financial Statements

The Management Discussion and Analysis is intended to serve as an introduction to the City of Heath's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements provide a broad overview of the City of Heath's finances in a manner similar to a private-sector business. Two statements, the Statement of Net Assets and the Statement of Activities, provide this financial overview.

- The Statement of Net Assets presents information on all of the City's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Net Assets can be found on page 21.
- The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flow. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The Statement of Activities can be found on pages 22 and 23.

Both of the government-wide statements distinguish between two types of activities: 1) governmental activities and 2) business-type activities. Governmental activities are basically those activities that are supported by taxes and intergovernmental revenues. Business-type activities are basically those activities that are supported by user fees and charges. Most City services are reported in governmental activities while business-type activities are reported in the Enterprise Fund.

The government-wide financial statements include not only the City of Heath, but also component units: the Heath Economic Development Corporation (HEDC) and Heath Municipal Benefits Corporation (HMBC).

Fund Financial Statements. The City, like other state and local governments, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

CITY OF HEATH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2009

- **Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as, on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Heath maintains six individual governmental funds: information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, Capital Improvements Fund and the Debt Service Fund which are considered to be major funds. Data from the other three funds are combined into a single aggregated presentation. Individual fund data for each of the non-major funds is provided in the form of combining statements elsewhere in this report.

- **Proprietary funds.** The City maintains three proprietary funds: the Water and Sewer Fund, the Solid Waste Fund, and the Technology Fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for water and sewer, and sanitation services provided to the City's customers. Internal service funds are utilized to report activities that provide supplies and services for the City's other programs and activities. The City maintains one Internal Service fund to account for funds accumulated for the purchase and maintenance of technology systems.

Proprietary funds financial statements provide the same type of information as the government-wide financial statements, only in more detail.

Notes to the financial statements. The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information can be found after the notes to the financial statements.

Fund Financial Statements. The City, like other state and local governments, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

- **Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as, on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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CITY OF HEATH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2009

balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Heath maintains six individual governmental funds: information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, Capital Improvements Fund and the Debt Service Fund which are considered to be major funds. Data from the other three funds are combined into a single aggregated presentation. Individual fund data for each of the non-major funds is provided in the form of combining statements elsewhere in this report.

• **Proprietary funds.** The City maintains two proprietary funds: the Water and Sewer Fund and the Solid Waste Fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for water and sewer, and sanitation services provided to the City's customers. Internal service funds are utilized to report activities that provide supplies and services for the City's other programs and activities. The City does not maintain any internal service funds at this time.

Proprietary funds financial statements provide the same type of information as the government-wide financial statements, only in more detail.

Notes to the financial statements. The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information can be found after the notes to the financial statements.

Government-wide Financial Analysis

At the end of fiscal year 2009, the City's net assets (assets exceeding liabilities) totaled \$42,055,369. This analysis focuses on the net assets (Table 1) and changes in net assets (Table 2).

Net Assets. The largest portion of the City's net assets, \$35,152,777 or 83.6%, reflects its investment in capital assets (land, buildings, improvements other than buildings, machinery and equipment, construction in progress), less any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City reports its capital assets net of related debt, 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.

An additional portion of the City's net assets, \$2,104,386 or 5.0% represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$4,798,206 or 11.4% may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF HEATH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2009

Table 1
Condensed Statement of Net Assets

	Governmental		Business-type		Total	
	Activities		Activities			
	9/30/09	9/30/08	9/30/09	9/30/08	9/30/09	9/30/08
Current and other assets	\$10,252,703	\$13,005,873	\$6,230,633	\$6,939,219	16,483,336	19,945,092
Capital assets	28,795,176	25,836,211	24,178,123	23,537,286	52,973,300	49,373,497
Total Assets	39,047,879	38,842,084	30,408,756	30,476,505	69,456,636	69,318,589
Long term liabilities	14,079,258	14,492,892	12,163,783	12,684,233	26,243,041	27,177,125
Other liabilities	577,101	1,087,573	581,124	694,904	1,158,225	1,782,477
Total Liabilities	14,656,359	15,580,465	12,744,907	13,379,137	27,401,266	28,959,602
Net Assets:						
Invested in capital assets, net of related debt	19,089,641	17,984,906	16,063,136	15,211,002	35,152,777	33,195,908
Restricted for debt service	1,667,553	1,117,725	--	--	1,667,553	1,117,725
Restricted for capital projects	436,833	--	--	--	436,833	--
Excess of restricted assets over restricted liabilities	--	--	--	--	--	--
Unrestricted	3,197,493	4,158,988	1,600,713	1,886,366	4,798,206	6,045,354
Total Net Assets	\$24,391,520	\$23,261,619	\$17,663,849	\$17,097,368	\$42,055,369	\$40,358,987

Changes in Net Assets. The net assets of the City increased by \$1,696,382 or 4.2% during the fiscal year ending September 30, 2009.

Governmental Activities. Governmental activities increased the City's net assets by \$1,129,901 or 4.9% from the prior year. The increase in net assets resulted, primarily, from an increase in contributed capital. In total, other revenues remained relatively flat with increases in ad valorem taxes and franchise taxes offset by reductions in investment earnings. Expenditures increased slightly as the result of spending on economic development.

Business-type Activities. Net assets from business-type activities increased \$566,481 or 3.3% from the prior year. Charges for services increased due to higher customer water billings resulting from increased consumption combined with higher rates. An increase in the cost of providing service partially offset the increase in related revenue.

CITY OF HEATH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2009

Table 2
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	9/30/09	9/30/08	9/30/09	9/30/08	9/30/09	9/30/08
Revenues:						
Program revenues:						
Charges for services	\$494,658	\$668,989	\$4,347,192	\$3,647,780	4841850	4316769
Operating grants & contributions	30,949	62,087	--	--	30949	62087
Capital grants & contributions	2,013,667	963,491	974,396	881,966	2988063	1845457
General revenues:						
Ad valorem taxes	3,726,270	3,514,859	--	--	3726270	3514859
Sales taxes	710,195	731,427	--	--	710195	731427
Franchise taxes	444,648	387,143	--	--	444648	387143
Alcoholic beverage taxes	3,609	3,311	--	--	3609	3311
Miscellaneous	42,642	45,596	2,730	9,668	45372	55264
Unrestricted Investment Earnings	112,500	394,001	51,708	157,476	164208	551477
Gain on Sale of Capital Assets	--	--	--	7,060	--	7060
Transfers	85,494	--	(85,494)	--	--	--
Total revenues	7,664,632	6,770,904	5,290,532	4,703,950	12,955,164	11,474,854
Expenses:						
General Government	1,045,672	1,173,681	--	--	1,045,672	1,173,681
Highways and Streets	1,471,275	1,541,206	--	--	1,471,275	1,541,206
Parks	135,669	147,672	--	--	135,669	147,672
Building Inspection	419,664	465,735	--	--	419,664	465,735
Municipal Court	86,727	86,362	--	--	86,727	86,362
Public Safety	2,335,201	2,335,528	--	--	2,335,201	2,335,528
Economic development and	355,286	12,984	--	--	355,286	12,984
Economic Opportunity	8,119	6,202	--	--	8,119	6,202
Interest and fiscal charges	677,118	627,347	--	--	677,118	627,347
Water and sewer operations	--	--	4,724,051	4,574,125	4,724,051	4,574,125
Total expenses	6,534,731	6,396,717	4,724,051	4,574,125	11,258,782	10,970,842
Increase in net assets before transfers	1,129,901	374,187	566,481	129,825	1,696,382	504,012
Transfers	85,494	--	(85,494)	--	--	--
Increase in net assets	1,215,395	374,187	480,987	129,825	1,696,382	504,012
Net assets - October 1,	23,261,619	22,897,432	17,097,368	16,967,543	40,358,987	39,854,975
Net assets - September 30,	<u>\$24,477,014</u>	<u>\$23,261,619</u>	<u>\$17,578,355</u>	<u>\$17,097,368</u>	<u>\$42,055,369</u>	<u>\$40,358,987</u>

Financial Analysis of the Government's Funds

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined fund balances of \$9,275,380.

The General Fund is the main operating fund of the City. At the end of the current fiscal year, unreserved, undisgnated fund balance was \$1,760,597 an increase of \$310,708. The increase in fund balance is the result of midyear budget adjustments to reduce spending and revenues exceeding midyear adjusted projections.

CITY OF HEATH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2009

The Capital Improvements Fund accounts for capital improvement projects for the governmental activities of the City. At the end of the current fiscal year, unreserved fund balance was \$4,359,876 a decrease of \$1,834,398 from the prior fiscal year end. The decrease in fund balance is the result of spending on capital improvement projects.

The Debt Service Fund fund balance increased \$572,644 as a result of a transfer from the General Fund which was partially offset by scheduled debt service payments. Of the amount transferred from the General Fund, \$1 million was previously reported in the General Fund as designated for debt service. An additional \$35,900 was transferred to offset the debt payment for the animal shelter.

Proprietary funds. The City has two proprietary funds: the Water and Sewer Fund and the Sanitation Fund. The fund financial statements provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net assets of the Water and Sewer Fund and the Sanitation Fund were \$1,374,938 and \$100,272, respectively.

General Fund Budgetary Highlights. During the fiscal year ended September 30, 2009, the City Council adopted amendments to the budget. During the year budgeted General Fund revenues were decreased by \$288,500. Following are the main components of the decrease:

- Budgeted Building Permit revenues decreased \$135,000 due to lower than expected new construction
- The budget for Ad Valorem Delinquent Tax revenue and Penalty and Interest revenue was reduced, in total, \$35,000 due to lower than expected collections of past due taxes
- A decrease of \$33,000 in budgeted interest revenue resulted from lower than expected returns on investment

Due to the decreased revenues, total budgeted expenditures were decreased by \$256,000. Following are the main components of the budgeted decrease:

- Public Safety expenditures were reduced by \$145,900 due to a position vacancy and other across the board reductions
- The budget for Administration was decreased approximately \$77,000 by making across the board reductions

Transfers from the General Fund were budgeted to move funds previously classified as reserved for parks or designated for debt service to the appropriate funds. \$230,000 was transferred to the General CIP Fund to partially fund the improvements to Terry Park and \$1,035,900 was transferred to the Debt Service Fund to more accurately reflect the position of the Debt Service Fund.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2009 amounts to \$52,967,300 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was \$3,593,802.

Major capital asset events during the current fiscal year included the following:

Completed Projects

- Improvement and expansion of Terry Park (\$1,477,370)
- Widening and reconstruction of Cove Ridge Road (\$393,618) and Rush Creek Drive (\$372,644)
- Reconstruction of Shepherd's Glen Lift Station (\$271,974)

CITY OF HEATH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2009

Ongoing Projects

- Widening and landscaping of White Road (\$886,993)
- Extension of 12 inch water line (\$273,608)
- Cove Ridge Lift Station reconstruction (\$73,619)

Table 3
 Capital Assets at Year-end
 Net of Accumulated Depreciation

Asset	Governmental Activities		Business-Type Activities		Total	
	9/30/09	9/30/08	9/30/09	9/30/08	9/30/09	9/30/08
Land	\$3,036,088	\$3,036,088	\$203,438	\$203,438	\$3,239,526	\$3,239,526
Buildings	1,503,180	1,292,628	240,388	245,326	1,743,568	1,537,954
Improvements other than buildings	2,682,037	1,156,179	22,162,032	21,746,111	24,844,069	22,902,290
Infrastructure	19,872,559	18,841,186	--	--	19,872,559	18,841,186
Machinery and equipment	702,176	824,091	108,724	109,959	810,900	934,050
Construction in progress	999,136	686,039	1,463,541	1,232,453	2,462,677	1,918,492
	<u>\$28,795,176</u>	<u>\$25,836,211</u>	<u>\$24,178,123</u>	<u>\$23,537,287</u>	<u>\$52,973,299</u>	<u>\$49,373,498</u>

Debt administration. At the end of the current fiscal year, the City of Heath had total debt outstanding of \$25,657,763.

Table 4
 Outstanding Debt at Year End

Type of Debt	Governmental Activities		Business-Type Activities		Total	
	9/30/09	9/30/08	9/30/09	9/30/08	9/30/09	9/30/08
General Obligation	\$1,830,000	\$2,005,000	\$ --	\$ --	\$1,830,000	\$2,005,000
Contract Revenue Bonds	0	--	868,247	904,910	868,247	904,910
Certificates of Obligation	11,457,516	11,915,285	11,252,484	11,754,715	22,710,000	23,670,000
Notes payable	271,534	--	--	--	271,534	0
Bond Premium	146,033	154,431	87,920	92,976	233,953	247,407
Deferred Discount	(134,204)	(142,322)	(121,767)	(129,948)	(255,971)	(272,270)
Total	<u>\$13,570,879</u>	<u>\$13,932,394</u>	<u>\$12,086,884</u>	<u>\$12,622,653</u>	<u>\$25,657,763</u>	<u>\$26,555,047</u>

In addition to the rating upgrades the City received from the nation's three leading bond rating agencies in October 2007, the City received a subsequent upgrade from Standard and Poor's in March 2009 from A to AA. The City's General Obligation and Certificates of Obligation ratings are as follows:

	Moody's	Fitch	Standard and Poor's
	Investors Service		
General obligation bonds	A2	AA-	AA
Certificates of obligation	A2	AA-	AA

Additional information on the City's long-term debt can be found in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Fiscal year 2010 General Fund revenues are budgeted to decrease almost 4% from the fiscal year 2009 original budget. Ad valorem taxes comprise 69% of total general fund budgeted revenue compared to 66% of budgeted revenue in fiscal year 2009 and 61% of budgeted revenue in fiscal year 2008. Ad valorem tax revenue is projected to

CITY OF HEATH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2009

increase \$94,000 with approximately 96% of the increase coming from new construction. Projected revenue generated by new development, interest earned on idle funds, penalty and interest and delinquent ad valorem tax, and other revenue decreased \$162,500, \$48,000, \$31,000, and \$73,000, respectively. These decreases are attributed to economic conditions adversely impacted by the downturn in the real estate market. Revenue provided by alarm registration fees and transfers from the Economic Development Corporation and the Municipal Benefits Corporation is projected to increase \$49,000 while the remaining revenue sources are projected to remain relatively flat for fiscal year 2010.

The fiscal year 2010 budget for General Fund expenditures is \$4,633,200. This includes a one-time transfer to the Debt Service Fund in the amount of \$250,000. The amount budgeted for the remaining operating expenditures reflects a decrease of \$246,000 from the fiscal year 2009 original budget, a reduction of over 5%. Spending was reduced across the board to balance the budget without increasing the property tax rate.

The City maintained the same ad valorem tax rate for the eighteenth consecutive year. While the tax rate remained unchanged, ad valorem tax revenue increased 3%, with the majority of the increase attributable to new development.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Heath, 200 Laurence Drive, Heath, Texas, 75032.

Basic Financial Statements

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CITY OF HEATH, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
<i>Cash and cash equivalents</i>	\$ 8,954,715	\$ 4,883,755	\$ 13,838,470
Receivables (net of allowances for uncollectibles):			
<i>Interest</i>	8,641	--	8,641
<i>Taxes</i>	98,712	--	98,712
<i>Accounts</i>	230,638	664,596	895,234
<i>Special assessments</i>	172,243	15,669	187,912
<i>Other</i>	7,959	110,859	118,818
<i>Intergovernmental</i>	140,052	--	140,052
<i>Inventories</i>	--	10,079	10,079
Restricted assets:			
<i>Cash and cash equivalents</i>	472,185	398,439	870,624
<i>Deferred charges</i>	167,557	147,236	314,793
Capital assets (net of accumulated depreciation):			
<i>Land</i>	3,036,088	203,438	3,239,526
<i>Buildings</i>	1,503,180	240,388	1,743,568
<i>Improvements other than buildings</i>	2,682,037	22,162,032	24,844,069
<i>Infrastructure</i>	19,872,559	--	19,872,559
<i>Machinery and equipment</i>	702,177	108,724	810,901
<i>Construction in progress</i>	999,136	1,463,541	2,462,677
Total Assets	39,047,879	30,408,756	69,456,635
LIABILITIES			
<i>Accounts payable</i>	179,609	306,816	486,425
<i>Accrued liabilities and other payables</i>	208,566	101,846	310,412
Liabilities payable from restricted assets	188,926	172,462	361,388
Noncurrent liabilities:			
<i>Due within one year</i>	1,209,630	635,597	1,845,227
<i>Due in more than one year</i>	12,869,628	11,528,186	24,397,814
Total Liabilities	14,656,359	12,744,907	27,401,266
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	19,089,641	16,063,136	35,152,777
Restricted For:			
<i>Debt Service</i>	1,667,553	--	1,667,553
<i>Capital Projects</i>	436,833	--	436,833
Unrestricted	3,197,493	1,600,713	4,798,206
Total Net Assets	\$ 24,391,520	\$ 17,663,849	\$ 42,055,369

The accompanying notes are an integral part of this statement.

CITY OF HEATH, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Expenditures:				
Governmental Activities:				
<i>Administration</i>	1,045,672	27,772	--	--
<i>Highways and streets</i>	1,471,275	105	--	953,199
<i>Parks</i>	135,669	17,124	--	1,060,468
<i>Engineering and building inspection</i>	419,664	126,521	--	--
<i>Municipal court</i>	86,727	5,014	--	--
<i>Public safety</i>	2,335,201	318,122	30,949	--
<i>Economic development and assistance</i>	355,286	--	--	--
<i>Economic opportunity</i>	8,119	--	--	--
<i>Interest and fiscal charges</i>	677,118	--	--	--
Total expenditures	6,534,731	494,658	30,949	2,013,667
Business-type Activities:				
<i>Water and Sewer</i>	4,288,635	3,836,944	--	974,396
<i>Solid Waste</i>	435,416	510,248	--	--
Total Business-type Activities	4,724,051	4,347,192	--	974,396
Total Primary Government	\$ 11,258,782	\$ 4,841,850	\$ 30,949	\$ 2,988,063

General Revenues:
Property Taxes
Sales Taxes
Franchise Taxes
Alcoholic Beverage Taxes
Miscellaneous
Unrestricted Investment Earnings
Transfers
Total General Revenues
Change in Net Assets
Net Assets - Beginning
Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
(1,017,900)		(1,017,900)
(517,971)		(517,971)
941,923		941,923
(293,143)		(293,143)
(81,713)		(81,713)
(1,986,130)		(1,986,130)
(355,286)		(355,286)
(8,119)		(8,119)
(677,118)		(677,118)
<u>(3,995,457)</u>		<u>(3,995,457)</u>
	\$ 522,705	522,705
	74,832	74,832
	<u>597,537</u>	<u>597,537</u>
<u>(3,995,457)</u>	<u>597,537</u>	<u>(3,397,920)</u>
3,726,270	--	3,726,270
710,195	--	710,195
444,648	--	444,648
3,609	--	3,609
42,642	2,730	45,372
112,500	51,708	164,208
85,494	(85,494)	--
<u>5,125,358</u>	<u>(31,056)</u>	<u>5,094,302</u>
1,129,901	566,481	1,696,382
23,261,619	17,097,368	40,358,987
<u>\$ 24,391,520</u>	<u>\$ 17,663,849</u>	<u>\$ 42,055,369</u>

CITY OF HEATH, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2009

	General Fund	Capital Improvements Fund
ASSETS		
<i>Cash and cash equivalents</i>	\$ 1,792,731	\$ 4,110,994
Receivables (net of allowances for uncollectibles):		
<i>Interest</i>	3,010	--
<i>Taxes</i>	80,105	--
<i>Accounts</i>	102,787	--
<i>Special assessments</i>	--	--
<i>Intergovernmental</i>	70,502	--
Restricted assets:		
<i>Cash and cash equivalents</i>	131,540	340,645
Total Assets	\$ 2,180,675	\$ 4,451,639
LIABILITIES AND FUND BALANCES		
Liabilities:		
<i>Accounts payable</i>	\$ 84,109	\$ 91,763
<i>Accrued liabilities and other payables</i>	63,812	--
Liabilities payable from restricted assets		
<i>Street escrow funds</i>	188,926	--
<i>Deferred revenue</i>	74,099	--
Total Liabilities	410,946	91,763
Fund balances:		
Reserved for:		
<i>Municipal court</i>	9,132	--
<i>Debt service</i>	--	--
Unreserved, reported in:		
<i>General fund</i>	1,760,597	--
<i>Special revenue funds</i>	--	--
<i>Capital projects funds</i>	--	4,359,876
Total fund balances	1,769,729	4,359,876
Total Liabilities and Fund Balances	\$ 2,180,675	\$ 4,451,639

The accompanying notes are an integral part of this statement.

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,476,703	\$ 1,574,287	\$ 8,954,715
--	5,631	8,641
18,607	--	98,712
--	7,780	110,567
172,243	--	172,243
--	69,550	140,052
--	--	472,185
<u>\$ 1,667,553</u>	<u>\$ 1,657,248</u>	<u>\$ 9,957,115</u>
\$ --	\$ 3,736	\$ 179,608
--	--	63,812
--	--	188,926
175,290	--	249,389
<u>175,290</u>	<u>3,736</u>	<u>681,735</u>
--	--	9,132
1,492,263	--	1,492,263
--	--	1,760,597
--	1,653,512	1,653,512
--	--	4,359,876
<u>1,492,263</u>	<u>1,653,512</u>	<u>9,275,380</u>
<u>\$ 1,667,553</u>	<u>\$ 1,657,248</u>	<u>\$ 9,957,115</u>

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CITY OF HEATH, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2009

Total fund balances - governmental funds balance sheet	\$ 9,275,380
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	28,795,176
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	90,309
Payables for bond principal which are not due in the current period are not reported in the funds.	(13,299,345)
Payables for capital leases which are not due in the current period are not reported in the funds.	(57,700)
Payables for bond interest which are not due in the current period are not reported in the funds.	(144,753)
Payables for notes which are not due in the current period are not reported in the funds.	(271,534)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(450,679)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	167,556
Court fines receivable unavailable to pay for current period expenditures are deferred in the funds.	1,015
Franchise taxes receivable unavailable to pay for current period expenditures are not accrued in the funds.	128,030
Assessments receivable unavailable to pay for current period expenditures are deferred in the funds.	<u>158,065</u>
Net assets of governmental activities - statement of net assets	<u>\$ 24,391,520</u>

The accompanying notes are an integral part of this statement.

CITY OF HEATH, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	General Fund	Capital Improvements Fund
Revenues:		
<i>Taxes</i>	\$ 3,793,903	\$ --
<i>Licenses and permits</i>	129,832	--
<i>Intergovernmental</i>	235,123	500,000
<i>Charges for services</i>	69,779	--
<i>Fines</i>	56,907	--
<i>Special assessments</i>	--	--
<i>Interest</i>	23,876	4,293
<i>Miscellaneous</i>	48,510	559,468
Total revenues	<u>4,357,930</u>	<u>1,063,761</u>
Expenditures:		
Current:		
<i>Administration</i>	960,612	--
<i>Highways and streets</i>	250,087	7,169
<i>Parks</i>	78,711	--
<i>Engineering and building inspection</i>	404,487	--
<i>Municipal court</i>	89,384	--
<i>Public safety</i>	2,534,130	--
<i>Economic development and assistance</i>	--	--
<i>Economic opportunity</i>	--	--
Capital outlay	--	3,151,084
Debt service:		
<i>Principal</i>	--	--
<i>Interest and fiscal charges</i>	--	--
Total expenditures	<u>4,317,411</u>	<u>3,158,253</u>
Excess (deficiency) of revenues over (under) expenditures	40,519	(2,094,492)
Other financing sources (uses):		
<i>Transfers in</i>	83,051	260,094
<i>Transfers out</i>	(1,334,288)	--
<i>Issuance of long-term debt</i>	297,353	--
Total other financing sources (uses)	<u>(953,884)</u>	<u>260,094</u>
Net change in fund balances	(913,365)	(1,834,398)
Fund balances, October 1	2,683,094	6,194,274
Fund balances, September 30	<u>\$ 1,769,729</u>	<u>\$ 4,359,876</u>

The accompanying notes are an integral part of this statement.

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 698,759	\$ 355,098	\$ 4,847,760
--	--	129,832
--	--	735,123
--	--	69,779
--	--	56,907
25,267	--	25,267
76,785	16,136	121,090
--	29,100	637,078
<u>800,811</u>	<u>400,334</u>	<u>6,622,836</u>
5,081	--	965,693
--	--	257,256
--	--	78,711
--	--	404,487
--	--	89,384
--	9,931	2,544,061
--	355,286	355,286
--	8,119	8,119
--	--	3,151,084
674,308	38,500	712,808
584,678	24,269	608,947
<u>1,264,067</u>	<u>436,105</u>	<u>9,175,836</u>
(463,256)	(35,771)	(2,553,000)
1,035,900	--	1,379,045
--	(35,850)	(1,370,138)
--	--	297,353
<u>1,035,900</u>	<u>(35,850)</u>	<u>306,260</u>
572,644	(71,621)	(2,246,740)
919,619	1,725,133	11,522,120
<u>\$ 1,492,263</u>	<u>\$ 1,653,512</u>	<u>\$ 9,275,380</u>

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CITY OF HEATH, 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, 2009

Net change in fund balances - total governmental funds	\$ (2,246,740)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	3,513,459
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,500,423)
Donations of capital assets increase net assets in the SOA but not in the funds.	945,929
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	19,725
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	632,769
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	53,357
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	26,682
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(13,202)
(Increase) decrease in accrued interest from beginning of period to end of period.	(68,171)
The net revenue (expense) of internal service funds is reported with governmental activities.	76,587
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(3,367)
Certain assessment revenues are deferred in the funds. This is the change in these amounts this year.	(26,587)
Revenues in the SOA for court fines not providing current financial resources are not reported in the funds.	(2)
Revenues in the SOA for franchise taxes not providing current financial resources are not reported in the funds.	17,238
Proceeds of long-term debt is recognized as other financial resources in the funds but not revenue in the SOA.	<u>(297,353)</u>
Change in net assets of governmental activities - statement of activities	<u>\$ 1,129,901</u>

The accompanying notes are an integral part of this statement.

CITY OF HEATH, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2009

	Enterprise Fund	Nonmajor Enterprise Fund	Total Enterprise Funds
	Water and Sewer Fund	Solid Waste	
ASSETS			
Current assets:			
<i>Cash and cash equivalents</i>	\$ 4,787,445	\$ 96,310	\$ 4,883,755
Receivables (net of allowances for uncollectibles):			
<i>Accounts</i>	583,486	81,110	664,596
<i>Other receivables</i>	110,859	--	110,859
<i>Special assessments</i>	15,669	--	15,669
<i>Inventories</i>	10,079	--	10,079
Restricted assets:			
<i>Cash and cash equivalents</i>	398,439	--	398,439
Total current assets	<u>5,905,977</u>	<u>177,420</u>	<u>6,083,397</u>
<i>Deferred charges</i>	147,236	--	147,236
Capital assets:			
<i>Land</i>	203,438	--	203,438
<i>Buildings</i>	309,639	--	309,639
<i>Improvements other than buildings</i>	27,584,127	--	27,584,127
<i>Machinery and equipment</i>	192,844	--	192,844
<i>Construction in progress</i>	1,463,541	--	1,463,541
<i>Accumulated depreciation</i>	(5,575,466)	--	(5,575,466)
Total capital assets (net of accumulated depreciation)	<u>24,178,123</u>	<u>--</u>	<u>24,178,123</u>
Total Assets	<u>30,231,336</u>	<u>177,420</u>	<u>30,408,756</u>
LIABILITIES			
Current liabilities:			
<i>Accounts payable</i>	234,263	72,553	306,816
<i>Accrued liabilities and other payables</i>	97,251	4,595	101,846
<i>Compensated liabilities</i>	115,229	--	115,229
<i>Combination tax and revenue bonds - current portion</i>	520,368	--	520,368
Liabilities payable from restricted assets:			
<i>Instalment sales contract - current portion</i>	38,330	--	38,330
<i>Accrued interest payable</i>	134,132	--	134,132
Total current liabilities	<u>1,139,573</u>	<u>77,148</u>	<u>1,216,721</u>
Noncurrent liabilities:			
<i>Combination tax and revenue bonds</i>	10,698,269	--	10,698,269
<i>Installment sales contract</i>	829,917	--	829,917
Total noncurrent liabilities:	<u>11,528,186</u>	<u>--</u>	<u>11,528,186</u>
Total Liabilities	<u>12,667,759</u>	<u>77,148</u>	<u>12,744,907</u>
NET ASSETS			
<i>Invested in capital assets, net of related debt</i>	16,063,136	--	16,063,136
<i>Restricted for excess of restricted assets over restricted liabilities</i>	162,166	--	162,166
<i>Unrestricted</i>	1,338,275	100,272	1,438,547
Total Net Assets	<u>\$ 17,563,577</u>	<u>\$ 100,272</u>	<u>\$ 17,663,849</u>

The accompanying notes are an integral part of this statement.

CITY OF HEATH, TEXASSTATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Enterprise Fund Water and Sewer Fund	Nonmajor Enterprise Fund Solid Waste	Total Enterprise Funds	Nonmajor Internal Service Fund Technology Fund
OPERATING REVENUES:				
<i>Water sales</i>	\$ 2,270,535	\$ --	\$ 2,270,535	\$ --
<i>Sewer charges</i>	1,224,777	--	1,224,777	--
<i>Sanitation charges</i>	--	504,329	504,329	--
<i>Taps fees, penalty and other</i>	341,633	5,919	347,552	--
Total Operating Revenues	3,836,945	510,248	4,347,193	--
OPERATING EXPENSES:				
<i>Personal services - salaries and wages</i>	794,901	--	794,901	--
<i>Supplies and services</i>	245,646	--	245,646	--
<i>Operational costs</i>	1,468,744	435,416	1,904,160	--
<i>Materials & equipment</i>	29,362	--	29,362	--
<i>Depreciation and amortization</i>	695,508	--	695,508	--
Total Operating Expenses	3,234,161	435,416	3,669,577	--
Operating Income (Loss)	602,784	74,832	677,616	--
NON-OPERATING REVENUES (EXPENSES):				
<i>Other income</i>	2,730	--	2,730	--
<i>Interest revenue</i>	51,276	431	51,707	--
<i>Interest expense</i>	(1,054,474)	--	(1,054,474)	--
Total Non-operating Revenues (Expenses)	(1,000,468)	431	(1,000,037)	--
Net Income (Loss) before Transfers and Capital Contributions	(397,684)	75,263	(322,421)	--
TRANSFERS AND CAPITAL CONTRIBUTIONS:				
<i>Capital contributions</i>	974,396	--	974,396	--
<i>Transfers in</i>	--	--	--	76,587
<i>Transfers out</i>	(38,294)	(47,200)	(85,494)	--
Change in net assets	538,418	28,063	566,481	76,587
Net assets (deficit), October 1	17,025,159	72,209	17,097,368	(76,587)
Net assets, September 30	\$ 17,563,577	\$ 100,272	\$ 17,663,849	\$ --

The accompanying notes are an integral part of this statement.

CITY OF HEATH, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Enterprise Fund Water and Sewer Fund	Nonmajor Enterprise Fund Other Funds	Enterprise Funds Totals	Nonmajor Internal Service Technology Fund
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 3,747,620	\$ 515,305	\$ 4,262,925	\$ --
Cash Receipts (Payments) for Interfund Services to Other Funds	--	--	--	--
Cash Payments to Employees for Services	(710,333)	--	(710,333)	--
Cash Payments to Other Suppliers for Goods and Services	(1,800,318)	(399,384)	(2,199,702)	--
Net Cash Provided (Used) by Operating Activities	1,236,969	115,921	1,352,890	--
Cash Flows from Non-capital Financing Activities:				
Payments from Other Funds	--	--	--	76,587
Payments to Other Funds	(38,294)	(47,200)	(85,494)	(76,587)
Net Cash Provided (Used) by Non-capital Financing Activities	(38,294)	(47,200)	(85,494)	--
Cash Flows from Capital and Related Financing Activities:				
Proceeds from issuance of debt	--	--	--	--
Principal and Interest Paid	(1,523,724)	--	(1,523,724)	--
Acquisition or Construction of Capital Assets	(361,949)	--	(361,949)	--
Impact fees used	(209,880)	--	(209,880)	--
Net Cash Provided (Used) for Capital & Related Financing Activities	(2,095,553)	--	(2,095,553)	--
Cash Flows from Investing Activities:				
Interest and Dividends on Investments	51,276	431	51,707	--
Net Cash Provided (Used) for Investing Activities	51,276	431	51,707	--
Net Increase (Decrease) in Cash and Cash Equivalents	(845,602)	69,152	(776,450)	--
Cash and Cash Equivalents at Beginning of Year	6,031,486	27,158	6,058,644	--
Cash and Cash Equivalents at End of Year	\$ 5,185,884	\$ 96,310	\$ 5,282,194	\$ --
Reconciliation to the Statement of Net Assets				
Cash and Cash Equivalents	\$ 4,787,445	\$ 96,310	\$ 4,883,755	\$ --
Restricted Cash and Cash Equivalents	398,439	--	398,439	--
Total Cash and Cash Equivalents	\$ 5,185,884	\$ 96,310	\$ 5,282,194	\$ --
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating Income (Loss)	\$ 602,784	\$ 74,832	\$ 677,616	\$ --
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation	695,508	--	695,508	--
Other income	2,730	--	2,730	--
Claims	--	--	--	--
Change in Assets and Liabilities:				
Decrease (Increase) in Receivables	(98,516)	5,057	(93,459)	--
Decrease (Increase) in Assessments	6,461	--	6,461	--
Decrease (Increase) in Inventories	6,873	--	6,873	--
Increase (Decrease) in Accounts Payable	(63,439)	36,326	(27,113)	--
Increase (Decrease) in Accrued Expenses	67,592	(294)	67,298	--
Increase (Decrease) in Compensated Absences	16,976	--	16,976	--
Total Adjustments	634,185	41,089	675,274	--
Net Cash Provided (Used) by Operating Activities	\$ 1,236,969	\$ 115,921	\$ 1,352,890	\$ --
Noncash Transactions Affecting Balance Sheet:				
Recognition of Capital Contributions	\$ 974,396	\$ --	\$ 974,396	\$ --

The accompanying notes are an integral part of this statement.

CITY OF HEATH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, methods and procedures adopted by the City of Heath, Texas conform to generally accepted accounting principles (GAAP) as applicable to governments. The following notes to the financial statements are an integral part of the basic financial statements.

A. Reporting Entity

The City, a political subdivision of the state of Texas, is governed by an elected mayor and six City Councilmen which comprise the City Council. The City provides a full range of municipal services including public safety (police and fire), highway and streets, parks and recreation, health and social services, planning and zoning, and general administrative services. In addition, the City provides water and sewer service, and sanitation service as a proprietary function of the City.

For financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The criteria used are as follows:

Financial Accountability - The primary government is deemed to be financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits or impose specific financial burdens on the primary government. Additionally, the primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government or a jointly appointed board.

Blended Component Units

The Heath Economic Development Corporation (HEDC) is governed by a five member board of directors appointed, at will, by the City Council. Although it is legally separate from the City, it is reported as if it was part of the City (blended) since its sole purpose is to act on behalf of the City. HEDC collects a half cent sales tax to support its activities. The City is the primary beneficiary of HEDC's activities. Stand alone financial statements for HEDC as of and for the fiscal year ended September 30, 2009 have not been prepared.

The City of Heath Municipal Benefits Corporation (HMBC) is governed by a five member board of directors appointed, at will, by the City Council. Although it is legally separate from the City, it is reported as if it was part of the City (blended) since its sole purpose is to act on behalf of the City. HMBC collects a half cent sales tax to support its activities. The City is the primary beneficiary of HMBC's activities. Stand alone financial statements for HMBC as of and for the fiscal year ended September 30, 2009 have not been prepared.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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 revenues are reported instead as *general revenues*.

CITY OF HEATH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

Separate financial statements are provided for governmental funds and proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements.

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 and fiduciary 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 revenues 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 City considers revenues to be available if they are 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 and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the State and merchants at year end on behalf of the City are also recognized as revenue. Franchise taxes, fines and permits, and miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The City reports the following major governmental funds:

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

The *Capital Improvements Fund* accounts for the acquisition of capital assets or the construction of major capital projects (such as streets and sidewalks) not being financed by proprietary funds.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The City reports the following major proprietary fund:

The *Water and Sewer Fund* operates the water distribution system and the wastewater treatment plants, wastewater pumping stations, and collection systems.

Additionally, the City reports the following fund types:

The Special Revenue Funds account for specific revenue sources that are legally restricted to expenditures for specified purposes (not including expendable trusts or major capital projects).

Drainage Fund - accounts for accumulation of assets to fund drainage projects.

H.E.D.C. 4A Sales Tax Revenue Fund - accounts for sales tax monies specifically designated for promoting economic development within the City by developing, implementing, providing, and financing various infrastructure projects for the City.

CITY OF HEATH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2009

M.E.B.C. 4B Sales Tax Revenue Fund - accounts for sales tax monies specifically designated for promoting economic development within the City by developing, implementing, and providing additions to the City's infrastructure by financing park and recreation projects.

The *Solid Waste Enterprise Fund* accounts for operations of the sanitation function of the City.

Internal Service Fund accounts for financial resources set aside to provide technology services to the other funds of the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and wastewater function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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, miscellaneous revenue, and interest income.

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 Water and Sewer enterprise fund are charges to customers for sales and services. The enterprise utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund 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.

D. Assets, Liabilities and Equity

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

State statutes authorize the City to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (5) certificates of deposit by state and national banks domiciled in this state that are (A) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (B) secured by obligations that are described by (1) - (4); or, (6) fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by (1), pledged with third party selected or approved by the City, and placed through a primary government securities dealer. Investments are stated at fair value.

3. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." All trade receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 60 days comprise the trade allowance for uncollectibles.

No allowance for uncollectible property taxes has been provided because property taxes attach as an enforceable lien on property for up to 20 years per state statute. Any uncollected taxes at September 30 are recorded as taxes receivable and those which are not expected to be collected within 60 days are recorded as deferred revenue. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

The sequence for the levying and collection of property taxes is as follows:

January 1, 2009	Date at which taxable value and exemption status is determined; a tax lien attached to property to secure payments of taxes, penalties, and interest ultimately imposed for the year.
October 1, 2008	Tax assessor mails tax bills by this date or soon thereafter.
February 1, 2009	Unpaid property taxes are declared delinquent and interest and penalties begin accruing.
July 1, 2009	Delinquent taxes incur the maximum penalty and begin to incur additional penalty for attorney fees.

In Texas, county-wide central appraisal districts are required to assess all property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every four years; however, the City, at its own expense, may require an annual review of appraised values. The City or taxpayers may challenge appraised values established by the appraisal district through various appeals, and, if necessary, take legal action. Under this system, the City sets tax rates on City property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than eight percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than eight percent above the tax rate of the previous year.

4. Inventories

Inventories on the balance sheet are stated at weighted average cost. Inventory items are recorded as expenditures when used.

5. Restricted Assets

Certain proceeds of Water and Sewer Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, have been classified as restricted assets because their use is restricted by applicable bond covenants. Certain amounts escrowed by developers are considered restricted until conditions imposed on the amounts are met.

6. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets

CITY OF HEATH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

with an initial, individual cost of more than \$5,000 (amount not rounded) 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Buildings	20 - 30 years
Improvements other than buildings	20 - 50 years
Machinery and Equipment	3 - 10 years

7. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation leave and compensatory time. All vacation and compensatory time is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

8. Long-term obligations

In the government-wide financial statements, and proprietary fund type 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 straight line method which approximate 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 debt service expenditures.

9. Fund equity

In the fund financial statements, governmental funds report 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.

II. 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 that "Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds." The details of this \$167,556 difference are as follows:

CITY OF HEATH, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2009

Deferred charges - bonds issuance costs:
 City \$167,556

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. At year end, the carrying amount of the City's cash on hand and deposits was \$6,867,547 (\$201,064 restricted) and the bank balance was \$772,703. All of the bank balance was secured by federal deposit insurance (\$100,000) and an irrevocable standby letter of credit in the amount of \$500,000 pledged by the depository in the City's name and held by Federal Home Loan Bank of Dallas, except for \$201,064 of the book balance which represents cash held by the North Texas Municipal Water District (NTMWD), and is therefore considered unsecured.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the City's investments were held by the counter party's agent as of September 30, 2009.

Investments at September 30, 2009 were as follows:

<u>Description</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Weighted</u>	
			<u>Average Maturity</u>	<u>Credit Rating</u>
Investments not subject to categorization				
TexPool	\$696,149	\$696,149	0.003	AAAm
TexStar	<u>7,145,398</u>	<u>7,145,398</u>	0.003	AAAm
Local government sponsored investment pool	<u>7,841,547</u>	<u>7,841,547</u>		
	<u>\$7,841,547</u>	<u>\$7,841,547</u>		

The Texas Local Government Investment Pool ("TexPool") is an external investment pool operated by the Texas Comptroller of Public Accounts and is not SEC registered. The Texas Interlocal Cooperation Act and the Texas Public Funds Investments Act provide for creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments. The State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

The TexStar Participant Services Local Government Investment Pool ("TexStar") is an external investment pool operated by First Southwest Asset Management, Inc. and is not SEC registered. The Texas Interlocal Cooperation Act and the Texas Public Funds Investments Act provide for creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments. The State Comptroller has established an advisory board composed both of participants in TexStar and of other persons who do not have a business relationship with TexStar. The Advisory Board members review the investment policy and management fee structure.

CITY OF HEATH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

B. Receivables

Receivables as of September 30, 2009 for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Capital Improv	Debt Service	Nonmajor and Other	Water & Sewer	Solid Waste	Total
Taxes - delinquent	\$80,105	\$ -	\$18,607	\$ -	\$ -	\$ -	\$98,712
Accounts receivable	\$103,440	\$ -	\$ -	\$7,780	\$717,409	\$83,713	\$912,342
Less allowance	(653)	-	-	-	(24,307)	(2,603)	(27,563)
Accounts receivable	\$102,787	\$ -	\$ -	\$7,780	\$693,102	\$81,110	\$884,779
Other receivables	\$ -	\$ -	\$ -	\$ -	\$48,087	\$ -	\$48,087
Special assessments	\$ -	\$ -	\$172,243	\$ -	\$15,669	\$ -	\$187,912
Intergovernmental	\$70,503	\$ -	\$ -	\$69,550	\$ -	\$ -	\$140,053

Governmental funds report *deferred revenue* in connection with receivables for revenues that are 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* and *unearned revenue* reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable (General Fund)	\$73,084	\$ -
Delinquent property taxes receivable (Debt Service Fund)	\$17,226	-
Fines receivable (General Fund)	1,015	-
Assessments receivable (Debt Service Fund)	158,064	-
Total deferred/unearned revenue for governmental funds	\$249,389	\$ -

CITY OF HEATH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

C. Capital assets

Capital asset activity for the year ended September 30, 2009:

Primary Government

	Balance 9/30/08	Additions	Retirements	Completed Construction	Balance 9/30/09
GOVERNMENTAL ACTIVITIES:					
Capital assets, not being depreciated:					
Land	\$3,036,088	\$ --	\$ --	\$ --	\$3,036,088
Construction in progress	686,039	3,151,083	--	(2,837,986)	999,136
Total capital assets not being depreciated	3,722,127	3,151,083	--	(2,837,986)	4,035,224
Capital assets, being depreciated:					
Buildings	1,865,043	297,352	--	--	2,162,395
Improvements other than buildings	1,345,654	--	--	1,577,357	2,923,011
Infrastructure	29,912,710	945,929	--	1,260,629	32,119,268
Machinery and equipment	1,609,351	65,023	(21,985)	--	1,652,389
Total capital assets being depreciated	34,732,758	1,308,304	(21,985)	2,837,986	38,857,063
Less accumulated depreciation for:					
Buildings	(572,415)	(86,800)	--	--	(659,215)
Improvements other than buildings	(189,475)	(51,499)	--	--	(240,974)
Infrastructure	(11,071,524)	(1,175,185)	--	--	(12,246,709)
Machinery and equipment	(785,260)	(186,938)	21,985	--	(950,213)
Total accumulated depreciation	(12,618,674)	(1,500,422)	21,985	--	(14,097,111)
Total capital assets being depreciated, net	22,114,084	(192,118)	--	2,837,986	24,759,952
Governmental activities capital assets, net	\$25,836,211	\$2,958,965	\$ --	\$ --	\$28,795,176

CITY OF HEATH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

	Balance 9/30/08	Additions	Retirements	Completed Construction	Balance 9/30/09
BUSINESS-TYPE ACTIVITIES:					
Capital assets, not being depreciated:					
Land	\$203,438	\$ --	\$ --	\$ --	\$203,438
Construction in progress	1,232,453	638,201	--	(407,113)	1,463,541
Total capital assets not being depreciated	1,435,891	638,201	--	(407,113)	1,666,979
Capital assets, being depreciated:					
Buildings	303,639	6,000	--	--	309,639
Improvements other than buildings	26,500,827	676,187	--	407,113	27,584,127
Machinery and equipment	176,888	15,956	--	--	192,844
Total capital assets being depreciated	26,981,354	698,143	--	407,113	28,086,610
Less accumulated depreciation for:					
Buildings	(58,313)	(10,938)	--	--	(69,251)
Improvements other than buildings	(4,754,716)	(667,379)	--	--	(5,422,095)
Machinery and equipment	(66,929)	(17,191)	--	--	(84,120)
Total accumulated depreciation	(4,879,958)	(695,508)	--	--	(5,575,466)
Capital assets being depreciated, net	22,101,396	2,635		407,113	22,511,144
Business type activities capital assets, net	\$23,537,287	\$640,836	\$ --	\$ --	\$24,178,123

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

Governmental activities:

Administration	\$54,387
Highways and streets	1,212,711
Parks	58,201
Engineering and building inspections	9,742
Municipal court	2,076
Public safety	<u>163,306</u>
Total depreciation expense - governmental activities	<u>\$1,500,423</u>

Business-type activities:

Water and sewer - depreciation	<u>\$695,508</u>
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CITY OF HEATH, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2009

Construction commitments

The City has active construction projects as of September 30, 2009. The projects include waste water system improvements.

Project	Spent to Date	Remaining Commitment
Governmental Capital Assets		
White road extension	\$904,439	\$209,428
Total Governmental Capital Assets	904,439	209,428
Business-type Capital Assets		
18 Inch Water Line	265,552	3,860
Cove Ridge Lift Station	71,368	258,274
Total Business-type	336,920	262,134
	<u>\$1,241,359</u>	<u>\$471,562</u>

The commitments for the street systems are being financed by street impact fees.

The commitment for the lift station and water line are being financed by revenue instalment sales contracts.

D. Interfund Transfers

Interfund transfers:

Fund	Transfer In	Transfer Out
Major Governmental Funds		
General Fund	\$83,051	\$1,334,288
Capital Improvements Fund	260,094	--
Debt Service Fund	1,035,900	--
Non Major Governmental Funds	--	35,850
Total Governmental Funds	<u>1,379,045</u>	<u>1,370,138</u>
Major Proprietary Funds		
Water and Sewer Fund	--	38,294
Sanitation Fund	--	47,200
Non Major Proprietary Fund	76,587	--
Total Proprietary Funds	<u>76,587</u>	<u>85,494</u>
Totals	<u>\$1,455,632</u>	<u>\$1,455,632</u>

CITY OF HEATH, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2009

Interfund transfers were made to:

1. The Sanitation Fund, the HEDC 4A Fund, and the HMBC 4B Fund transferred funds to the General Fund for administrative services.
2. The General fund transferred funds to the Capital Improvements Fund for an animal shelter and park improvements.
3. The General Fund transferred funds to the Debt Service Fund to deemed to be excess to improve the financial position of the Debt Service Fund.
4. The General Fund and the Water and Sewer Fund transferred funds to the Technology Fund to cover the deficit in the Technology Fund in order to close the fund.

E. Long-term debt

The City of Heath issues general obligation bonds, certificates of obligation bonds, contractual obligation bonds, capital leases, and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. These issues are direct obligations and pledge the full faith and credit of the City. During 2004, the City issued \$2,190,000 Combination Tax and Revenue Certificates of Obligation, Series 2004 generally for the purchase of land, construction of streets and park improvements. The Heath Economic Development Corporation and the Heath Municipal Benefits Corporation entered into an agreement with the City to participate in the repayment of \$280,000 and \$450,000 of the debt, respectively.

General Debt Currently Outstanding:

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance 9/30/09
Governmental Debt Issues					
General Obligation Bonds:					
Improvements/refunding	\$730,000	2/15/01	2/15/17	4.40%-4.85%	\$730,000
Improvements/refunding	1,835,000	7/07/04	2/15/15	3.68%-3.68%	<u>1,100,000</u>
Total General Obligation Bonds					<u>1,830,000</u>
Certificate of Obligation Bonds:					
Improvements	8,392,369	10/15/07	2/15/27	4.00%-5.00%	7,790,016
Improvements	2,300,000	2/15/01	2/15/22	4.00%-5.00%	1,837,500
Improvements	2,190,000	7/07/04	2/15/24	3.68%-3.68%	<u>1,830,000</u>
Total Certificates of Obligation					<u>11,457,516</u>
Total General Long-Term Debt					<u>13,287,516</u>
Proprietary Debt Issues:					
Contract Revenue Bonds:					
Improvements	1,006,566	6/01/05	6/21/25	3.75%-4.625%	<u>868,247</u>

CITY OF HEATH, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2009

Certificate of Obligation Bonds:

Improvements	5,052,631	10/15/07	2/15/27	4.00%-5.00%	4,689,984
Improvements	6,900,000	2/15/01	2/15/22	4.00%-5.00%	5,512,500
Improvements	1,640,000	7/15/04	2/15/16	3.68%-3.68%	1,050,000
Total Certificates of Obligation					<u>11,252,484</u>
Total Proprietary Debt					<u>12,120,731</u>
Total Debt					<u><u>\$25,408,247</u></u>

Annual debt service requirements to maturity for general debt:

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2010	\$674,632	\$560,995	\$520,368	\$503,837	\$2,259,832
2011	715,866	533,374	579,134	481,382	2,309,756
2012	745,850	503,962	599,150	457,051	2,306,013
2013	767,705	471,769	632,295	430,444	2,302,213
2014	729,560	437,829	680,440	400,743	2,248,572
2015-2019	3,534,948	1,685,315	3,935,052	1,480,176	10,635,491
2020-2024	4,358,711	857,531	3,241,289	515,810	8,973,341
2025-2027	1,760,244	117,701	1,064,756	70,862	3,013,563
Total	<u>\$13,287,516</u>	<u>\$5,168,476</u>	<u>\$11,252,484</u>	<u>\$4,340,305</u>	<u>\$34,048,781</u>

Annual debt service requirements to maturity for contract revenue bonds:

Year	Business-type Activities		Total
	Principal	Interest	
2010	\$38,330	\$36,603	\$74,933
2011	39,996	34,831	74,827
2012	41,663	32,981	74,644
2013	43,329	31,054	74,383
2014	44,996	29,050	74,046
2015-2019	258,308	114,764	373,072
2020-2024	326,634	57,913	384,547
2025	74,991	3,187	78,178
Total	<u>\$868,247</u>	<u>\$340,383</u>	<u>\$1,208,630</u>

CITY OF HEATH, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2009

**CHANGES IN LONG-TERM LIABILITIES
 DEFEASED DEBT**

During 2004, the City defeased the 1996 combination tax and revenue certificates of obligation and the 1993-A combination tax and revenue certificates of obligation by providing resources to purchase U.S. Government, State and Local Series securities that were placed in irrevocable trusts for the purpose of generating resources for all future debt service payments of the refunded debt. At year end the City had \$1,021,000 general obligation defeased debt outstanding.

During 2004, the City also defeased the 1994 NTMWD Installment Sales Contract Revenue bonds by providing resources to purchase U.S. Government, State and Local Series securities that were placed in irrevocable trusts for the purpose of generating resources for all future debt service payments of the refunded debt. At year end the City had \$1,235,000 business type defeased debt outstanding.

NOTES PAYABLE

The City has an obligation to the City of Rockwall, Texas for a partial interest in an animal shelter. The loan is payable in annual installments of \$35,037, including interest at 3.10%.

Principal and interest payments for the years ending September 30:

Year	Principal	Interest	Total
2010	\$26,619	\$8,418	\$35,037
2011	27,445	7,592	35,037
2012	28,295	6,742	35,037
2013	29,173	5,864	35,037
2014	30,077	4,960	35,037
2015-2019	129,925	10,223	140,148
Total Capital Lease	\$271,534	\$43,799	\$315,333

CAPITALIZED LEASE OBLIGATIONS

The City has entered into a contract for the lease purchase of a fire truck. Capitalized lease obligations outstanding at year end are as follows:

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance 9/30/09
Capital Lease					
Fire truck (\$296,432)	\$374,440	9/15/04	9/15/10	6.99%	\$57,700

Capital lease obligation debt service requirements to maturity are as follows:

Year	Total
2010	\$60,002
Less imputed interest	(2,302)
Total Capital Lease Obligations	\$57,700

CITY OF HEATH, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2009

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2009, was as follows:

	Balance 9/30/08	Additions	Retirements	Balance 9/30/09	Due Within One Year
Governmental activities:					
General obligation bonds	\$2,005,000	--	(\$175,000)	\$1,830,000	\$205,000
Certificates of obligation	11,915,285	--	(457,769)	11,457,516	469,632
Notes payable	--	297,353	(25,819)	271,534	26,619
Add bond premium	154,431	--	(8,398)	146,033	--
Less deferred amount	(142,322)	--	8,118	(134,204)	--
Total bonds payable	13,932,394	297,353	(658,868)	13,570,879	701,251
Capital lease obligations	113,186	--	(55,486)	57,700	57,700
Compensated absences	447,313	450,679	(447,313)	450,679	450,679
Total long-term liabilities	<u>\$14,492,893</u>	<u>\$748,032</u>	<u>(\$1,161,667)</u>	<u>\$14,079,258</u>	<u>\$1,209,630</u>
Business-type activities:					
Certificates of obligation	\$11,754,715	--	(\$502,231)	\$11,252,484	\$520,368
Add bond premium	\$92,976	--	(\$5,056)	\$87,920	--
Less deferred amount	(129,948)	--	8,181	(121,767)	--
Total bonds payable	11,717,743	--	(499,106)	11,218,637	520,368
Contract revenue bonds	904,910	--	(36,663)	868,247	38,330
Compensated absences	98,253	115,229	(98,253)	115,229	115,229
Total long-term liabilities	<u>\$12,720,906</u>	<u>\$115,229</u>	<u>(\$634,022)</u>	<u>\$12,202,113</u>	<u>\$673,927</u>

For the governmental activities, claims and judgements and compensated absences are generally liquidated by the general fund. The government-wide statement of activities includes \$38,330 of the long-term liabilities due within one year for business-type activities in "liabilities payable from restricted assets." The remaining amount of \$635,597 is displayed as "noncurrent liabilities, due within one year on that same statement.

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; natural disasters; and claims of various nature. The City participates in the Texas Municipal League Intergovernmental Risk Pool (the Pool) which provides protection for risks of loss. Premiums are paid to the Pool which retains the risk of loss beyond the City's policy deductibles. Any losses reported but unsettled or incurred and not reported, are believed to be insignificant to the City's basic financial statements. For the last three years, there have been no significant reductions of insurance coverage or insurance settlements in excess of insurance coverage.

CITY OF HEATH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

Any losses reported but unsettled or incurred and not reported, are believed to be insignificant to the City's basic financial statements.

B. Related Party Transaction

In a prior year, the City purchased approximately seventy-five acres of land for future development for \$1,325,000 with the proceeds of a bond issue. The 4B corporation, a blended component unit of the City, acquired twenty-five acres of this land for a price not to exceed \$450,000. The purchase price is being paid to the City through annual debt service payments made by the 4B corporation on the bonds issued to purchase the land. The total amount paid by the 4B corporation on debt service in the current year was \$39,454.

The 4A corporation paid \$23,314 in the current year for debt service related to street maintenance.

The president of the local branch of the City's depository is a board member of the 4B and 4A component units.

C. North Texas Municipal Water District (the District)

The district is a conservation and reclamation district and political subdivision of the State of Texas, created and functioning under Chapter 62, Acts of 1951, 52nd Legislature, Regular Session, as amended, originally compiled as Vernon's Article 8270-141 (the "Act"), pursuant to Article 16, Section 59 of the Texas Constitution. The District comprises all of the territory of its member cities, viz., Garland, Princeton, Plano, Mesquite, Wylie, Rockwall, Farmersville, McKinney, Richardson, Forney and Royse City (the "Member Cities"). The District was created for the purpose of providing a source of water supply for municipal, domestic and industrial use and for the treatment, processing and transportation of such water to its Member Cities, and to its other customers located in North Central Texas, all within the Dallas Standard Metropolitan Statistical Area.

Under the Act, including specifically Section 27 thereof, and under the Constitution and Statutes of the State of Texas, the District has broad powers to (1) impound, control, store, preserve, treat, transmit and use storm and flood water, the water of rivers and streams and underground water, for industrial and commercial uses and purposes and all other beneficial uses and purposes; and (2) collect, transport, process, treat, dispose of, and control all municipal, domestic, industrial or commercial waste whether in fluid, solid or composite state, including specifically the control, abatement or reduction of all types of pollution. The City retains no ongoing financial interest, equity investments and/or responsibilities for the District other than the contractual arrangements discussed more fully herein.

The District has a long-term contract with the City to provide sewer treatment. The City contracted with the District to build sewage treatment plants and provide treatment services to the City. Under the terms of the contract, the City's payments, which began when the facilities were first utilized, are equal to the operating and maintenance expenses for the ensuing fiscal year, as shown in the Annual Budget. The contract further provides that the debt service payments would be equal to the principal and/or interest coming due on the bonds on the next succeeding interest payment date, plus the fees and charges of the paying agent and registrar.

These contractual obligations have been included as installment sales contract revenue bonds in amounts equal to the bonds outstanding under these agreements. Accordingly, the related sewage treatment facilities have been capitalized and are being depreciated over the estimated life of the facilities.

In the fiscal year ended September 30, 2005, the City entered into a contract with the District to construct a water storage facility. Under the terms of the contract, the City's payments, which began when the facilities were first utilized, are equal to the operating and maintenance expenses for the ensuing fiscal year, as shown in the Annual Budget. The contract further provides that the debt service payments would be equal to the principal and/or interest coming due on the bonds on the next succeeding interest payment date, plus the fees and charges of the paying agent and registrar. These contractual obligations have been included as installment sales contract revenue bonds and the related water storage facilities have been capitalized and are being depreciated over the estimated life of the facilities.

Buffalo Creek Wastewater Interceptor System

In January 2004, the Cities of Rockwall and Heath in Rockwall County, and the City of Forney in Kaufman County entered into a contract with the District to provide for the acquisition, construction, improvement, operation, and maintenance of the Regional Buffalo Creek Wastewater Interceptor System (System) for the purpose of providing facilities to adequately receive, transport, treat, and dispose of wastewater. The District will own the System with Rockwall, Heath and Forney as the initial participants. The District issued approximately \$17 million in bonds to construct this new facility in April 2004. Budget calculations for operating costs and debt service for the System on the service commencement date is based on the following estimated flow ratio: City of Rockwall - 78%, the City of Heath - 14%, and the City of Forney - 8%. "Service Commencement Date" means the first date upon which the System is available to treat wastewater from the participants. Heath's long-term commitment to the System's debt service component is approximately \$2.4 million.

The District will send each participant a letter detailing the annual requirement necessary to operate the System each year. The annual requirement budget will include an operation and maintenance component and a bond service component. The budgeting ratio described earlier is only valid for the first year of System operations. In subsequent years, budgets and year-end audits will be based on actual flow ratios. For example, if the flow measurements indicate that 80% of the flow is produced by Rockwall, 15% by Heath and 5% by Forney, then the next year's operating and debt service components would be allocated using a 80/15/5 split. If in the future, additional participants are added, then the flow ratios will be adjusted using the above method.

D. Contingent Liabilities and Commitments

Amounts received or receivable from grantor agencies are subject to audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is defendant in a suit brought by certain property owners to enforce certain restrictive covenants on property purchased by the City for a water tower and other municipal uses. The City cross-filed to condemn the outstanding interests. The special commissioners awarded \$331,280 to the property owners. The case has been set for trial and, in the opinion of the City's management, after consultation with the City's attorney, the potential loss on this litigation is expected to be no more than the special commissioners award. The amount awarded, along with related expenses, was charged to the water and sewer fund in 2002. The case was appealed to the Texas supreme court. The appeal was not granted by the supreme court, so the matter is back in the trial court for trial as to the value of the property interests.

There is no other litigation or pending lawsuits which would be significant to the City's financial statements.

E. Employees' Retirement System

1. Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 827 currently administered by TMRS, an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available within the options available in the governing state statutes of TMRS.

TMRS issues a publically 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.

CITY OF HEATH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

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:

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%) of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

2. Contributions

The contribution rate for the employees is 7%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (over funded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect, i.e. December 31, 2007 valuation is effective for rates beginning January 2009.

	<u>Actuarial Assumptions</u>
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization	25 Years - Closed Period
Asset Valuation Method	Amortized Cost
Investment Rate of Return	7%
Projected Salary Increases	Varies by age and service
Includes Inflation At	3.0%
Cost of Living Adjustments	0.0%

CITY OF HEATH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	<u>12/31/08</u>	<u>12/31/07</u>	<u>12/31/06</u>
Actuarial Value of Asset	\$2,802,337	\$2,169,897	\$1,699,979
Actuarial Accrued Liabilities	\$4,138,243	\$3,279,126	\$2,300,253
Percentage Funded	67.7%	66.2%	72.9%
Unfunded (Over-funded) Actuarial	\$1,335,906	\$1,109,229	\$600,274
Annual Covered Payroll	\$2,848,182	\$2,411,546	\$1,915,843
UAAL as a Percentage of Covered Payroll	46.9%	46.0%	31.3%
Net Pension Obligation (NPO)	\$ --	\$ --	\$ --
Annual Pension Cost:			
Annual Required Contribution (ARC)	\$290,817	\$323,944	\$263,163
Interest on NPO	--	--	--
Adjustment to the ARC	--	--	--
	290,817	323,944	263,163
Contributions Made (100%)	290,817	323,944	263,163
Increase in NPO	--	--	--
NPO at the End of Period	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

F. Concentrations of Credit Risk

Taxes receivable are due from citizens and businesses within the City's boundaries. Risk of loss is immaterial due to wide dispersion of receivables and because of policies which address procedures for filing property tax liens.

Accounts receivable are due from citizens and businesses within the City's boundaries. Risk of loss is immaterial due to wide dispersion of receivables and because of policies which address collection procedures for past due accounts.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

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CITY OF HEATH, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2009

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
<i>Taxes</i>	\$ 3,812,729	\$ 3,777,729	\$ 3,793,903	\$ 16,174
<i>Licenses and permits</i>	258,750	121,250	129,832	8,582
<i>Intergovernmental</i>	219,750	219,750	235,123	15,373
<i>Charges for services</i>	143,700	65,700	69,779	4,079
<i>Fines</i>	50,600	50,600	56,907	6,307
<i>Interest</i>	60,000	27,000	23,876	(3,124)
<i>Miscellaneous</i>	39,050	34,050	48,510	14,460
Total revenues	<u>4,584,579</u>	<u>4,296,079</u>	<u>4,357,930</u>	<u>61,851</u>
Expenditures:				
Current:				
<i>Administration</i>	1,119,072	1,042,372	960,612	81,760
<i>Highways and streets</i>	359,155	342,155	250,087	92,068
<i>Parks</i>	115,573	102,673	78,711	23,962
<i>Engineering and building inspection</i>	422,700	418,700	404,487	14,213
<i>Municipal court</i>	93,490	93,990	89,384	4,606
<i>Public safety</i>	2,478,828	2,332,928	2,530,925	(197,997)
Total expenditures	<u>4,588,818</u>	<u>4,332,818</u>	<u>4,314,206</u>	<u>18,612</u>
Excess (deficiency) of revenues over (under) expenditures	(4,239)	(36,739)	43,724	80,463
Other financing sources (uses):				
<i>Transfers in</i>	47,200	81,200	83,051	1,851
<i>Transfers out</i>	(40,000)	(1,305,900)	(1,334,288)	(28,388)
<i>Issuance of long-term debt</i>	--	--	297,353	297,353
Total other financing sources (uses)	<u>7,200</u>	<u>(1,224,700)</u>	<u>(953,884)</u>	<u>270,816</u>
Net change in fund balances	2,961	(1,261,439)	(910,160)	351,279
Fund balances, October 1	2,679,889	2,679,889	2,679,889	--
Fund balances, September 30	<u>\$ 2,682,850</u>	<u>\$ 1,418,450</u>	<u>\$ 1,769,729</u>	<u>\$ 351,279</u>

CITY OF HEATH, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2009

(Unaudited)

Budgetary Information

A. The official budget was prepared using generally accepted accounting principles for adoption by the General Fund, H.E.D.C. 4A Special Revenue Fund, the H.M.B.C. 4B Special Revenue Fund, and the Debt Service Fund as modified by the use of encumbrances. The City encumbers amounts committed at year end and carries the budget over for a lapse period of ninety days into the following year. The following procedures are followed in establishing the budgetary data reflected in the Basic Financial Statements:

1. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least three days' prior to a meeting a public notice of the meeting must have been given.
3. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end. During the year, the budget was not amended. All budget appropriations lapse at year end, except for amounts encumbered.

Following is a reconciliation between expenditures on the budgetary basis and generally accepted accounting principles:

General Fund:	
Expenditures per Exhibit A-5	\$4,317,411
Reversal of year encumbrances	(3,205)
Current year encumbrances	—
Expenditures - budgetary basis	<u>\$4,314,206</u>

B. Excess of expenditures over appropriations

The following funds had expenditures in excess of appropriations:

GENERAL FUND	
Public Safety	<u>\$197,997</u>

*Combining Statements and Budget Comparisons
as Supplementary Information*

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

CITY OF HEATH, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 SEPTEMBER 30, 2009

	Drainage Special Revenue	H.E.D.C. 4A	H.M.B.C. 4B	Total Nonmajor Special Revenue Funds (See Exhibit A-3)
ASSETS				
<i>Cash and cash equivalents</i>	\$ 174,805	\$ 560,193	\$ 839,289	\$ 1,574,287
Receivables (net of allowances for uncollectibles):				
<i>Interest</i>	--	1,877	3,754	5,631
<i>Intergovernmental</i>	--	34,775	34,775	69,550
<i>Loan receivable</i>	7,780	--	--	7,780
Total Assets	\$ 182,585	\$ 596,845	\$ 877,818	\$ 1,657,248
LIABILITIES AND FUND BALANCES				
Liabilities:				
<i>Accounts payable</i>	\$ --	\$ 2,911	\$ 825	\$ 3,736
Total Liabilities	--	2,911	825	3,736
Fund balances:				
Reserved for:				
Unreserved, reported in:				
<i>General fund</i>	162,124	806,754	756,255	1,725,133
<i>Special revenue funds</i>	20,461	(212,820)	120,738	(71,621)
Total fund balances	182,585	593,934	876,993	1,653,512
Total Liabilities and Fund Balances	\$ 182,585	\$ 596,845	\$ 877,818	\$ 1,657,248

CITY OF HEATH, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Drainage Special Revenue	H.E.D.C. 4A	H.M.B.C. 4B	Total Nonmajor Special Revenue Funds (See Exhibit A-5)
Revenues:				
<i>Taxes</i>	\$ --	\$ 177,549	\$ 177,548	\$ 355,097
<i>Interest</i>	1,292	6,156	8,688	16,136
<i>Miscellaneous</i>	29,100	--	--	29,100
Total revenues	<u>30,392</u>	<u>183,705</u>	<u>186,236</u>	<u>400,333</u>
Expenditures:				
Current:				
<i>Public safety</i>	9,931	--	--	9,931
<i>Economic development and assistance</i>	--	355,286	--	355,286
<i>Economic opportunity</i>	--	--	8,119	8,119
Debt service:				
<i>Principal</i>	--	14,300	24,200	38,500
<i>Interest and fiscal charges</i>	--	9,014	15,254	24,268
Total expenditures	<u>9,931</u>	<u>378,600</u>	<u>47,573</u>	<u>436,104</u>
Excess (deficiency) of revenues over (under) expenditures	20,461	(194,895)	138,663	(35,771)
Other financing sources (uses):				
<i>Transfers out</i>	--	(17,925)	(17,925)	(35,850)
Total other financing sources (uses)	<u>--</u>	<u>(17,925)</u>	<u>(17,925)</u>	<u>(35,850)</u>
Net change in fund balances	20,461	(212,820)	120,738	(71,621)
Fund balances, October 1	162,124	806,754	756,255	1,725,133
Fund balances, September 30	<u>\$ 182,585</u>	<u>\$ 593,934</u>	<u>\$ 876,993</u>	<u>\$ 1,653,512</u>

CITY OF HEATH, TEXAS

EXHIBIT C-3

H.E.D.C - 4A

SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
<i>Taxes</i>	\$ 180,000	\$ 180,000	\$ 177,549	\$ (2,451)
<i>Interest</i>	15,000	15,000	6,156	(8,844)
Total revenues	<u>195,000</u>	<u>195,000</u>	<u>183,705</u>	<u>(11,295)</u>
Expenditures:				
Current:				
<i>Economic development and assistance</i>	407,100	407,100	355,286	51,814
Debt service:				
<i>Principal</i>	14,300	14,300	14,300	--
<i>Interest and fiscal charges</i>	9,018	9,018	9,014	4
Total expenditures	<u>430,418</u>	<u>430,418</u>	<u>378,600</u>	<u>51,818</u>
Excess (deficiency) of revenues over (under) expenditures	(235,418)	(235,418)	(194,895)	40,523
Other financing sources (uses):				
<i>Transfers out</i>	--	--	(17,925)	(17,925)
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>(17,925)</u>	<u>(17,925)</u>
Net change in fund balances	(235,418)	(235,418)	(212,820)	22,598
Fund balances, October 1	806,754	806,754	806,754	--
Fund balances, September 30	<u>\$ 571,336</u>	<u>\$ 571,336</u>	<u>\$ 593,934</u>	<u>\$ 22,598</u>

CITY OF HEATH, TEXAS

EXHIBIT C-4

H.M.B.C. - 4B

SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
<i>Taxes</i>	\$ 180,000	\$ 180,000	\$ 177,549	\$ (2,451)
<i>Interest</i>	15,000	15,000	8,688	(6,312)
Total revenues	<u>195,000</u>	<u>195,000</u>	<u>186,237</u>	<u>(8,763)</u>
Expenditures:				
Current:				
<i>Economic opportunity</i>	38,000	38,000	8,119	29,881
Debt service:				
<i>Principal</i>	24,200	24,200	24,200	--
<i>Interest and fiscal charges</i>	15,260	15,260	15,255	5
Total expenditures	<u>77,460</u>	<u>77,460</u>	<u>47,574</u>	<u>29,886</u>
Excess (deficiency) of revenues over (under) expenditures	117,540	117,540	138,663	21,123
Other financing sources (uses):				
<i>Transfers out</i>	--	--	(17,925)	(17,925)
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>(17,925)</u>	<u>(17,925)</u>
Net change in fund balances	117,540	117,540	120,738	3,198
Fund balances, October 1	756,255	756,255	756,255	--
Fund balances, September 30	<u>\$ 873,795</u>	<u>\$ 873,795</u>	<u>\$ 876,993</u>	<u>\$ 3,198</u>

CITY OF HEATH, TEXAS
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2009

EXHIBIT C-5

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
<i>Taxes</i>	\$ 702,557	\$ 702,557	\$ 698,759	\$ (3,798)
<i>Special assessments</i>	--	--	25,267	25,267
<i>Interest</i>	80,000	80,000	76,785	(3,215)
<i>Miscellaneous</i>	45,000	45,000	--	(45,000)
Total revenues	<u>827,557</u>	<u>827,557</u>	<u>800,811</u>	<u>(26,746)</u>
Expenditures:				
Current:				
<i>Administration</i>	12,500	12,500	5,081	7,419
Debt service:				
<i>Principal</i>	647,669	674,351	674,308	43
<i>Interest and fiscal charges</i>	575,541	584,759	584,678	81
Total expenditures	<u>1,235,710</u>	<u>1,271,610</u>	<u>1,264,067</u>	<u>7,543</u>
 Excess (deficiency) of revenues over (under) expenditures	 (408,153)	 (444,053)	 (463,256)	 (19,203)
 Other financing sources (uses):				
<i>Transfers in</i>	--	1,035,900	1,035,900	--
Total other financing sources (uses)	<u>--</u>	<u>1,035,900</u>	<u>1,035,900</u>	<u>--</u>
 Net change in fund balances	 (408,153)	 591,847	 572,644	 (19,203)
 Fund balances, October 1	 919,619	 919,619	 919,619	 --
Fund balances, September 30	<u>\$ 511,466</u>	<u>\$ 1,511,466</u>	<u>\$ 1,492,263</u>	<u>\$ (19,203)</u>

STATISTICAL SECTION

This part of the City of Heath, Texas's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Contents	Page
Financial Trends	64
<i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	
Revenue Capacity	73
<i>These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.</i>	
Debt Capacity	78
<i>These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	83
<i>These schedules offer demographic and economic indicators to help the reader understand how the City's financial activities take place and to help make comparisons over time and with other governments.</i>	
Operating Information	85
<i>These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.</i>	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF HEATH, TEXAS
NET ASSETS BY COMPONENT
LAST SIX FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year				
	2004	2005	2006	2007	2008
Governmental Activities					
Invested in Capital Assets,					
Net of Related Debt	\$ 10,004,583	\$ 10,468,375	\$ 18,837,137	\$ 18,540,309	\$ 17,984,906
Restricted	1,884,760	1,807,568	1,358,534	146,285	1,117,725
Unrestricted	1,802,067	2,792,442	3,408,712	4,200,838	4,158,988
Total Governmental					
Activities Net Assets	<u>\$ 13,691,410</u>	<u>\$ 15,068,385</u>	<u>\$ 23,604,383</u>	<u>\$ 22,887,432</u>	<u>\$ 23,261,619</u>
Business-type Activities					
Invested in Capital Assets,					
Net of Related Debt	\$ 10,026,885	\$ 11,724,391	\$ 14,611,160	\$ 14,951,597	\$ 15,211,002
Restricted	416,005	1,566,904	--	--	--
Unrestricted	575,926	964,550	3,498,273	2,094,056	1,886,366
Total Business-type					
Activities Net Assets	<u>\$ 11,018,816</u>	<u>\$ 14,255,845</u>	<u>\$ 18,109,433</u>	<u>\$ 17,045,653</u>	<u>\$ 17,097,368</u>
Primary Government					
Invested in Capital Assets,					
Net of Related Debt	\$ 20,031,468	\$ 22,192,766	\$ 33,448,297	\$ 33,491,906	\$ 33,195,908
Restricted	2,300,765	3,374,472	1,358,534	146,285	1,117,725
Unrestricted	2,377,993	3,756,992	6,906,985	6,294,894	6,045,354
Total Primary					
Government Net Assets	<u>\$ 24,710,226</u>	<u>\$ 29,324,230</u>	<u>\$ 41,713,816</u>	<u>\$ 39,933,085</u>	<u>\$ 40,358,987</u>

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2004.

TABLE D-1

<u>2009</u>	
\$	19,089,641
	2,104,386
	<u>3,197,493</u>
\$	<u>24,391,520</u>
\$	16,063,136
	—
	<u>1,600,713</u>
\$	<u>17,663,849</u>
\$	35,152,777
	2,104,386
	<u>4,798,206</u>
\$	<u>42,055,369</u>

CITY OF HEATH, TEXAS

EXPENSES, PROGRAM REVENUES, AND NET (EXPENSE)/REVENUE

LAST SIX FISCAL YEARS

(ACCRUAL BASIS OF ACCOUNTING)

(UNAUDITED)

	Fiscal Year				
	2004	2005	2006	2007	2008
Expenses					
Governmental Activities:					
Administration	\$ 749,019	\$ 806,768	\$ 1,101,712	\$ 1,152,697	\$ 1,173,682
Highways and streets	776,344	856,215	1,228,466	1,862,634	1,541,206
Parks	210,688	192,694	190,621	129,028	147,672
Engineering and building inspection	86,188	174,864	279,651	343,401	465,734
Municipal court	131,641	105,945	115,321	104,222	86,362
Public safety	1,475,941	1,640,083	1,705,415	2,141,045	2,335,528
Economic development and assistance	126,508	2,698	227	--	13,183
Economic opportunity	126,500	2,998	127	5,000	6,003
Interest and fiscal charges	238,048	278,350	276,431	272,184	627,347
Total Governmental Activities Expenses	\$ 3,920,877	\$ 4,060,615	\$ 4,897,971	\$ 6,010,211	\$ 6,396,717
Business-type Activities					
Water and Sewer	2,657,435	2,771,907	3,264,137	3,386,289	4,129,623
Solid Waste	--	--	--	408,575	444,502
Total Business-type Activities Expenses	2,657,435	2,771,907	3,264,137	3,794,864	4,574,125
Total Primary Government Expenses	\$ 6,578,312	\$ 6,832,522	\$ 8,162,108	\$ 9,805,075	\$ 10,970,842
Program Revenues					
Governmental Activities:					
Charges for Services:					
Administration	\$ 30,280	\$ 75,595	\$ 21,512	\$ 25,820	\$ 17,374
Highways and streets	--	--	27,253	91,036	591
Parks	3,784	4,275	4,463	6,515	5,445
Engineering and building inspection	157,605	267,816	276,066	220,459	369,626
Municipal court	8,154	4,802	5,609	5,174	4,215
Public safety	192,568	166,106	219,809	268,256	271,738
Operating Grants and Contributions	76,949	30,631	13,926	222,927	62,087
Capital Grants and Contributions	16,182	1,155,398	8,687,378	41,938	963,491
Total Governmental Activities Program Revenues	\$ 485,522	\$ 1,704,623	\$ 9,256,016	\$ 882,125	\$ 1,694,567
Business-type Activities:					
Charges for Services:					
Water and Sewer	2,025,421	2,712,152	3,288,982	2,283,472	3,153,315
Solid Waste	--	--	--	407,953	494,465
Operating Grants and Contributions	--	--	--	--	--
Capital Grants and Contributions	794,542	3,087,794	3,746,562	646,231	881,966
Total Business-type Activities Program Revenues	2,819,963	5,799,946	7,035,544	3,337,656	4,529,746
Total Primary Government Program Revenues	\$ 3,305,485	\$ 7,504,569	\$ 16,291,560	\$ 4,219,781	\$ 6,224,313
Net (Expense)/Revenue					
Governmental Activities	\$ (3,435,355)	\$ (2,355,992)	\$ 4,358,045	\$ (5,128,086)	\$ (4,702,150)
Business-type Activities	162,528	3,028,039	3,771,407	(457,208)	(44,379)
Total Primary Government Net Expense	\$ (3,272,827)	\$ 672,047	\$ 8,129,452	\$ (5,585,294)	\$ (4,746,529)

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2004.

TABLE D-2

<u>2009</u>	
\$	1,045,872
	1,471,275
	135,869
	419,864
	86,727
	2,335,201
	355,286
	8,119
	<u>677,118</u>
\$	<u>6,534,731</u>
	4,288,635
	435,416
	<u>4,724,051</u>
\$	<u>11,258,782</u>

\$	27,772
	105
	17,124
	126,521
	5,014
	318,122
	30,949
	<u>2,013,667</u>
\$	<u>2,539,274</u>

	3,836,944
	510,248
	-
	<u>974,396</u>
	<u>5,321,588</u>
\$	<u>7,860,862</u>

\$	(3,995,457)
	597,537
\$	<u>(3,397,920)</u>

CITY OF HEATH, TEXAS

GENERAL REVENUES AND TOTAL CHANGE IN NET ASSETS

LAST SIX FISCAL YEARS

(ACCRUAL BASIS OF ACCOUNTING)

(UNAUDITED)

	Fiscal Year				
	2004	2005	2006	2007	2008
Net (Expense)/Revenue					
Governmental Activities	\$ (3,435,355)	\$ (2,355,992)	\$ 4,358,045	\$ (5,128,086)	\$ (4,702,150)
Business-type Activities	162,528	3,028,039	3,771,407	(457,208)	(44,379)
Total Primary Government Net Expense	<u>(3,272,827)</u>	<u>672,047</u>	<u>8,129,452</u>	<u>(5,585,294)</u>	<u>(4,746,529)</u>
General Revenues and Other Changes in Net Assets					
Governmental Activities:					
Taxes					
Property Taxes	2,343,186	2,552,545	2,750,401	3,163,746	3,514,859
Sales Taxes	454,065	553,424	651,212	678,808	731,427
Franchise Taxes	277,621	293,995	508,640	259,663	387,143
Alcoholic Beverage Taxes	3,447	3,533	3,147	2,798	3,311
Miscellaneous	15,686	274,792	14,984	27,552	45,596
Investment Earnings	12,832	53,469	248,428	278,568	394,001
Gain (Loss) on Sale of Capital Assets	--	64,034	1,141	--	--
Transfers	--	--	--	--	--
Total Governmental Activities	<u>3,106,837</u>	<u>3,795,792</u>	<u>4,177,953</u>	<u>4,411,135</u>	<u>5,076,337</u>
Business-type Activities:					
Miscellaneous	17,330	41,902	42,220	4,700	9,668
Investment Earnings	67,941	167,088	39,961	110,018	157,476
Gain on disposal of capital assets	--	--	--	--	7,060
Transfers	--	--	--	--	--
Total Business-type Activities	<u>85,271</u>	<u>208,990</u>	<u>82,181</u>	<u>114,718</u>	<u>174,204</u>
Total Primary Government	<u>\$ 3,192,108</u>	<u>\$ 4,004,782</u>	<u>\$ 4,260,134</u>	<u>\$ 4,525,853</u>	<u>\$ 5,250,541</u>
Change in Net Assets					
Governmental Activities	\$ (328,518)	\$ 1,439,800	\$ 8,535,998	\$ (716,951)	\$ 374,187
Business-type Activities	247,799	3,237,029	3,853,588	(342,490)	129,825
Total Primary Government	<u>\$ (80,719)</u>	<u>\$ 4,676,829</u>	<u>\$ 12,389,586</u>	<u>\$ (1,059,441)</u>	<u>\$ 504,012</u>

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2004.

TABLE D-3

<u>2009</u>	
\$	(3,995,457)
	597,537
	<u>(3,397,920)</u>
	3,726,270
	710,195
	444,648
	3,609
	42,642
	112,500
	--
	85,494
	<u>5,125,358</u>
	2,730
	51,708
	--
	<u>(85,494)</u>
	<u>(31,056)</u>
\$	<u><u>5,094,302</u></u>
\$	1,129,901
	566,481
\$	<u><u>1,696,382</u></u>

CITY OF HEATH, TEXAS
 FUND BALANCES OF GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 (UNAUDITED)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Fund										
Reserved	\$ --	\$ --	\$ --	\$ 22,578	\$ 22,578	\$ --	\$ 7,630	\$ 9,816	\$ 230,000	\$ 9,132
Unreserved	1,225,376	1,627,684	1,492,641	1,771,908	1,819,613	2,410,935	2,715,760	2,630,293	2,453,094	1,760,597
Total General Fund	<u>\$ 1,225,376</u>	<u>\$ 1,627,684</u>	<u>\$ 1,492,641</u>	<u>\$ 1,794,486</u>	<u>\$ 1,842,191</u>	<u>\$ 2,410,935</u>	<u>\$ 2,723,390</u>	<u>\$ 2,640,109</u>	<u>\$ 2,683,094</u>	<u>\$ 1,769,729</u>
All Other Governmental Funds										
Reserved	\$ 568,243	\$ 669,479	\$ 694,332	\$ 863,021	\$ 892,295	\$ 884,251	\$ 1,101,406	\$ 1,210,352	\$ 919,619	\$ 1,492,263
Unreserved, Reported In:										
Special Revenue Funds	58,030	181,462	352,462	490,979	465,626	699,011	992,696	1,333,917	1,725,133	1,653,512
Capital Projects Funds	265,302	2,379,362	1,472,946	114,121	574,929	537,392	11,033	(1,272,997)	6,194,274	4,359,876
Total All Other Governmental Funds	<u>\$ 891,575</u>	<u>\$ 3,230,303</u>	<u>\$ 2,519,740</u>	<u>\$ 1,468,121</u>	<u>\$ 1,932,850</u>	<u>\$ 2,120,654</u>	<u>\$ 2,105,135</u>	<u>\$ 1,271,272</u>	<u>\$ 8,839,026</u>	<u>\$ 7,505,651</u>

CITY OF HEATH, TEXAS
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Revenues										
Taxes	\$ 1,521,501	\$ 1,937,470	\$ 2,359,790	\$ 2,775,416	\$ 3,083,909	\$ 3,379,276	\$ 3,863,094	\$ 4,194,544	\$ 4,665,869	\$ 4,847,760
Licenses and Permits	219,675	197,611	138,709	107,406	176,691	277,728	287,814	242,760	376,404	129,832
Intergovernmental	99,416	69,553	544,382	80,625	143,001	103,344	119,913	183,249	237,935	735,123
Charges for Services	18,561	11,957	6,821	11,091	25,034	80,168	49,073	111,828	25,776	69,779
Fines	53,378	45,015	45,255	42,273	107,945	69,256	97,706	63,711	47,842	56,907
Special Assessments	232,781	170,066	101,193	171,113	99,501	57,329	112,192	42,455	15,499	25,267
Interest	135,717	147,412	98,676	110,479	38,131	61,054	276,374	288,311	397,653	121,090
Miscellaneous	60,401	37,186	17,884	68,940	30,801	351,840	183,052	295,332	220,193	637,078
Total Revenues	2,341,430	2,616,270	3,312,710	3,367,343	3,705,013	4,379,995	4,989,218	5,422,190	5,987,171	6,622,836
Expenditures										
Administration	346,390	425,339	541,207	735,625	742,783	814,557	1,074,008	1,110,994	1,112,099	965,693
Highways and streets	243,415	155,555	558,489	166,556	298,689	189,084	273,730	753,069	385,222	257,256
Parks	32,400	18,208	40,479	98,803	211,830	175,002	149,324	241,029	174,385	78,711
Engineering and building inspection	102,266	90,468	118,146	91,320	96,980	176,990	300,154	330,352	464,090	404,487
Municipal court	49,485	51,157	54,467	73,265	143,435	104,567	112,883	98,849	82,268	89,384
Public safety	635,195	848,390	1,048,958	1,081,659	1,822,866	1,613,067	1,674,692	1,884,376	2,140,221	2,544,061
Economic development and assistance	--	--	5,885	18,734	126,508	2,698	227	--	12,984	355,286
Economic opportunity	--	--	5,203	18,042	126,500	2,998	127	5,000	6,202	8,119
Capital outlay	44,538	137,639	1,316,783	1,372,784	1,690,017	72,809	559,245	1,289,531	1,038,444	3,151,084
Debt Service										
Interest	170,000	175,000	167,500	193,964	161,250	238,750	271,250	271,074	704,191	712,808
Principal	207,103	222,004	301,199	266,365	290,074	296,959	277,783	355,060	577,938	608,947
Bond issue costs	--	--	--	--	--	--	--	--	102,771	--
Total Expenditures	1,830,792	2,123,760	4,158,316	4,117,117	5,710,932	3,687,481	4,693,423	6,339,334	6,800,824	9,175,836
Excess of Revenues Over (Under) Expenditures	510,638	492,510	(845,606)	(749,774)	(2,005,919)	692,514	295,795	(917,144)	(813,653)	(2,553,000)
Other Financing Sources (Uses)										
Transfers In	--	--	368,161	--	--	--	--	--	263,278	1,379,045
Transfers Out	--	--	(368,161)	--	--	--	--	--	(263,278)	(1,370,138)
Bond discount	--	--	--	--	--	--	--	--	(130,093)	--
Bond premium	--	--	--	--	4,025,000	--	--	--	162,116	--
Issuance of long-term debt	--	2,970,524	--	--	(1,881,087)	--	--	--	8,392,369	297,353
Payment to refunded bond escrow agent	--	(721,998)	--	--	374,440	64,034	1,141	--	--	--
Total Other Financing Sources (Uses)	--	2,248,526	--	--	2,518,353	64,034	1,141	--	8,424,392	306,260
Net Change in Fund Balances	\$ 510,638	\$ 2,741,036	\$ (845,606)	\$ (749,774)	\$ 512,434	\$ 756,548	\$ 296,936	\$ (917,144)	\$ 7,610,739	\$ (2,246,740)
Debt Service As A Percentage Of Noncapital Expenditures	21.1%	20.0%	16.5%	16.8%	11.2%	14.8%	13.3%	12.4%	24.0%	23.3%

CITY OF HEATH, TEXAS

TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 (UNAUDITED)

Fiscal Year	Property Tax	Sales & Use Tax	Franchise Tax	Alcoholic Beverage Tax	Total
2000	\$ 1,178,749	\$ 162,209	\$ 174,333	\$ 3,668	\$ 1,518,959
2001	1,480,595	261,901	215,618	3,013	1,961,127
2002	1,716,652	301,140	259,567	3,499	2,280,858
2003	2,166,292	280,692	262,725	2,347	2,712,056
2004	2,341,774	447,522	277,491	3,447	3,070,234
2005	2,529,332	553,424	287,401	3,533	3,373,690
2006	2,729,432	651,476	472,136	3,147	3,856,191
2007	3,128,116	679,140	358,953	2,798	4,169,007
2008	3,518,910	731,426	412,221	3,311	4,665,868
2009	3,706,545	710,195	427,411	3,609	4,847,760
Percent Change 2000-2009	214.4%	337.8%	145.2%	-1.6%	219.2%

TABLE D-7

CITY OF HEATH, TEXAS

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

LAST TEN FISCAL YEARS

(UNAUDITED)

<u>Fiscal Year</u>	<u>Residential 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>Taxable Assessed Value as a Percentage of Actual Taxable Value</u>
2000	\$ 336,568,250	\$ 16,367,710	\$ 16,311,334	\$ 336,624,626	\$ 0.3433	\$ 352,935,960	95.378%
2001	425,880,125	26,815,863	23,700,957	428,995,031	0.3433	452,695,988	94.764%
2002	500,077,074	32,585,289	24,973,391	507,688,972	0.3433	532,662,363	95.312%
2003	609,878,388	36,071,160	27,015,200	618,934,348	0.3433	645,949,548	95.818%
2004	670,218,413	28,322,693	28,379,577	670,161,529	0.3433	698,541,106	95.937%
2005	744,970,755	34,460,535	47,628,791	731,802,499	0.3433	779,431,290	93.889%
2006	799,418,375	32,284,758	41,044,841	790,658,292	0.3433	831,703,133	95.065%
2007	909,186,855	44,590,348	48,309,901	905,467,302	0.3433	953,777,203	94.935%
2008	1,038,154,247	17,273,990	55,003,800	1,000,424,437	0.3433	1,055,428,237	94.788%
2009	1,114,604,499	19,412,750	62,190,500	1,071,826,749	0.3433	1,134,017,249	94.516%

Source: Rockwall County Central Appraisal District

CITY OF HEATH, TEXAS*DIRECT AND OVERLAPPING PROPERTY TAX RATES**LAST TEN FISCAL YEARS**(UNAUDITED)*

Fiscal Year	City Direct Rates			Overlapping Rates				Total Direct & Overlapping Rates
	Basic Rate	General Obligation Debt Service	Total Direct Rate	Rockwall Independent School District	Rockwall County	Kaufman County	Total Overlapping Rate	
2000	\$ 0.2551	\$ 0.0882	\$ 0.3433	\$ 1.5211	\$ 0.3536	\$ 0.4845	\$ 2.3592	\$ 2.7025
2001	0.2696	0.0737	0.3433	1.5785	0.3536	0.4645	2.3966	2.7399
2002	0.2718	0.0715	0.3433	1.8400	0.3534	0.4745	2.6679	3.0112
2003	0.2836	0.0597	0.3433	1.8372	0.3534	0.5556	2.7462	3.0895
2004	0.2911	0.0522	0.3433	1.8800	0.3534	0.5893	2.8227	3.1660
2005	0.2864	0.0569	0.3433	1.8800	0.3507	0.5427	2.7734	3.1167
2006	0.2728	0.0705	0.3433	1.8800	0.3507	0.5377	2.7684	3.1117
2007	0.2786	0.0647	0.3433	1.7100	0.3507	0.5622	2.6229	2.9662
2008	0.2786	0.0647	0.3433	1.4700	0.3500	0.5615	2.3815	2.7248
2009	0.2786	0.0647	0.3433	1.4700	0.3750	0.5565	2.4015	2.7448

Source: Rockwall County Central Appraisal District

CITY OF HEATH, TEXAS

PRINCIPAL PROPERTY TAX PAYERS
CURRENT YEAR AND NINE YEARS AGO
(UNAUDITED)

Taxpayer	2009			Percentage of Total City Taxable Assessed Value	2000		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value		Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Whittle Development Co	\$ 10,392,510	1	0.97%	\$ 6,430,250	1	1.91%	
Rainer Baylor Medical	6,314,540	2	0.59%	--	N/A	--	
Oncor Electric Delivery Co.	5,768,320	3	0.54%	--	N/A	--	
TR Health Partners LTD	5,434,020	4	0.51%	--	N/A	--	
BC Golf Ltd	4,592,740	5	0.43%	6,208,370	2	1.84%	
Daedelus Corporation	4,412,070	6	0.41%	--	N/A	--	
Tri Terra Developments LP	2,981,270	7	0.28%	--	N/A	--	
Vickers & Vastano Construction	2,566,600	8	0.24%	--	N/A	--	
Stephen & Rhona Linehan	2,256,130	9	0.21%	--	N/A	--	
Mark S. Kelldorf	2,203,510	10	0.21%	--	N/A	--	
Texas Utilities	--	N/A	--	3,777,830	4	1.12%	
Pulte Homes of Texas LP	--	N/A	--	2,010,450	5	0.60%	
Dianna and David Cross	--	N/A	--	1,976,230	6	0.59%	
Gerald and Shannon Platz	--	N/A	--	1,937,570	7	0.58%	
Billy and Robin Railsback	--	N/A	--	1,512,780	8	0.45%	
Stephen and Jeanne Trussel	--	N/A	--	1,442,870	9	0.43%	
Gregg and Laurie Munds, MD	--	N/A	--	1,409,000			
Sherpard Oil and Gas Comapany	--	N/A	--	1,288,500	10	0.38%	
Subtotal	46,921,710		4.38%	27,993,850		7.90%	
Remaining roll	1,024,905,039			308,630,776			
	\$ 1,071,826,749			\$ 336,624,626			

Source: Rockwall County Central Appraisal District

CITY OF HEATH, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections In Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2000	\$ 1,168,211	\$ 1,150,402	98.48%	\$ 17,237	\$ 1,167,639	99.95%
2001	1,471,141	1,457,262	99.06%	13,285	1,470,547	99.96%
2002	1,746,914	1,714,000	98.12%	32,311	1,746,311	99.97%
2003	2,134,989	2,101,209	98.42%	33,142	2,134,351	99.97%
2004	2,306,058	2,294,190	99.49%	11,129	2,305,319	99.97%
2005	2,517,346	2,498,756	99.26%	15,201	2,513,957	99.87%
2006	2,728,576	2,688,666	98.54%	36,196	2,724,862	99.86%
2007	3,113,532	3,021,159	97.03%	85,964	3,107,123	99.79%
2008	3,436,291	3,373,108	98.16%	50,412	3,423,520	99.63%
2009	3,687,280	3,603,302	97.72%	--	3,603,302	97.72%

Sources: Rockwall Central Appraisal District

CITY OF HEATH, TEXAS
TAXABLE SALES BY CATEGORY
LAST TEN CALENDAR YEARS
(UNAUDITED)

	Calendar Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Construction	\$ N/A	\$ N/A	\$ 560,254	\$ 658,007	\$ 1,051,576	\$ 953,039	\$ 1,536,502	\$ 1,293,316	\$ 1,438,028	\$ 688,700
Manufacturing	N/A	N/A	19,284	17,778	18,178	15,274	17,017	14,727	14,915	—
Wholesale Trade	N/A	N/A	38,842	211,419	244,620	447,305	417,713	262,966	322,843	49,817
Retail Trade	N/A	N/A	1,238,270	1,148,412	1,632,748	2,625,676	1,229,671	1,460,207	1,978,279	945,638
Information	N/A	N/A	125,567	225,140	216,629	246,038	657,449	955,537	1,043,129	453,846
Real Estate	N/A	N/A	—	—	—	700	1,150	—	—	—
Professional Services	N/A	N/A	763,428	896,295	1,000,642	1,151,125	1,452,991	2,935,759	3,024,315	1,600,774
Administrative Services	N/A	N/A	721,448	862,138	739,531	686,056	946,993	1,092,728	1,119,086	388,585
Educational Services	N/A	N/A	—	7,868	—	—	—	—	—	2,107
Arts & Entertainment	N/A	N/A	—	—	—	—	973,895	1,821,657	1,898,316	998,807
Food Services	N/A	N/A	441,111	647,298	849,404	793,328	387,557	474,831	396,858	181,106
Other Services	N/A	N/A	162,528	400,442	686,987	625,410	944,384	674,857	732,683	331,005
Other	N/A	N/A	121,168	84,115	17,020	—	—	—	—	—
Total	\$ --	\$ --	\$ 4,191,900	\$ 5,158,912	\$ 6,457,335	\$ 7,543,951	\$ 8,565,322	\$ 10,986,585	\$ 11,968,452	\$ 5,640,385
Direct Sales Tax Rate	1.00%	1.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

Source: State Comptroller's Department

Notes:

- (1) Retail sales information is not available on a fiscal-year basis, and is reported for calendar year.
- (2) Only two quarters have been reported for fiscal 2009.
- (3) N/A - not available.

CITY OF HEATH, TEXAS

DIRECT AND OVERLAPPING SALES TAX RATES

LAST TEN FISCAL YEARS

(UNAUDITED)

Fiscal Year	City Direct Rate	H.E.D.C. 4A	H.M.B.C. 4B	State
2000	1.00%	--	--	6.25%
2001	1.00%	--	--	6.25%
2002	1.00%	--	--	6.25%
2003	1.00%	0.50%	0.50%	6.25%
2004	1.00%	0.50%	0.50%	6.25%
2005	1.00%	0.50%	0.50%	6.25%
2006	1.00%	0.50%	0.50%	6.25%
2007	1.00%	0.50%	0.50%	6.25%
2008	1.00%	0.50%	0.50%	6.25%
2009	1.00%	0.50%	0.50%	6.25%

Sources: City Finance Director and State Comptroller's Office

CITY OF HEATH, TEXAS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	General Bonded Debt		Percentage of Actual Taxable Value of Property	Per Capita	Other Governmental Activities Debt		
	General Obligation Bonds	Certificates of Obligation			Capital Leases	Certificates of Participation	Notes Payable
2000	\$ 715,000	\$ 2,425,000	0.89%	\$ 757	\$ --	\$ --	\$ --
2001	730,000	4,545,000	1.17%	1,218	--	--	--
2002	730,000	4,397,500	0.96%	997	--	--	--
2003	730,000	4,203,750	0.76%	949	--	--	--
2004	2,565,000	4,427,500	1.00%	1,307	--	--	--
2005	2,495,000	4,258,750	0.87%	1,195	--	--	--
2006	2,340,000	4,142,500	0.78%	1,049	--	--	--
2007	2,175,000	4,004,750	0.65%	973	--	--	--
2008	2,005,000	11,915,285	1.28%	2,025	--	--	--
2009	1,830,000	11,457,516	1.13%	1,858	--	--	271,534

Business-type Activities							
Fiscal Year	Certificates of Obligation	Contract Revenue Bonds	Certificates of Participation	Capital Leases	Total Primary Government	Percentage of Personal Income	Per Capita
2000	\$ --	\$ 2,245,000	\$ --	\$ --	\$ 5,385,000	2.54%	\$ 1,298
2001	6,920,000	2,155,000	--	--	14,350,000	6.49%	3,314
2002	6,802,500	2,060,000	--	--	13,990,000	5.33%	2,721
2003	6,641,250	1,960,000	--	--	13,535,000	5.10%	2,603
2004	8,112,500	--	--	--	15,105,000	5.53%	2,823
2005	7,831,250	1,006,566	--	--	15,591,566	5.41%	2,760
2006	7,532,500	973,236	--	--	14,988,236	4.75%	2,426
2007	7,221,250	939,906	--	--	14,340,906	4.42%	2,258
2008	11,754,715	904,910	--	--	26,579,910	7.57%	3,866
2009	11,252,484	868,246	--	--	25,679,780	7.04%	3,592

CITY OF HEATH, TEXAS*RATIOS OF GENERAL BONDED DEBT OUTSTANDING**LAST TEN FISCAL YEARS**(UNAUDITED)*

Fiscal Year	General Bonded Debt Outstanding			Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Certificates of Obligation	Total		
2000	\$ 715,000	\$ 2,425,000	\$ 3,140,000	0.93%	\$ 757
2001	730,000	4,545,000	5,275,000	1.23%	1,218
2002	730,000	4,397,500	5,127,500	1.01%	997
2003	730,000	4,203,750	4,933,750	0.80%	949
2004	2,565,000	4,427,500	6,992,500	1.04%	1,307
2005	2,495,000	4,258,750	6,753,750	0.92%	1,195
2006	2,340,000	4,142,500	6,482,500	0.82%	1,049
2007	2,175,000	4,004,750	6,179,750	0.68%	973
2008	2,005,000	11,915,285	13,920,285	1.39%	2,025
2009	1,830,000	11,457,516	13,287,516	1.24%	1,858

CITY OF HEATH, TEXAS
 DIRECT AND OVERLAPPING
 GOVERNMENTAL ACTIVITIES DEBT
 (UNAUDITED)

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Debt Repaid With Property Taxes			
Rockwall Independent School District	\$ 360,348,101	19.222%	\$ 69,265,391
Rockwall County	50,045,000	15.972%	7,992,937
Kaufman County	1,931,000	18.091%	<u>349,328</u>
Subtotal, Overlapping Debt			77,607,656
City Direct Governmental Activities Debt			<u>13,559,050</u>
Total Direct and Overlapping Debt			<u>\$ 91,166,706</u>

Sources: Debt outstanding data provided by each individual government.

CITY OF HEATH, TEXAS
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(UNAUDITED)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Debt Limit	\$ 33,662,463	\$ 42,899,503	\$ 50,768,897	\$ 61,893,435	\$ 67,016,153	\$ 73,180,250	\$ 79,065,829	\$ 95,377,720	\$ 100,042,444	\$ 107,182,675
Total Net Debt Applicable to Limit	3,140,000	5,275,000	5,127,500	4,933,750	6,992,500	6,753,750	6,482,500	6,179,750	13,000,666	11,795,255
Legal Debt Margin	30,522,463	37,624,503	45,641,397	56,959,685	60,023,653	66,426,500	72,583,329	89,197,970	87,041,778	95,387,420
Total Net Debt Applicable to the Limit As a Percentage of Debt Limit	9.33%	12.30%	10.10%	7.97%	10.43%	9.23%	8.20%	6.48%	13.00%	11.00%

Legal Debt Margin Calculation for the Current Fiscal Year

Assessed Value	\$ 1,071,826,749
Debt Limit (10% of Assessed Value)	107,182,675
Debt Applicable to Limit:	
General Obligation Bonds	13,287,518
Less: Amount Set Aside for Repayment of General Obligation Debt	<u>(1,492,263)</u>
Total Net Debt Applicable to Limit	<u>11,795,255</u>
Legal Debt Margin	<u>\$ 95,387,420</u>

(1) Under state law, the City of Heath, Texas' outstanding general obligation debt should not exceed 10 percent of total assessed property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

CITY OF HEATH, TEXAS
PLEDGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS

Water Revenue Bonds (4)

Fiscal Year	Operating Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service (3)		Total	Coverage
				Principal	Interest		
2000	\$ 1,128,730	\$ 648,037	\$ 480,693	\$ 86,530	\$ 146,381	232,911	2.06
2001	1,478,275	1,012,311	465,964	90,000	198,721	288,721	1.61
2002	1,701,054	1,360,467	340,587	225,000	461,479	686,479	0.50
2003	1,958,168	1,513,594	444,574	261,250	436,965	698,215	0.64
2004	2,025,420	1,811,685	213,735	168,750	424,611	593,361	0.36
2005	2,712,150	1,902,110	810,040	281,250	361,519	642,769	1.26
2006	3,288,982	2,306,847	982,135	332,080	363,933	696,013	1.41
2007	2,283,471	2,070,329	213,142	344,580	344,591	689,171	0.31
2008	3,153,313	2,584,266	569,047	519,166	554,592	1,073,758	0.53
2009	3,836,945	2,538,653	1,298,292	520,368	524,711	1,045,079	1.24

(1) Operating revenues include total operating revenues.

(2) Operating Expenses are defined as operating expenses minus depreciation.

(3) Includes payments on combination tax and revenue bonds.

(4) Includes the Water and Sewer Enterprise Fund only.

CITY OF HEATH, TEXAS
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN CALENDAR YEARS
 (UNAUDITED)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Population	4,149	4,330	5,141	5,200	5,350	5,650	6,177	6,350	6,875	7,150
Personal Income (in 000's)	\$ 211,802	\$ 221,042	\$ 262,443	\$ 265,455	\$ 273,112	\$ 288,427	\$ 315,330	\$ 324,161	\$ 350,962	\$ 365,000
Per Capita Personal Income	\$ 51,049	\$ 51,049	\$ 51,049	\$ 51,049	\$ 51,049	\$ 51,049	\$ 51,049	\$ 51,049	\$ 51,049	\$ 51,049
Median Age	39.3	39.3	39.3	39.3	39.3	39.3	39.3	39.3	39.3	39.3
Education Level in Years of Schooling	12.0	12.3	12.3	12.3	12.3	12.3	12.5	12.5	12.7	12.7
School Enrollment	1,683	1,802	1,963	1,985	2,117	2,083	3,116	3,696	4,163	4,271
Unemployment	3.0%	4.1%	5.7%	5.9%	5.3%	3.8%	4.5%	0.4%	0.4%	4.8%

Sources: Population, median age, and education level information provided by the State Department of Planning.
 Personal income and unemployment data provided by the State Department of Commerce and Labor.
 School enrollment data provided by the Rockwall Independent School District.

CITY OF HEATH, TEXAS*PRINCIPAL EMPLOYERS**CURRENT YEAR AND NINE YEARS AGO**(UNAUDITED)*

Employer	2009			2000		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Rockwall ISD	1,365	1	3.67%	835	1	3.34%
Lake Point Medical Center	700	2	1.88%	600	2	2.40%
Texas Star Enterprise	484	3	1.30%	175	6	0.70%
Wal-Mart Superstore	450	4	1.21%	450	3	1.80%
County of Rockwall	253	5	0.68%	--	--	--
City of Rockwall	205	6	0.55%	--	--	--
Special Products & Manufacturing	205	7	0.55%	--	--	--
Target	200	8	0.54%	170	7	0.68%
Rockwal Nursing Home	160	9	0.43%	--	--	--
Kohl's Department Store	140	10	0.38%	--	--	--
Precision Cable	--	N/A	--	200	4	0.80%
James Helwig & Son	--	N/A	--	180	5	--
Kroger Food	--	N/A	--	159	8	--
Albertsons	--	N/A	--	120	9	--
Continental Pet	--	N/A	--	100	10	0.40%
Subtotal	4,162		11.19%	2,989		10.13%
Remaining employees	33,043			21,995		
	<u>37,205</u>			<u>24,984</u>		

Source: Rockwall County Chamber of Commerce.

Note: The data provided is for Rockwall County as of December 2008.

The City of Heath is a bedroom community with a small business base.

CITY OF HEATH, TEXAS

FULL-TIME-EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

(UNAUDITED)

<u>Function/Program</u>	Full-Time-Equivalent Employees as of Year End									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Administration										
Administration	3.00	3.00	4.00	3.00	3.00	3.00	--	--	--	--
City Manager	--	--	--	1.00	1.00	1.00	2.00	2.00	2.00	2.00
City Secretary	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Finance	1.00	2.00	2.00	2.00	2.00	2.00	3.00	3.50	3.50	3.00
Non-Divisional	--	--	--	--	--	--	--	--	0.50	--
Department of Public Safety										
Officers	7.00	10.00	9.00	12.00	12.00	13.00	12.00	14.00	18.00	18.00
Civilians	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Municipal Court	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Public Works										
Streets	1.00	1.00	2.00	1.00	1.00	1.00	1.68	1.68	1.68	1.68
Parks and Recreation	--	--	--	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Engineering	3.00	3.00	3.00	3.00	3.00	3.00	3.50	3.50	4.50	4.50
Utility Fund										
Water	--	--	--	1.00	1.00	1.00	2.66	2.66	2.66	2.66
Wastewater	--	--	--	--	--	--	1.66	1.66	1.66	1.66
Administration	--	--	--	--	--	--	3.00	3.00	3.00	3.00
Customer Service	--	--	--	--	--	--	2.50	3.00	2.50	2.50
Non-Divisional	--	--	--	--	--	--	0.50	0.50	0.50	--
Total	18.00	22.00	23.00	27.00	27.00	28.00	36.50	39.50	44.50	43.00

Source: City Budget Office

Information for certain Utility Fund functions not available prior to 2006.

CITY OF HEATH, TEXAS

OPERATING INDICATORS BY FUNCTION/PROGRAM
 LAST TEN FISCAL YEARS
 (UNAUDITED)

Function/Program	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Government										
Building Permits Issued	--	--	--	--	--	--	106	142	99	40
Building Inspections Conducted	--	--	--	--	--	--	905	597	698	800
Police										
Physical Arrests	--	--	--	--	--	--	80	84	53	58
Burglary	--	--	--	--	--	--	23	23	38	14
Robbery	--	--	--	--	--	--	1	--	--	--
Theft	--	--	--	--	--	--	82	82	54	48
Traffic violations	--	--	--	--	--	--	112	170	189	147
Fire										
Emergency Responses	--	--	--	--	--	--	151	253	316	149
Fires Extinguished	--	--	--	--	--	--	6	9	9	7
Inspections	--	--	--	--	--	--	24	30	48	52
Other Public Works										
Street Resurfacing (feet)	--	--	--	--	--	--	57,200	6,936	103,400	88,000
Potholes Repaired	--	--	--	--	--	--	750	770	800	800
Water										
New Connections	--	--	--	--	--	--	198	171	174	126
Average Annual Consumption (thousands of gallons)	--	--	--	--	--	--	575	402	460	460
Wastewater										
Average Daily Sewage Treatment (thousands of gallons)	--	--	--	--	--	--	--	287,381	370,665	350,115

Sources: Various City departments.
 Information not available prior to 2006.

CITY OF HEATH, TEXAS

*CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS
(UNAUDITED)*

Function/Program	Fiscal Year									
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Public Safety										
Stations	--	--	--	--	--	--	1.00	1.00	1.00	1.00
Patrol Units	--	--	--	--	--	--	12.00	12.00	12.00	12.00
Fire Engines	--	--	--	--	--	--	3.00	3.00	3.00	3.00
Other Public Works										
Streets (miles)	--	--	--	--	--	--	145.84	145.84	145.84	175.00
Parks and Recreation										
Acreage	--	--	--	--	--	--	71.00	71.00	71.00	71.00
Playgrounds	--	--	--	--	--	--	1.00	1.00	1.00	2.00
Baseball/Softball Fields	--	--	--	--	--	--	1.00	1.00	1.00	1.00
Soccer/Football Fields	--	--	--	--	--	--	3.00	3.00	3.00	3.00
Community Centers	--	--	--	--	--	--	1.00	1.00	1.00	1.00
Water										
Water Mains (miles)	--	--	--	--	--	--	50.24	50.24	50.24	51.61
Fire Hydrants	--	--	--	--	--	--	143.00	163.00	183.00	199.00
Wastewater										
Sanitary Sewers (miles)	--	--	--	--	--	--	60.60	60.60	60.60	61.44
Storm Sewers (miles)	--	--	--	--	--	--	12.00	12.00	12.00	12.00

Sources: Various city departments
Information not available prior to 2006.