

City of Heath, Texas  
Comprehensive Annual Financial Report  
for the year ended September 30, 2011

**CITY OF HEATH, TEXAS**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Prepared by  
Finance Department

Laurie Mays, Finance Director



**CITY OF HEATH, TEXAS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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*Introductory Section*

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February 27, 2012

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, 2011. 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**

The Texas Local Government Code (103.001) requires annual audits of municipalities. This requirement has been fulfilled and the independent auditors' report is included with this report for the fiscal year ended September 30, 2011.

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 has 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, 2011. 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 auditors' 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 nearly doubled in population since 2000. 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**

According to the Federal Reserve Bank of Dallas’ January 2012 *Regional Economic Update*, “The Texas economy continues to expand at a moderate pace. Texas employment grew at a 2 percent rate in 2011. Government employment rose in November and December following four months of sharp declines. Housing indicators suggest that the sector continues to heal, and energy activity remains strong. However, a general slowing of exports has recently led to weakness in manufacturing activity, although exports rebounded somewhat in November. Jobs are projected to grow at about a 2 percent pace in 2012.

The City’s economy peaked in fiscal year 2010 experiencing a slight decline in fiscal year 2011. The City’s assessed values declined for the first time in recent history down 1.1% from the previous year’s value of \$1.1 billion. The addition of \$14.2 million in new taxable improvements helped minimize the overall decline in assessed value. New residential building permits issued in fiscal year 2011 decreased by 4 and the number of all other permits issued decreased from 489 in fiscal year 2010 to 468 in fiscal year 2011. Sales tax revenue was down from the record high set in fiscal year 2010 but still exceeded revenue for each of the three years prior to 2010. Franchise fees were up nearly \$40k.

Economic Indicators					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Assessed Value	905,467,302	1,000,424,437	1,071,826,749	1,101,524,185	1,089,241,489
Residential Permits	87	42	23	35	31
Sales Tax Revenue	\$339,570	\$365,713	\$355,098	\$379,788	\$369,548
Franchise Fees	\$358,953	\$412,221	\$427,411	\$427,111	\$466,218

The fiscal year 2012 budget was developed assuming current economic conditions would impact interest rates, sales tax revenue, and new construction. The property tax rate remained stable for the 20<sup>th</sup> consecutive year and remains the lowest rate in the immediate area. While the rate remained unchanged, the allocation between M&O and I&S was adjusted. The M&O rate was decreased 1.5 cents which was offset by an increase of 1.5 cents to the I&S rate. The change in allocation resulted in a \$160,000 reduction in General Fund revenue which was offset by a reduction in budgeted expenditures. Also, various user fees were increased to cover the cost of providing the related service. Water and sewer rates were increased, based on a rate study performed by Willis, Graves, and Associates, Inc., 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 fiscal year 2011 including: upgrading the Hillview water line from a 2 inch line to an 8 inch line; installation of an 18 inch water line at FM 550 and McDonald Rd; and the Bison Meadow Lift Station upgrades. Several other projects were started

during the current fiscal year including: construction of the 1.5 million gallon elevated water storage tank; FM 740 construction and utility line relocation; and Buffalo Creek Trail repairs. Several future projects were identified including: ultimate development water, flood, and transportation studies; utility relocation and construction of Phase II of FM 740; planning for expansion of the City's water pumping facilities.

## **FINANCIAL INFORMATION**

**Financial Planning** - Users of this document, as well as others interested in the programs and services offered by the City of Heath, are encouraged to read the City's 2010-2011 Fiscal Year Budget. The document details the City's long-term goals and financial policies, describes program accomplishments and initiatives, and outlines the City's capital improvement program. The document can be obtained from the City of Heath finance department by calling (972) 961-4896. The budget can also be accessed through the City's web site at [www.heathtx.com](http://www.heathtx.com). Use the department tab to select *Finance* where *Related Documents* offers a selection of annual operating budgets, as well as, annual financial reports.

**Financial Policies** – The City's fund balance/operating position concept continues to be an important factor in policy decisions. The policy notes that the City's target unassigned fund balance is 25% of the actual general fund expenditures. During times of economic uncertainty, the fund balance may exceed the target in anticipation of future revenue shortfalls. These monies will be used to avoid cash flow interruptions, generate interest income, reduce the need for short-term borrowing, and assist in maintaining a high grade, high quality investment rating.

**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 provides 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. Examples of a Division include Streets, Engineering, and Parks. These Divisions are part of the Public Works Department. 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 2011 remained unchanged from the prior year at \$.2786 for maintenance and operations and \$.0647 for debt service on each one hundred dollars of assessed value

## **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 auditors issued an unqualified opinion concluding that the statements are presented fairly in accordance with generally accepted accounting principles. The independent auditors’ report is included in the CAFR.

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

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

In addition, the City also received the GFOA’s Distinguished Budget Presentation Award for the second consecutive year. In order to qualify for the Distinguished Budget Presentation Award, the government’s budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

**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

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

The City of Heath  
Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2010

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



*Linda C. Danison*

President

*Jeffrey R. Emer*

Executive Director

**CITY OF HEATH, TEXAS**

**PRINCIPAL OFFICERS**

**SEPTEMBER 30, 2011**

**CITY COUNCIL**

John Ratcliffe, Mayor

Lorne Liechty, Mayor Pro-Tem

Robert Hille, Council Member, Place 1

Justin Holland, Council Member, Place 2

Julie Zurek, Council Member, Place 3

Barry Brooks, Council Member, Place 4

Rich Krause, Council Member, Place 6

**CITY STAFF**

Ed Thatcher, City Manager

Kim Dobbs, Assistant City Manager

Stephanie Galanides, City Secretary

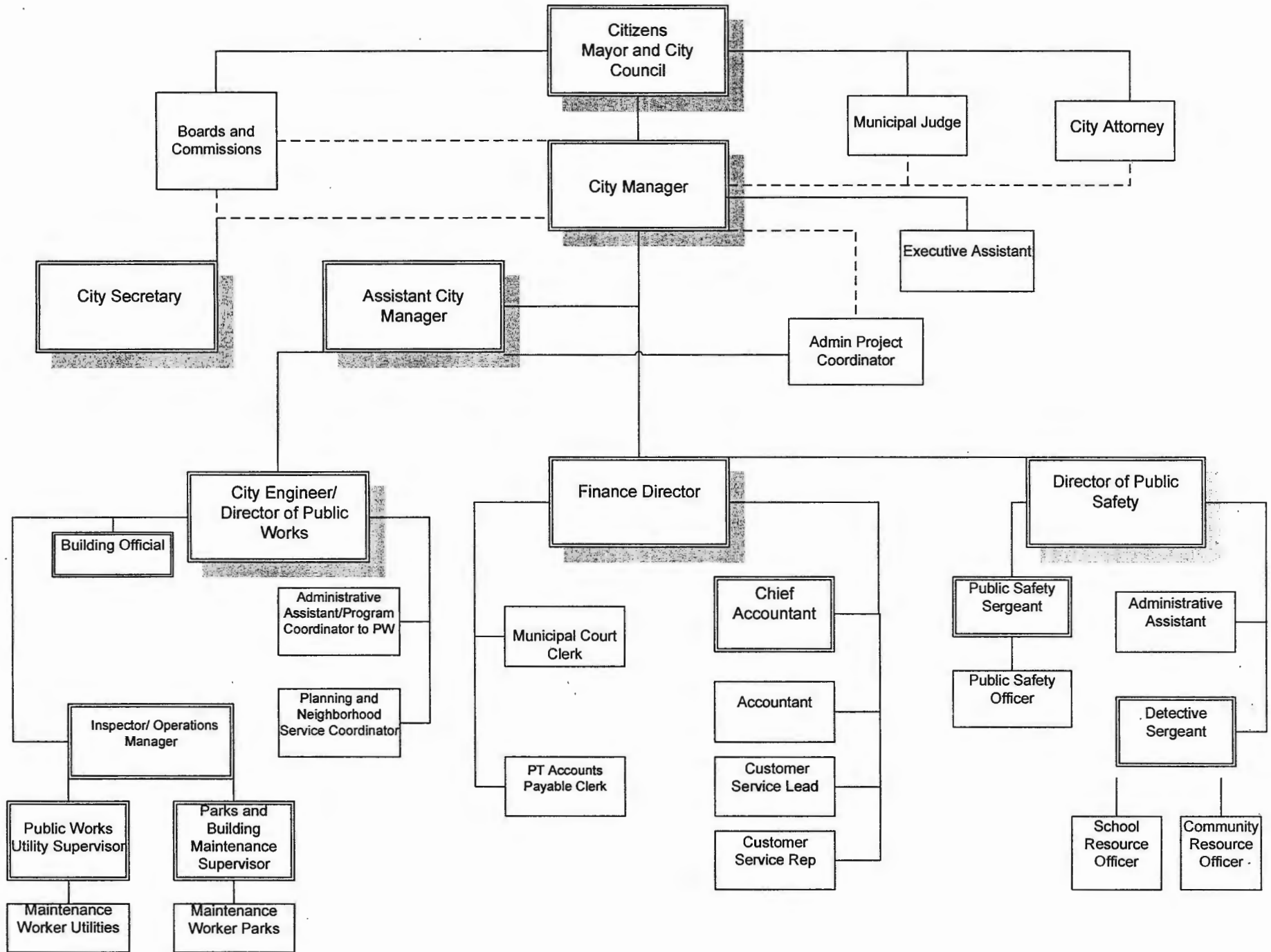
Laurie Mays, Director of Finance

Pete Eckert, City Attorney

Roy Stacy, Municipal Court Judge

Terry Garrett, Department of Public Safety

Randel Dobbs, Public Works



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*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**

To the City Council  
City of Heath, Texas

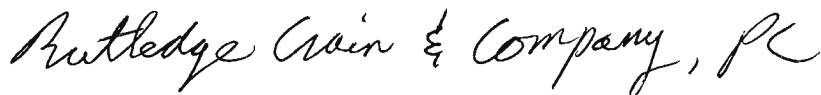
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Heath, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 15 through 21 and 61 through 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Heath, Texas' financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The required supplementary information, and the combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The combining financial statements and individual fund budgetary comparison schedules have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



February 27, 2012

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*Management's Discussion and Analysis*

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**City of Heath, Texas  
Management's Discussion and Analysis  
September 30, 2011**

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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, 2011. 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 \$42,788,937 (net assets). Of this amount, \$6,522,617 (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 \$887,719 (2.12%) as revenues exceeded expenses. Increased revenue generated from water sales is the single largest contributing factor. The extremely hot and dry summer resulted in record consumption.
- The combined ending fund balances of the City's governmental funds decreased \$1,416,100 during the year to \$7,864,791 at year end. This 15.26% decrease from the prior year is attributable to budgeted spending of Debt Service Fund fund balance and a transfer from the CIP Fund. Across-the-board savings in the General Fund partially offset this decrease.
- The Unassigned portion of the General Fund fund balance increased \$390,882 during the year to \$2,429,539 at year end or 54% of total General Fund expenditures and transfers out.
- Total City debt decreased \$1,159,661 during the year due to scheduled debt retirements and amortization of bond 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 25.
- 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 26 and 27.

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.

**City of Heath, Texas**  
**Management's Discussion and Analysis (continued)**  
**September 30, 2011**

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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). Although legally separate, the City is financially accountable for the HEDC and the 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.

- **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 remaining 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.

**City of Heath, Texas**  
**Management's Discussion and Analysis (continued)**  
**September 30, 2011**

**Government-wide Financial Analysis**

At the end of fiscal year 2011, the City's net assets (assets exceeding liabilities) totaled \$42,788,937. 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, \$32,850,201 or 76.78%, reflects its investment in capital assets (land, buildings, improvements other than buildings, machinery and equipment, construction in progress), less any related outstanding debt used to acquire those assets. 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, \$3,416,119 or 7.98%, represents resources that are subject to external restrictions on how they may be used. In the City's case, these funds are restricted for capital improvements and the repayment of outstanding debt. The remaining balance of unrestricted net assets, \$6,522,617 or 15.24%, may be used to meet the government's ongoing obligations to citizens and creditors.

Table 1  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total	
	9/30/11	9/30/10	9/30/11	9/30/10	9/30/11	9/30/10
Current and other assets	\$8,783,306	\$10,142,109	\$8,094,047	\$5,392,656	\$16,877,353	\$15,534,765
Capital assets	26,347,497	27,471,937	24,715,995	24,812,455	51,063,492	52,284,392
<b>Total Assets</b>	<b>35,130,803</b>	<b>37,614,046</b>	<b>32,810,042</b>	<b>30,205,111</b>	<b>67,940,845</b>	<b>67,819,157</b>
Long term liabilities	11,171,788	13,305,121	12,685,201	11,595,003	23,856,989	24,900,124
Other liabilities	490,757	461,529	804,162	556,286	1,294,919	1,017,815
<b>Total Liabilities</b>	<b>11,662,545</b>	<b>13,766,650</b>	<b>13,489,363</b>	<b>12,151,289</b>	<b>25,151,908</b>	<b>25,917,939</b>
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	17,130,797	17,895,266	15,719,404	15,935,522	32,850,201	33,830,788
Restricted for debt service	805,940	1,360,835	0	0	805,940	1,360,835
Restricted for capital projects	2,610,179	4,077,618	0	0	2,610,179	4,077,618
Unrestricted	2,921,342	513,677	3,601,275	2,118,300	6,522,617	2,631,977
<b>Total Net Assets</b>	<b>\$23,468,258</b>	<b>\$23,847,396</b>	<b>\$19,320,679</b>	<b>\$18,053,822</b>	<b>\$42,788,937</b>	<b>\$41,901,218</b>



**City of Heath, Texas**  
**Management's Discussion and Analysis (continued)**  
**September 30, 2011**

**Changes in Net Assets.** Total net assets of the City increased by \$887,719 or 2.12% during the fiscal year ending September 30, 2011. Governmental activities decreased the City's net assets by \$379,138 or 1.59%. Comparing fiscal year 2011 to fiscal year 2010 shows improvement in the amount net assets decreased. Changes in staffing levels and other cost saving measures are expected to benefit future fiscal years. Net assets from business-type activities increased \$1,266,857 or 7.02% from the prior year. Revenue from charges for services increased significantly as a result of increased consumption related to the hot, dry summer.

Table 2  
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	9/30/11	9/30/10	9/30/11	9/30/10	9/30/11	9/30/10
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$535,127	\$539,655	\$6,216,069	\$4,990,172	\$6,751,196	\$5,529,830
Operating grants and contributions	32,744	20,865	0	0	32,744	20,865
Capital grants and contributions	262,258	1,000	0	94,075	262,258	95,075
General revenues:						
Ad valorem taxes	3,762,727	3,797,959			3,762,727	3,797,959
Sales taxes	739,093	759,577			739,093	759,577
Franchise taxes	483,349	406,495			483,349	406,495
Alcoholic beverage taxes	3,192	3,459			3,192	3,459
Miscellaneous	6,791	19,839	9,166	2,223	15,957	22,062
Unrestricted Investment Earnings	37,129	35,500	33,578	16,259	70,707	51,759
Gain on Sale of Capital Assets	58,354	2,461	0	1,381	58,354	3,842
Total revenues	5,920,764	5,586,810	6,258,813	5,104,110	12,179,577	10,690,923
<b>Expenses:</b>						
General Government	972,529	928,201			972,529	928,201
Highways and Streets	1,603,281	1,691,101			1,603,281	1,691,101
Parks	243,985	229,222			243,985	229,222
Building Inspection	366,269	390,868			366,269	390,868
Municipal Court	90,560	86,213			90,560	86,213
Public Safety	2,435,905	2,320,231			2,435	2,320,231
Economic Development/Assistance	6,620	5,146			6,620	5,146
Economic Opportunity	3,809	4,258			3,809	4,258
Interest and fiscal charges	518,723	522,894			518,723	522,894
Water and sewer operations			4,944,756	4,666,937	4,944,756	4,666,937
Total expenses	6,241,681	6,178,134	4,944,756	4,666,937	11,186,437	10,845,071
Increase in net assets before transfers	(320,917)	(591,324)	1,314,057	437,173	993,140	(154,151)
Special and Extraordinary Items	1,601,389	0	(1,706,810)	0	(105,421)	0
Transfers	(1,659,610)	47,200	1,659,610	(47,200)	0	0
Increase (Decrease) in net assets	(379,138)	(544,124)	1,266,857	389,973	887,719	(154,151)
Net assets - October 1,	23,847,396	24,391,520	18,053,822	17,663,849	41,901,218	42,055,369
Net assets - September 30,	\$23,468,258	\$23,847,396	\$19,320,679	\$18,053,822	\$42,788,937	\$41,901,218

**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, unassigned 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 \$7,864,791.

**City of Heath, Texas**  
**Management's Discussion and Analysis (continued)**  
**September 30, 2011**

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The General Fund is the main operating fund of the City. At the end of the current fiscal year, unassigned fund balance was \$2,429,539, an increase of \$390,882. The increase in fund balance can be attributed to savings from unfilled positions, unspent contingency funds, and across-the-board savings.

The CIP Fund accounts for capital improvement projects for the governmental activities of the City. At the end of the current fiscal year, fund balance was \$2,610,179; a decrease of \$1,467,439 from the prior fiscal year end. This decrease results, primarily, from a transfer of \$1.7M to the Enterprise Fund for water and waste water capital improvements. The related debt will be repaid by the Enterprise Fund.

The Debt Service Fund fund balance decreased \$540,457 as a result of scheduled debt service payments and planned spending of fund balance.

**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 \$3,379,677 and \$112,057, respectively.

**General Fund Budgetary Highlights.** During the fiscal year ended September 30, 2011, the City Council adopted amendments to the budget to provide for the purchase of fire equipment, an impact fee study, and a pool vehicle in the amounts of \$354,500, \$31,320, and \$25,000, respectively. The budget for revenue was increased \$385,820 which offset the increased budget for the fire equipment and the impact fee study. The pool vehicle was purchased from savings realized during the year.

- Franchise Fees, and Sales Tax exceeded budget by \$58,000 and \$20,000, respectively while Permits, Delinquent Taxes, and Penalty and Interest were under budget \$33,000, \$15,000, and \$12,000, respectively.
- Vacancies in the following divisions: Department of Public Safety, Engineering, and Streets resulted in savings of \$114,000, \$79,700, and \$10,700, respectively. Additional savings were realized from unspent contingency funds of \$65,000.

The tax rate remained unchanged at 34.33 cents per \$100 of assessed value.

### **Capital Assets**

*Capital Assets.* The City's investment in capital assets for its governmental and business-type activities as of September 30, 2011 amounts to \$51,063,492 (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 decrease in the City's investment in capital assets for the current fiscal year was \$1,220,900.

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

#### Completed Projects

- Upgrade of the Hillview water line;
- Installation of 18" water line at FM 550 and McDonald Rd; and
- Bison Meadow Lift Station upgrades.

**City of Heath, Texas**  
**Management's Discussion and Analysis (continued)**  
**September 30, 2011**

Ongoing Projects

- Construction of the 1.5 million gallon elevated water storage tank;
- FM 740 utility line relocation; and
- Buffalo Creek Trail repairs.

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

Asset	Governmental Activities		Business-Type Activities		Total	
	9/30/11	9/30/10	9/30/11	9/30/10	9/30/11	9/30/10
Land	\$3,036,088	\$3,036,088	\$203,438	\$203,438	\$3,239,526	\$3,239,526
Buildings	1,324,624	1,413,902	212,380	226,586	1,537,004	1,640,488
Improvements other than buildings	2,485,383	2,589,872	23,151,409	21,882,721	25,636,792	24,472,593
Infrastructure	18,556,342	19,756,142	0	0	18,556,342	19,756,142
Machinery and equipment	911,783	599,346	92,301	130,177	1,004,084	729,523
Construction in progress	33,277	76,587	1,056,467	2,369,533	1,089,744	2,446,120
	<u>\$26,347,497</u>	<u>\$27,471,937</u>	<u>\$24,715,995</u>	<u>\$24,812,455</u>	<u>\$51,063,492</u>	<u>\$52,284,392</u>

Additional information on the City's capital assets can be found in the notes to the basic financial statements (see Note 3.C).

**Debt Administration.** At the end of the current fiscal year, the City of Heath had total debt outstanding of \$23,240,139.

Table 4  
 Outstanding Debt at Year End

Type of Debt	Governmental Activities		Business-Type Activities		Total	
	9/30/11	9/30/10	9/30/11	9/30/10	9/30/11	9/30/10
General Obligation	\$2,955,000	\$1,625,000	\$4,840,000	0	\$7,795,000	\$1,625,000
Contract Revenue Bonds	0	0	789,921	829,917	789,921	829,917
Certificates of Obligation	7,176,458	10,987,884	6,818,542	10,732,116	13,995,000	21,720,000
Notes Payable	216,581	244,052	0	0	216,581	244,052
Capital Lease	251,263	0	0	0	251,263	0
Bond Premium	280,768	137,635	411,241	82,863	692,009	220,498
Deferred Discount	(202,321)	(126,091)	(297,314)	(113,576)	(499,635)	(239,667)
Total	<u>\$10,677,749</u>	<u>\$12,868,480</u>	<u>\$12,562,390</u>	<u>\$11,531,320</u>	<u>\$23,240,139</u>	<u>\$24,399,800</u>

**City of Heath, Texas  
 Management’s Discussion and Analysis (continued)  
 September 30, 2011**

In October 2007, the City received rating upgrades from the nation’s top three leading bond rating agencies. A subsequent upgrade from Standard and Poor’s occurred March 2009 from A to AA. May 2010, Fitch Ratings recalibrated state and local government tax-supported water/sewer sectors from AA- to AA. The City’s General Obligation and Certificates of Obligation ratings are as follows:

	<u>Moody’s</u> <u>Investors Service</u>	<u>Fitch</u>	<u>Standard</u> <u>and Poor’s</u>
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 (see Note 3.E).

**Economic Factors and Next Year’s Budgets and Rates**

Fiscal year 2012 General Fund revenues are budgeted to decrease approximately 5% from the fiscal year 2011 adopted budget. Total property tax revenue is the single largest source of revenue comprising 66% of the general fund budget. Current year ad valorem tax is projected to decrease \$164,700 as the result of a slight decrease in taxable assessed valuation of 1.1% and a transfer of 1.5 cents from the M&O tax rate to the I&S tax rate. Projected revenue generated by building permits, RISD reimbursement, penalty & interest, and ad valorem delinquent taxes decreased \$50,000, \$44,000, \$6,000, and \$4,000, respectively. These decreases are largely attributed to economic conditions adversely impacted by the downturn in the real estate market. Projected revenue generated by sales tax and franchise fees increased \$20,000 and \$18,000, respectively. Remaining revenue sources are projected to remain relatively flat for fiscal year 2012.

The fiscal year 2012 budget for General Fund expenditures is \$4,358,325 and reflects a decrease of \$238,875 or 5% when compared to the fiscal year 2011 original budget. The reduction in spending was accomplished by eliminating one full-time position in Engineering; deferring the purchase of a replacement vehicle for the Department of Public Safety, and eliminating the budget for contingency. The budget includes a reduction of available fund balance.

A transfer of \$550,000 from the General Fund to the Debt Service Fund is included in the 2012 budget. The transfer combined with the reallocation of the tax rate stabilizes the Debt Service Fund.

**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.

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*Basic Financial Statements*

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## CITY OF HEATH, TEXAS

## STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<i>Cash and cash equivalents</i>	\$ 7,509,769	\$ 6,004,396	\$ 13,514,165
Receivables (net of allowances for uncollectibles):			
<i>Taxes</i>	96,811	--	96,811
<i>Accounts</i>	179,816	1,431,482	1,611,298
<i>Special assessments</i>	131,082	6,621	137,703
<i>Other</i>	13,311	227,579	240,890
<i>Intergovernmental</i>	156,958	--	156,958
<i>Inventories</i>	--	16,114	16,114
<i>Other assets</i>	387,986	--	387,986
Restricted assets:			
<i>Cash and cash equivalents</i>	160,109	275,377	435,486
<i>Deferred charges</i>	147,464	132,478	279,942
Capital assets (net of accumulated depreciation):			
<i>Land</i>	3,036,088	203,438	3,239,526
<i>Buildings</i>	1,324,624	212,380	1,537,004
<i>Improvements other than buildings</i>	2,485,383	23,151,409	25,636,792
<i>Infrastructure</i>	18,556,342	--	18,556,342
<i>Machinery and equipment</i>	911,783	92,301	1,004,084
<i>Construction in progress</i>	33,277	1,056,467	1,089,744
<b>Total Assets</b>	<u>35,130,803</u>	<u>32,810,042</u>	<u>67,940,845</u>
<b>LIABILITIES</b>			
<i>Accounts payable</i>	190,273	329,298	519,571
<i>Accrued liabilities and other payables</i>	140,375	146,090	286,465
Liabilities payable from restricted assets	160,109	328,774	488,883
Noncurrent liabilities:			
<i>Due within one year</i>	948,093	753,049	1,701,142
<i>Due in more than one year</i>	10,223,695	11,932,152	22,155,847
<b>Total Liabilities</b>	<u>11,662,545</u>	<u>13,489,363</u>	<u>25,151,908</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	17,130,797	15,719,404	32,850,201
Restricted For:			
Debt Service	805,940	--	805,940
Capital Projects	2,610,179	--	2,610,179
Unrestricted	2,921,342	3,601,275	6,522,617
<b>Total Net Assets</b>	<u>\$ 23,468,258</u>	<u>\$ 19,320,679</u>	<u>\$ 42,788,937</u>

The accompanying notes are an integral part of this statement.



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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT:</b>				
<b>Expenses:</b>				
<b>Governmental Activities:</b>				
<i>Administration</i>	972,529	70,017	--	--
<i>Highways and streets</i>	1,603,281	35	--	262,258
<i>Parks</i>	243,985	16,630	11,000	--
<i>Engineering and building inspection</i>	366,269	122,492	--	--
<i>Municipal court</i>	90,560	555	--	--
<i>Public safety</i>	2,435,905	325,398	21,744	--
<i>Economic development and assistance</i>	6,620	--	--	--
<i>Economic opportunity</i>	3,809	--	--	--
<i>Interest and fiscal charges</i>	518,723	--	--	--
<b>Total expenditures</b>	<b>6,241,681</b>	<b>535,127</b>	<b>32,744</b>	<b>262,258</b>
<b>Business-type Activities:</b>				
Water and Sewer	4,487,147	5,657,062	--	--
Solid Waste	457,609	559,007	--	--
<b>Total Business-type Activities</b>	<b>4,944,756</b>	<b>6,216,069</b>	<b>--</b>	<b>--</b>
<b>Total Primary Government</b>	<b>\$ 11,186,437</b>	<b>\$ 6,751,196</b>	<b>\$ 32,744</b>	<b>\$ 262,258</b>

**General Revenues:**  
*Property Taxes*  
*Sales Taxes*  
*Franchise Taxes*  
*Alcoholic Beverage Taxes*  
*Miscellaneous*  
*Unrestricted Investment Earnings*  
*Gain on Sale of Capital Assets*  
**Special and Extraordinary Items:**  
*Special Item Inflow*  
*Special Item Outflow*  
*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
(902,512)		(902,512)
(1,340,988)		(1,340,988)
(216,355)		(216,355)
(243,777)		(243,777)
(90,005)		(90,005)
(2,088,763)		(2,088,763)
(6,620)		(6,620)
(3,809)		(3,809)
(518,723)		(518,723)
<u>(5,411,552)</u>		<u>(5,411,552)</u>
--	\$ 1,169,915	1,169,915
--	101,398	101,398
<u>--</u>	<u>1,271,313</u>	<u>1,271,313</u>
<u>(5,411,552)</u>	<u>1,271,313</u>	<u>(4,140,239)</u>
3,762,727	--	3,762,727
739,093	--	739,093
483,349	--	483,349
3,192	--	3,192
6,791	9,166	15,957
37,129	33,578	70,707
58,354	--	58,354
1,706,810	--	1,706,810
(105,421)	(1,706,810)	(1,812,231)
(1,659,610)	1,659,610	--
<u>5,032,414</u>	<u>(4,456)</u>	<u>5,027,958</u>
(379,138)	1,266,857	887,719
23,847,396	18,053,822	41,901,218
<u>\$ 23,468,258</u>	<u>\$ 19,320,679</u>	<u>\$ 42,788,937</u>

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

	General Fund	Capital Improvements Fund
<b>ASSETS</b>		
<i>Cash and cash equivalents</i>	\$ 2,550,124	\$ 2,229,891
Receivables (net of allowances for uncollectibles):		
<i>Taxes</i>	78,562	--
<i>Accounts</i>	55,271	--
<i>Special assessments</i>	--	--
<i>Other</i>	13,311	--
<i>Intergovernmental</i>	78,852	--
Other assets	--	387,986
Restricted assets:		
<i>Cash and cash equivalents</i>	--	160,109
<b>Total Assets</b>	<b>\$ 2,776,120</b>	<b>\$ 2,777,986</b>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
<i>Accounts payable</i>	\$ 181,769	\$ 7,698
<i>Accrued liabilities and other payables</i>	81,985	--
Liabilities payable from restricted assets		
<i>Impact fees payable</i>	--	160,109
<i>Deferred revenue</i>	71,827	--
<b>Total Liabilities</b>	<b>335,581</b>	<b>167,807</b>
Fund balances:		
<i>Restricted</i>	--	2,610,179
<i>Committed</i>	11,000	--
<i>Assigned</i>	--	--
<i>Unassigned</i>	2,429,539	--
<b>Total fund balances</b>	<b>2,440,539</b>	<b>2,610,179</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,776,120</b>	<b>\$ 2,777,986</b>

The accompanying notes are an integral part of this statement.

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 656,609	\$ 2,073,145	\$ 7,509,769
18,249	--	96,811
--	--	55,271
131,082	--	131,082
--	--	13,311
--	78,106	156,958
--	--	387,986
--	--	160,109
<u>\$ 805,940</u>	<u>\$ 2,151,251</u>	<u>\$ 8,511,297</u>
\$ --	\$ 806	\$ 190,273
--	--	81,985
--	--	160,109
142,312	--	214,139
<u>142,312</u>	<u>806</u>	<u>646,506</u>
663,628	2,057,687	5,331,494
--	--	11,000
--	92,758	92,758
--	--	2,429,539
<u>663,628</u>	<u>2,150,445</u>	<u>7,864,791</u>
<u>\$ 805,940</u>	<u>\$ 2,151,251</u>	<u>\$ 8,511,297</u>

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**CITY OF HEATH, TEXAS**

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS  
 SEPTEMBER 30, 2011

Total fund balances - governmental funds balance sheet	\$ 7,864,791
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.	26,347,497
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	88,408
Payables for bond principal which are not due in the current period are not reported in the funds.	(10,209,905)
Payables for capital leases which are not due in the current period are not reported in the funds.	(251,263)
Payables for bond interest which are not due in the current period are not reported in the funds.	(58,389)
Payables for notes which are not due in the current period are not reported in the funds.	(216,581)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(494,038)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	147,462
Court fines receivable unavailable to pay for current period expenditures are deferred in the funds.	350
Franchise taxes receivable unavailable to pay for current period expenditures are not accrued in the funds.	124,545
Assessments receivable unavailable to pay for current period expenditures are deferred in the funds.	125,382
Net assets of governmental activities - Statement of Net Assets	<u>\$ 23,468,258</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, 2011

	General Fund	Capital Improvements Fund
Revenues:		
Taxes	\$ 3,872,158	\$ --
Licenses and permits	133,627	--
Intergovernmental	246,703	--
Charges for services	98,495	--
Fines	51,848	--
Special assessments	--	--
Interest	8,702	--
Miscellaneous	18,173	256,661
Total revenues	<u>4,429,706</u>	<u>256,661</u>
Expenditures:		
Current:		
Administration	925,233	--
Highways and streets	303,984	6,600
Parks	178,825	10,690
Engineering and building inspection	354,838	--
Municipal court	86,400	--
Public safety	2,625,003	--
Economic development and assistance	--	--
Economic opportunity	--	--
Debt service:		
Principal	--	--
Interest and fiscal charges	--	--
Bond issue costs	--	--
Total expenditures	<u>4,474,283</u>	<u>17,290</u>
Excess (deficiency) of revenues over (under) expenditures	(44,577)	239,371
Other financing sources (uses):		
Transfers in	81,076	--
Transfers out	(12,007)	(1,706,810)
Sale of capital assets	58,883	--
Bond discount	--	--
Proceeds of bonds	--	--
Payment to refunded bond escrow agent	--	--
Bond premium	--	--
Capital lease	306,500	--
Total other financing sources (uses)	<u>434,452</u>	<u>(1,706,810)</u>
Special items	--	--
Net change in fund balances	389,875	(1,467,439)
Fund balances, October 1	2,050,664	4,077,618
Fund balances, September 30	<u>\$ 2,440,539</u>	<u>\$ 2,610,179</u>

The accompanying notes are an integral part of this statement.

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 704,461	\$ 369,545	\$ 4,946,164
--	--	133,627
--	--	246,703
--	--	98,495
--	259	52,107
13,611	--	13,611
35,641	4,013	48,356
--	25,391	300,225
<u>753,713</u>	<u>399,208</u>	<u>5,839,288</u>
--	--	925,233
--	--	310,584
--	--	189,515
--	--	354,838
--	--	86,400
--	23,683	2,648,686
--	6,620	6,620
--	3,809	3,809
784,546	14,000	798,546
511,979	21,885	533,864
32,230	--	32,230
<u>1,328,755</u>	<u>69,997</u>	<u>5,890,325</u>
(575,042)	329,211	(51,037)
--	12,007	93,083
--	(33,876)	(1,752,693)
--	--	58,883
(15,723)	--	(15,723)
2,230,000	--	2,230,000
(2,343,654)	--	(2,343,654)
163,962	--	163,962
--	--	306,500
<u>34,585</u>	<u>(21,869)</u>	<u>(1,259,642)</u>
--	(105,421)	(105,421)
(540,457)	201,921	(1,416,100)
1,204,085	1,948,524	9,280,891
<u>\$ 663,628</u>	<u>\$ 2,150,445</u>	<u>\$ 7,864,791</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, 2011

Net change in fund balances - total governmental funds	\$ (1,416,100)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	527,056
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,650,967)
Trade-in or disposal of capital assets decrease net assets in the SOA but not in the funds.	(529)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	25,065
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	1,706,810
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.	32,230
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	3,059,520
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	55,237
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	27,471
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(15,964)
(Increase) decrease in accrued interest from beginning of period to end of period.	15,113
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(57,397)
Certain assessment revenues are deferred in the funds. This is the change in these amounts this year.	(19,241)
Revenues in the SOA for court fines not providing current financial resources are not reported in the funds.	166
Revenues in the SOA for franchise taxes not providing current financial resources are not reported in the funds.	17,131
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(2,230,000)
Bond premiums are reported in the funds but not in the SOA.	(163,962)
Bond discounts are reported in the funds but not in the SOA.	15,723
Proceeds of leases do not provide revenue in the SOA, but are reported as current resources in the funds.	(306,500)
Change in net assets of governmental activities - Statement of Activities	<u>\$ (379,138)</u>

The accompanying notes are an integral part of this statement.

**CITY OF HEATH, TEXAS**

## STATEMENT OF NET ASSETS

## ENTERPRISE FUNDS

SEPTEMBER 30, 2011

	Enterprise Fund Water and Sewer Fund	Nonmajor Enterprise Fund Solid Waste	Total Enterprise Funds
<b>ASSETS</b>			
<b>Current assets:</b>			
<i>Cash and cash equivalents</i>	\$ 5,940,265	\$ 64,131	\$ 6,004,396
<b>Receivables (net of allowances for uncollectibles):</b>			
<i>Accounts</i>	1,339,346	92,136	1,431,482
<i>Other receivables</i>	227,579	--	227,579
<i>Special assessments</i>	6,621	--	6,621
<i>Inventories</i>	16,114	--	16,114
<b>Restricted assets:</b>			
<i>Cash and cash equivalents</i>	275,377	--	275,377
<b>Total current assets</b>	<b>7,805,302</b>	<b>156,267</b>	<b>7,961,569</b>
<i>Deferred charges</i>	132,478	--	132,478
<b>Capital assets:</b>			
<i>Land</i>	203,438	--	203,438
<i>Buildings</i>	309,639	--	309,639
<i>Improvements other than buildings</i>	30,124,811	--	30,124,811
<i>Machinery and equipment</i>	230,765	--	230,765
<i>Construction in progress</i>	1,056,467	--	1,056,467
<i>Accumulated depreciation</i>	(7,209,125)	--	(7,209,125)
<b>Total capital assets (net of accumulated depreciation)</b>	<b>24,715,995</b>	<b>--</b>	<b>24,715,995</b>
<b>Total Assets</b>	<b>32,653,775</b>	<b>156,267</b>	<b>32,810,042</b>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
<i>Accounts payable</i>	290,307	38,991	329,298
<i>Accrued liabilities and other payables</i>	140,871	5,219	146,090
<i>Compensated absences - current portion</i>	39,336	--	39,336
<i>Combination tax and revenue bonds - current portion</i>	397,050	--	397,050
<b>Liabilities payable from restricted assets:</b>			
<i>Impact fees payable</i>	258,026	--	258,026
<i>Contract revenue bonds - current portion</i>	41,663	--	41,663
<i>Accrued interest payable</i>	70,748	--	70,748
<b>Total current liabilities</b>	<b>1,238,001</b>	<b>44,210</b>	<b>1,282,211</b>
<b>Noncurrent liabilities:</b>			
<i>Combination tax and revenue bonds</i>	11,375,419	--	11,375,419
<i>Contract revenue bonds</i>	748,259	--	748,259
<i>Compensated absences</i>	83,474	--	83,474
<b>Total noncurrent liabilities:</b>	<b>12,207,152</b>	<b>--</b>	<b>12,207,152</b>
<b>Total Liabilities</b>	<b>13,445,153</b>	<b>44,210</b>	<b>13,489,363</b>
<b>NET ASSETS</b>			
<i>Invested in capital assets, net of related debt</i>	15,719,404	--	15,719,404
<i>Restricted for excess of restricted assets over restricted liabilities</i>	109,541	--	109,541
<i>Unrestricted</i>	3,379,677	112,057	3,491,734
<b>Total Net Assets</b>	<b>\$ 19,208,622</b>	<b>\$ 112,057</b>	<b>\$ 19,320,679</b>

The accompanying notes are an integral part of this statement.

**CITY OF HEATH, TEXAS**
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
 IN FUND NET ASSETS - ENTERPRISE FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Enterprise Fund Water and Sewer Fund	Nonmajor Enterprise Fund Solid Waste	Total Enterprise Funds
<b>OPERATING REVENUES:</b>			
<i>Water sales</i>	\$ 3,606,092	\$ --	\$ 3,606,092
<i>Sewer charges</i>	1,550,183	--	1,550,183
<i>Sanitation charges</i>	--	553,325	553,325
<i>Taps fees, penalty and other</i>	500,786	5,682	506,468
<b>Total Operating Revenues</b>	<u>5,657,061</u>	<u>559,007</u>	<u>6,216,068</u>
<b>OPERATING EXPENSES:</b>			
<i>Personal services - salaries and wages</i>	782,723	--	782,723
<i>Supplies and services</i>	254,904	--	254,904
<i>Operational costs</i>	1,655,844	457,609	2,113,453
<i>Materials &amp; equipment</i>	39,831	--	39,831
<i>Depreciation and amortization</i>	900,620	--	900,620
<b>Total Operating Expenses</b>	<u>3,633,922</u>	<u>457,609</u>	<u>4,091,531</u>
<b>Operating Income (Loss)</b>	<u>2,023,139</u>	<u>101,398</u>	<u>2,124,537</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
<i>Other income</i>	9,166	--	9,166
<i>Interest revenue</i>	33,280	299	33,579
<i>Interest expense</i>	(853,225)	--	(853,225)
<b>Total Non-operating Revenues (Expenses)</b>	<u>(810,779)</u>	<u>299</u>	<u>(810,480)</u>
<b>Net Income (Loss) before Transfers and Capital Contributions</b>	<u>1,212,360</u>	<u>101,697</u>	<u>1,314,057</u>
<b>TRANSFERS AND CAPITAL CONTRIBUTIONS:</b>			
<i>Transfers in</i>	1,754,010	--	1,754,010
<i>Transfers out</i>	--	(94,400)	(94,400)
<i>Special items out</i>	(1,706,810)	--	(1,706,810)
<b>Change in net assets</b>	<u>1,259,560</u>	<u>7,297</u>	<u>1,266,857</u>
<b>Net assets, October 1</b>	17,949,062	104,760	18,053,822
<b>Net assets, September 30</b>	<u>\$ 19,208,622</u>	<u>\$ 112,057</u>	<u>\$ 19,320,679</u>

The accompanying notes are an integral part of this statement.

**CITY OF HEATH, TEXAS**

## STATEMENT OF CASH FLOWS

## ENTERPRISE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Enterprise Fund Water and Sewer Fund	Nonmajor Enterprise Fund Other Funds	Total Enterprise Funds Totals
<b>Cash Flows from Operating Activities:</b>			
Cash Received from Customers	\$ 5,098,238	\$ 555,174	\$ 5,653,412
Cash Receipts (Payments) for Interfund Services to Other Funds	--	--	--
Cash Payments to Employees for Services	(836,532)	--	(836,532)
Cash Payments to Other Suppliers for Goods and Services	(1,827,889)	(455,920)	(2,283,809)
Net Cash Provided (Used) by Operating Activities	<u>2,433,817</u>	<u>99,254</u>	<u>2,533,071</u>
<b>Cash Flows from Non-capital Financing Activities:</b>			
Payments from Other Funds	1,754,010	--	1,754,010
Payments to Other Funds	--	(94,400)	(94,400)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>1,754,010</u>	<u>(94,400)</u>	<u>1,659,610</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Proceeds from capital debt	4,792,800	--	4,792,800
Principal and Interest Paid	(6,088,175)	--	(6,088,175)
Acquisition or Construction of Capital Assets	(804,161)	--	(804,161)
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(2,099,536)</u>	<u>--</u>	<u>(2,099,536)</u>
<b>Cash Flows from Investing Activities:</b>			
Interest and Dividends on Investments	33,280	299	33,579
Net Cash Provided (Used) for Investing Activities	<u>33,280</u>	<u>299</u>	<u>33,579</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,121,571	5,153	2,126,724
Cash and Cash Equivalents at Beginning of Year	4,094,071	58,978	4,153,049
Cash and Cash Equivalents at End of Year	<u>\$ 6,215,642</u>	<u>\$ 64,131</u>	<u>\$ 6,279,773</u>
Reconciliation to the Statement of Net Assets			
Cash and Cash Equivalents	\$ 5,940,265	\$ 64,131	\$ 6,004,396
Restricted Cash and Cash Equivalents	275,377	--	275,377
Total Cash and Cash Equivalents	<u>\$ 6,215,642</u>	<u>\$ 64,131</u>	<u>\$ 6,279,773</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating Income (Loss)	\$ 2,023,139	\$ 101,398	\$ 2,124,537
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation and amortization	900,620	--	900,620
Other income	9,166	--	9,166
Change in Assets and Liabilities:			
Decrease (Increase) in Receivables	(397,523)	(3,833)	(401,356)
Decrease (Increase) in Other Receivables	(171,101)	--	(171,101)
Decrease (Increase) in Assessments	635	--	635
Decrease (Increase) in Inventories	(5,342)	--	(5,342)
Increase (Decrease) in Accounts Payable	128,031	1,348	129,379
Increase (Decrease) in Accrued Expenses	10,534	341	10,875
Increase (Decrease) in Compensated Absences	(64,342)	--	(64,342)
Total Adjustments	<u>410,678</u>	<u>(2,144)</u>	<u>408,534</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,433,817</u>	<u>\$ 99,254</u>	<u>\$ 2,533,071</u>
Noncash Transactions Affecting Balance Sheet:			
Special item - reallocation of debt	\$ 1,706,810	\$ --	\$ 1,706,810

The accompanying notes are an integral part of this statement.

**CITY OF HEATH, TEXAS**  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 SEPTEMBER 30, 2011

	Agency Fund	Streets Escrow
<b>ASSETS</b>		
<i>Cash and cash equivalents</i>	\$ 113,357	
<b>Total Assets</b>	<b>\$ 113,357</b>	
<b>LIABILITIES</b>		
<i>Accrued liabilities and other payables</i>	\$ 113,357	
<b>Total Liabilities</b>	<b>\$ 113,357</b>	

The accompanying notes are an integral part of this statement.

# CITY OF HEATH, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

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### 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 seven 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, 2011 have not been prepared.

The City of Heath Municipal Benefits Corporation (HMBC) is governed by a seven 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, 2011 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, 2011

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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.

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

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).

Public Safety Fund - accounts for court fees and police donations.

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.



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.

Street Escrow Agency Fund - accounts for street escrow funds prior to determination of usage or refunding to developers.

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, 2011	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, 2010	Tax assessor mails tax bills by this date or soon thereafter.
February 1, 2011	Unpaid property taxes are declared delinquent and interest and penalties begin accruing.
July 1, 2011	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 with an initial, individual cost of more than \$10,000 (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 sick leave. All vacation 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

Nonspendable Fund Balance Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.

Restricted Fund Balance - Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation.

Committed Fund Balance - Amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council through legislation, resolution or ordinance, unless the City Council removes or changes the specified use by taking the same type of action used to commit the amounts.

**CITY OF HEATH, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

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Assigned Fund Balance - Amounts that are constrained by the City Council, or by another City official or the finance division to which the City has delegated authority, that are to be used for specific purposes but are neither restricted nor committed.

Unassigned Fund Balance - Amounts that are available for any purpose; these amounts can be reported only in the City's General Fund.

Fund balance amounts represent the nature of the net resources that are reported in a governmental fund. The City fund balance classifications include non-spendable resources, restricted, and non-restricted (committed, assigned and unassigned) amounts. When the City incurs an expenditure and both restricted and unrestricted amounts are available, the City considers restricted amounts to have been spent. When the City incurs an expenditure for an unrestricted amount, committed amounts are reduced first, followed by assigned amounts and then unassigned amounts for purposes in which any of those unrestricted fund balance classifications could be used.

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 \$147,464 difference are as follows:

Deferred charges - bonds issuance costs:	
City	<u>\$147,464</u>

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 \$2,072,689 (\$105,065 restricted) and the bank balance was \$2,148,897. All of the bank balance was by secured by federal deposit insurance and a US Treasury Note in the amount of \$407,118 pledged by the depository in the City's name and held by the Federal Reserve Bank of New York, except for \$105,065 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 in the City's name as of September 30, 2011.

**CITY OF HEATH, TEXAS**  
 NOTES TO THE FINANCIAL STATEMENTS  
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Investments at September 30, 2011 were as follows:

<u>Description</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>	<u>Credit Rating</u>
Investments not subject to categorization				
TexPool	\$1,317,450	\$1,317,450	0.003	AAAm
TexStar	<u>10,649,481</u>	<u>10,649,481</u>	0.003	AAAm
Local government sponsored investment pool	<u>11,966,931</u>	<u>11,966,931</u>		
	<u>\$11,966,931</u>	<u>\$11,966,931</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.

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.

**CITY OF HEATH, TEXAS**  
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B. Receivables

Receivables as of September 30, 2011 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	\$78,562	\$ -	\$18,249	\$ -	\$ -	\$ -	\$96,811
Accounts receivable	\$55,271	\$ -	\$ -	\$ -	\$1,365,304	\$97,718	\$1,518,293
Less allowance	--	-	--	--	(25,958)	(5,582)	(31,540)
Accounts receivable	\$55,271	\$ -	\$ -	\$0	\$1,339,346	\$92,136	\$1,486,753
Other receivables	\$13,311	\$ -	\$ -	\$ -	\$227,529	\$ -	\$240,840
Special assessments	\$ -	\$ -	\$131,082	\$ -	\$6,621	\$ -	\$137,703
Intergovernmental	\$78,852	\$ -	\$ -	\$78,106	\$ -	\$ -	\$156,958

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)	\$71,477	\$ -
Delinquent property taxes receivable (Debt Service Fund)	\$16,930	--
Fines receivable (General Fund)	350	--
Assessments receivable (Debt Service Fund)	125,382	--
Total deferred/unearned revenue for governmental funds	\$214,139	\$ -

**CITY OF HEATH, TEXAS**  
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C. Capital assets

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

Primary Government

	Balance 9/30/10	Additions	Retirements	Completed Construction	Balance 9/30/11
<b>GOVERNMENTAL ACTIVITIES:</b>					
Capital assets, not being depreciated:					
Land	\$3,036,088	\$ --	\$ --	\$ --	\$3,036,088
Construction in progress	76,587	17,290	--	(60,600)	33,277
Total capital assets not being depreciated	3,112,675	17,290	--	(60,600)	3,069,365
Capital assets, being depreciated:					
Buildings	2,162,395	--	--	--	2,162,395
Improvements other than buildings	2,935,163	--	--	--	2,935,163
Infrastructure	33,261,407	--	--	60,600	33,322,007
Machinery and equipment	1,687,136	509,766	(215,339)	--	1,981,563
Total capital assets being depreciated	40,046,101	509,766	(215,339)	60,600	40,401,128
Less accumulated depreciation for:					
Buildings	(748,493)	(89,278)	--	--	(837,771)
Improvements other than buildings	(345,291)	(104,489)	--	--	(449,780)
Infrastructure	(13,505,265)	(1,260,400)	--	--	(14,765,665)
Machinery and equipment	(1,087,790)	(196,800)	214,810	--	(1,069,780)
Total accumulated depreciation	(15,686,839)	(1,650,967)	214,810	--	(17,122,996)
Total capital assets being depreciated, net	24,359,262	(1,141,201)	--	60,600	23,278,132
Governmental activities capital assets, net	\$27,471,937	(\$1,123,911)	\$ --	\$ --	\$26,347,497

**CITY OF HEATH, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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	Balance 9/30/10	Additions	Retirements	Completed Construction	Balance 9/30/11
<b>BUSINESS-TYPE ACTIVITIES:</b>					
Capital assets, not being depreciated:					
Land	\$203,438	\$ --	\$ --	\$ --	\$203,438
Construction in progress	2,369,532	411,127	--	(1,724,192)	1,056,467
Total capital assets not being depreciated	2,572,970	411,127	--	(1,724,192)	1,259,905
Capital assets, being depreciated:					
Buildings	309,639	--	--	--	309,639
Improvements other than buildings	28,007,585	393,034	--	1,724,192	30,124,811
Machinery and equipment	230,765	--	--	--	230,765
Total capital assets being depreciated	28,547,989	393,034	--	1,724,192	30,665,215
Less accumulated depreciation for:					
Buildings	(83,053)	(14,206)	--	--	(97,259)
Improvements other than buildings	(6,124,864)	(848,538)	--	--	(6,973,402)
Machinery and equipment	(100,588)	(37,876)	--	--	(138,464)
Total accumulated depreciation	(6,308,505)	(900,620)	--	--	(7,209,125)
Capital assets being depreciated, net	22,239,484	(507,586)	--	1,724,192	23,456,090
Business type activities capital assets, net	\$24,812,454	(\$96,459)	\$ --	\$ --	\$24,715,995

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

Governmental activities:

Administration	\$37,484
Highways and streets	1,295,564
Parks	108,136
Engineering and building inspections	6,830
Municipal court	2,076
Public safety	<u>200,877</u>
Total depreciation expense - governmental activities	<u>\$1,650,967</u>

Business-type activities:

Water and sewer - depreciation	<u>\$900,620</u>
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**CITY OF HEATH, TEXAS**  
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Construction commitments

The City has active construction projects as of September 30, 2011. The projects include waste water system improvements.

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Business-type Capital Assets		
Water tower	<u>103,438</u>	<u>2,424,562</u>
Total Business-type	<u>\$103,438</u>	<u>\$2,424,562</u>

The commitment for the water lines is being financed by bond proceeds.

D. Interfund Transfers

Interfund transfers:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Major Governmental Funds		
General Fund	\$81,076	\$12,007
Capital Improvements Fund	--	\$1,706,810
Non Major Governmental Funds	<u>12,007</u>	<u>33,876</u>
Total Governmental Funds	<u>93,083</u>	<u>1,752,693</u>
Major Proprietary Funds		
Water and Sewer Fund	1,754,010	--
Sanitation Fund	<u>--</u>	<u>94,400</u>
Total Proprietary Funds	<u>1,754,010</u>	<u>94,400</u>
Totals	<u>\$1,847,093</u>	<u>\$1,847,093</u>

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 to the Public Safety Fund for restricted funds which were deemed to be properly accounted for in the special revenue fund.
3. The Capital Projects Fund transferred funds to the Water and Sewer Fund deemed to be excess bond funds from a bond issue causing the debt to be reallocated between governmental and enterprise fund debt.
4. The Sanitation Fund transferred funds to the Water and Sewer Fund for administrative services.

# CITY OF HEATH, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

### 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 9/30/11
Governmental Debt Issues					
General Obligation Bonds:					
Improvements/refunding	\$2,230,000	10/15/10	2/15/22	3.00%-4.00%	\$2,230,000
Improvements/refunding	1,835,000	7/07/04	2/15/15	3.68%-3.68%	725,000
Total General Obligation Bonds					2,955,000
Certificate of Obligation Bonds:					
Improvements	8,392,369	10/15/07	2/15/27	4.00%-5.00%	5,496,458
Improvements	2,300,000	2/15/01	2/15/22	4.00%-5.00%	
Improvements	2,190,000	7/07/04	2/15/24	3.68%-3.68%	1,680,000
Total Certificates of Obligation					7,176,458
Total General Long-Term Debt					10,131,458
Proprietary Debt Issues:					
Contract Revenue Bonds:					
Improvements	1,006,566	6/01/05	6/21/25	3.75%-4.625%	789,921
General Obligation Bonds:					
Improvements/refunding	4,840,000	10/15/07	2/15/27	4.00%-5.00%	4,840,000
Certificate of Obligation Bonds:					
Improvements	5,052,631	10/15/07	2/15/27	4.00%-5.00%	6,043,542
Improvements	1,640,000	7/15/04	2/15/16	3.68%-3.68%	775,000
Total Certificates of Obligation					6,818,542
Total Proprietary Debt					12,448,463
Total Debt					\$22,579,921

**CITY OF HEATH, TEXAS**  
 NOTES TO THE FINANCIAL STATEMENTS  
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Annual debt service requirements to maturity for general debt:

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2012	\$712,950	\$412,261	\$672,050	\$459,131	\$2,256,392
2013	504,589	378,506	715,411	443,485	2,041,991
2014	666,475	454,714	763,525	414,716	2,299,430
2015	685,737	426,238	794,263	384,442	2,290,680
2016	657,622	393,135	822,378	351,263	2,224,398
2017-2021	3,106,798	1,525,054	4,778,202	1,180,727	10,590,781
2022-2026	3,331,387	515,685	2,598,613	374,796	6,820,481
2027	465,900	10,192	514,100	11,246	1,001,438
<b>Total</b>	<b>\$10,131,458</b>	<b>\$4,115,785</b>	<b>\$11,658,542</b>	<b>\$3,619,806</b>	<b>\$29,525,591</b>

Annual debt service requirements to maturity for contract revenue bonds:

Year	Business-type Activities		Total
	Principal	Interest	
2012	\$41,663	\$32,981	\$74,644
2013	43,329	31,054	74,383
2014	44,995	29,050	74,045
2015	46,662	26,969	73,631
2016	49,995	24,869	74,864
2017-2021	283,305	93,844	377,149
2022-2025	279,972	28,182	308,154
<b>Total</b>	<b>\$789,921</b>	<b>\$266,949</b>	<b>\$1,056,870</b>

**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 \$686,000 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 \$935,000 business type defeased debt outstanding.

# CITY OF HEATH, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

During 2011, the City issued \$7,070,000 general obligation refunding bonds for a current refunding of \$7,060,000 of 2001 Combination Tax/Revenue certificates of obligation. The refunding was undertaken to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$311,838. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the refunded debt. The transaction also resulted in an economic gain of \$760,968 and a reduction of \$794,416 in future debt service payments.

### 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
2012	\$28,295	\$6,742	\$35,037
2013	29,173	5,864	35,037
2014	30,077	4,960	35,037
2015	31,009	4,028	35,037
2016	31,971	3,066	35,037
2017-2018	66,056	3,129	69,185
Total Note Payable	<u>\$216,581</u>	<u>\$27,789</u>	<u>\$244,370</u>

### CAPITAL LEASE

The City entered into a capital lease to acquire a firetruck for \$306,500, with a book value of \$345,052 at September 30, 2011. The lease is payable in six annual installments of \$55,237, with interest imputed at 3.47%. Capital lease obligation debt service requirements to maturity are as follows:

Year	Amount
2012	\$55,237
2013	55,237
2014	55,237
2015	55,237
2016	55,237
Total	276,185
Less interest	<u>(24,922)</u>
	<u>\$251,263</u>

### CHANGES IN LONG-TERM LIABILITIES

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

**CITY OF HEATH, TEXAS**  
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	Balance 9/30/10	Additions	Retirements	Balance 9/30/11	Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$1,625,000	\$2,230,000	(\$900,000)	\$2,955,000	\$425,000
Certificates of obligation	10,987,884	--	(3,811,426)	7,176,458	287,950
Notes payable	244,052	--	(27,471)	216,581	28,323
Add bond premium	137,635	163,962	(20,829)	280,768	--
Less deferred amounts:					
For issuance discounts	(126,091)	(29,992)	37,842	(118,241)	--
On refunding	--	(92,293)	8,213	(84,080)	--
Total bonds payable	12,868,480	2,271,677	(4,713,671)	10,426,486	741,273
Capital lease obligations	--	306,500	(55,237)	251,263	48,579
Compensated absences	436,641	494,038	(436,641)	494,038	158,241
Total long-term liabilities	\$13,305,121	\$3,072,215	(\$5,205,549)	\$11,171,787	\$948,093
<b>Business-type activities:</b>					
General obligation bonds	\$ --	\$4,840,000	--	\$4,840,000	\$275,000
Certificates of obligation	10,732,116	1,706,810	(5,620,384)	6,818,542	397,050
Add bond premium	82,863	360,788	(32,410)	411,241	--
Less deferred amounts:					
For issuance discounts	(113,576)	(77,513)	96,674	(94,415)	--
On refunding	--	(219,545)	16,646	(202,899)	--
Total bonds payable	10,701,403	--	(5,539,474)	11,772,469	672,050
Contract revenue bonds	829,917	--	(39,996)	789,921	41,663
Compensated absences	103,678	122,811	(103,678)	122,811	39,336
Total long-term liabilities	\$11,634,998	\$122,811	(\$5,683,148)	\$12,685,201	\$753,049

For the governmental activities, claims and judgements and compensated absences are generally liquidated by the general fund. The government-wide statement of activities includes \$41,663 of the long-term liabilities due within one year for business-type activities in "liabilities payable from restricted assets." The remaining amount of \$711,386 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;

# CITY OF HEATH, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

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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. 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 \$22,556.

The 4A corporation paid \$13,329 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

# CITY OF HEATH, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

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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 periodically a defendant in various lawsuits. At September 30, 2011, there are no lawsuits pending against the City which would have a material adverse effect on the financial condition of the City.

There are 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), 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](http://www.TMRS.com).

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

**CITY OF HEATH, TEXAS**  
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 SEPTEMBER 30, 2011

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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, 2009 valuation is effective for rates beginning January 2011.

	<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	7.5%
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, 2011Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	<u>12/31/10</u>	<u>12/31/09</u>	<u>12/31/08</u>
Actuarial Value of Asset	\$3,511,836	\$3,148,532	\$2,802,337
Actuarial Accrued Liabilities	\$4,810,864	\$4,411,540	\$4,138,243
Percentage Funded	73.0%	71.4%	67.7%
Unfunded (Over-funded) Actuarial	\$1,299,028	\$1,263,008	\$1,335,906
Annual Covered Payroll	\$2,594,628	\$2,694,187	\$2,848,182
UAAL as a Percentage of Covered Payroll	46.9%	46.9%	46.9%
Net Pension Obligation (NPO)	\$ --	\$ --	\$ --
Annual Pension Cost:			
Annual Required Contribution (ARC)	\$275,918	\$273,754	\$290,817
Interest on NPO	--	--	--
Adjustment to the ARC	--	--	--
	<u>275,918</u>	<u>273,754</u>	<u>290,817</u>
Contributions Made (100%)	275,918	273,754	290,817
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.

**G. Special Items**

The City reallocated previously issued debt and transferred \$1,706,810 of these certificates of obligation from governmental long-term debt to Water and Sewer Fund long-term debt. This reallocation has been reported as a special item in the accompanying financial statements. Additionally, the City transferred \$105,421 of escrowed amounts from the Capital Project fund to a newly created Agency Fund. This transaction has been reported as a special item.

**H. Restatement of Prior Year Financial Statements**

An error in the calculation of interest related to assessments receivable was discovered in the current year resulting in a restatement of the prior years financial statements. The adjustment was to increase deferred revenue for assessments in the Debt Service Fund by \$20,480, decrease interest income by \$6,301, and to decrease fund balance by \$14,179 at September 30, 2010.

### *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, 2011**

**EXHIBIT B-1**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
<i>Taxes</i>	\$ 3,830,600	\$ 3,830,600	\$ 3,872,158	\$ 41,558
<i>Licenses and permits</i>	161,250	161,250	133,627	(27,623)
<i>Intergovernmental</i>	237,750	237,750	246,703	8,953
<i>Charges for services</i>	93,650	93,650	98,495	4,845
<i>Fines</i>	50,200	50,200	51,848	1,648
<i>Interest</i>	7,500	7,500	8,702	1,202
<i>Miscellaneous</i>	30,900	62,220	18,173	(44,047)
<b>Total revenues</b>	<u>4,411,850</u>	<u>4,443,170</u>	<u>4,429,706</u>	<u>(13,464)</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<i>Administration</i>	1,030,500	1,055,500	925,233	130,267
<i>Highways and streets</i>	339,225	370,545	303,984	66,561
<i>Parks</i>	220,550	220,550	178,825	41,725
<i>Engineering and building inspection</i>	456,025	456,025	354,838	101,187
<i>Municipal court</i>	104,300	104,300	86,400	17,900
<i>Public safety</i>	2,446,600	2,801,100	2,629,932	171,168
<b>Total expenditures</b>	<u>4,597,200</u>	<u>5,008,020</u>	<u>4,479,212</u>	<u>528,808</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(185,350)</b>	<b>(564,850)</b>	<b>(49,506)</b>	<b>515,344</b>
<b>Other financing sources (uses):</b>				
<i>Transfers in</i>	83,200	83,200	81,076	(2,124)
<i>Transfers out</i>	--	--	(12,007)	(12,007)
<i>Sale of capital assets</i>	--	48,000	58,883	10,883
<i>Capital lease</i>	--	306,500	306,500	--
<b>Total other financing sources (uses)</b>	<u>83,200</u>	<u>437,700</u>	<u>434,452</u>	<u>(3,248)</u>
<b>Net change in fund balances</b>	<b>(102,150)</b>	<b>(127,150)</b>	<b>384,946</b>	<b>512,096</b>
<b>Fund balances, October 1</b>	<b>2,050,664</b>	<b>2,050,664</b>	<b>2,050,664</b>	<b>--</b>
<b>Fund balances, September 30</b>	<b>\$ 1,948,514</b>	<b>\$ 1,923,514</b>	<b>\$ 2,435,610</b>	<b>\$ 512,096</b>

# CITY OF HEATH, TEXAS

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2011

(Unaudited)

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### 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 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	\$4,474,283
Reversal of year encumbrances	--
Current year encumbrances	<u>4,929</u>
Expenditures - budgetary basis	<u>\$4,479,212</u>

B. Excess of expenditures over appropriations

No funds had expenditures in excess of appropriations.

*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, 2011**

	Public Safety	H.E.D.C. 4A	H.M.B.C. 4B	Total Nonmajor Special Revenue Funds (See Exhibit A-3)
<b>ASSETS</b>				
<i>Cash and cash equivalents</i>	\$ 110,358	\$ 849,950	\$ 1,112,837	\$ 2,073,145
Receivables (net of allowances for uncollectibles):				
<i>Intergovernmental</i>	--	39,053	39,053	78,106
<b>Total Assets</b>	<u>\$ 110,358</u>	<u>\$ 889,003</u>	<u>\$ 1,151,890</u>	<u>\$ 2,151,251</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
<i>Accounts payable</i>	\$ --	\$ 403	\$ 403	\$ 806
<b>Total Liabilities</b>	<u>--</u>	<u>403</u>	<u>403</u>	<u>806</u>
<b>Fund balances:</b>				
<i>Restricted</i>	17,600	888,600	1,151,487	2,057,687
<i>Assigned</i>	92,758	--	--	92,758
<b>Total fund balances</b>	<u>110,358</u>	<u>888,600</u>	<u>1,151,487</u>	<u>2,150,445</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 110,358</u>	<u>\$ 889,003</u>	<u>\$ 1,151,890</u>	<u>\$ 2,151,251</u>

**CITY OF HEATH, TEXAS**

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Public Safety	H.E.D.C. 4A	H.M.B.C. 4B	Total Nonmajor Special Revenue Funds (See Exhibit A-5)
<b>Revenues:</b>				
<i>Taxes</i>	\$ --	\$ 184,773	\$ 184,772	\$ 369,545
<i>Fines</i>	259	--	--	259
<i>Interest</i>	464	1,490	2,059	4,013
<i>Miscellaneous</i>	25,391	--	--	25,391
<b>Total revenues</b>	<u>26,114</u>	<u>186,263</u>	<u>186,831</u>	<u>399,208</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<i>Public safety</i>	23,683	--	--	23,683
<i>Economic development and assistance</i>	--	6,620	--	6,620
<i>Economic opportunity</i>	--	--	3,809	3,809
<b>Debt service:</b>				
<i>Principal</i>	--	5,200	8,800	14,000
<i>Interest and fiscal charges</i>	--	8,129	13,756	21,885
<b>Total expenditures</b>	<u>23,683</u>	<u>19,949</u>	<u>26,365</u>	<u>69,997</u>
Excess (deficiency) of revenues over (under) expenditures	2,431	166,314	160,466	329,211
<b>Other financing sources (uses):</b>				
<i>Transfers in</i>	12,007	--	--	12,007
<i>Transfers out</i>	--	(16,938)	(16,938)	(33,876)
<b>Total other financing sources (uses)</b>	<u>12,007</u>	<u>(16,938)</u>	<u>(16,938)</u>	<u>(21,869)</u>
Special items	(105,421)	--	--	(105,421)
Net change in fund balances	(90,983)	149,376	143,528	201,921
Fund balances, October 1	201,341	739,224	1,007,959	1,948,524
Fund balances, September 30	<u>\$ 110,358</u>	<u>\$ 888,600</u>	<u>\$ 1,151,487</u>	<u>\$ 2,150,445</u>



**CITY OF HEATH, TEXAS**

H.E.D.C - 4A

SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2011

EXHIBIT C-3

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
<i>Taxes</i>	\$ 175,000	\$ 175,000	\$ 184,773	\$ 9,773
<i>Interest</i>	1,200	1,200	1,490	290
<b>Total revenues</b>	<u>176,200</u>	<u>176,200</u>	<u>186,263</u>	<u>10,063</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<i>Economic development and assistance</i>	62,200	62,200	6,620	55,580
<b>Debt service:</b>				
<i>Principal</i>	5,200	5,200	5,200	--
<i>Interest and fiscal charges</i>	8,133	8,133	8,129	4
<b>Total expenditures</b>	<u>75,533</u>	<u>75,533</u>	<u>19,949</u>	<u>55,584</u>
<b>Excess (deficiency) of revenues over         (under) expenditures</b>	100,667	100,667	166,314	65,647
<b>Other financing sources (uses):</b>				
<i>Transfers out</i>	(19,000)	(19,000)	(16,938)	2,062
<b>Total other financing sources (uses)</b>	<u>(19,000)</u>	<u>(19,000)</u>	<u>(16,938)</u>	<u>2,062</u>
<b>Net change in fund balances</b>	81,667	81,667	149,376	67,709
<b>Fund balances, October 1</b>	739,224	739,224	739,224	--
<b>Fund balances, September 30</b>	<u>\$ 820,891</u>	<u>\$ 820,891</u>	<u>\$ 888,600</u>	<u>\$ 67,709</u>

**CITY OF HEATH, TEXAS**

H.M.B.C. - 4B

SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2011

EXHIBIT C-4

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
<i>Taxes</i>	\$ 175,000	\$ 175,000	\$ 184,772	\$ 9,772
<i>Interest</i>	1,800	1,800	2,059	259
<b>Total revenues</b>	<u>176,800</u>	<u>176,800</u>	<u>186,831</u>	<u>10,031</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<i>Economic opportunity</i>	40,000	40,000	3,809	36,191
<b>Debt service:</b>				
<i>Principal</i>	8,800	8,800	8,800	--
<i>Interest and fiscal charges</i>	13,763	13,763	13,756	7
<b>Total expenditures</b>	<u>62,563</u>	<u>62,563</u>	<u>26,365</u>	<u>36,198</u>
<b>Excess (deficiency) of revenues over     (under) expenditures</b>	<u>114,237</u>	<u>114,237</u>	<u>160,466</u>	<u>46,229</u>
<b>Other financing sources (uses):</b>				
<i>Transfers out</i>	(19,000)	(19,000)	(16,938)	2,062
<b>Total other financing sources (uses)</b>	<u>(19,000)</u>	<u>(19,000)</u>	<u>(16,938)</u>	<u>2,062</u>
<b>Net change in fund balances</b>	<u>95,237</u>	<u>95,237</u>	<u>143,528</u>	<u>48,291</u>
<b>Fund balances, October 1</b>	<u>1,007,959</u>	<u>1,007,959</u>	<u>1,007,959</u>	<u>--</u>
<b>Fund balances, September 30</b>	<u>\$ 1,103,196</u>	<u>\$ 1,103,196</u>	<u>\$ 1,151,487</u>	<u>\$ 48,291</u>

**CITY OF HEATH, TEXAS**  
**DEBT SERVICE FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

EXHIBIT C-5

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
<i>Taxes</i>	\$ 709,300	\$ 709,300	\$ 704,461	\$ (4,839)
<i>Special assessments</i>	20,900	20,900	13,611	(7,289)
<i>Interest</i>	36,100	36,100	35,641	(459)
<b>Total revenues</b>	<u>766,300</u>	<u>766,300</u>	<u>753,713</u>	<u>(12,587)</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Debt service:</b>				
<i>Principal</i>	800,581	800,581	802,411	(1,830)
<i>Interest and fiscal charges</i>	538,130	538,130	494,114	44,016
<i>Bond issue costs</i>	--	--	32,230	(32,230)
<b>Total expenditures</b>	<u>1,338,711</u>	<u>1,338,711</u>	<u>1,328,755</u>	<u>9,956</u>
<b>Excess (deficiency) of revenues over     (under) expenditures</b>	<b>(572,411)</b>	<b>(572,411)</b>	<b>(575,042)</b>	<b>(2,631)</b>
<b>Other financing sources (uses):</b>				
<i>Bond discount</i>	--	--	(15,723)	(15,723)
<i>Proceeds of bonds</i>	--	--	2,230,000	2,230,000
<i>Payment to refunded bond escrow agent</i>	--	--	(2,343,654)	(2,343,654)
<i>Bond premium</i>	--	--	163,962	163,962
<b>Total other financing sources (uses)</b>	<u>--</u>	<u>--</u>	<u>34,585</u>	<u>34,585</u>
<b>Net change in fund balances</b>	<b>(572,411)</b>	<b>(572,411)</b>	<b>(540,457)</b>	<b>31,954</b>
<b>Fund balances, October 1</b>	<b>1,204,085</b>	<b>1,204,085</b>	<b>1,204,085</b>	<b>--</b>
<b>Fund balances, September 30</b>	<u><b>\$ 631,674</b></u>	<u><b>\$ 631,674</b></u>	<u><b>\$ 663,628</b></u>	<u><b>\$ 31,954</b></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.

<b>Contents</b>	<b>Page</b>
Financial Trends	70
<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	78
<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	85
<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	90
<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	93
<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 EIGHT FISCAL YEARS**  
**(ACCRUAL BASIS OF ACCOUNTING)**  
**(UNAUDITED)**

	Fiscal Year				
	2004	2005	2006	2007	2008
<b>Governmental Activities</b>					
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
<b>Total Governmental Activities Net Assets</b>	<b>\$ 13,691,410</b>	<b>\$ 15,068,385</b>	<b>\$ 23,604,383</b>	<b>\$ 22,887,432</b>	<b>\$ 23,261,619</b>
<b>Business-type Activities</b>					
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
<b>Total Business-type Activities Net Assets</b>	<b>\$ 11,018,816</b>	<b>\$ 14,255,845</b>	<b>\$ 18,109,433</b>	<b>\$ 17,045,653</b>	<b>\$ 17,097,368</b>
<b>Primary Government</b>					
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
<b>Total Primary Government Net Assets</b>	<b>\$ 24,710,226</b>	<b>\$ 29,324,230</b>	<b>\$ 41,713,816</b>	<b>\$ 39,933,085</b>	<b>\$ 40,358,987</b>

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

TABLE D-1

	2009	2010	2011
\$	19,089,641	\$ 17,895,266	\$ 17,130,797
	2,104,386	5,438,453	3,416,119
	3,197,493	513,677	2,921,342
\$	<u>24,391,520</u>	<u>\$ 23,847,396</u>	<u>\$ 23,468,258</u>
\$	16,063,136	\$ 15,935,522	\$ 15,719,404
	--	--	--
	1,600,713	2,118,300	3,601,275
\$	<u>17,663,849</u>	<u>\$ 18,053,822</u>	<u>\$ 19,320,679</u>
\$	35,152,777	\$ 33,830,788	\$ 32,850,201
	2,104,386	5,438,453	3,416,119
	4,798,206	2,631,977	6,522,617
\$	<u>42,055,369</u>	<u>\$ 41,901,218</u>	<u>\$ 42,788,937</u>

# CITY OF HEATH, TEXAS

EXPENSES, PROGRAM REVENUES, AND NET (EXPENSE)/REVENUE  
 LAST EIGHT FISCAL YEARS  
 (ACCRUAL BASIS OF ACCOUNTING)  
 (UNAUDITED)

	Fiscal Year				
	2004	2005	2006	2007	2008
<b>Expenses</b>					
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
<b>Total Governmental Activities Expenses</b>	<b>\$ 3,920,877</b>	<b>\$ 4,060,615</b>	<b>\$ 4,897,971</b>	<b>\$ 6,010,211</b>	<b>\$ 6,396,717</b>
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
<b>Total Business-type Activities Expenses</b>	<b>2,657,435</b>	<b>2,771,907</b>	<b>3,264,137</b>	<b>3,794,864</b>	<b>4,574,125</b>
<b>Total Primary Government Expenses</b>	<b>\$ 6,578,312</b>	<b>\$ 6,832,522</b>	<b>\$ 8,162,108</b>	<b>\$ 9,805,075</b>	<b>\$ 10,970,842</b>
<b>Program Revenues</b>					
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
<b>Total Governmental Activities Program Revenues</b>	<b>\$ 485,522</b>	<b>\$ 1,704,623</b>	<b>\$ 9,256,016</b>	<b>\$ 882,125</b>	<b>\$ 1,694,567</b>
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
<b>Total Business-type Activities Program Revenues</b>	<b>2,819,963</b>	<b>5,799,946</b>	<b>7,035,544</b>	<b>3,337,656</b>	<b>4,529,746</b>
<b>Total Primary Government Program Revenues</b>	<b>\$ 3,305,485</b>	<b>\$ 7,504,569</b>	<b>\$ 16,291,560</b>	<b>\$ 4,219,781</b>	<b>\$ 6,224,313</b>
<b>Net (Expense)/Revenue</b>					
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)
<b>Total Primary Government Net Expense</b>	<b>\$ (3,272,827)</b>	<b>\$ 672,047</b>	<b>\$ 8,129,452</b>	<b>\$ (5,585,294)</b>	<b>\$ (4,746,529)</b>

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

TABLE D-2

	2009	2010	2011
\$	1,045,672	\$ 928,201	\$ 972,529
	1,471,275	1,691,101	1,603,281
	135,669	229,222	243,985
	419,664	390,868	366,269
	86,727	86,213	90,560
	2,335,201	2,320,231	2,435,905
	355,286	5,146	6,620
	8,119	4,258	3,809
	677,118	522,894	518,723
\$	6,534,731	\$ 6,178,134	\$ 6,241,681
	4,288,635	4,207,851	4,487,147
	435,416	459,086	457,809
	4,724,051	4,666,937	4,944,956
\$	11,258,782	\$ 10,845,071	\$ 11,186,637
\$	27,772	\$ 61,063	\$ 70,017
	105	140	35
	17,124	14,280	16,630
	126,521	154,657	122,492
	5,014	3,386	555
	318,122	306,129	325,398
	30,949	20,865	32,744
	2,013,667	1,000	262,258
\$	2,539,274	\$ 561,520	\$ 830,129
\$	3,836,944	\$ 4,432,549	\$ 5,657,062
	510,248	557,623	559,007
	--	--	--
	974,396	94,075	--
	5,321,588	5,084,247	6,216,069
\$	7,860,862	\$ 5,645,767	\$ 7,046,198
\$	(3,995,457)	\$ (5,616,614)	\$ (5,411,552)
	597,537	417,310	1,271,113
\$	(3,397,920)	\$ (5,199,304)	\$ (4,140,439)



# CITY OF HEATH, TEXAS

GENERAL REVENUES AND TOTAL CHANGE IN NET ASSETS  
 LAST EIGHT FISCAL YEARS  
 (ACCRUAL BASIS OF ACCOUNTING)  
 (UNAUDITED)

	Fiscal Year				
	2004	2005	2006	2007	2008
<b>Net (Expense)/Revenue</b>					
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>
<b>General Revenues and Other Changes in Net Assets</b>					
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	--	--
Special items	--	--	--	--	--
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
Special items	--	--	--	--	--
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>
<b>Change in Net Assets</b>					
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

	2009	2010	2011
\$	(3,995,457)\$	(5,616,614)\$	(5,411,552)
	597,537	417,310	1,271,313
	(3,397,920)	(5,199,304)	(4,140,239)
	3,726,270	3,797,959	3,762,727
	710,195	759,577	739,093
	444,648	406,495	483,349
	3,609	3,459	3,192
	42,642	19,839	6,791
	112,500	35,500	37,129
	--	2,461	58,354
	--	--	1,601,389
	85,494	47,200	(1,659,610)
	5,125,358	5,072,490	5,032,414
	2,730	2,223	9,166
	51,708	16,259	33,578
	--	1,381	--
	--	--	(1,706,810)
	(85,494)	(47,200)	1,659,610
	(31,056)	(27,337)	(4,456)
\$	5,094,302 \$	5,045,153 \$	5,027,958
\$	1,129,901 \$	(544,124)\$	(379,138)
	566,481	389,973	1,266,857
\$	1,696,382 \$	(154,151)\$	887,719

**CITY OF HEATH, TEXAS**

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>General Fund</b>										
Reserved	\$ --	\$ 22,578	\$ 22,578	\$ --	\$ 7,630	\$ 9,816	\$ 230,000	\$ 9,132	\$ 12,007	\$ --
Non-spendable	--	--	--	--	--	--	--	--	--	--
Committed	--	--	--	--	--	--	--	--	--	11,000
Unreserved	1,492,641	1,771,908	1,819,613	2,410,935	2,715,760	2,630,293	2,453,094	1,760,597	2,038,657	--
Unassigned	--	--	--	--	--	--	--	--	--	2,429,539
<b>Total General Fund</b>	<b>\$ 1,492,641</b>	<b>\$ 1,794,486</b>	<b>\$ 1,842,191</b>	<b>\$ 2,410,935</b>	<b>\$ 2,723,390</b>	<b>\$ 2,640,109</b>	<b>\$ 2,683,094</b>	<b>\$ 1,769,729</b>	<b>\$ 2,050,664</b>	<b>\$ 2,440,539</b>
<b>All Other Governmental Funds</b>										
Reserved	\$ 694,332	\$ 863,021	\$ 892,295	\$ 884,251	\$ 1,101,406	\$ 1,210,352	\$ 919,619	\$ 1,492,263	\$ 1,224,566	\$ --
Restricted	--	--	--	--	--	--	--	--	--	5,331,494
Committed	--	--	--	--	--	--	--	--	--	--
Unreserved, Reported In:										
Special Revenue Funds	352,462	490,979	465,626	699,011	992,696	1,333,917	1,725,133	1,653,512	1,948,523	--
Capital Projects Funds	1,472,946	114,121	574,929	537,392	11,033	(1,272,997)	6,194,274	4,359,876	4,077,618	--
Assigned	--	--	--	--	--	--	--	--	--	92,758
Unassigned	--	--	--	--	--	--	--	--	--	--
<b>Total All Other Governmental Funds</b>	<b>\$ 2,519,740</b>	<b>\$ 1,468,121</b>	<b>\$ 1,932,850</b>	<b>\$ 2,120,654</b>	<b>\$ 2,105,135</b>	<b>\$ 1,271,272</b>	<b>\$ 8,839,026</b>	<b>\$ 7,505,651</b>	<b>\$ 7,250,707</b>	<b>\$ 5,424,252</b>

Note: The City implemented GASB 54 effective for the year ending September 30, 2011.

**CITY OF HEATH, TEXAS**

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Revenues</b>										
Taxes	\$ 2,359,790	\$ 2,775,416	\$ 3,083,909	\$ 3,379,276	\$ 3,863,094	\$ 4,194,544	\$ 4,665,869	\$ 4,847,760	\$ 5,015,072	\$ 4,946,164
Licenses and Permits	138,709	107,406	176,691	277,728	287,814	242,760	376,404	129,832	160,568	133,627
Intergovernmental	544,382	80,625	143,001	103,344	119,913	183,249	237,935	735,123	240,290	246,703
Charges for Services	6,821	11,091	25,034	80,168	49,073	111,828	25,776	69,779	94,694	98,495
Fines	45,255	42,273	107,945	69,256	97,706	63,711	47,842	56,907	43,467	52,107
Special Assessments	101,193	171,113	99,501	57,329	112,192	42,455	15,499	25,267	19,219	13,611
Interest	98,676	110,479	38,131	61,054	276,374	288,311	397,653	121,090	50,204	48,356
Miscellaneous	17,884	68,940	30,801	351,840	183,052	295,332	220,193	637,078	43,171	300,225
<b>Total Revenues</b>	<b>3,312,710</b>	<b>3,367,343</b>	<b>3,705,013</b>	<b>4,379,995</b>	<b>4,989,218</b>	<b>5,422,190</b>	<b>5,987,171</b>	<b>6,622,836</b>	<b>5,666,685</b>	<b>5,839,288</b>
<b>Expenditures</b>										
Administration	541,207	735,625	742,783	814,557	1,074,008	1,110,994	1,112,099	965,693	868,210	925,233
Highways and streets	558,489	166,556	298,689	189,084	273,730	753,069	385,222	257,256	592,398	310,584
Parks	40,479	98,803	211,830	175,002	149,324	241,029	174,385	78,711	133,050	189,515
Engineering and building inspection	118,146	91,320	96,980	176,990	300,154	330,352	464,099	404,487	429,663	354,838
Municipal court	54,467	73,265	143,435	104,567	112,883	98,849	82,268	89,384	84,535	86,400
Public safety	1,048,958	1,081,659	1,822,866	1,613,067	1,674,692	1,884,376	2,140,221	2,544,061	2,215,536	2,648,686
Economic development and assistance	5,885	18,734	126,508	2,698	227	--	12,984	355,286	5,146	6,620
Economic opportunity	5,203	18,042	126,500	2,998	127	5,000	6,202	8,119	4,258	3,809
Capital outlay	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	167,500	193,964	161,250	238,750	271,250	271,074	704,191	712,808	739,814	798,546
Principal	301,199	266,365	290,074	296,959	277,783	355,060	577,938	608,947	617,745	533,864
Bond issue costs	--	--	--	--	--	--	102,771	--	--	32,230
<b>Total Expenditures</b>	<b>4,158,316</b>	<b>4,117,117</b>	<b>5,710,932</b>	<b>3,687,481</b>	<b>4,693,423</b>	<b>6,339,334</b>	<b>6,800,824</b>	<b>9,175,836</b>	<b>5,690,355</b>	<b>5,890,325</b>
<b>Excess of Revenues</b>										
Over (Under) Expenditures	(845,606)	(749,774)	(2,005,919)	692,514	295,795	(917,144)	(813,653)	(2,553,000)	(23,670)	(51,037)
<b>Other Financing Sources (Uses)</b>										
Transfers In	368,161	--	--	--	--	--	263,278	1,379,045	334,052	93,083
Transfers Out	(368,161)	--	--	--	--	--	(263,278)	(1,370,138)	(286,852)	(1,752,693)
Sale of capital assets	--	--	--	--	--	--	--	--	2,461	58,883
Bond discount	--	--	--	--	--	--	(130,093)	--	--	(15,723)
Bond premium	--	--	--	--	--	--	162,116	--	--	163,962
Issuance of long-term debt	--	--	4,399,440	--	--	--	8,392,369	297,353	--	2,536,500
Payment to refunded bond escrow agent	--	--	(1,881,087)	64,034	1,141	--	--	--	--	(2,343,654)
<b>Total Other Financing Sources (Uses)</b>	<b>--</b>	<b>--</b>	<b>2,518,353</b>	<b>64,034</b>	<b>1,141</b>	<b>--</b>	<b>8,424,392</b>	<b>306,260</b>	<b>49,661</b>	<b>(1,259,642)</b>
<b>Special items</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(105,421)</b>
<b>Net Change in Fund Balances</b>	<b>\$ (845,606)</b>	<b>\$ (749,774)</b>	<b>\$ 512,434</b>	<b>\$ 756,548</b>	<b>\$ 296,936</b>	<b>\$ (917,144)</b>	<b>\$ 7,610,739</b>	<b>\$ (2,246,740)</b>	<b>\$ 25,991</b>	<b>\$ (1,416,100)</b>
<b>Debt Service As A Percentage</b>										
Of Noncapital Expenditures	16.5%	16.8%	11.2%	14.8%	13.3%	12.4%	24.0%	23.3%	25.2%	25.4%

**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
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
2010	3,824,925	759,577	427,111	3,459	5,015,072
2011	3,737,661	739,093	466,218	3,192	4,946,164
Percent Change 2002-2011	117.7%	145.4%	79.6%	-8.8%	116.9%

TABLE D-7

**CITY OF HEATH, TEXAS**

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY  
 LAST TEN FISCAL YEARS  
 (UNAUDITED)

Fiscal Year	Residential Property	Personal Property	Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Taxable Assessed Value as a Percentage of Actual Taxable Value
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%
2010	1,144,155,185	22,176,080	64,807,080	1,101,524,185	0.3433	1,166,331,265	94.444%
2011	1,173,186,324	18,462,161	105,273,420	1,086,375,065	0.3433	1,191,648,485	91.166%

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	
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
2010	0.2786	0.0647	0.3433	1.4700	0.3750	0.5565	2.4015	2.7448
2011	0.2786	0.0647	0.3433	1.4700	0.3864	0.5565	2.4129	2.7562

Source: Rockwall County Central Appraisal District

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

Taxpayer	2011			2002		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Whittle Development Co	\$ 5,816,510	1	0.54%	\$ 10,211,430	1	2.01%
Rainer Baylor Medical	5,712,920	2	0.53%	--	N/A	--
Oncor Electric Delivery Co.	5,509,430	3	0.51%	--	N/A	--
BC Golf Ltd	4,000,000	4	0.37%	4,572,970	3	0.90%
TR Health Partners LTD	3,737,440	5	0.34%	--	N/A	--
Pittman, Clinton Ray	2,669,360	6	0.25%	--	N/A	--
Paolucci, Raymond J.	2,576,461	7	0.24%	--	N/A	--
Kirwan, David and Patricia	2,576,430	8	0.24%	--	N/A	--
Corona Resources, Ltd.	2,459,250	9	0.23%	--	N/A	--
Whittle Development, Inc.	2,402,660	10	0.22%	--	N/A	--
Texas Utilities	--	N/A		4,833,170	2	0.95%
Cross, Dianna & David	--	N/A		2,040,260	4	0.40%
Syvrud, James P. & Mary Jean	--	N/A		1,886,370	5	0.37%
Railsack, Billy & Robin	--	N/A		1,449,400	6	0.29%
Muns, Gregg MD & Laurie	--	N/A		1,446,520	7	0.28%
Pulte Homes of Texas, LP	--	N/A	--	1,310,090	8	0.26%
Rush Creek Yaght Club	--	N/A		1,263,212	9	0.25%
Tommy L. Brown Construction	--	N/A	--	1,260,170	10	0.25%
Subtotal	37,460,461		3.45%	30,273,592		5.96%
Remaining roll	1,048,914,604			477,395,380		
	<u>\$ 1,086,375,065</u>			<u>\$ 507,668,972</u>		

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
2002	\$ 1,746,914	\$ 1,714,000	98.12%	\$ 32,300	\$ 1,746,300	99.96%
2003	2,134,989	2,101,209	98.42%	33,141	2,134,350	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%	15,292	2,514,048	99.87%
2006	2,728,576	2,688,666	98.54%	39,079	2,727,745	99.97%
2007	3,113,532	3,021,159	97.03%	91,955	3,113,114	99.99%
2008	3,436,291	3,373,108	98.16%	62,108	3,435,216	99.97%
2009	3,687,280	3,603,302	97.72%	47,181	3,650,483	99.00%
2010	3,773,230	3,748,724	99.35%	20,205	3,768,929	99.89%
2011	3,738,632	3,673,075	99.35%	--	3,673,075	98.25%

Sources: Rockwall Central Appraisal District

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

	Calendar Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Construction	\$ 560,254	\$ 658,007	\$ 1,051,576	\$ 953,039	\$ 1,536,502	\$ 1,293,316	\$ 1,438,028	\$ 1,500,070	\$ 972,132	\$ 507,098
Manufacturing	19,284	17,778	18,178	15,274	17,017	14,727	14,915	13,101	131,359	--
Wholesale Trade	38,842	211,419	244,620	447,305	417,713	262,966	322,843	221,529	313,214	117,487
Retail Trade	1,238,270	1,148,412	1,632,748	2,625,676	1,229,671	1,460,207	1,978,279	2,013,841	2,150,150	1,020,157
Information	125,567	225,140	216,629	246,038	657,449	955,537	1,043,129	557,704	1,101,393	687,513
Real Estate	--	--	--	700	1,150	--	--	--	--	--
Professional Services	763,428	896,295	1,000,642	1,151,125	1,452,991	2,935,759	3,024,315	3,342,366	2,061,111	1,088,998
Administrative Services	721,448	862,138	739,531	686,056	946,993	1,092,728	1,119,086	873,283	915,839	630,889
Educational Services	--	7,868	--	--	--	--	--	1,118	3,746	--
Arts & Entertainment	--	--	--	--	973,895	1,821,657	1,898,316	1,897,035	2,014,634	1,005,458
Food Services	441,111	647,298	849,404	793,328	387,557	474,831	396,858	366,266	293,423	--
Other Services	162,528	400,442	686,987	625,410	944,384	674,857	732,683	694,169	629,681	345,003
Other	121,168	84,115	17,020	--	--	--	--	--	--	--
<b>Total</b>	<b>\$ 4,191,900</b>	<b>\$ 5,158,912</b>	<b>\$ 6,457,335</b>	<b>\$ 7,543,951</b>	<b>\$ 8,565,322</b>	<b>\$ 10,986,585</b>	<b>\$ 11,968,452</b>	<b>\$ 11,480,482</b>	<b>\$ 10,586,682</b>	<b>\$ 5,402,603</b>
Direct Sales Tax Rate	2.00%	2.00%	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 2011.
- (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
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%
2010	1.00%	0.50%	0.50%	6.25%
2011	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			Per Capita	Other Governmental Activities Debt		
	General Obligation Bonds	Certificates of Obligation	Percentage of Actual Taxable Value of Property		Capital Leases	Certificates of Participation	Notes Payable
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
2010	1,625,000	10,987,884	1.08%	1,704	--	--	244,052
2011	2,955,000	7,176,457	0.93%	1,460	256,289	--	216,607

Fiscal Year	Business-type Activities				Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation & Tax Revenue Bonds	Contract Revenue Bonds	Certificates of Obligation	Capital Leases			
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
2010	10,732,116	829,917	--	--	24,418,969	6.46%	3,300
2011	11,658,542	789,921	--	251,263	23,304,079	6.17%	3,358

**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		
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
2010	1,625,000	10,987,884	12,612,884	1.08%	1,704
2011	2,955,000	7,176,457	10,131,457	0.93%	1,460

**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	\$ 346,468,101	16.414%	\$ 56,869,274
Rockwall County	56,500,000	15.739%	8,892,366
Kaufman County	15,500,000	18.533%	<u>2,872,584</u>
Subtotal, Overlapping Debt			68,634,224
City Direct Governmental Activities Debt			<u>10,131,457</u>
Total Direct and Overlapping Debt			<u>\$ 78,765,681</u>

Sources: Debt outstanding data provided by each individual government. The estimated percentage is calculated as the City's net assessed taxable value as a percentage of the overlapping entities net assessed taxable value.

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Debt Limit	\$ 50,768,897	\$ 61,893,435	\$ 67,016,153	\$ 73,180,250	\$ 79,065,829	\$ 95,377,720	\$ 100,042,444	\$ 107,182,675	\$ 110,152,419	\$ 108,637,507
Total Net Debt Applicable to Limit	5,127,500	4,933,750	6,992,500	6,753,750	6,482,500	6,179,750	13,000,666	11,795,255	11,388,318	9,467,829
Legal Debt Margin	45,641,397	56,959,685	60,023,653	66,426,500	72,583,329	89,197,970	87,041,778	95,387,420	98,764,101	99,169,678
Total Net Debt Applicable to the Limit As a Percentage of Debt Limit	10.10%	7.97%	10.43%	9.23%	8.20%	6.48%	13.00%	11.00%	10.34%	8.72%

**Legal Debt Margin Calculation for the Current Fiscal Year**

Assessed Value	\$ 1,086,375,065
Debt Limit (10% of Assessed Value)	108,637,507
Debt Applicable to Limit:	
General Obligation Bonds	10,131,457
Less: Amount Set Aside for Repayment of General Obligation Debt	(663,628)
Total Net Debt Applicable to Limit	9,467,829
Legal Debt Margin	\$ 99,169,678

(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**  
**PLEGGED-REVENUE COVERAGE**  
**LAST TEN FISCAL YEARS**

Fiscal Year	Water Revenue Bonds (4)							Coverage
	Operating Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service (3)		Total		
				Principal	Interest			
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	
2010	4,432,549	2,537,938	1,894,611	520,368	503,838	1,024,206	1.85	
2011	5,657,061	2,771,632	2,885,429	455,000	235,647	690,647	4.18	

(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)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Population	5,141	5,200	5,350	5,650	6,177	6,350	6,875	6,890	6,921	6,940
Personal Income (in 000's)	\$ 262,443	\$ 265,455	\$ 273,112	\$ 288,427	\$ 315,330	\$ 324,161	\$ 350,962	\$ 365,000	\$ 377,763	\$ 418,045
Per Capita Personal Income	\$ 51,049	\$ 51,049	\$ 51,049	\$ 51,049	\$ 51,049	\$ 51,049	\$ 51,049	\$ 52,975	\$ 54,582	\$ 60,237
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	12.3	12.3	12.3	12.3	12.5	12.5	12.7	12.7	12.7	12.7
School Enrollment	1,963	1,985	2,117	2,083	3,116	3,696	4,163	4,271	4,313	4,235
Unemployment	5.7%	5.9%	5.3%	3.8%	4.5%	4.4%	4.4%	4.8%	7.3%	7.2%

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	2011			2002		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Rockwall ISD	1,896	1	10.89%	1,200	1	11.15%
Texas Star Enterprise	484	2	2.78%	200	6	1.86%
Wal-Mart Superstore	450	3	2.59%	500	2	4.65%
Presbyterian Hospital	419	4	2.41%	--	--	--
County of Rockwall	298	5	1.71%	140	7	1.30%
City of Rockwall	256	6	1.47%	--	--	--
Special Products & Manufacturing	205	7	1.18%	135	10	1.25%
Target	200	8	1.15%	--	--	--
Rockwal Nursing Home	160	9	0.92%	140	9	1.30%
Kohl's Department Store	140	10	0.80%	140	8	1.30%
Precision Cable	--	N/A	--	200	4	1.86%
James Helwig & Son	--	N/A	--	200	5	1.86%
Continental Pet	--	N/A	--	225	3	2.09%
Subtotal	4,508		25.90%	3,080		28.62%
Remaining employees	12,899			7,683		
	<u>17,407</u>			<u>10,763</u>		

Source: Rockwall County Chamber of Commerce.

Note: The data provided is for Rockwall County as of December 2010.  
 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)

Function/Program	Full-Time-Equivalent Employees as of Year End									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Administration</b>										
Administration	4.0	3.0	3.0	3.0	--	--	--	--	--	--
City Manager	--	1.0	1.0	1.0	2.0	2.0	2.0	2.0	1.5	1.5
City Secretary	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Finance	2.0	2.0	2.0	2.0	3.0	3.5	3.5	3.5	2.5	2.5
Non-Divisional	--	--	--	--	--	--	1.0	1.0	0.5	0.5
<b>Department of Public Safety</b>										
Officers	9.0	12.0	12.0	13.0	12.0	14.0	18.0	19.0	17.0	17.0
Civilians	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Municipal Court	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
<b>Public Works</b>										
Streets	2.0	1.0	1.0	1.0	1.7	1.7	1.7	1.7	1.7	1.7
Parks and Recreation	--	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Engineering	3.0	3.0	3.0	3.0	3.5	3.5	4.5	4.5	4.5	4.0
<b>Utility Fund</b>										
Water	--	1.0	1.0	1.0	2.7	2.7	2.7	2.7	1.7	2.2
Wastewater	--	--	--	--	1.7	1.7	1.7	1.7	1.7	1.7
Administration	--	--	--	--	3.0	3.0	3.0	3.0	3.0	3.0
Customer Service	--	--	--	--	2.5	3.0	3.0	3.0	2.0	2.0
Non-Divisional	--	--	--	--	0.5	0.5	1.0	1.0	0.5	0.5
<b>Total</b>	<b>23.0</b>	<b>27.0</b>	<b>27.0</b>	<b>28.0</b>	<b>36.5</b>	<b>39.5</b>	<b>46.0</b>	<b>47.0</b>	<b>40.5</b>	<b>40.5</b>

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									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Government										
Building Permits Issued	--	--	--	--	106	142	99	40	35	31
Building Inspections Conducted	--	--	--	--	905	597	698	800	721	721
Police										
Physical Arrests	--	--	--	--	80	84	53	58	43	22
Burglary	--	--	--	--	23	23	38	14	32	16
Robbery	--	--	--	--	1	--	--	--	--	--
Theft	--	--	--	--	82	82	54	48	50	31
Traffic violations	--	--	--	--	112	170	189	147	185	198
Fire										
Emergency Responses	--	--	--	--	151	253	316	149	210	225
Fires Extinguished	--	--	--	--	6	9	9	7	10	25
Inspections	--	--	--	--	24	30	48	52	60	60
Other Public Works										
Street Resurfacing (feet)	--	--	--	--	57,200	6,936	103,400	88,000	270,000	--
Potholes Repaired	--	--	--	--	750	770	800	800	800	800
Water										
New Connections	--	--	--	--	198	171	174	126	90	94
Average Annual Consumption (thousands of gallons)	--	--	--	--	575	402	460	460	440	491
Wastewater										
Average Daily Sewage Treatment (thousands of gallons)	--	--	--	--	--	287,381	370,665	350,115	389,593	312,149

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									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Public Safety										
Stations	--	--	--	--	1.00	1.00	1.00	1.00	1.00	1.00
Patrol Units	--	--	--	--	12.00	12.00	12.00	12.00	12.00	12.00
Fire Engines	--	--	--	--	3.00	3.00	3.00	3.00	3.00	3.00
Other Public Works										
Streets (miles)	--	--	--	--	145.84	145.84	145.84	175.00	175.00	175.00
Parks and Recreation										
Acreage	--	--	--	--	71.00	71.00	71.00	71.00	94.00	94.00
Playgrounds	--	--	--	--	1.00	1.00	1.00	2.00	2.00	2.00
Baseball/Softball Fields	--	--	--	--	1.00	1.00	1.00	1.00	1.00	1.00
Soccer/Football Fields	--	--	--	--	3.00	3.00	3.00	3.00	3.00	3.00
Community Centers	--	--	--	--	1.00	1.00	1.00	1.00	1.00	1.00
Water										
Water Mains (miles)	--	--	--	--	50.24	50.24	50.24	51.61	51.61	54.00
Fire Hydrants	--	--	--	--	143.00	163.00	183.00	199.00	199.00	223.00
Wastewater										
Sanitary Sewers (miles)	--	--	--	--	60.60	60.60	60.60	61.44	61.44	61.44
Storm Sewers (miles)	--	--	--	--	12.00	12.00	12.00	12.00	12.00	14.00

Sources: Various city departments

Information not available prior to 2006.