

City of Heath, Texas
Comprehensive Annual Financial Report
For the year ended September 30, 2014
Prepared by the Finance Department

City of Heath, Texas

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September 30, 2014

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City of Heath, Texas

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INTRODUCTORY SECTION



November 18, 2014

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, 2014. 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, 2014.

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.

Brooks Cardiel and Company, PLLC. has issued an unqualified opinion on the City of Heath's financial statements for the year ended September 30, 2014. The independent auditors' report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. The 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 and northern Kaufman 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. The City is primarily residential but has seen growth in its commercial development over the past few years. Within the guidelines set forth in the City's Comprehensive Master Plan, the City Council and the Economic Development Corporation continue to actively pursue and promote commercial development in the City of Heath.

The City of Heath was incorporated in 1959 under the general laws of the State of Texas and 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 Progressive Waste 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' October 2014 Regional Economic Update, "The regional economy continues to expand at a rapid pace. Employment grew at a faster rate in the third quarter than in the second. The Texas Business Outlook Surveys (TBOS) point to continued growth in the manufacturing and service sectors in October. Despite the recent decline in oil prices, activity in the energy sector remains vigorous." "Texas payroll employment increased 3.2 percent in September, down from August's 4.1 percent growth. Overall, job growth accelerated to 3.9 percent in the third quarter." "The Texas housing sector continues to see moderate growth, with homes sales and tight inventories pushing up prices. Texas home price gains have decelerated this year, although year to date through September, prices have appreciated faster in Texas than in the U.S." "Falling oil prices and persistent labor shortages pose potential headwinds for future expansion. However most indicators of economic activity point toward sustained growth for the rest of the year and into 2015,"

The City's Fiscal Year 2014 Assessed Value increased \$47M, or 4.34%, over the Fiscal Year 2013 Assessed Value. This marks the first time since Fiscal Year 2010 that Assessed Values increased over the prior year. The City realized 11% growth in both the number and value of residential permits issued in 2014. One commercial permit was issued for the construction of a CVS in a new retail development. Improvement to FM 740 has positively affected developer interest in the City. The increase in construction and retail sales accounts for the majority of the \$58,720 increase in sales tax revenue. Fiscal Year 2014 is the second consecutive year sales tax revenue has increased at least 13%. Franchise revenue was up \$77,950 or 17.41% over the prior year. All of these indicators point to a recovering economy and growth in the City of Heath.

Economic Indicators					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Assessed Value	1,101,524,185	1,089,241,489	1,087,289,484	1,084,966,301	1,132,098,307
Residential Permits	35	31	47	64	71
Sales Tax Revenue	\$379,788	\$369,548	\$376,400	\$433,029	\$491,749
Franchise Fees	\$427,111	\$466,218	\$498,209	\$447,833	\$525,783

Projections based on future development played a key role during the 2015 budget process. The Fiscal Year 2015 Budget assumed the cost of the City's immediate needs exceeded revenues and excess fund balance was used to balance the budget. Excess Fund Balance is defined as available funds above the target Fund Balance of 25% of budgeted expenditures. The 2015 Budget also assumed various user fees would be adjusted to cover the cost of providing the related service. Water rates were increased to offset the increase in the cost of purchased water. Rates for sewer treatment and sanitation collection remained unchanged. Healthy fund balances were maintained in both the General Fund and the Utility Fund.

The City continued to move toward completion on several capital improvement projects during Fiscal Year 2014. Towne Center Drive was opened to the public prior to the beginning of the 2014-15 school year. The project has successfully reduced traffic around Amy Parks during the time students are being

dropped off in the morning and picked up in the afternoon. The project has also provided additional parking for visitors of the Town Center Park. Improvements to Country Club Drive and the construction of the Stoneleigh Pedestrian Bridge were both completed in 2014. Construction began on several projects including: Phase 2 of the FM740 Utility Relocation; Shepherds Glen Force Main and Gravity Sewer; Safe Routes to School; FM-549 Water Line; and the Terry Park Seawall. Several of these projects will be completed in early 2015. Engineering began on several projects including: Jeff Boyd Water Line; Rabbit Ridge Road and Water Line; and the Crisp Lane. The City is committed to completing the Capital Improvement Program projects in a timely manner.

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 2013-2014 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. 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 budgeted 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, 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 2014 is \$.2636 for maintenance and operations and \$.0797 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 BrooksCardiel and Company, PLLC. 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 (CAFR) for the fiscal year ended September 30, 2013. This was the fifth 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 CAFR. 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 period beginning October 1, 2013. 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



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

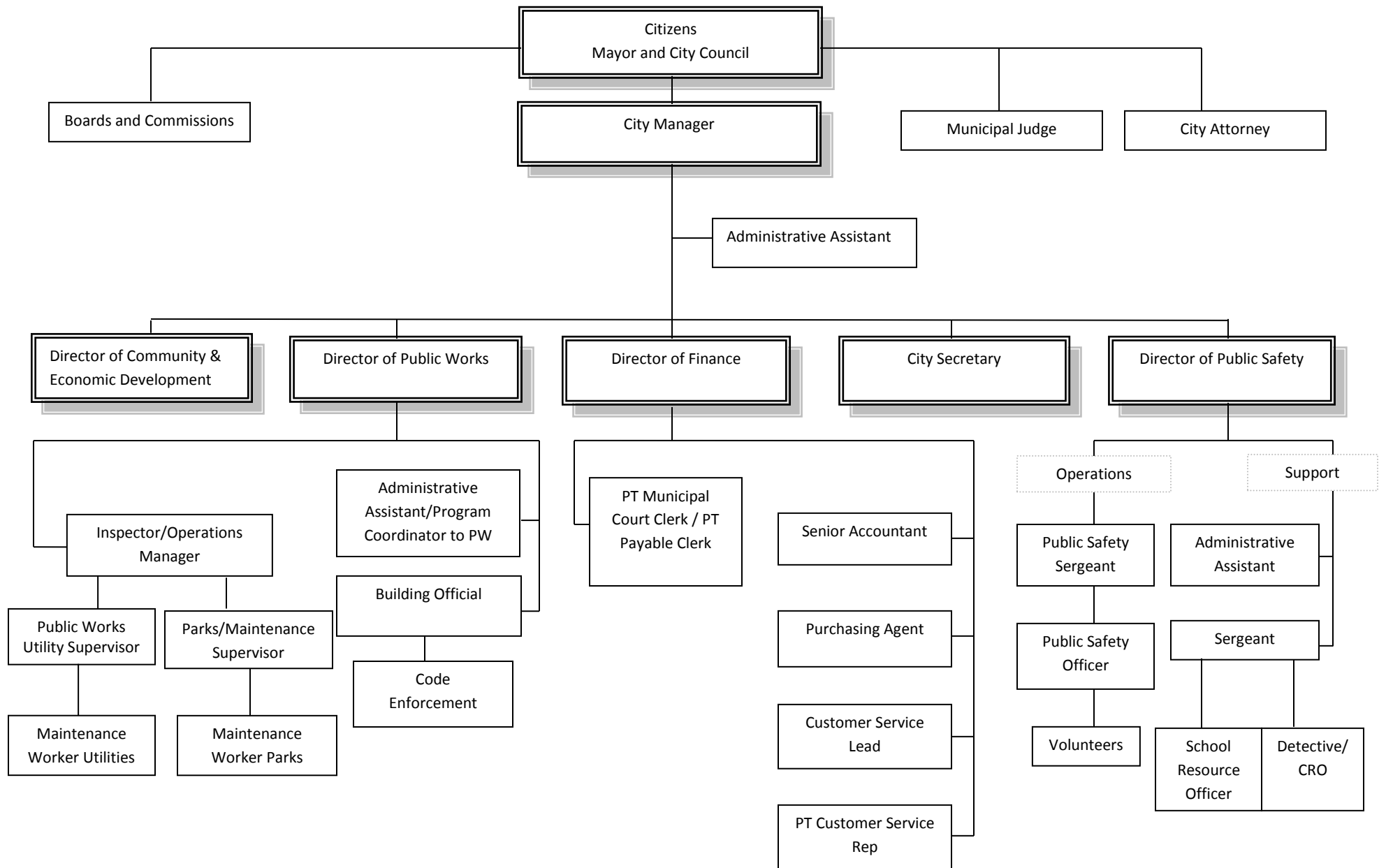
**City of Heath
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2013

A handwritten signature in black ink, reading "Jeffrey R. Enos". The signature is fluid and cursive.

Executive Director/CEO



City of Heath, Texas

PRINCIPAL OFFICIALS

SEPTEMBER 30, 2014

CITY COUNCIL

Lorne Liechty, Mayor

Justin Holland, Mayor Pro Tem

Kevin Lamberth, Council Member, Place 1

Brian Berry, Council Member, Place 5

Joe Chamberlain, Council Member, Place 3

Rich Krause, Council Member, Place 6

Barry Brooks, Council Member, Place 4

CITY STAFF

Ed Thatcher, City Manager

Andy Messer, City Attorney

Stephanie Galanides, City Secretary

David Herbert, Public Works

Terry Garrett, Department of Public Safety

Kim Dobbs, Community Development

Roy Stacy, Municipal Court Judge

Laurie Mays, Finance

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Heath, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Heath, Texas (the "City"), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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 as of September 30, 2014 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining balance sheet, statement of revenues, schedules of revenues, expenditures, and changes in fund balances – budget and actual for the debt service fund, Heath, Economic Development Corporation, and Heath Municipal Benefits Corporation, as well as the Statement of Changes in Assets and Liabilities – Streets Escrow Fund are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information noted above is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and the statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Brooks Cardiel, PLLC". The signature is written in a cursive, flowing style.

BrooksCardiel, PLLC
Certified Public Accountants
The Woodlands, Texas
November 18, 2014

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*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

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City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2014

As management of the City of Heath, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The assets of the City exceeded its liabilities (net position) at September 30, 2014 by \$44,997,616. Of this amount, \$35,160,242 (net investment in capital assets) has been invested in the City's infrastructure, buildings, and other assets.
- The City's total net position increased by \$509,708. The majority of the City's net position is either invested in capital assets or restricted for specific purposes. The increase is related to the City's current year investment in capital assets.
- The City's governmental funds reported combined ending fund balances of \$22,677,762 at September 30, 2014, an increase of \$13,309,514 from the prior fiscal year; this includes an increase of \$13,190,361 in the capital improvement fund, a decrease of \$260,340 in the debt service fund, and a decrease of \$4,855 in the general fund.
- At the end of the fiscal year, unassigned fund balance for the general fund was \$2,534,965 or 53% of total general fund expenditures.
- The City's outstanding bonds payable demonstrated a net increase of \$12,832,916. The total bonds payable at the close of the fiscal year was \$40,720,000 including self-supporting debt of the proprietary fund which was \$15,536,894.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities. The difference between the two is reported as *net position*. Over time, increases or decreases in net position may serve

City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2014

as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, culture and recreation, and community development. The business-type activities of the City include water and sewer and solid waste operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the legally separate Heath Economic Development Corporation (HEDC) and Health Municipal Benefits Corporation (HMBC) for which the City is financially accountable. These component units, although also legally separate, function for all practical purposes as a department of the City, and therefore have been included as an integral part of the primary government.

FUND FINANCIAL STATEMENTS

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

City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2014

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 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, debt service fund, and the capital improvement fund, which are considered to be major funds. The City's public safety fund, the Heath Economic Development Corporation, and Heath Municipal Benefit Corporation are considered nonmajor for reporting purposes.

The City adopts an annual appropriated budget for its general fund and debt service fund, the Heath EDC, and the Heath MBC. A budgetary comparison statement has been provided for each fund to demonstrate compliance with the budget.

Proprietary Funds

The City maintains two types of proprietary funds. *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 its water and sewer and its solid waste operations. All activities associated with providing such services are accounted for in these funds, including administration, operation, maintenance, debt service, capital improvements, meter maintenance, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

Proprietary financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer fund since it is considered a major fund of the City.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are *not* reported in the government-wide financial statements because the resources of those funds *are not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City maintains one type of fiduciary fund. The *Streets Escrow fund* is used to report resources held in escrow prior to determination of usage or refunding to developers.

City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2014

Component Units

The City maintains the accounting and financial statements for two component units. The Heath Economic Development Corporation and Heath Municipal Benefits Corporation are reported as blended component units and are nonmajor funds.

Notes to Financial Statements

The notes provide additional information that is necessary to acquire 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 *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison for the general fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Heath, assets exceed liabilities by \$44,997,616 as of September 30, 2014, in the primary government.

The largest portion of the City's net position, \$35,160,242, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

City of Heath, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2014

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2014			2013		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities		Activities	Activities	
Current and						
other assets	\$ 23,633,682	\$ 10,186,251	\$ 33,819,933	\$ 9,948,714	\$ 13,966,738	\$ 23,915,452
Capital assets, net	27,081,817	28,363,779	55,445,596	24,931,992	25,942,494	50,874,486
Total Assets	50,715,499	38,550,030	89,265,529	34,880,706	39,909,232	74,789,938
Total Deferred Outflows	55,137	144,240	199,377	64,776	163,722	228,498
Other liabilities	2,071,047	1,879,294	3,950,341	437,140	398,036	835,176
Long-term liabilities	25,421,872	15,095,077	40,516,949	11,679,793	18,015,559	29,695,352
Total Liabilities	27,492,919	16,974,371	44,467,290	12,116,933	18,413,595	30,530,528
Net Position:						
Net investment						
in capital assets	17,139,345	18,020,897	35,160,242	13,894,049	14,592,909	28,486,958
Restricted	19,981,226	-	19,981,226	6,690,500	-	6,690,500
Unrestricted	(13,842,854)	3,699,002	(10,143,852)	2,244,000	7,066,450	9,310,450
Total Net Position	\$ 23,277,717	\$ 21,719,899	\$ 44,997,616	\$ 22,828,549	\$ 21,659,359	\$ 44,487,908

Due to the current year's bond issuance, current assets increased by \$13,684,968 Other liabilities increased due to capital improvement projects that started, but did not finish in the current year.

City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2014

Statement of Activities:

The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2014			For the Year Ended September 30, 2013		
			Total			Total
	Governmental	Business-Type	Primary	Governmental	Business-Type	Primary
	Activities	Activities	Government	Activities	Activities	Government
Revenues						
Program revenues:						
Charges for services	\$ 549,526	\$ 5,514,782	\$ 6,064,308	\$ 445,830	\$ 5,986,342	\$ 6,432,172
Grants and contributions	1,211,232	-	1,211,232	1,007,052	317,567	1,324,619
General revenues:						
Property taxes	3,894,536	-	3,894,536	3,770,807	-	3,770,807
Sales taxes	994,460	-	994,460	866,055	-	866,055
Franchise and local taxes	531,528	-	531,528	500,529	-	500,529
Investment income	8,187	7,037	15,224	10,280	9,703	19,983
Other revenues	180,712	-	180,712	102,460	-	102,460
Total Revenues	7,370,181	5,521,819	12,892,000	6,703,013	6,313,612	13,016,625
Expenses						
General government	1,037,325	-	1,037,325	1,130,893	-	1,130,893
Public safety	2,924,001	-	2,924,001	2,594,015	-	2,594,015
Public works	2,064,771	-	2,064,771	2,010,404	-	2,010,404
Culture and recreation	250,703	-	250,703	232,883	-	232,883
Economic development	121,733	-	121,733	45,149	-	45,149
Economic opportunity	29,413	-	29,413	46,407	-	46,407
Interest and fiscal charges	697,067	1,111,490	1,808,557	487,552	964,793	1,452,345
Water, sewer, & solid waste	-	4,145,789	4,145,789	-	4,191,310	4,191,310
Total Expenses	7,125,013	5,257,279	12,382,292	6,547,303	5,156,103	11,703,406
Change in Net Position						
Before Transfers	245,168	264,540	509,708	155,710	1,157,509	1,313,219
Transfers	204,000	(204,000)	-	40,000	(40,000)	-
Total	204,000	(204,000)	-	40,000	(40,000)	-
Change in Net Position	449,168	60,540	509,708	195,710	1,117,509	1,313,219
Beginning Net Position	22,828,549	21,659,359	44,487,908	22,632,839	20,541,850	43,174,689
Ending Net Position	\$ 23,277,717	\$ 21,719,899	\$ 44,997,616	\$ 22,828,549	\$ 21,659,359	\$ 44,487,908

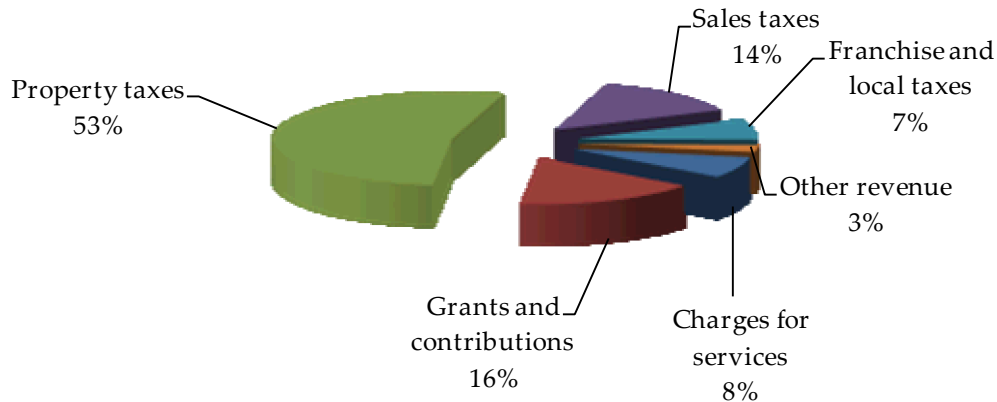
City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2014

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

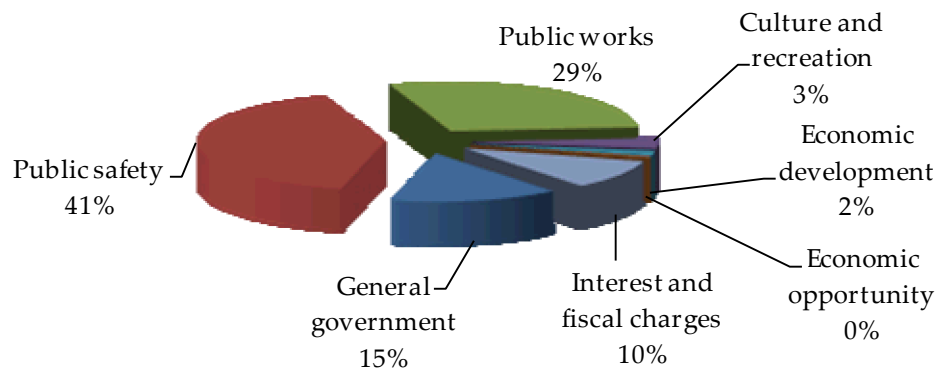
Governmental Activities - Revenues



For the year ended September 30, 2014, revenues from governmental activities totaled \$7,370,181. Property tax, franchise tax and sales tax are the City's largest general revenue sources. Sales tax increased \$128,405 or 15% due to cyclical business activities within the City. Grants and contributions increased by \$204,180 due to a contribution of road construction from the Texas Department of Transportation.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



For the year ended September 30, 2014, expenses for governmental activities totaled \$7,125,013. This represents an increase of \$577,710. This increase stems from a 13% increase in public safety expenditures, the majority of which was an increase in salaries and overtime paid. The City's largest functional expense is public safety of \$2,924,001. All remaining categories remained relatively consistent with the previous year.

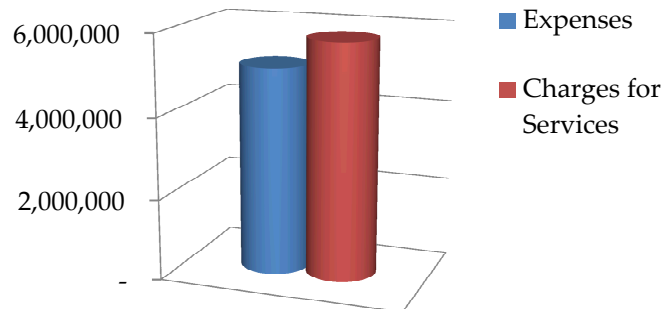
City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2014

Business-type activities are shown comparing operating costs to revenues generated by related services.

Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2014, charges for services by business-type activities totaled \$5,514,782. This is a decrease of \$471,560, or 8%, from the previous year. This increase directly relates to water conservation efforts that occurred within the City.

Total expenses increased \$101,176 to a total of \$5,257,279, a change of 2%.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information of 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 the City's net resources available for spending at the end of the year.

At September 30, 2014, the City's governmental funds reported combined fund balances of \$22,677,762, an increase of \$13,309,514 in comparison with the prior year. Approximately 11% of this amount, \$2,534,965, constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable*, *committed*, *assigned*, or *restricted*. Nonspendable fund balance indicates that it is not in spendable form. The City had \$19,013 in nonspendable funds at year end. Committed fund balance can be used only for the specific purposes determined by the City Council. The City had \$11,000 in committed funds at year end. Assigned fund balance is limited for specific purposes intended by council or management. The City had \$131,558 in assigned funds at year end. Restricted fund balance represents funds that are restricted by law, debt agreements, or grantors for particular purposes. The City had \$19,981,226 in restricted funds at year end.

City of Heath, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2014

As of the end of the year the general fund reflected a total fund balance of \$2,564,978. Fund balance decreased by \$4,855 due to increased spending within the general fund.

As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. The unassigned (the amount available for spending) fund balance of the general fund of \$2,534,965 is 53% of total general fund expenditures.

The debt service fund had an ending fund balance of \$569,257 at September 30, 2014 compared to the previous year's balance of \$829,527. This is a change of \$260,340 due to planned decrease in fund balance.

The capital improvements fund had a net increase in fund balance of \$13,190,361 due to the issuance of debt. During the year, the City expended \$3,772,108 on improving the City's infrastructure in cooperation with the Texas Department of Transportation, compared to prior year expenses of \$806,680 for capital improvements.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net position in the water and sewer fund totaled \$21,616,666. Unrestricted net position of the fund at the close of the fiscal year amounted to \$3,595,769. The capital assets of the water and sewer fund had a net book value of \$28,363,779. The City operates and maintains a water and sewer distribution system with force mains and lift stations. Other factors concerning the finances of the water and sewer enterprise fund have already been addressed in the discussion of the City's business-type activities; however, the following are additional comments regarding operations of the enterprise fund:

Net increases to capital assets were \$2,421,285, the majority of which is classified as construction in progress at September 30, 2014. Operational expenses excluding depreciation and amortization were \$2,698,716. Cash and cash equivalents in the water and sewer fund were \$9,050,134 at fiscal year end.

The City's nonmajor solid waste fund recorded a decrease of \$16,774 in net position. This fund does not hold any capital assets and consists of contracting solid waste pick up and disposal; as well as collecting payment for this service from the City's residents.

City of Heath, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2014

GENERAL FUND BUDGETARY HIGHLIGHTS

Budget amendments approved during the fiscal year total a net increase of zero in total expenditures. There was a positive variance of \$230,674 over budgeted general fund revenues. The following are additional comments regarding appropriations:

- There was a positive variance of \$402,540 in budgeted appropriations.
- \$633,214 is the surplus of revenues over expenditures before transfers.
- There was a net decrease in fund balance of \$4,855. The original budget planned for a decrease of \$372,525 and the final budget planned for a decrease of \$637,525.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$27,081,817 in a variety of capital assets and infrastructure, net of accumulated depreciation. The City's business-type activities funds had invested \$28,363,779 in a variety of capital assets and infrastructure, net of accumulated depreciation. This investment in capital assets includes land, buildings, vehicles, equipment, park improvements, and infrastructure. The City's total investment in capital assets increased by \$4,571,100 due to improvements made to the City's infrastructure in the current year.

Major capital asset events during the current year include the following:

- Contributed assets valued at \$1,004,919 consisting of ongoing trail system construction, currently classified as construction in progress.
- The addition of \$3,375,343 in business-type construction in progress.

More detailed information about the City's capital assets is presented in note IV. C to the financial statements.

LONG-TERM DEBT

At the end of the current fiscal year, the City had total bonded debt obligations of \$40,720,000. Of this amount, \$15,536,894 is self-supporting through revenues collected from the rates of the City's water and sewer fund. All of the City's debt is backed by a full-faith credit pledge of property taxes with a limited pledge of revenues of the enterprise/water and sewer system. The City monitors its debt obligations and callable bonds for refinancing opportunities with market conditions.

During the current year the City issued a bond for \$14,205,000. The City also transferred bond proceeds and related debt from the business-type activities to the governmental activities in the amount of \$1,135,657.

City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2014

More detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City Council approved a tax rate for the fiscal year 2015 budget of \$.4266 per \$100 of assessed value. This was a \$.0833 increase over the prior year's tax rate. Of the \$.0833 increase \$.0733 is allocated to the Debt Service Fund and \$.01 is allocated to the General Fund. For the second consecutive year assessed values increased over the prior year. Ad valorem tax revenue increased \$931,000 and \$311,600 in the Debt Service Fund and the General Fund, respectively. The increase in the Debt Service Fund revenue resulted, primarily, from the rate increase required to repay debt issued in fiscal year 2014. The fiscal year 2015 budget included additional funding for street repairs and maintenance, vehicle and equipment replacement and salaries and benefits. The City added 2 full-time positions and 2 part-time positions in response to the increase in both residential and commercial development. The budget also included an increase for the purchase of wholesale water and wastewater treatment.

Debt was issued in 2014 to fund several general government capital improvement projects. The focus over the past two years has been on capital improvement needs. The City Council identified several priority projects and issued debt in 2013 and 2014 to fund these projects. Projects funded by this debt include street improvements and expansions; park and trail system improvements and water and wastewater infrastructure upgrades.

Future operational and capital improvement budgets and rate planning will be of utmost importance as the City continues to grow. The City will continue to work toward diversifying its revenue base with emphasis on increasing commercial development within the guidelines of the Comprehensive Master Plan. Commercial retailers and businesses remain very interested in the City of Heath.

The City continues to maintain fund balances equal to or greater than 25% of budgeted expenditures.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Finance Department at 200 Laurence Drive, Heath Texas 75032 or call (972) 961-4896.

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FINANCIAL STATEMENTS

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City of Heath, Texas
STATEMENT OF NET POSITION
September 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 23,008,096	\$ 8,663,702	\$ 31,671,798
Restricted cash	-	440,710	440,710
Receivables, net	523,533	1,063,558	1,587,091
Inventory	-	10,321	10,321
Prepays	19,013	7,960	26,973
Total Current Assets	23,550,642	10,186,251	33,736,893
Land held for sale	83,040	-	83,040
Capital assets:			
Non-depreciable	6,273,677	3,744,048	10,017,725
Net depreciable capital assets	20,808,140	24,619,731	45,427,871
	27,164,857	28,363,779	55,528,636
Total Assets	50,715,499	38,550,030	89,265,529
<u>Deferred Outflows of Resources</u>			
Deferred charge on refunding	55,137	144,240	199,377
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	665,422	745,763	1,411,185
Accrued interest payable	281,882	78,702	360,584
Customer deposits	31,500	135,753	167,253
Noncurrent liabilities:			
Due within one year	1,092,243	919,076	2,011,319
Due in more than one year	25,421,872	15,095,077	40,516,949
Total Liabilities	27,492,919	16,974,371	44,467,290
<u>Net Position</u>			
Net investment in capital assets	17,139,345	18,020,897	35,160,242
Restricted for:			
Debt service	569,257	-	569,257
Capital improvement	16,474,949	-	16,474,949
Economic development	1,318,338	-	1,318,338
Economic opportunities	1,596,112	-	1,596,112
Public safety	22,570	-	22,570
Unrestricted	(13,842,854)	3,699,002	(10,143,852)
Total Net Position	\$ 23,277,717	\$ 21,719,899	\$ 44,997,616

See Notes to Financial Statements.

City of Heath, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 1,037,325	\$ 45,070	\$ -	\$ -
Public safety	2,924,001	437,582	206,313	1,004,919
Public works	2,064,771	60,684	-	-
Culture and recreation	250,703	6,190	-	-
Economic development	121,733	-	-	-
Economic opportunity	29,413	-	-	-
Interest and fiscal charges	697,067	-	-	-
Total Governmental Activities	7,125,013	549,526	206,313	1,004,919
Business-Type Activities				
Water & sewer	4,779,334	4,973,658	-	-
Solid waste	477,945	541,124	-	-
Total Business-Type Activities	5,257,279	5,514,782	-	-
Total Primary Government	\$ 12,382,292	\$ 6,064,308	\$ 206,313	\$ 1,004,919

General Revenues:

Taxes

Property taxes

Sales taxes

Franchise and local taxes

Alcoholic beverage taxes

Investment income

Other revenues

Transfers:

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (992,255)	\$ -	\$ (992,255)
(1,275,187)	-	(1,275,187)
(2,004,087)	-	(2,004,087)
(244,513)	-	(244,513)
(121,733)	-	(121,733)
(29,413)	-	(29,413)
(697,067)	-	(697,067)
<u>(5,364,255)</u>	<u>-</u>	<u>(5,364,255)</u>
-	194,324	194,324
-	63,179	63,179
-	257,503	257,503
<u>(5,364,255)</u>	<u>257,503</u>	<u>(5,106,752)</u>
3,894,536	-	3,894,536
994,460	-	994,460
525,783	-	525,783
5,745	-	5,745
8,187	7,037	15,224
180,712	-	180,712
204,000	(204,000)	-
<u>5,813,423</u>	<u>(196,963)</u>	<u>5,616,460</u>
449,168	60,540	509,708
22,828,549	21,659,359	44,487,908
<u>\$ 23,277,717</u>	<u>\$ 21,719,899</u>	<u>\$ 44,997,616</u>

City of Heath, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2014

	General	Debt Service	Capital Improvements	Other Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 2,609,070	\$ 565,258	\$ 16,855,103	\$ 2,978,665
Receivables, net	317,630	111,577	-	94,326
Prepays	19,013	-	-	-
Total Assets	\$ 2,945,713	\$ 676,835	\$ 16,855,103	\$ 3,072,991
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 280,855	\$ -	\$ 380,154	\$ 4,413
Deposits payable	31,500	-	-	-
Total Liabilities	312,355	-	380,154	4,413
<u>Deferred Inflows of Resources</u>				
Unavailable revenue -				
Property taxes	63,416	16,293	-	-
Fines receivable, net	1,464	-	-	-
Assessments receivable	-	91,285	-	-
Other	3,500	-	-	-
Total Deferred Inflows	68,380	107,578	-	-
<u>Fund Balances</u>				
Nonspendable for:				
Prepays	19,013	-	-	-
Committed	11,000	-	-	-
Assigned	-	-	-	131,558
Restricted	-	569,257	16,474,949	2,937,020
Unassigned	2,534,965	-	-	-
Total Fund Balances	2,564,978	569,257	16,474,949	3,068,578
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,945,713	\$ 676,835	\$ 16,855,103	\$ 3,072,991

See Notes to Financial Statements.

Total Governmental Funds	
<hr/>	
\$	23,008,096
	523,533
	19,013
<hr/>	
\$	23,550,642
<hr/>	

\$	665,422
	31,500
<hr/>	
	696,922
<hr/>	

	79,709
	1,464
	91,285
	3,500
<hr/>	
	175,958
<hr/>	

	19,013
	11,000
	131,558
	19,981,226
	2,534,965
<hr/>	
	22,677,762
<hr/>	
\$	23,550,642
<hr/>	

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City of Heath, Texas
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
September 30, 2014

Fund Balances - Total Governmental Funds	\$ 22,677,762
---	---------------

Adjustments for the Statement of Net Position:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets - non-depreciable	6,273,677
Capital assets - net depreciable	20,808,140

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.

Property tax receivable	79,709
Fines receivable, net	1,464
Assessments receivable	91,285
Other	3,500
Land held for sale	83,040

Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense/ expenditure) until then.

Deferred charge on refunding	55,137
------------------------------	--------

Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.

Accrued interest	(281,882)
Bond premium	(587,351)
Bond discount	93,804
Non-current liabilities due in one year	(1,092,243)
Non-current liabilities due in more than one year	(24,928,325)

Net Position of Governmental Activities	\$ 23,277,717
--	----------------------

See Notes to Financial Statements.

City of Heath, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended September 30, 2014

	General	Debt Service	Capital Improvements	Other Governmental Funds
<u>Revenues</u>				
Taxes:				
Property tax	\$ 3,004,384	\$ 911,200	\$ -	\$ -
Sales tax	497,230	-	-	497,230
Franchise tax	525,783	-	-	-
Alcoholic beverage tax	5,745	-	-	-
Licenses and permits	394,519	-	-	-
Intergovernmental	206,313	-	1,004,919	-
Charges for services	117,496	-	-	-
Fines and forfeitures	37,511	-	-	-
Special assessments	-	20,651	-	-
Investment income	1,561	409	4,917	1,300
Other revenue	26,032	-	133,255	30,602
Total Revenues	4,816,574	932,260	1,143,091	529,132
<u>Expenditures</u>				
Current:				
Administration	1,030,082	-	-	-
Highways and streets	410,568	-	-	-
Parks	150,219	-	-	-
Engineering and building inspection	409,396	-	-	-
Municipal court	50,923	-	-	-
Public safety	2,638,967	-	-	4,910
Economic development	99,730	-	-	21,277
Economic opportunity	-	-	-	28,687
Debt Service:				
Principal	-	777,747	-	45,000
Interest and fiscal charges	-	414,853	-	15,454
Bond issuance costs	-	-	87,555	-
Capital outlay	-	-	3,772,108	-
Total Expenditures	4,789,885	1,192,600	3,859,663	115,328
Excess of Revenues				
Over (Under) Expenditures	26,689	(260,340)	(2,716,572)	413,804
<u>Other Financing Sources (Uses)</u>				
Transfers in (out)	(31,544)	-	1,400,657	(29,456)
Proceeds from bond issuance	-	-	14,205,000	-
Premium on bonds issued	-	-	301,276	-
Total Other Financing Sources (Uses)	(31,544)	-	15,906,933	(29,456)
Net Change in Fund Balances	(4,855)	(260,340)	13,190,361	384,348
Beginning fund balances	2,569,833	829,597	3,284,588	2,684,230
Ending Fund Balances	\$ 2,564,978	\$ 569,257	\$ 16,474,949	\$ 3,068,578

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$	3,915,584
	994,460
	525,783
	5,745
	394,519
	1,211,232
	117,496
	37,511
	20,651
	8,187
	189,889
	<hr/>
	7,421,057
	<hr/>

1,030,082
410,568
150,219
409,396
50,923
2,643,877
121,007
28,687

822,747
430,307
87,555
3,772,108

<hr/>
9,957,476
<hr/>

(2,536,419)

1,339,657
14,205,000
301,276

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15,845,933
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13,309,514

9,368,248

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\$ 22,677,762
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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, 2014

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

Net changes in fund balances - total governmental funds	\$ 13,309,514
---	---------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	3,831,817
Depreciation expense	(1,598,952)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(50,876)
--	----------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(27,503)
Accrued interest	(198,374)

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of debt	(14,205,000)
Issuance of premium	(301,276)
Transfer of bond debt from business-type activities	(1,135,657)
Amortization of deferred charges on refunding	(9,639)
Amortization of debt premium	36,946
Amortization of debt discount	(8,138)
Principal payments	806,306

Change in Net Position of Governmental Activities	\$ 449,168
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See Notes to Financial Statements.

City of Heath, Texas
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2014

	Water & Sewer	Nonmajor Solid Waste	Total Proprietary Funds
<u>Assets</u>			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 8,609,423	\$ 54,279	\$ 8,663,702
Restricted cash	440,710	-	440,710
Receivables, net	971,537	92,021	1,063,558
Inventory	10,321	-	10,321
Prepays	7,960	-	7,960
Total Current Assets	10,039,951	146,300	10,186,251
<u>Noncurrent Assets</u>			
Capital assets:			
Non-depreciable	3,744,048	-	3,744,048
Net depreciable capital assets	24,619,731	-	24,619,731
Total Noncurrent Assets	28,363,779	-	28,363,779
Total Assets	38,403,730	146,300	38,550,030
<u>Deferred Outflows of Resources</u>			
Deferred charge on refunding	144,240	-	144,240
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accounts payable and accrued liabilities	702,696	43,067	745,763
Accrued interest	78,702	-	78,702
Customer deposits	135,753	-	135,753
Compensated absences - current	61,828	-	61,828
Bonds payable - current	857,248	-	857,248
Total Current Liabilities	1,836,227	43,067	1,879,294
<u>Noncurrent Liabilities</u>			
Compensated absences	93,114	-	93,114
Bonds payable	15,001,963	-	15,001,963
Total Liabilities	16,931,304	43,067	16,974,371
<u>Net Position</u>			
Net investment in capital assets	18,020,897	-	18,020,897
Unrestricted	3,595,769	103,233	3,699,002
Total Net Position	\$ 21,616,666	\$ 103,233	\$ 21,719,899

See Notes to Financial Statements.

City of Heath, Texas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

For the Year Ended September 30, 2014

	Water & Sewer	Nonmajor Solid Waste	Total Proprietary Funds
<u>Operating Revenues</u>			
Water revenue	\$ 2,564,213	\$ -	\$ 2,564,213
Sewer revenue	1,982,223	-	1,982,223
Sanitation revenue	-	541,124	541,124
Connection and tap charges	425,941	-	425,941
Other revenue	1,281	-	1,281
Total Operating Revenues	4,973,658	541,124	5,514,782
<u>Operating Expenses</u>			
Personnel	870,413	-	870,413
Supplies and services	273,087	477,945	751,032
Operating expenses	307,425	-	307,425
Materials and equipment	77,979	-	77,979
Cost of water	698,408	-	698,408
Cost of sewer	471,404	-	471,404
Depreciation	969,128	-	969,128
Total Operating Expenses	3,667,844	477,945	4,145,789
Operating Income	1,305,814	63,179	1,368,993
<u>Nonoperating Revenues (Expenses)</u>			
Investment income	6,990	47	7,037
Interest expense	(1,111,490)	-	(1,111,490)
Total Nonoperating Revenues (Expenses)	(1,104,500)	47	(1,104,453)
Income Before Capital Contributions and Transfers	201,314	63,226	264,540
Transfers in (out)	(124,000)	(80,000)	(204,000)
Change in Net Position	77,314	(16,774)	60,540
Beginning net position	21,539,352	120,007	21,659,359
Ending Net Position	\$ 21,616,666	\$ 103,233	\$ 21,719,899

See Notes to Financial Statements.

City of Heath, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 1 of 2)
For the Year Ended September 30, 2014

	Water & Sewer	Nonmajor Solid Waste	Total Proprietary Funds
<u>Cash Flows from Operating Activities</u>			
Receipts from customers	\$ 5,349,980	\$ 542,675	\$ 5,892,655
Payments to suppliers	(1,293,590)	(476,256)	(1,769,846)
Payments to employees	(856,446)	-	(856,446)
Net Cash Provided by Operating Activities	3,199,944	66,419	3,266,363
<u>Cash Flows from Noncapital Financing Activities</u>			
Operating transfers in (out)	(124,000)	(80,000)	(204,000)
Net Cash Provided by (Used for) Noncapital Financing Activities	(124,000)	(80,000)	(204,000)
<u>Cash Flows from Capital and Related Financing Activities</u>			
Capital purchases	(3,390,414)	-	(3,390,414)
Transfer of bond proceeds to governmental activities	(1,126,620)	-	(1,126,620)
Principal paid on debt	(853,530)	-	(853,530)
Interest paid on debt	(1,100,071)	-	(1,100,071)
Net Cash (Used for) Capital and Related Financing Activities	(6,470,635)	-	(6,470,635)
<u>Cash Flows from Investing Activities</u>			
Interest on investments	6,990	47	7,037
Net Cash Provided by Investing Activities	6,990	47	7,037
Net Increase (Decrease) in Cash and Cash Equivalents	(3,387,701)	(13,534)	(3,401,235)
Beginning cash and cash equivalents	12,437,834	67,813	12,505,647
Ending Cash and Cash Equivalents	\$ 9,050,133	\$ 54,279	\$ 9,104,412

See Notes to Financial Statements.

City of Heath, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 2 of 2)
For the Year Ended September 30, 2014

	<u>Water & Sewer</u>	<u>Nonmajor Solid Waste</u>	<u>Total Proprietary Funds</u>
<u>Reconciliation of Operating Income</u>			
<u>to Net Cash Provided by Operating Activities</u>			
Operating Income	\$ 1,305,814	\$ 63,179	\$ 1,368,993
Adjustments to reconcile operating income to net cash provided:			
Depreciation	969,128	-	969,128
Amortization	(20,843)	-	(20,843)
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in:			
Accounts receivable	376,322	1,551	377,873
Inventory	4,237	-	4,237
Prepays	(2,858)	-	(2,858)
Increase (Decrease) in:			
Accounts payable and accrued liabilities	542,048	1,689	543,737
Compensated absences	13,967	-	13,967
Customer deposits	12,129	-	12,129
Net Cash Provided by Operating Activities	<u><u>\$ 3,199,944</u></u>	<u><u>\$ 66,419</u></u>	<u><u>\$ 3,266,363</u></u>

See Notes to Financial Statements.

City of Heath, Texas
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
September 30, 2014

		Agency Fund
		Streets Escrow
<u>Assets</u>		
<u>Current Assets</u>		
Cash and cash equivalents		\$ 177,891
	Total Assets	<u>177,891</u>
<u>Liabilities</u>		
Accrued liabilities		177,891
	Total Liabilities	<u>\$ 177,891</u>

See Notes to Financial Statements.

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

B. Reporting Entity

The City of Heath, Texas (the "City") was incorporated in 1959 and 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, streets, parks and recreation, planning and zoning, and general administrative services. In addition, the City provides water and sewer service, and sanitation service as an enterprise function of the City.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Heath Economic Development Corporation (the "HEDC") and the Heath Municipal Benefits Corporation (the "HMBC"), although legally separate, are considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Blended Component Units

Heath Economic Development Corporation

The Heath Economic Development Corporation 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. The HEDC collects a half cent sales tax to support its activities. The City is the primary beneficiary of the HEDC's activities. Separate financial statements have not been prepared. However, additional financial information for the HEDC may be obtained at the entity's administrative offices at the following address: Heath Economic Development Corporation, 200 Laurence Drive, Heath, Texas 75032.

Heath Municipal Benefits Corporation

The City of Heath Municipal Benefits Corporation 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. The HMBC collects a half cent sales tax to support its activities. The City is the primary beneficiary of the HMBC's activities. Separate financial statements have not been prepared. However, additional financial information for the HMBC may be obtained at the entity's administrative offices at the following address: Heath Municipal Benefit Corporation, 200 Laurence Drive, Heath, Texas 75032.

C. Basis of Presentation - Government-Wide and Fund Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and the proprietary funds.

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 where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and transit functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

D. Basis of Presentation - Government-Wide and Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. Separate statements for each fund category; governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, highways and streets, engineering and building inspection, parks, and municipal court.

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of governmental funds. The primary source of revenue for debt service is local property taxes.

Capital Improvements Fund

The capital improvements fund accounts for the acquisition and construction of the government's major capital facilities, other than those financed by proprietary funds.

The government reports the following major enterprise fund:

Water & Sewer Fund

This fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water production and distribution system, water collection and treatment systems. The fund also accounts for the accumulation of resources for and the payment of long-term debt. All costs are financed through charges to utility customers.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers 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. General capital asset acquisitions are reported as expenditures in governmental funds.

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary, pension and other postemployment benefit trust, and private-purpose trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Agency funds have no measurement focus but utilize the *accrual basis of accounting* for reporting its assets and liabilities.

F. Budgetary Information

1. Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, debt service fund, Heath Economic Development Corporation, and Heath Municipal Benefits Corporation. The capital improvements fund is appropriated on a project-length basis. Other special revenue funds do not have appropriated budgets since other means control the use of these resources (e.g., grant awards and endowment requirements) and sometimes span a period of more than one fiscal year.

The appropriated budget is prepared by fund and function. At any time during the fiscal year, the Finance Director may transfer up to \$5,000 of the unencumbered appropriated balance between classifications of expenditure within a division (Division is a specific functional area within a City department. Streets is a division of the Public Works department). Transfers, within a division, exceeding \$5,000 must be approved by the City Manager. A transfer may not be made from the unencumbered appropriated balance in the Personnel Services classification of expenditure. Any revision that alters total expenditures of any division must be approved by the City Council. The legal level of budgetary control is at the divisional level.

Appropriations in all budgeted funds lapse at the end of the fiscal year.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

2. Excess of Expenditures over Appropriations

For the year ended September 30, 2014, the debt service fund demonstrated expenditures exceeding appropriations for \$579.

G. Assets, Liabilities, and Fund Equity or Net Position

1. Deposits and Investments

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. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

2. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the 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" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a nonspendable fund balance account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

4. 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 government, as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

Asset Description	Estimated Useful Life
Vehicles	5 to 10 years
Machinery and equipment	3 to 7 years
Infrastructure	5 to 50 years
Buildings and improvements	10 to 22 years

5. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, fines, and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6. Net Position Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2014

7. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

8. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable and accrued compensated absences.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the straightline method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are expensed as incurred.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

10. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

H. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as 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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

3. Compensated Absences

It is the City's policy to permit employees to accumulate earned, but unused vacation leave and sick leave. The City liquidates compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the City's governmental funds recognize accrued compensated absences when it is paid.

4. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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 fund are charges to customers for sales and services. The water and sewer 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 enterprise fund includes 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.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, debt service, HEDC, HMBC, water and sewer, and sanitation funds. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control is the divisional level, i.e. streets, parks, or public safety. The Finance Director may transfer up to \$5,000 within a division. Transfers within a division exceeding \$5,000 must be approved by the City Manager. Any revision that alters total expenditures of any division must be approved by the City Council.

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2014, the primary government had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
External investment pools	\$ 3,975,511	0.0
Portfolio weighted average maturity		0.0

Interest rate risk In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity to meet liquidity demands; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service. As of September 30, 2014, the City's investments in TexPool and TexStar were rated AAAM by Standard & Poor's.

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. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2014, the market values of pledged securities and FDIC exceeded bank balances.

Custodial credit risk – investments For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rates TexPool AAAm. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexStar

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. Standard & Poor's rates TexStar AAAm.

B. Receivables

The following comprise receivable balances of the primary government at year end:

	General	Debt Service	Other Governmental Funds	Water & Sewer	Solid Waste	Total
Property taxes	\$ 63,416	\$ 16,293	\$ -	\$ -	\$ -	\$ 79,709
Special assessments	-	95,284	-	-	-	95,284
Sales tax	94,326	-	94,326	-	-	188,652
Fines	2,440	-	-	-	-	2,440
Other	158,424	-	-	93,109	100,321	351,854
Accounts	-	-	-	920,461	-	920,461
Allowance	(976)	-	-	(42,033)	(8,300)	(51,309)
	<u>\$ 317,630</u>	<u>\$ 111,577</u>	<u>\$ 94,326</u>	<u>\$ 971,537</u>	<u>\$ 92,021</u>	<u>\$ 1,587,091</u>

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

C. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 3,036,088	\$ -	\$ (83,040)	\$ 2,953,048
Construction in progress	798,598	3,781,172	(1,259,141)	3,320,629
Total capital assets not being depreciated	<u>3,834,686</u>	<u>3,781,172</u>	<u>(1,342,181)</u>	<u>6,273,677</u>
Capital assets, being depreciated:				
Buildings	2,162,395	-	-	2,162,395
Improvements other than buildings	2,935,163	-	253,482	3,188,645
Infrastructure	34,123,856	-	1,005,659	35,129,515
Machinery and equipment	2,168,312	50,645	-	2,218,957
Total capital assets being depreciated	<u>41,389,726</u>	<u>50,645</u>	<u>1,259,141</u>	<u>42,699,512</u>
Less accumulated depreciation				
Buildings	(1,016,327)	(89,278)	-	(1,105,605)
Improvements other than buildings	(658,760)	(105,423)	-	(764,183)
Infrastructure	(16,165,209)	(1,204,732)	-	(17,369,941)
Machinery and equipment	(2,452,124)	(199,519)	-	(2,651,643)
Total accumulated depreciation	<u>(20,292,420)</u>	<u>(1,598,952)</u>	<u>-</u>	<u>(21,891,372)</u>
Net capital assets being depreciated	<u>21,097,306</u>	<u>(1,548,307)</u>	<u>1,259,141</u>	<u>20,808,140</u>
Total Capital Assets	<u><u>\$ 24,931,992</u></u>	<u><u>\$ 2,232,865</u></u>	<u><u>\$ (83,040)</u></u>	<u><u>\$ 27,081,817</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 29,994
Public safety	220,291
Public works	1,248,782
Culture and recreation	99,885
Total Governmental Activities Depreciation Expense	<u><u>\$ 1,598,952</u></u>

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

A summary of changes in business-type activities capital assets for the year end was as follows:

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 203,438	\$ -	\$ -	\$ 203,438
Construction in progress	165,267	3,375,343	-	3,540,610
Total capital assets not being depreciated	<u>368,705</u>	<u>3,375,343</u>	<u>-</u>	<u>3,744,048</u>
Capital assets, being depreciated:				
Buildings	309,639	-	-	309,639
Improvements other than buildings	34,081,368	-	-	34,081,368
Machinery and equipment	285,337	15,071	-	300,408
Total capital assets being depreciated	<u>34,676,344</u>	<u>15,071</u>	<u>-</u>	<u>34,691,415</u>
Less accumulated depreciation				
Buildings	(125,671)	(14,206)	-	(139,877)
Improvements other than buildings	(8,769,999)	(927,255)	-	(9,697,254)
Machinery and equipment	(206,886)	(27,667)	-	(234,553)
Total accumulated depreciation	<u>(9,102,556)</u>	<u>(969,128)</u>	<u>-</u>	<u>(10,071,684)</u>
Net capital assets being depreciated	25,573,788	(954,057)	-	24,619,731
Total Capital Assets	<u><u>\$ 25,942,493</u></u>	<u><u>\$ 2,421,286</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 28,363,779</u></u>

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

D. Long-term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended. In general, the City uses the debt service fund to liquidate governmental long-term liabilities.

	<u>Beginning Balance</u>	<u>Additions & Transfers</u>	<u>Reductions & Transfer</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Bonds, notes and other payables:					
General Obligation Bonds	\$ 3,915,000	\$ -	\$ (425,000)	\$ 3,490,000	\$ 430,000
Certificates of Obligation	6,652,956	15,331,620	(291,470)	21,693,106	339,372
Notes Payable	159,057	-	(31,040)	128,017	30,100
Premiums	323,021	301,276	(36,946)	587,351	-
Discounts	(101,942)	-	8,138	(93,804)	-
Other liabilities:					
Capital Lease	154,627	-	(49,759)	104,868	51,522
Compensated Absences	577,074	221,051	(193,548)	604,577	241,249
Total Governmental Activities	<u>\$ 11,679,793</u>	<u>\$ 15,853,947</u>	<u>\$ (1,019,625)</u>	<u>\$ 26,514,115</u>	<u>\$ 1,092,243</u>
Long-term liabilities due in more than one year				<u>\$ 25,421,872</u>	
Business-Type Activities:					
Bonds, notes and other payables:					
General Obligation Bonds	\$ 4,275,000	\$ -	\$ (320,000)	\$ 3,955,000	\$ 330,000
Certificates of Obligation	12,537,044	-	(1,615,150)	10,921,894	480,628
Premium	437,663	-	(42,359)	395,304	-
Discount	(80,123)	-	7,136	(72,987)	-
Contract Revenue Bonds	705,000	-	(45,000)	660,000	46,620
Other liabilities:					
Compensated Absences	140,975	112,257	(98,290)	154,942	61,828
Total Business-Type Activities	<u>\$ 18,015,559</u>	<u>\$ 112,257</u>	<u>\$ (2,113,663)</u>	<u>\$ 16,014,153</u>	<u>\$ 919,076</u>
Long-term liabilities due in more than one year				<u>\$ 15,095,077</u>	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. The City intends to retire all of its

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

general long-term liabilities, plus accrued interest, from property taxes and other current revenues from the debt service fund as has been done in prior years. The proprietary fund type long-term debt will be repaid, plus accrued interest, from operating revenues of the water and sewer fund. The general fund has typically been used to liquidate the liability for compensated absences for governmental activities.

Long-term debt at year end was comprised of the following debt issues:

Description	Interest Rates	Original Balance	Current Balance
Governmental Activities:			
2013 General Obligation Refunding Bonds	2.00-4.00%	\$ 1,600,000	\$ 1,555,000
2010 General Obligation Refunding Bonds	3.00-4.00%	2,230,000	1,775,000
2004 General Obligation Bonds	3.68%	1,835,000	160,000
Total General Obligation Bonds		5,665,000	3,490,000
2013 Combination Tax & Revenue Certificates	2.00-4.00%	1,654,037	1,615,000
2007 Combination Tax & Revenue Certificates	4.00-5.00%	8,392,369	5,873,106
2014 Combination Tax & Revenue Certificates	3.00-4.00%	14,205,000	14,205,000
Total Certificates of Obligation		24,251,406	21,693,106
Total Governmental Activities		\$ 29,916,406	\$ 25,183,106
Business-type Activities:			
2010 General Obligation Refunding Bonds	3.00-4.00%	\$ 4,840,000	\$ 3,955,000
Total General Obligation Bonds		4,840,000	3,955,000
2013 Combination Tax & Revenue Certificates	2.00-4.00%	6,540,963	6,505,000
2007 Combination Tax & Revenue Certificates	4.00-5.00%	5,052,631	4,091,894
2004 Combination Tax & Revenue Certificates	3.68%	1,640,000	325,000
Total Certificates of Obligation		13,233,594	10,921,894
2005 Contract Revenue Bonds	3.75-4.625%	1,006,566	660,000
Total Contract Revenue Bonds		1,006,566	660,000
Total Business-Type Activities		\$ 19,080,160	\$ 15,536,894
Total Long-Term Debt			
General Obligation Refunding Bonds		\$ 10,505,000	\$ 7,445,000
Certificates of Obligation		37,485,000	32,615,000
Contract Revenue Bonds		1,006,566	660,000
Total Primary Government		\$ 48,996,566	\$ 40,720,000

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

The annual requirements to amortize governmental activities debt issues outstanding at year ending were as follows:

Governmental Activities				
Year ending September 30,	General Obligation Bonds		Certificates of Obligation	
	Principal	Interest	Principal	Interest
2015	\$ 430,000	\$ 116,469	\$ 339,372	\$ 1,148,398
2016	325,000	104,100	918,664	951,114
2017	335,000	92,300	959,413	897,789
2018	305,000	80,475	1,007,198	845,064
2019	315,000	69,025	1,047,019	793,239
2020	330,000	57,100	1,089,804	738,886
2021	340,000	44,700	1,132,589	681,767
2022	360,000	32,350	1,173,338	620,876
2023	370,000	20,750	1,219,087	560,669
2024	380,000	7,600	1,264,836	501,876
2025	-	-	1,393,549	438,375
2026	-	-	1,442,263	370,726
2027	-	-	1,495,974	300,450
2028	-	-	945,000	248,775
2029	-	-	980,000	215,938
2030	-	-	1,010,000	180,925
2031	-	-	1,050,000	143,575
2032	-	-	1,090,000	103,625
2033	-	-	1,130,000	61,594
2034	-	-	1,005,000	20,100
Total	\$ 3,490,000	\$ 624,869	\$ 21,693,106	\$ 9,823,761

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

The annual requirements to amortize business-type activities debt issues outstanding at year ending were as follows:

Business-Type Activities				
Year ending September 30,	General Obligation Bonds		Certificates of Obligation	
	Principal	Interest	Principal	Interest
2015	\$ 330,000	\$ 149,950	\$ 480,628	\$ 460,942
2016	340,000	138,200	466,336	416,730
2017	485,000	121,700	355,587	396,485
2018	570,000	100,600	307,802	383,040
2019	605,000	77,100	307,981	371,024
2020	630,000	52,400	320,196	358,526
2021	660,000	26,600	327,411	345,384
2022	335,000	6,700	501,662	328,768
2023	-	-	515,913	308,992
2024	-	-	540,164	287,694
2025	-	-	561,451	264,318
2026	-	-	587,733	239,929
2027	-	-	614,030	214,429
2028	-	-	755,000	186,300
2029	-	-	790,000	155,400
2030	-	-	820,000	123,200
2031	-	-	855,000	89,700
2032	-	-	890,000	54,800
2033	-	-	925,000	18,500
Total	\$ 3,955,000	\$ 673,250	\$ 10,921,894	\$ 5,004,161

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

In 2005 the North Texas Municipal Water District issued debt on behalf of the Cities of Heath and Rockwall to construct a water storage facility. The City of Heath owns 33% of the water storage facility and has recorded the debt as contract revenue bonds.

The annual requirements to amortize contract revenue bonds outstanding at year end were as follows:

Year ending September 30,	Contract Revenue Bonds	
	Principal	Interest
2015	\$ 46,620	\$ 26,972
2016	50,000	24,872
2017	51,667	22,997
2018	53,333	21,008
2019	56,667	18,927
2020	60,000	16,661
2021	61,667	14,261
2022	65,000	11,732
2023	68,380	9,068
2024	71,666	6,197
2025	75,000	3,187
Total	\$ 660,000	\$ 175,882

Note Payable

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

The annual requirements to amortize the note payable outstanding at year end were as follows:

Year ending September 30,	Note Payable	
	Principal	Interest
2015	\$ 30,100	\$ 4,937
2016	31,971	3,066
2017	31,895	3,142
2018	34,051	986
Total	\$ 128,017	\$ 12,131

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

Capital Lease

The City entered into a capital lease to acquire a fire truck for \$306,500. The lease is payable in annual installments of \$55,236 with interest imputed at 3.47%. The annual requirements to amortize the note payable outstanding at year end were as follows:

Year ending September 30,	Capital Lease	
	Principal	Interest
2015	\$ 51,522	\$ 3,714
2016	53,346	1,890
Total	\$ 104,868	\$ 5,604

E. Intergovernmental Transfers

Transfers between the primary government funds during the 2014 year were as follows:

Transfer Out	Transfer In	Amount
General	Capital Improvement	\$ 265,000
Other Governmental Funds	General	29,456
Water & Sewer	General	164,000
Solid Waste Fund	General	40,000
Solid Waste Fund	Water & Sewer	40,000
	Total	\$ 538,456

Additionally, the City transferred \$1,135,657 in bond proceeds from the water and sewer fund to the capital improvement fund. The cash related to this transfer were from the City's 2007 bond issuance and will now be used for governmental purposes instead of business-type purposes.

F. Restricted Net Position / Fund Balance

The City records restricted net position / fund balance to indicate that a portion is legally restricted for a specific future use.

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

The following is a list of restricted, committed, and assigned net position / fund balance of the City:

	Governmental Activities
Restricted for:	
* Municipal court	\$ 22,570
Debt service	569,257
Capital improvements	16,474,949
Economic development	1,318,338
Economic opportunity	1,596,112
Total Restricted	\$ 19,981,226
Committed for:	
Park Donations	\$ 11,000
Assigned for:	
Police Department	\$ 131,558

* Restricted by enabling legislation

V. 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, errors and omissions; and natural disasters for which the City participates along with over 2,700 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts 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.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

C. Pension Plans

1. Texas Municipal Retirement Systems

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the 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 in the governing state statutes of TMRS.

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

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

	<u>Plan Year 2013</u>	<u>Plan Year 2014</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility		
(expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

method had been used). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

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

Three-Year Contribution Information

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual Pension Cost (ARC)	\$ 275,079	\$ 248,824	\$ 248,848
Actual Contributions Made	\$ 275,079	\$ 248,824	\$ 248,848
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation/Asset	-	-	-
NPO at the End of Period	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	20.9 years; closed period	20.0 years; closed period	30.0 years; closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return *	7.0%	7.0%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	0.0%	0.0%	0.0%

The funded status as of December 31, 2013, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	12/31/2013
Actuarial Value of Assets	\$ 6,260,653
Actuarial Accrued Liability	\$ 7,015,673
Percentage Funded	89.2%
Annual Covered Payroll	\$ 2,792,478
Unfunded Actuarial Accrued Liability	\$ (755,020)
(UAAL) % of Covered Payroll	(27.0)%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

D. Other Post-Employment Benefits

1. TMRS Supplemental Death Benefit Fund

Plan Description

The city also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The city elected to provide group-term life insurance coverage to both current and retired employees. The city may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

The City provides pension benefits for all of its eligible employees through a non-traditional, 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 in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the System. This report may be obtained from www.TMRS.com.

Contributions

The city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2014, 2013 and 2012 were \$291, \$273 and \$262, respectively, which equaled the required contributions each year.

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

Three-Year Contribution Information

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual Required Contribution (Rate)	0.01%	0.01%	0.01%
Actual Contributions Made	0.01%	0.01%	0.01%
Percentage of APC Contributed	100%	100%	100%

E. 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, 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.

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

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

maintenance expenses for the ensuing fiscal year, as shown in the Annual Budget. The contract further provides that the debt service payments would be equal to the principal and/or interest coming due on the bonds on the next succeeding interest payment date, plus the fees and charges of the paying agent and registrar. These contractual obligations have been included as installment sales contract revenue bonds and the related water storage facilities have been capitalized by the City and are being depreciated over the estimated life of the facilities.

F. 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 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.

G. Rockwall Emergency Services Corporation (the Corporation)

The Corporation was created pursuant to Subchapter D of Chapter 431, Texas Transportation Code, to provide emergency services and public safety services on behalf of the City of Fate, the City of Heath, the City of McLendon Chisholm, the City of Mobile City, the City of Rockwall, the City of Rowlett, the City of Royse City, and Rockwall County, Texas. This Corporation was created to construct, manage, and operate a law enforcement training facility, a firearms training center.

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2014

The Corporation issued debt to construct the facility. Each participant government is required to pay a portion of the debt service and operation and maintenance cost based on the number of personnel authorized to use the facility on April 1 each year.

The agreement, dated August 23, 2006 was for a ten year term. However, the agreement states that a participant can withdraw with a twelve month notice. During the current year, the City paid a total of \$25,478 under this agreement.

H. Animal Adoption Center Interlocal Agreement

In 2009 the City agreed to jointly construct an Animal Adoption Center (the "Center") with the City of Rockwall. The Center is located in Rockwall. The City of Rockwall issued debt for the construction of the Center and the City of Heath agreed to pay 17.4% for an equal interest in the Center.

The City of Rockwall is solely responsible for providing maintenance and personnel to operate the Center. The Center's annual budget is approved by the City of Rockwall and the City of Heath and is jointly paid by the two cities based on population.

The City of Heath can relinquish ownership of its portion of the Center with a ninety day written notice to the City of Rockwall. If the City were to relinquish its ownership the debt related to the construction of the Center will be due within ninety days. The debt related to the Center is recorded as a note payable within the governmental activities.

I. Lease Agreement with Great Eventures, Inc.

On September 2nd, 2014 the Heath Municipal Benefits Corporation (Lessor) and Great Eventures, Inc. (Lessee) entered into a lease agreement for 4.786 acres of land. The term of the lease is for thirty years. The lease agreement includes an option to purchase the land within five years for the price of \$625,000. After the first five years the Lessee will have the option to purchase the land at fair market value. Under the terms of the agreement the Heath Municipal Benefits Corporation will receive rent in the amount of \$200 per month. The City has reclassified the land related to this agreement as Land Held for Sale.

J. Subsequent Events

There were no material subsequent events through November 18, 2014, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Heath, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

For the Year Ended September 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Taxes:				
Property tax	\$ 2,994,100	\$ 2,994,100	\$ 3,004,384	\$ 10,284
Sales tax	395,000	395,000	497,230	102,230
Franchise tax	485,000	485,000	525,783	40,783
Alcoholic beverage tax	3,000	3,000	5,745	2,745
Licenses and permits	285,450	285,450	394,519	109,069
Intergovernmental	236,000	236,000	206,313	(29,687)
Charges for services	101,150	101,150	117,496	16,346
Fines and forfeitures	50,200	50,200	37,511	(12,689)
Investment income	3,000	3,000	1,561	(1,439)
Other revenue	33,000	33,000	26,032	(6,968)
Total Revenues	4,585,900	4,585,900	4,816,574	230,674
<u>Expenditures</u>				
Current:				
Administration	1,034,850	1,100,850	1,030,082	70,768
Highways and streets	518,975	498,975	410,568	88,407
Parks	232,500	212,500	150,219	62,281
Engineering and building inspection	521,700	495,700	409,396	86,304
Municipal court	59,300	59,300	50,923	8,377
Public safety	2,704,300	2,704,300	2,638,967	65,333
Communication and economic development	120,800	120,800	99,730	21,070
Total Expenditures	5,192,425	5,192,425	4,789,885	402,540
Revenues Over (Under)	(606,525)	(606,525)	26,689	633,214
<u>Other Financing Sources (Uses)</u>				
Transfers in (out)	234,000	(31,000)	(31,544)	(544)
Total Other Financing Sources (Uses)	234,000	(31,000)	(31,544)	(544)
Net Change in Fund Balance	\$ (372,525)	\$ (637,525)	(4,855)	\$ 632,670
Beginning fund balance			2,569,833	
Ending Fund Balance			\$ 2,564,978	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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City of Heath, Texas

SCHEDULE OF FUNDING PROGRESS-

TEXAS MUNICIPAL RETIREMENT SYSTEM

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the City makes all the annually required contributions, no net pension obligation (NPO) exists. The information presented below represents the City's Schedule of Funding Progress.

	<u>12/31/2013</u>	<u>12/31/2012</u>	<u>12/31/2011</u>
Actuarial Valuation Date			
Actuarial Value of Assets	\$ 6,260,653	\$ 5,501,838	\$ 4,868,868
Actuarial Accrued Liability	\$ 7,015,673	\$ 6,449,182	\$ 6,013,506
Percentage Funded	89.2%	85.3%	81.0%
Unfunded Actuarial			
Accrued Liability	\$ 755,020	\$ 947,344	\$ 1,144,638
Annual Covered Payroll	\$ 2,792,478	\$ 2,616,174	\$ 2,597,274
Unfunded Actuarial Accrued Liability			
(UAAL) % of Covered Payroll	27.0%	36.2%	44.1%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	\$ 275,079	\$ 248,824	\$ 248,848
Contributions Made	\$ 275,079	\$ 248,824	\$ 248,848
NPO at the End of Period	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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OTHER SUPPLEMENTARY INFORMATION

City of Heath, Texas
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2014

	Public Safety	Heath EDC	Heath MBC	Total Nonmajor Governmental
<u>Assets</u>				
Cash and cash equivalents	\$ 156,257	\$ 1,271,967	\$ 1,550,441	\$ 2,978,665
Receivables, net	-	47,163	47,163	94,326
Total Assets	\$ 156,257	\$ 1,319,130	\$ 1,597,604	\$ 3,072,991
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 2,129	\$ 792	\$ 1,492	\$ 4,413
Total Liabilities	2,129	792	1,492	4,413
Fund Balances:				
Restricted	22,570	1,318,338	1,596,112	2,937,020
Assigned	131,558	-	-	131,558
Total Fund Balances	154,128	1,318,338	1,596,112	3,068,578
Total Liabilities and Fund Balances	\$ 156,257	\$ 1,319,130	\$ 1,597,604	\$ 3,072,991

See Notes to Financial Statements.

City of Heath, Texas
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2014

	<u>Public Safety</u>	<u>Heath EDC</u>	<u>Heath MBC</u>	<u>Total Nonmajor Governmental</u>
<u>Revenues</u>				
Taxes:				
Sales tax	\$ -	\$ 248,615	\$ 248,615	\$ 497,230
Investment income	68	543	689	1,300
Other revenue	30,602	-	-	30,602
Total Revenues	<u>30,670</u>	<u>249,158</u>	<u>249,304</u>	<u>529,132</u>
<u>Expenditures</u>				
Current:				
Public safety	4,910	-	-	4,910
Economic development	-	21,277	-	21,277
Economic opportunity	-	-	28,687	28,687
Debt service:				
Principal	-	15,000	30,000	45,000
Interest and fiscal charges	-	5,763	9,691	15,454
Total Expenditures	<u>4,910</u>	<u>42,040</u>	<u>68,378</u>	<u>115,328</u>
Excess (Deficiency) of Revenues over Expenditures	25,760	207,118	180,926	413,804
<u>Other Financing Sources (Uses)</u>				
Transfers (out)	-	(14,728)	(14,728)	(29,456)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(14,728)</u>	<u>(14,728)</u>	<u>(29,456)</u>
Net Change in Fund Balances	25,760	192,390	166,198	384,348
Beginning fund balances	<u>128,368</u>	<u>1,125,948</u>	<u>1,429,914</u>	<u>2,684,230</u>
Ending Fund Balances	<u>\$ 154,128</u>	<u>\$ 1,318,338</u>	<u>\$ 1,596,112</u>	<u>\$ 3,068,578</u>

See Notes to Financial Statements.

City of Heath, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL DEBT SERVICE FUND

For the Year Ended September 30, 2014

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ 908,200	\$ 911,200	\$ 3,000
Special assessments	7,100	20,651	13,551
Investment income	1,800	409	(1,391)
Total Revenues	<u>917,100</u>	<u>932,260</u>	<u>15,160</u>
<u>Expenditures</u>			
Debt service:			
Principal	776,789	777,747	(958) *
Interest	415,232	414,853	379
Total Expenditures	<u>1,192,021</u>	<u>1,192,600</u>	<u>(579)</u>
Net Change in Fund Balance	<u>\$ (274,921)</u>	<u>(260,340)</u>	<u>\$ 14,581</u>
Beginning fund balance		<u>829,597</u>	
Ending Fund Balance		<u>\$ 569,257</u>	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

* 2. Expenditures exceeded appropriations at the legal level of control.

City of Heath, Texas
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
HEATH ECONOMIC DEVELOPMENT CORPORATION
For the Year Ended September 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Sales tax	\$ 195,000	\$ 195,000	\$ 248,615	\$ 53,615
Investment income	1,400	1,400	543	(857)
Total Revenues	196,400	196,400	249,158	52,758
<u>Expenditures</u>				
Current:				
Economic development	102,900	102,900	21,277	81,623
Debt service:				
Principal	3,250	3,250	15,000	(11,750)
Interest and fiscal charges	20,640	20,640	5,763	14,877
Total Expenditures	126,790	126,790	42,040	84,750
Revenues Over (Under)				
Expenditures	69,610	69,610	207,118	137,508
<u>Other Financing Sources (Uses)</u>				
Transfers (out)	(16,000)	(16,000)	(14,728)	1,272
Total Other Financing Sources (Uses)	(16,000)	(16,000)	(14,728)	1,272
Net Change in Fund Balance	\$ 53,610	\$ 53,610	192,390	\$ 138,780
Beginning fund balance			1,125,948	
Ending Fund Balance			\$ 1,318,338	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

City of Heath, Texas
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
HEATH MUNICIPAL BENEFITS CORPORATION
For the Year Ended September 30, 2014

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Sales tax	\$ 195,000	\$ 248,615	\$ 53,615
Investment income	1,900	689	(1,211)
Total Revenues	196,900	249,304	52,404
<u>Expenditures</u>			
Current:			
Economic opportunity	183,350	28,687	154,663
Debt service:			
Principal	5,500	30,000	(24,500)
Interest and fiscal charges	34,928	9,691	25,237
Total Expenditures	223,778	68,378	155,400
Revenues Over (Under)			
Expenditures	(26,878)	180,926	207,804
<u>Other Financing Sources (Uses)</u>			
Transfers (out)	(56,000)	(14,728)	41,272
Total Other Financing Sources (Uses)	(56,000)	(14,728)	41,272
Net Change in Fund Balance	\$ (82,878)	166,198	\$ 249,076
Beginning fund balance		1,429,914	
Ending Fund Balance		\$ 1,596,112	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

City of Heath, Texas
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUND
STREETS ESCROW FUND
For the Year Ended September 30, 2014

	Balance October 1, 2013	Additions	Deductions	Balance September 30, 2014
<u>Assets</u>				
Cash and cash equivalents	\$ 113,603	\$ 64,288	\$ -	\$ 177,891
Total Assets	<u>113,603</u>	<u>64,288</u>	<u>-</u>	<u>177,891</u>
<u>Liabilities</u>				
Accrued liabilities	113,603	64,288	-	177,891
Total Liabilities	<u>\$ 113,603</u>	<u>\$ 64,288</u>	<u>\$ -</u>	<u>\$ 177,891</u>

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STATISTICAL SECTION

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

Contents	Pages
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Financial Trends	92-101
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These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity	103-109
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These schedules contain information to help the reader assess the City's most significant local revenue source, property tax.

Debt Capacity	110-114
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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.

Demographic and Economic Information	115-116
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These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information	117-121
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These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

City of Heath, Texas
NET POSITION BY COMPONENT
Last Ten Fiscal Years
(accrual basis of accounting)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Governmental Activities				
Net investment in				
capital assets	\$ 10,468,375	\$ 18,837,137	\$ 18,540,309	\$ 17,984,906
Restricted	1,807,568	1,358,534	146,285	1,117,725
Unrestricted	<u>2,792,442</u>	<u>3,408,712</u>	<u>4,200,838</u>	<u>4,158,988</u>
	<u><u>\$ 15,068,385</u></u>	<u><u>\$ 23,604,383</u></u>	<u><u>\$ 22,887,432</u></u>	<u><u>\$ 23,261,619</u></u>
 Business-type Activities				
Net investment in				
capital assets	\$ 11,724,391	\$ 14,611,160	\$ 14,951,597	\$ 15,211,002
Restricted	1,566,904	-	-	-
Unrestricted	<u>964,550</u>	<u>3,498,273</u>	<u>2,094,056</u>	<u>1,886,366</u>
Total Business-type				
Activities Net Position	<u><u>\$ 14,255,845</u></u>	<u><u>\$ 18,109,433</u></u>	<u><u>\$ 17,045,653</u></u>	<u><u>\$ 17,097,368</u></u>
 Primary Government				
Net investment in				
capital assets	\$ 22,192,766	\$ 33,448,297	\$ 33,491,906	\$ 33,195,908
Restricted	3,374,472	1,358,534	146,285	1,117,725
Unrestricted	<u>3,756,992</u>	<u>6,906,985</u>	<u>6,294,894</u>	<u>6,045,354</u>
Total Primary				
Government Net	<u><u>\$ 29,324,230</u></u>	<u><u>\$ 41,713,816</u></u>	<u><u>\$ 39,933,085</u></u>	<u><u>\$ 40,358,987</u></u>

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
\$ 19,089,641	\$ 17,895,266	\$ 17,130,797	\$ 14,959,471	\$ 13,894,049	\$ 17,139,345
2,104,386	5,438,453	3,416,119	5,555,525	6,690,500	19,981,226
3,197,493	513,677	2,117,843	2,117,843	2,244,000	(13,842,854)
<u>\$ 24,391,520</u>	<u>\$ 23,847,396</u>	<u>\$ 22,664,759</u>	<u>\$ 22,632,839</u>	<u>\$ 22,828,549</u>	<u>\$ 23,277,717</u>
\$ 16,063,136	\$ 15,935,522	\$ 14,406,551	\$ 14,406,551	\$ 14,592,909	\$ 18,020,897
-	-	-	-	-	-
1,600,713	2,118,300	6,135,299	6,135,299	7,066,450	3,699,002
<u>\$ 17,663,849</u>	<u>\$ 18,053,822</u>	<u>\$ 20,541,850</u>	<u>\$ 20,541,850</u>	<u>\$ 21,659,359</u>	<u>\$ 21,719,899</u>
\$ 35,152,777	\$ 33,830,788	\$ 29,366,022	\$ 29,366,022	\$ 28,486,958	\$ 35,160,242
2,104,386	5,438,453	3,416,119	5,555,525	6,690,500	19,981,226
4,798,206	2,631,977	8,253,142	8,253,142	9,310,450	(10,143,852)
<u>\$ 42,055,369</u>	<u>\$ 41,901,218</u>	<u>\$ 41,035,283</u>	<u>\$ 43,174,689</u>	<u>\$ 44,487,908</u>	<u>\$ 44,997,616</u>

City of Heath, Texas

CHANGES IN NET POSITION

Last Ten Fiscal Years

(accrual basis of accounting)

	2005	2006	2007	2008
Expenses				
Governmental activities:				
General government	806,768	1,101,712	1,152,697	1,173,682
Public safety	1,640,083	1,705,415	2,141,045	2,335,528
Public works	1,031,079	1,508,117	2,206,035	2,006,940
Culture and recreation	192,694	190,621	129,028	147,672
Economic development and	2,698	227	-	13,183
Economic opportunity	2,998	127	5,000	6,003
Interest and fiscal charges	278,350	276,431	272,184	627,347
Total governmental activities	3,954,670	4,782,650	5,905,989	6,310,355
Business-type activities:				
Water and sewer	2,771,907	3,264,137	3,386,289	4,129,623
Solid waste	-	-	408,575	444,502
Total business-type activities	2,771,907	3,264,137	3,794,864	4,574,125
Total primary government	\$ 6,726,577	\$ 8,046,787	\$ 9,700,853	\$ 10,884,480
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$ 75,595	\$ 21,512	\$ 25,820	\$ 17,374
Public safety	170,908	225,418	273,430	275,953
Public works	267,816	303,319	311,495	370,217
Culture and recreation	4,275	4,463	6,515	5,445
Operating grants and contributions	30,631	13,926	222,927	62,087
Capital grants and contributions	1,155,398	8,687,378	41,938	963,491
Total governmental activities	1,704,623	9,256,016	882,125	1,694,567
Business-type activities:				
Charges for services:				
Water and sewer	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	3,087,794	3,746,562	646,231	881,966
Total business-type activities	5,799,946	7,035,544	3,337,656	4,529,746
Total primary government	\$ 7,504,569	\$ 16,291,560	\$ 4,219,781	\$ 6,224,313
Net (Expense)/Revenue				
Governmental activities	\$ (2,250,047)	\$ 4,473,366	\$ (5,023,864)	\$ (4,615,788)
Business-type activities	3,028,039	3,771,407	(457,208)	(44,379)
Total primary government	\$ 777,992	\$ 8,244,773	\$ (5,481,072)	\$ (4,660,167)

2009	2010	2011	2012	2013	2014
1,045,672	928,201	972,529	972,108	1,130,893	\$ 1,037,325
2,335,201	2,320,231	2,892,734	2,563,884	2,594,015	2,924,001
1,890,939	2,081,969	1,603,281	2,400,169	2,010,404	2,064,771
135,669	229,222	243,985	244,264	232,883	250,703
355,286	5,146	6,620	74,363	45,149	121,733
8,119	4,258	3,809	9,876	46,407	29,413
677,118	522,894	518,723	440,348	487,552	697,067
6,448,004	6,091,921	6,241,681	6,705,012	6,547,303	7,125,013
4,288,635	4,207,851	4,486,947	4,636,550	4,696,947	4,779,334
435,416	459,086	457,809	455,154	459,156	477,945
4,724,051	4,666,937	4,944,756	5,091,704	5,156,103	5,257,279
\$ 11,172,055	\$ 10,758,858	\$ 11,186,437	\$ 11,796,716	\$ 11,703,406	\$ 12,382,292
\$ 27,772	\$ 61,063	\$ 70,017	\$ 35,030	\$ 28,000	\$ 45,070
323,136	309,515	325,953	339,991	374,837	437,582
126,626	154,797	122,527	20,572	33,163	60,684
17,124	14,280	16,630	7,857	9,830	6,190
30,949	20,865	32,744	223,971	205,204	206,313
2,013,667	1,000	262,258	-	801,848	1,004,919
2,539,274	561,520	830,129	627,421	1,452,882	1,760,758
3,836,944	4,432,549	5,657,062	5,263,550	5,445,750	4,973,658
510,248	557,623	559,007	541,434	540,592	541,124
-	-	-	503,138	-	-
974,396	94,075	-	-	317,567	-
5,321,588	5,084,247	6,216,069	6,308,122	6,303,909	5,514,782
\$ 7,860,862	\$ 5,645,767	\$ 7,046,198	\$ 6,935,543	\$ 7,756,791	\$ 7,275,540
\$ (3,908,730)	\$ (5,530,401)	\$ (5,411,552)	\$ (6,077,591)	\$ (5,094,421)	\$ (5,364,255)
597,537	417,310	1,271,313	1,216,418	1,147,806	257,503
\$ (3,311,193)	\$ (5,113,091)	\$ (4,140,239)	\$ (4,861,173)	\$ (3,946,615)	\$ (5,106,752)

City of Heath, Texas
CHANGES IN NET POSITION (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
General Revenues				
Governmental activities:				
Taxes:				
Property taxes	\$ 2,552,545	\$ 2,750,401	\$ 3,163,746	\$ 3,514,859
Sales and other taxes	553,424	651,212	678,808	731,427
Franchise taxes	293,995	508,640	259,663	387,143
Alcoholic beverage taxes	3,533	3,147	2,798	3,311
Investment earnings	53,469	248,428	278,568	394,001
Other income	274,792	14,984	27,552	45,596
Gain (loss) on sale of assets	64,034	1,141	-	-
Special items	-	-	-	-
Transfers, net	-	-	-	-
Total governmental activities	<u>3,795,792</u>	<u>4,177,953</u>	<u>4,411,135</u>	<u>5,076,337</u>
Business-type activities:				
Investment earnings	167,088	39,961	110,018	157,476
Other Income	41,902	42,220	4,700	9,668
Gain (loss) on sale of assets	-	-	-	7,060
Special items	-	-	-	-
Transfers, net	-	-	-	-
Total business-type activities	<u>208,990</u>	<u>82,181</u>	<u>114,718</u>	<u>174,204</u>
Total primary government	<u>\$ 4,004,782</u>	<u>\$ 4,260,134</u>	<u>\$ 4,525,853</u>	<u>\$ 5,250,541</u>
 Change in Net Position				
Governmental activities	\$ 1,545,745	\$ 8,651,319	\$ (612,729)	\$ 460,549
Business-type activities	3,237,029	3,853,588	(342,490)	129,825
Total primary government	<u>\$ 4,782,774</u>	<u>\$ 12,504,907</u>	<u>\$ (955,219)</u>	<u>\$ 590,374</u>

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
\$ 3,726,270	\$ 3,797,959	\$ 3,762,727	\$ 3,764,144	\$ 3,770,807	\$ 3,894,536
710,195	759,577	739,093	752,800	866,055	994,460
444,648	406,495	483,349	570,755	496,413	525,783
3,609	3,459	3,192	3,098	4,116	5,745
112,500	35,500	37,129	11,577	10,280	8,187
42,642	19,839	6,791	145,622	102,460	180,712
-	2,461	58,354	-	-	-
-	-	1,601,389	-	-	-
85,494	47,200	(1,659,610)	40,000	40,000	204,000
<u>5,125,358</u>	<u>5,072,490</u>	<u>5,032,414</u>	<u>5,287,996</u>	<u>5,290,131</u>	<u>5,813,423</u>
51,708	16,259	33,578	7,677	9,703	7,037
2,730	2,223	9,166	-	-	-
-	1,381	-	-	-	-
-	-	(1,706,810)	-	-	-
(85,494)	(47,200)	1,659,610	(40,000)	(40,000)	(204,000)
<u>(31,056)</u>	<u>(27,337)</u>	<u>(4,456)</u>	<u>(32,323)</u>	<u>(30,297)</u>	<u>(196,963)</u>
<u>\$ 5,094,302</u>	<u>\$ 5,045,153</u>	<u>\$ 5,027,958</u>	<u>\$ 5,255,673</u>	<u>\$ 5,259,834</u>	<u>\$ 5,616,460</u>
\$ 1,216,628	\$ (457,911)	\$ (379,138)	\$ (789,595)	\$ 195,710	\$ 449,168
566,481	389,973	1,266,857	1,184,095	1,117,509	60,540
<u>\$ 1,783,109</u>	<u>\$ (67,938)</u>	<u>\$ 887,719</u>	<u>\$ 394,500</u>	<u>\$ 1,313,219</u>	<u>\$ 509,708</u>

City of Heath, Texas
FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Years
(modified accrual basis of accounting)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
General fund:				
Reserved	\$ -	\$ 7,630	\$ 9,816	\$ 230,000
Nonspendable	-	-	-	-
Committed	-	-	-	-
Unreserved	2,410,935	2,715,760	2,630,293	2,453,094
Unassigned	-	-	-	-
Total general fund	<u>\$ 2,410,935</u>	<u>\$ 2,723,390</u>	<u>\$ 2,640,109</u>	<u>\$ 2,683,094</u>

All other governmental funds:

Reserved	\$ 884,251	\$ 1,101,406	\$ 1,210,352	\$ 919,619
Restricted	-	-	-	-
Unreserved, reported in:				
Special revenue funds	699,011	992,696	1,333,917	1,725,133
Capital projects funds	537,392	11,033	(1,272,997)	6,194,274
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total all other governmental funds	<u>\$ 2,120,654</u>	<u>\$ 2,105,135</u>	<u>\$ 1,271,272</u>	<u>\$ 8,839,026</u>

Note: The City implemented GASB Statement 54 in fiscal year 2011.

2009	2010	2011	2012	2013	2014
\$ 9,132	\$ 12,007	\$ -	\$ -	\$ -	\$ -
-	-	-	6,720	13,410	19,013
-	-	11,000	11,000	11,000	11,000
1,760,597	2,038,657	-	-	-	-
-	-	2,482,201	2,380,554	2,545,423	2,534,965
<u>\$ 1,769,729</u>	<u>\$ 2,050,664</u>	<u>\$ 2,493,201</u>	<u>\$ 2,398,274</u>	<u>\$ 2,569,833</u>	<u>\$ 2,564,978</u>

\$ 1,492,263	\$ 1,224,566	\$ -	\$ -	\$ -	\$ -
-	-	5,491,603	5,555,525	6,690,500	19,981,226
					-
1,653,512	1,948,523	-	-	-	-
4,359,876	4,077,618	-	-	-	-
-	-	92,758	104,849	107,915	131,558
-	-	-	-	-	-
<u>\$ 7,505,651</u>	<u>\$ 7,250,707</u>	<u>\$ 5,584,361</u>	<u>\$ 5,660,374</u>	<u>\$ 6,798,415</u>	<u>\$ 20,112,784</u>

City of Heath, Texas

CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS

Last Ten Years

(modified accrual basis of accounting)

	2005	2006	2007	2008
Revenues				
Taxes	\$ 3,379,276	\$ 3,863,094	\$ 4,194,544	\$ 4,665,869
Licenses and permits	277,728	287,814	242,760	376,404
Intergovernmental	103,344	119,913	183,249	237,935
Charges for services	80,168	49,073	111,828	25,776
Fines and forfeitures	69,256	97,706	63,711	47,842
Special assessments	57,329	112,192	42,455	15,499
Investment income	61,054	276,374	288,311	397,653
Other revenue	351,840	183,052	295,332	220,193
Total Revenues	4,379,995	4,989,218	5,422,190	5,987,171
Expenditures				
Administration	814,557	1,074,008	1,110,994	1,112,099
Highways and streets	189,084	273,730	753,069	385,222
Parks	175,002	149,324	241,029	174,385
Engineering and building inspection	176,990	300,154	330,352	464,099
Municipal court	104,567	112,883	98,849	82,268
Public safety	1,613,067	1,674,692	1,884,376	2,140,221
Economic development	2,698	227	-	12,984
Economic opportunity	2,998	127	5,000	6,202
Debt service				
Principal	296,959	277,783	355,060	577,938
Interest	238,750	271,250	271,074	704,191
Bond issuance costs	-	-	-	102,771
Capital outlay	72,809	559,245	1,289,531	1,038,444
Total Expenditures	3,687,481	4,693,423	6,339,334	6,800,824
Revenues over (under) expenditures	692,514	295,795	(917,144)	(813,653)
Other Financing Sources (Uses)				
Transfers in	-	-	-	263,278
Transfers (out)	-	-	-	(263,278)
Sale of capital assets	-	-	-	-
Discount on bonds issued	-	-	-	(130,093)
Premium on bonds issued	-	-	-	162,116
Debt issued	-	-	-	8,392,369
Payment to refunded bond escrow agent	-	-	-	-
Total other financing sources	-	-	-	8,424,392
Special items	-	-	-	-
Net Change in Fund Balances	\$ 692,514	\$ 295,795	\$ (917,144)	\$ 7,610,739
Ratio of total debt service expenditures to noncapital expenditures	15%	13%	12%	24%

2009	2010	2011	2012	2013	2014
\$ 4,847,760	\$ 5,015,072	\$ 4,946,164	\$ 4,997,248	\$ 5,146,045	\$ 5,441,572
129,832	160,568	133,627	247,002	293,488	394,519
735,123	240,290	246,703	223,971	205,204	1,211,232
69,779	94,694	98,495	105,415	103,513	117,496
56,907	43,467	52,107	39,016	48,829	37,511
25,267	19,219	13,611	11,284	15,504	20,651
121,090	50,204	48,356	11,577	10,280	8,187
637,078	43,171	300,225	140,650	92,316	189,889
6,622,836	5,666,685	5,839,288	5,776,163	5,915,179	7,421,057
965,693	868,210	925,233	940,172	956,640	1,030,082
257,256	592,398	310,584	307,928	361,169	410,568
78,711	133,050	189,515	133,073	133,338	150,219
404,487	429,663	354,838	399,720	495,373	409,396
89,384	84,535	86,400	61,577	51,263	50,923
2,544,061	2,215,536	2,648,686	2,275,336	2,415,348	2,643,877
355,286	5,146	6,620	67,345	44,850	121,007
8,119	4,258	3,809	2,857	46,108	28,687
608,947	617,745	533,864	789,852	606,244	822,747
712,808	739,814	798,546	428,911	396,836	430,307
-	-	32,230	-	25,017	87,555
3,151,084	-	-	500,582	806,680	3,772,108
9,175,836	5,690,355	5,890,325	5,907,353	6,338,866	9,957,476
(2,553,000)	(23,670)	(51,037)	(131,190)	(423,687)	(2,536,419)
1,379,045	334,052	93,083	40,000	40,000	1,339,657
(1,370,138)	(286,852)	(1,752,693)	-	-	-
-	2,461	58,883	-	-	-
-	-	(15,723)	-	-	-
-	-	163,962	-	89,116	301,276
297,353	-	2,536,500	-	3,254,037	14,205,000
-	-	(2,343,654)	-	(1,649,866)	-
306,260	49,661	(1,259,642)	40,000	1,733,287	15,845,933
-	-	-	(105,421)	-	-
\$ (2,246,740)	\$ 25,991	\$ (1,310,679)	\$ (196,611)	\$ 1,309,600	\$ 13,309,514
22%	24%	23%	23%	18%	22%

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City of Heath, Texas

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

Last Ten Fiscal Years

Fiscal Year	Real Property	Personal Property	Less: Tax Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
2005	\$ 744,970,755	\$ 34,460,535	\$ 47,628,791	\$ 731,802,499	\$ 0.34330
2006	799,418,375	32,284,758	41,044,841	790,658,292	0.34330
2007	909,186,855	44,590,348	48,309,901	905,467,302	0.34330
2008	1,038,154,247	17,273,990	55,003,800	1,000,424,437	0.34330
2009	1,114,604,499	19,412,750	62,190,500	1,071,826,749	0.34330
2010	1,144,155,185	22,176,080	64,807,080	1,101,524,185	0.34330
2011	1,174,590,968	18,462,161	103,811,640	1,089,241,489	0.34330
2012	1,175,437,703	18,660,011	106,808,230	1,087,289,484	0.34330
2013	1,174,084,201	18,660,100	107,786,000	1,084,958,301	0.34330
2014	1,221,658,581	19,628,320	112,938,456	1,128,348,445	0.34330

Note: Tax rates per \$100 of assessed valuation.

Source: City of Heath Budget Document.

Rockwall Central Appraisal Districts.

City of Heath, Texas

PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS

Last Ten Years

	2005	2006	2007	2008
Direct Rates:				
City of Heath - Operating	0.28640	0.27280	0.27860	0.27860
City of Heath - Debt Service	0.05690	0.07050	0.06470	0.06470
Total Direct Rate	0.34330	0.34330	0.34330	0.34330
Overlapping Rates:				
Rockwall Independent School District	1.88000	1.71000	1.47000	1.47000
Rockwall County	0.35070	0.35070	0.35070	0.35000
Kaufman County	0.54270	0.53770	0.56220	0.56150
Total Direct and Overlapping Rates	3.1167	2.9417	2.7262	2.7248

Tax rates per \$100 of assessed valuation.

Source: Rockwall Central Appraisal Districts and City records.

2009	2010	2011	2012	2013	2014
0.27860	0.27860	0.27860	0.26360	0.26360	0.27360
0.06470	0.06470	0.06470	0.07970	0.07970	0.15300
0.34330	0.34330	0.34330	0.34330	0.34330	0.42660
1.47000	1.47000	1.47000	1.47000	1.46000	1.44000
0.37500	0.37500	0.38640	0.38640	0.39590	0.39590
0.55650	0.55650	0.55650	0.55650	0.55650	0.50220
2.7448	2.7448	2.7562	2.7562	2.7557	2.7647

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City of Heath, Texas
PRINCIPAL PROPERTY TAXPAYERS
Current Year and Nine Years Ago

Property Tax Payer	2014			2005		
	Taxable Assessed Value	Rank	% of Taxable Assessed Value	Taxable Assessed Value	Rank	% of Taxable Assessed Value
SNH Medical Office Properties	\$ 5,957,600	1	0.548%	\$ -	n/a	-
Oncor Electric Delivery Co	5,755,280	2	0.529%	4,493,420	2	0.414%
BC Golf LTD	5,084,870	3	0.468%	3,319,720	3	0.306%
Paolucci, Raymond J	3,291,810	4	0.303%	-	n/a	-
Whittle Development Inc	2,799,890	5	0.258%	8,650,590	1	-
Rosenburg, James M	2,548,350	6	0.234%	-	n/a	-
Kirwan Revocable Living Trust	2,522,000	7	0.232%	-	n/a	-
TR Health Partners	2,471,630	8	0.227%	2,039,090	8	-
Corona Resources	2,424,140	9	0.223%	-	n/a	-
Knowlton, Larry & Tricia	2,291,220	10	0.211%	-	n/a	-
Cross, Diana I & David Alan	-	n/a	-	2,598,990	4	0.240%
Lighthouse Private School	-	n/a	-	2,341,480	5	0.216%
Kelldorf, mark	-	n/a	-	2,144,025	6	0.198%
Whittle, Robert S Etux	-	n/a	-	2,087,440	7	0.192%
Syvruud, James P & Mary Jean	-	n/a	-	1,851,510	9	0.171%
Kirwin, David & Patricia	-	n/a	-	1,661,260	10	0.153%
Total	<u>\$ 35,146,790</u>		<u>3.23%</u>	<u>\$ 31,187,525</u>		<u>1.89%</u>
Total Assessed Valuation	<u>\$ 1,128,348,445</u>		<u>100%</u>	<u>\$ 731,802,499</u>		<u>100%</u>

Source: Tax Office.

Note: Property is assessed as of January 1 and certified to the City by July 25 for taxable values.

City of Heath, Texas

PROPERTY TAX LEVIES AND COLLECTIONS

Last Ten Years

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Tax levy	\$ 2,517,346	\$ 2,731,312	\$ 3,120,793	\$ 3,442,488
Current tax collected	\$ 2,498,756	\$ 2,688,666	\$ 3,021,159	\$ 3,373,108
Percent of current tax collections	99.26%	98.44%	96.81%	97.98%
Delinquent tax collections	\$ 15,295	\$ 39,277	\$ 96,242	\$ 66,453
Total tax collections	\$ 2,514,051	\$ 2,727,943	\$ 3,117,401	\$ 3,439,561
Total collections as a percentage of levy	100%	100%	100%	100%

Source: Rockwall Central Appraisal District

2009	2010	2011	2012	2013	2014
\$ 3,666,601	\$ 3,752,365	\$ 3,738,632	\$ 3,724,689	\$ 3,722,360	\$ 3,873,618
\$ 3,603,302	\$ 3,709,041	\$ 3,673,075	\$ 3,684,359	\$ 3,686,271	\$ 3,844,606
98.27%	98.85%	98.25%	98.9%	99.0%	99.3%
\$ 60,076	\$ 39,023	\$ 56,936	\$ 31,473	\$ 24,122	\$ -
\$ 3,663,378	\$ 3,748,064	\$ 3,730,011	\$ 3,715,832	\$ 3,710,393	\$ 3,844,606
100%	99.9%	99.8%	99.8%	99.7%	99.3%

City of Heath, Texas

RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Years

	2005	2006	2007	2008
Governmental activities:				
General Obligation Bonds	\$ 2,495,000	\$ 2,340,000	\$ 2,175,000	\$ 2,005,000
Certificates of Obligation	4,258,750	4,142,500	4,004,750	11,915,285
Capital Leases	-	-	-	-
Notes Payable	-	-	-	-
Business-type activities:				
General Obligation Bonds	1,006,566	973,236	939,906	904,910
Certificates of Obligation	7,831,250	7,532,500	7,221,250	11,754,715
Total primary government	<u>\$ 15,591,566</u>	<u>14,988,236</u>	<u>14,340,906</u>	<u>26,579,910</u>
Percentage of personal income (1)	5.41%	4.75%	4.42%	7.57%
Per capita (1)	\$ 1,374	\$ 1,207	\$ 1,121	\$ 2,156

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) Personal income and population data is disclosed on page 108.

2009	2010	2011	2012	2013	2014
\$ 1,830,000	\$ 1,625,000	\$ 2,955,000	\$ 2,530,000	\$ 3,915,000	\$ 3,490,000
11,457,516	10,987,884	7,176,457	6,888,508	6,652,956	21,693,106
-	-	251,263	202,684	154,627	104,868
271,534	244,052	216,607	188,258	159,057	128,017
868,246	829,917	789,921	748,333	705,000	660,000
11,252,484	10,732,116	11,658,542	10,986,492	16,812,044	14,876,894
<u>25,679,780</u>	<u>24,418,969</u>	<u>23,047,790</u>	<u>21,544,275</u>	<u>28,398,684</u>	<u>40,952,885</u>
7.04%	6.46%	5.25%	4.41%	5.60%	9.07%
\$ 2,094	\$ 1,978	\$ 1,564	\$ 1,377	\$ 1,457	\$ 3,153

City of Heath, Texas

RATIO OF GENERAL BONDED DEBT OUTSTANDING

Last Ten Years

	2005	2006	2007	2008
NET TAXABLE ASSESSED VALUE				
All property	\$ 731,802,499	\$ 790,658,292	\$ 905,467,302	\$ 1,000,424,437
NET BONDED DEBT (1)				
Gross bonded debt	7,760,316	7,455,736	7,119,656	14,825,195
Less debt service funds	-	-	-	-
Net Bonded Debt	<u>\$ 7,760,316</u>	<u>\$ 7,455,736</u>	<u>\$ 7,119,656</u>	<u>\$ 14,825,195</u>
RATIO OF NET BONDED DEBT TO ASSESSED VALUE	1.06%	0.94%	0.79%	1.48%
POPULATION	5,650	6,177	6,350	6,875
NET BONDED DEBT PER CAPITA	\$ 1,374	\$ 1,207	\$ 1,121	\$ 2,156

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) This is the general bonded debt of both governmental and business-type activities, net of original issuance discounts and premiums.

2009	2010	2011	2012	2013	2014
\$ 1,071,826,749	\$ 1,101,524,185	\$ 1,089,241,489	\$ 1,087,289,484	\$ 1,084,958,301	\$ 1,128,348,445
14,155,762	13,442,801	10,921,378	10,166,841	11,272,956	25,843,106
-	-	-	-	-	-
<u>\$ 14,155,762</u>	<u>\$ 13,442,801</u>	<u>\$ 10,921,378</u>	<u>\$ 10,166,841</u>	<u>\$ 11,272,956</u>	<u>\$ 25,843,106</u>
1.32%	1.22%	1.00%	0.94%	1.04%	2.29%
6,890	6,921	7,284	7,667	7,953	8,271
\$ 2,055	\$ 1,942	\$ 1,499	\$ 1,326	\$ 1,417	\$ 3,125

City of Heath, Texas

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

September 30, 2014

<u>Governmental Unit</u>	<u>Net Bonded Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Rockwall Independent School District	\$ 337,278,257	16.74%	\$ 56,463,753
Rockwall County	103,989,525	14.25%	14,820,587
Kaufman County	49,592,499	0.00%	1,476
Subtotal, overlapping debt			71,285,816
City direct debt			<u>25,415,991</u>
Total direct and overlapping debt			<u><u>\$ 96,701,807</u></u>

Sources: Rockwall ISD, Rockwall County, Kaufman County

City of Heath, Texas

DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Fiscal Years

Year	Estimated Population	Personal Income	Per Capita Personal Income	School Enrollment	Unemployment Rate
				Rockwall ISD	Rockwall County
2005	5,650	288,426,850	51,049	2,083	3.8%
2006	6,177	315,329,673	51,049	3,116	4.5%
2007	6,350	324,161,150	51,049	3,696	4.0%
2008	6,875	350,961,875	51,049	4,163	4.0%
2009	6,890	364,997,750	52,975	4,271	4.8%
2010	6,921	377,762,022	54,582	4,313	6.7%
2011	7,284	438,766,308	60,237	4,235	7.2%
2012	7,667	488,449,236	63,708	4,294	5.5%
2013	7,953	506,669,724	63,708	4,283	6.1%
2014	8,271	451,571,787	54,597	4,539	5.5%

Sources: Estimated population provided by the State Department of Planning.
Per Capita Income provided by the State Department of Commerce and Labor.
Rockwall Independent School District
Unemployment information provided by the data.bls.gov

City of Heath, Texas

PRINCIPAL EMPLOYERS

Current Fiscal Year and Nine Years Ago

Employer	2014			2005		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Rockwall ISD	1,365	1	6.70%	1,350	1	8.71%
Lake Pointe Medical Center	700	2	3.43%	n/a	n/a	n/a
Texas Health Presbyterian Hospi	592	3	2.90%	n/a	n/a	n/a
Wal-Mart Superstore	450	4	2.21%	450	3	2.90%
Texas Star Express Transport	300	5	2.21%	484	2	
County of Rockwall	253	6	1.24%	205	4	1.61%
City of Rockwall	205	7	1.01%	205	4	1.29%
Special Products & Manufacturir	205	8	1.01%	205	4	1.29%
Target	200	9	0.98%	200	7	1.10%
Rockwall Nursing Home	160	10	0.79%	150	8	0.97%
Kohl's Department Store	-	n/a	0.69%	140	9	
Home Depot	-	n/a	-	130	10	2.58%
Total	4,430		23%	3,519		20%

Source: Top ten employers and employee count provided by Rockwall Economic Development Corporation.

City of Heath, Texas

FULL-TIME EQUIVALENT CITY EMPLOYEES BY FUNCTION/PROGRAM

Last Ten Fiscal Years

Function/Program	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General government and administration	7	6	6.5	7.5	7.5	5.5	5.5	5.5	6	5
Public safety	15	14	16	20	21	19	19	19	19	19
Public works	4	5	5	6	6	6	6	4	5	5
Culture and recreation	1	1	1	1	1	1	1	1	1	1
Water and sewer	1	10	11	11	11	9	9	9	10	9
Total	28	37	40	46	47	40	41	39	41	39

Sources: Various City departments.

City of Heath, Texas

OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Ten Fiscal Years

Function/Program	2005	2006	2007	2008
General government				
Building permits issued	-	106	142	99
Building inspections conducted	-	905	597	698
Public safety				
Police				
Physical arrests	-	80	84	53
Burglary	-	23	23	38
Robbery	-	1	-	-
Theft	-	82	82	54
Traffic violations	-	112	170	189
Fire				
Emergency responses	-	151	253	316
Fires extinguished	-	6	9	9
Inspections	-	24	30	48
Public works				
Streets (feet)	-	57,200	6,936	103,400
Potholes repaired	-	750	770	800
Water				
New connections	-	198	171	174
Average annual consumption (thousands of gallons)	-	575	402	460
Wastewater				
Average daily sewage treatment (thousands of gallons)	-	-	317	317

Sources: Various City departments.

2009	2010	2011	2012	2013	2014
40	35	31	47	64	71
800	721	721	921	911	1224
58	43	22	168	137	71
14	32	16	24	16	5
-	-	-	1	-	-
48	50	31	82	86	86
147	185	303	330	331	309
149	210	225	173	169	143
7	10	25	11	5	3
52	60	60	52	69	4
88,000	270,000	-	-	-	1,370
800	800	800	800	100	200
126	90	94	103	115	100
460	440	491	487	474	371
310	390	312	377	255	284

City of Heath, Texas

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

Last Ten Years

Function/Program	2005	2006	2007	2008
Public safety				
Police stations	-	1	1	1
Police patrol units	-	12	12	12
Fire engines	-	3	3	3
Public works				
Streets (miles)	-	146	146	146
Cultural and recreational				
Acreage	-	71	71	71
Playgrounds (1)	-	1	1	1
Baseball/Softball fields	-	1	1	1
Soccer/Football fields		3	3	3
Community centers	-	1	1	1
Water and sewer				
Water mains (miles)	-	50	50	50
Fire hydrants	-	143	163	183
Wastewater				
Sanitary sewers (miles)	-	61	61	61
Storm sewers (miles)	-	12	12	12

Sources: Various City departments.

(1) Does not include HOA playgrounds.

2009	2010	2011	2012	2013	2014
1	1	1	1	1	1
12	12	12	12	12	12
3	3	3	3	3	3
175	175	175	175	175	176
71	94	94	94	94	94
2	2	2	2	2	2
1	1	1	1	1	1
3	3	3	3	3	3
1	1	1	1	1	1
52	52	54	54	55	55
199	199	223	223	229	229
61	61	61	61	62	62
12	12	14	14	14	14

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