

City of Heath

Comprehensive Annual Financial Report
For the year ended September 30, 2013

Prepared by the Finance Department

City of Heath, Texas

TABLE OF CONTENTS

September 30, 2013

INTRODUCTORY SECTION

Letter of Transmittal	1
Certificate of Achievement for Excellence in Financial Reporting	5
Organization Chart	6
List of Principal Officials	7

FINANCIAL SECTION

Independent Auditor's Report	11
Management's Discussion and Analysis	13

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Position	29
Statement of Activities	30

Fund Financial Statements

Governmental Funds:

Balance Sheet	32
Reconciliation of the Balance Sheet to the Statement of Net Position- Governmental funds	35
Statement of Revenues, Expenditures, and Changes in Fund Balance- Governmental Funds	36
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	41

Proprietary Funds:

Statement of Net Position	42
Statement of Revenues, Expenses, and Changes in Fund Net Position	43
Statement of Cash Flows	44

Fiduciary Funds:

Statement of Fiduciary Net Position	46
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Notes to Financial Statements	47
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City of Heath, Texas

TABLE OF CONTENTS

September 30, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual - General Fund	78
Combining Balance Sheet – Nonmajor Governmental Funds	80
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	81
Schedule of Funding Progress-Texas Municipal Retirement System	83

OTHER SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:	
Debt Service Fund	86
Heath Economic Development Corporation	87
Heath Municipal Benefits Corporation	88
Statement of Changes in Assets and Liabilities – Streets Escrow Fund	89

STATISTICAL SECTION

Net Position by Component	92
Changes in Net Position	94
Fund Balances, Government Funds	98
Changes in Fund Balance, Governmental Funds	100
Assessed Value and Estimated Actual Value of Taxable Property	103
Property Tax Rates – Direct and Overlapping Governments	104
Principal Property Taxpayers	107
Property Tax Levies and Collections	108
Ratios of Outstanding Debt by Type	110
Ratio of General Bonded Debt Outstanding	112
Direct and Overlapping Governmental Activities Debt	114
Demographic and Economic Statistics	115
Principal Employers	116
Full-Time Equivalent City Employees by Function/Program	117
Operating Indicators by Function/Program	118
Capital Asset Statistics by Function/Program	120

INTRODUCTORY SECTION



December 13, 2013

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, 2013. 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, 2013.

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, 2013. 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 and the Economic Development Corporation are actively pursuing alternatives to realize growth in the commercial tax base.

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' November 2013 *Regional Economic Update*, "The Texas economy has expanded at a moderate pace over the past six weeks. Employment growth was significantly slower in August than July. The real estate and energy sectors remain at high levels and continue to be the primary drivers of economic growth. However, the recently concluded government shutdown and continued fiscal uncertainty may be a drag on growth in the fourth quarter." "The Texas Leading Index improved in August, and the employment forecast is for job growth to come in between 2 and 2.5 percent in 2013."

The City's Assessed Value peaked in fiscal year 2010 and has experienced slight declines in each of the subsequent fiscal years. The 2013 assessed values are down 1.5% from fiscal year 2010. The addition of \$13.3 million in new taxable improvements helped minimize the overall decline in assessed value. New residential building permits issued in fiscal year 2013 increased by 17 over the prior year and marks a five year high. The increase in construction and retail sales accounts for the majority of the \$57,000 increase in sales tax revenue. Franchise Fees remain relatively flat compared to the prior year.

Economic Indicators					
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Assessed Value	1,071,826,749	1,101,524,185	1,089,241,489	1,087,289,484	1,084,966,301
Residential Permits	40	35	31	47	64
Sales Tax Revenue	\$355,098	\$379,788	\$369,548	\$376,400	\$433,029
Franchise Fees	\$427,411	\$427,111	\$466,218	\$498,209	\$496,413

Projections based on future development played a key role during the 2014 budget process. The fiscal year 2014 budget assumed the cost of the City's immediate needs exceeded revenues. Future budgets will continue to utilize excess fund balance. Excess Fund Balance is defined as available funds above the target Fund Balance of 25% of budgeted expenditures. The 2014 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 2013. The 1.5 million gallon elevated water storage tank went online in December of 2012 and Phase I of FM 740, the City's primary access road, opened in January 2013. The design phase of the Safe Routes to School project was completed and the City began obtaining right of way. Several future projects were

identified including improvements to streets, parks and the trail system as well as upgrades to the water and sewer infrastructure.

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 2012-2013 Fiscal Year Budget. The budget can 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 2013 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 Brooks Cardiel 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, 2012. This was the fourth 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 third consecutive year. In order to qualify for the Distinguished Budget Presentation Award, the government’s budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

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

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

Sincerely,



Ed Thatcher
City Manager



Laurie Mays
Director of Finance



Government Finance Officers Association

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

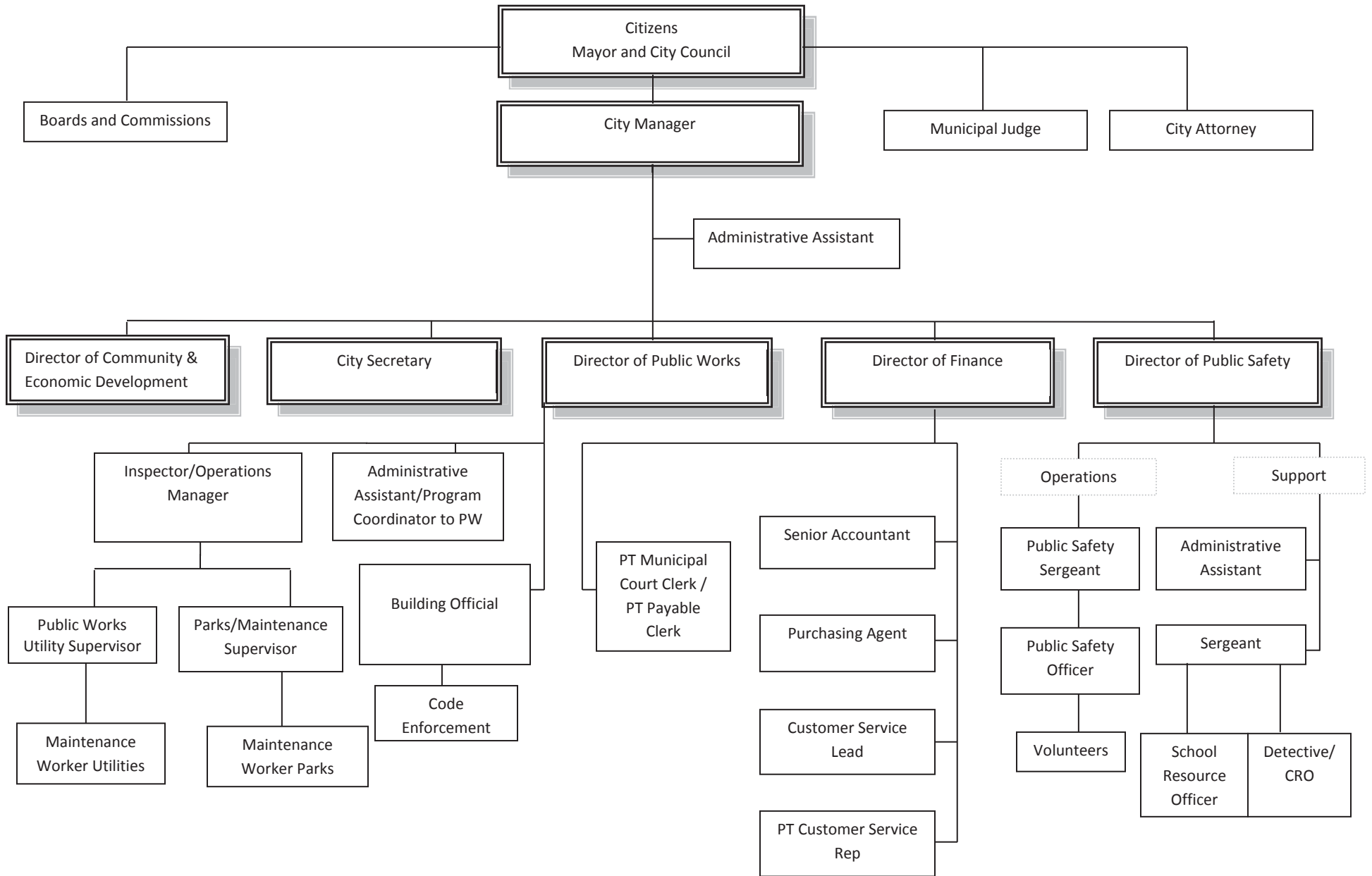
Presented to

**City of Heath
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2012

Executive Director/CEO



Revised 11/14/13

City of Heath, Texas
PRINCIPAL OFFICIALS
SEPTEMBER 30, 2013

CITY COUNCIL

Lorne Liechty, Mayor

Justin Holland, Mayor Pro Tem

Kevin Lamberth, Council Member, Place 1

Brian Berry, Council Member, Place 5

Julie Zurek, 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:

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, 2013, 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.

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

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2013 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.

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. We do not express an opinion or provide any assurance on the information because

the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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
December 13, 2013

*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

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City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2013

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, 2013. 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, 2013 by \$44,487,908. Of this amount, \$9,310,450 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$1,313,219. The majority of the City's net position is either invested in capital assets or restricted for specific purposes. The increase is primarily related to water and sewer revenues that exceeded water and sewer expenses.
- The City's governmental funds reported combined ending fund balances of \$9,368,248 at September 30, 2013, an increase of \$1,309,600 from the prior fiscal year; this includes an increase of \$909,580 in the capital improvement fund, a decrease of \$56,258 in the debt service fund, and an increase of \$171,559 in the general fund.
- At the end of the fiscal year, unassigned fund balance for the general fund was \$2,545,423 or 58% of total general fund expenditures.
- The City's outstanding bonds payable demonstrated a net increase of \$6,931,667. The total bonds payable at the close of the fiscal year was \$28,085,000 including self-supporting debt of the proprietary fund which was \$17,517,044.

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, 2013

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 has 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, 2013

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.

City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2013

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.

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 \$44,487,908 as of September 30, 2013, in the primary government.

The largest portion of the City's net position, \$28,486,958, 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, 2013

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2013			2012		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and						
other assets	\$ 9,948,714	\$ 13,966,738	\$ 23,915,452	\$ 8,397,001	\$ 7,013,527	\$ 15,410,528
Capital assets, net	24,931,992	25,942,494	50,874,486	24,842,144	26,244,786	51,086,930
Total Assets	34,880,706	39,909,232	74,789,938	33,239,145	33,258,313	66,497,458
Total Deferred Outflows	64,776	163,722	228,498	74,415	183,310	257,725
Other liabilities	437,140	398,036	835,176	233,556	947,210	1,180,766
Long-term liabilities	11,679,793	18,015,559	29,695,352	10,447,165	11,952,563	22,399,728
Total Liabilities	12,116,933	18,413,595	30,530,528	10,680,721	12,899,773	23,580,494
Net Position:						
Invested in capital assets,						
net of related debt	13,894,049	14,592,909	28,486,958	14,959,471	14,406,551	29,366,022
Restricted	6,690,500	-	6,690,500	5,555,525	-	5,555,525
Unrestricted	2,244,000	7,066,450	9,310,450	2,117,843	6,135,299	8,253,142
Total Net Position	\$ 22,828,549	\$ 21,659,359	\$ 44,487,908	\$ 22,632,839	\$ 20,541,850	\$ 43,174,689

City of Heath, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2013

Statement of Activities:

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

	For the Year Ended September 30, 2013			For the Year Ended September 30, 2012		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 445,830	\$ 5,986,342	\$ 6,432,172	\$ 403,450	\$ 5,804,984	\$ 6,208,434
Grants and contributions	1,007,052	317,567	1,324,619	223,971	503,138	727,109
General revenues:						
Property taxes	3,770,807	-	3,770,807	3,764,144	-	3,764,144
Sales taxes	866,055	-	866,055	752,800	-	752,800
Franchise and local taxes	500,529	-	500,529	573,853	-	573,853
Investment income	10,280	9,703	19,983	11,577	7,677	19,254
Other revenues	102,460	-	102,460	145,622	-	145,622
Total Revenues	6,703,013	6,313,612	13,016,625	5,875,417	6,315,799	12,191,216
Expenses						
General government	1,130,893	-	1,130,893	972,109	-	972,109
Public safety	2,594,015	-	2,594,015	2,561,106	-	2,561,106
Public works	2,010,404	-	2,010,404	2,400,169	-	2,400,169
Culture and recreation	232,883	-	232,883	244,264	-	244,264
Economic development	45,149	-	45,149	74,363	-	74,363
Economic opportunity	46,407	-	46,407	9,876	-	9,876
Interest and fiscal charges	487,552	964,793	1,452,345	443,125	959,627	1,402,752
Water, sewer, & solid waste	-	4,191,310	4,191,310	-	4,132,077	4,132,077
Total Expenses	6,547,303	5,156,103	11,703,406	6,705,012	5,091,704	11,796,716
Change in Net Position						
Before Transfers	155,710	1,157,509	1,313,219	(829,595)	1,224,095	394,500
Transfers	40,000	(40,000)	-	40,000	(40,000)	-
Total	40,000	(40,000)	-	40,000	(40,000)	-
Change in Net Position	195,710	1,117,509	1,313,219	(789,595)	1,184,095	394,500
Beginning Net Position	22,632,839	20,541,850	43,174,689	23,422,434	19,357,755	42,780,189
Ending Net Position	\$ 22,828,549	\$ 21,659,359	\$ 44,487,908	\$ 22,632,839	\$ 20,541,850	\$ 43,174,689

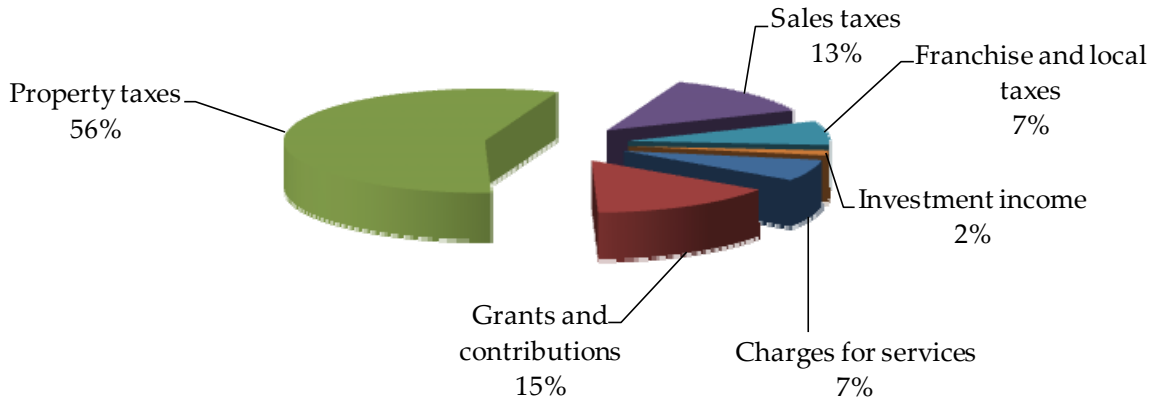
City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2013

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

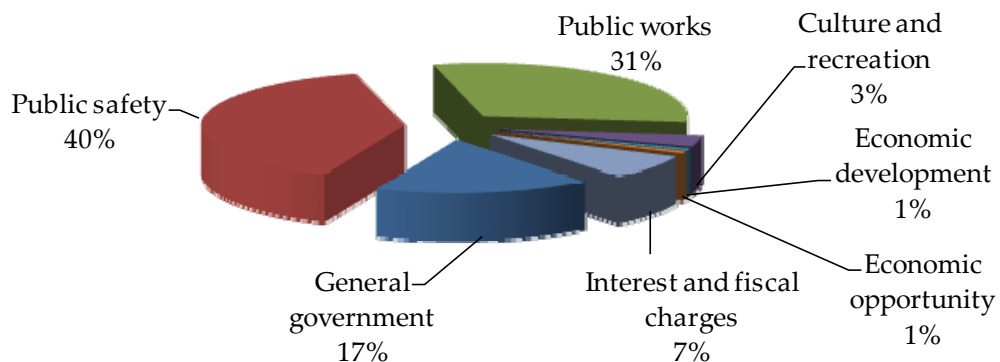
Governmental Activities - Revenues



For the year ended September 30, 2013, revenues from governmental activities totaled \$6,703,013. Property tax, franchise tax and sales tax are the City's largest general revenue sources. Sales tax increased \$113,255 or 15% due to cyclical business activities within the City. Grants and contributions increased by \$783,081 due to developer contributions received in the current year.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



For the year ended September 30, 2013, expenses for governmental activities totaled \$6,547,303. This represents a decrease of \$157,709. This decrease stems from decreased depreciation expenses realized in public works. The City's largest functional expense is public safety of \$2,594,015. All remaining categories remained relatively consistent with the previous year.

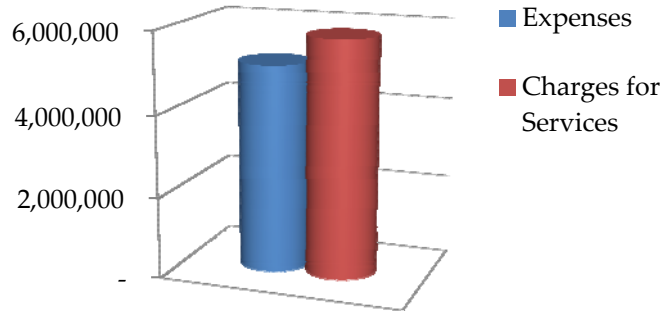
City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2013

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, 2013, charges for services by business-type activities totaled \$5,986,342. This is an increase of \$181,358, or 3%, from the previous year. This increase directly relates to increased water usage.

Total expenses increased \$64,399 to a total of \$5,156,103, a change of 1%.

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, 2013, the City's governmental funds reported combined fund balances of \$9,368,248, an increase of \$1,309,600 in comparison with the prior year. Approximately 33% of this amount, \$2,545,423, 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* to indicate that it is 1) not in spendable form, \$13,410, 2) can be used only for the specific purposes determined by the City Council \$11,000, 3) limited for specific purposes intended by council or management \$107,915), or 4) restricted for particular purposes \$6,690,500.

As of the end of the year the general fund reflected a total fund balance of \$2,569,833. Of this, \$13,410 is considered nonspendable, \$11,000 is committed, and \$2,545,423 is unassigned. This represents an

City of Heath, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2013

increase of \$237,415 more than last year's unassigned general fund balance. This increase in fund balance is attributable to general revenues exceeding general expenditures.

As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. The total fund balance of the general fund is 58% of total general fund expenditures. The unassigned (the amount available for spending) fund balance of the general fund of \$2,545,423 is 58% of total general fund expenditures.

The debt service fund had an ending fund balance of \$829,597 at September 30, 2013 compared to the previous year's balance of \$885,855. This is a change of \$56,258 due to planned property tax revenues and debt expenditures that occurred.

The capital improvements fund had a net increase in fund balance of \$909,580 due to the issuance of debt. During the year, the City expended \$806,680 on improving the City's infrastructure in cooperation with the Texas Department of Transportation, compared to prior year expenses of \$500,823 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 \$21,539,352. Unrestricted net position of the enterprise fund at the close of the fiscal year amounted to \$6,946,443. The capital assets of the water and sewer fund totaled \$35,045,052 at original cost, and after depreciation, the value is \$25,942,494. 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:

Increases to capital assets were \$662,828, the majority of which is classified as improvements other than buildings at September 30, 2013. Operational expenses excluding depreciation and amortization were \$2,767,035. Cash and cash equivalents in the water and sewer fund were \$12,437,834 at fiscal year end.

The City's nonmajor solid waste fund recorded an increase of \$1,554 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, 2013

GENERAL FUND BUDGETARY HIGHLIGHTS

Budget amendments approved during the fiscal year total a net increase of \$100,000 in total expenditures. There was a positive variance of \$126,989 over budgeted general fund revenues. The following are additional comments regarding appropriations:

- There was a positive variance of \$521,628 in budgeted appropriations.
- \$648,617 is the surplus of revenues over expenditures before transfers.
- There was a net increase in fund balance of \$171,559 due to the large positive variances on expenditures.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$24,931,992 in a variety of capital assets and infrastructure, net of accumulated depreciation. The City's business-type activities funds had invested \$25,942,494 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 \$93,108 a negligible change to prior year, net of depreciation.

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

- Contributed assets valued at \$801,849 consisting of streets.
- Contributed assets valued at \$261,702 consisting of water and sewer lines.
- The completion of an elevated storage tank.
- The addition of construction in progress for continued roadwork on FM 740.

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 \$28,085,000. Of this amount, \$17,517,044 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 refunded a bond for \$1,600,000 and issued a bond totaling \$8,195,000 that was split between governmental and business-type activities.

City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2013

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 2014 budget which was unchanged from the prior fiscal year rate of \$.3433 per \$100 of assessed value. For the first time since fiscal year 2010 assessed values increased over the prior year: resulting in an increase in General Fund budgeted ad valorem tax revenue of \$124,000. The fiscal year 2014 budget included funding for street repairs and maintenance, vehicle and equipment replacements, and raises for employees.

Debt was issued in 2013 to fund several capital improvement projects for the water and sewer utility systems. Projects scheduled to begin in fiscal year 2014 include water line additions; improvements to the sewer system; and utility relocation along FM 740. Upgrading and adding to existing infrastructure will improve the system's efficiency and increase its capacity. The budget also included increased expenses for wholesale water and debt service payments.

Future operational and capital 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 have shown increased interest in the City of Heath according to the City's economic development leaders.

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, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 9,304,002	\$ 12,331,618	\$ 21,635,620
Restricted cash	-	174,029	174,029
Receivables, net	631,302	1,441,431	2,072,733
Inventory	-	14,558	14,558
Prepays	13,410	5,102	18,512
Total Current Assets	9,948,714	13,966,738	23,915,452
Capital assets:			
Non-depreciable	3,834,686	368,705	4,203,391
Net depreciable capital assets	21,097,306	25,573,789	46,671,095
	<u>24,931,992</u>	<u>25,942,494</u>	<u>50,874,486</u>
Total Assets	34,880,706	39,909,232	74,789,938
<u>Deferred Outflows of Resources</u>			
Deferred charge on refunding	<u>64,776</u>	<u>163,722</u>	<u>228,498</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	328,632	202,027	530,659
Accrued interest payable	83,508	72,385	155,893
Customer deposits	25,000	123,624	148,624
	<u>437,140</u>	<u>398,036</u>	<u>835,176</u>
Noncurrent liabilities:			
Due within one year	1,143,610	920,887	2,064,497
Due in more than one year	10,536,183	17,094,672	27,630,855
	<u>11,679,793</u>	<u>18,015,559</u>	<u>29,695,352</u>
Total Liabilities	12,116,933	18,413,595	30,530,528
<u>Net Position</u>			
Invested in capital assets net of related debt	13,894,049	14,592,909	28,486,958
Restricted for:			
Debt service	829,597	-	829,597
Capital improvement	3,284,588	-	3,284,588
Economic development	1,125,948	-	1,125,948
Economic opportunities	1,429,914	-	1,429,914
Public safety	20,453	-	20,453
Unrestricted	2,244,000	7,066,450	9,310,450
Total Net Position	\$ 22,828,549	\$ 21,659,359	\$ 44,487,908

See Notes to Financial Statements.

City of Heath, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 1,130,893	\$ 28,000	\$ 9,808	\$ 801,848
Public safety	2,594,015	374,837	195,396	-
Public works	2,010,404	33,163	-	-
Culture and recreation	232,883	9,830	-	-
Economic development	45,149	-	-	-
Economic opportunity	46,407	-	-	-
Interest and fiscal charges	487,552	-	-	-
Total Governmental Activities	6,547,303	445,830	205,204	801,848
Business-Type Activities				
Water & sewer	4,696,947	5,445,750	-	317,567
Solid waste	459,156	540,592	-	-
Total Business-Type Activities	5,156,103	5,986,342	-	317,567
Total Primary Government	\$ 11,703,406	\$ 6,432,172	\$ 205,204	\$ 1,119,415

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
\$ (291,237)	\$ -	\$ (291,237)
(2,023,782)	-	(2,023,782)
(1,977,241)	-	(1,977,241)
(223,053)	-	(223,053)
(45,149)	-	(45,149)
(46,407)	-	(46,407)
(487,552)	-	(487,552)
<u>(5,094,421)</u>	<u>-</u>	<u>(5,094,421)</u>
-	1,066,370	1,066,370
-	81,436	81,436
-	<u>1,147,806</u>	<u>1,147,806</u>
<u>(5,094,421)</u>	<u>1,147,806</u>	<u>(3,946,615)</u>
3,770,807	-	3,770,807
866,055	-	866,055
496,413	-	496,413
4,116	-	4,116
10,280	9,703	19,983
102,460	-	102,460
40,000	(40,000)	-
<u>5,290,131</u>	<u>(30,297)</u>	<u>5,259,834</u>
195,710	1,117,509	1,313,219
22,632,839	20,541,850	43,174,689
<u>\$ 22,828,549</u>	<u>\$ 21,659,359</u>	<u>\$ 44,487,908</u>

City of Heath, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2013

	<u>General</u>	<u>Debt Service</u>	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 2,536,256	\$ 815,058	\$ 3,329,883	\$ 2,622,805
Receivables, net	365,678	146,777	30,368	88,479
Prepays	13,410	-	-	-
Total Assets	\$ 2,915,344	\$ 961,835	\$ 3,360,251	\$ 2,711,284
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 222,995	\$ 2,920	\$ 75,663	\$ 27,054
Deposits payable	25,000	-	-	-
Total Liabilities	247,995	2,920	75,663	27,054
<u>Deferred Inflows of Resources</u>				
Unavailable revenue -				
Property taxes	79,377	21,380	-	-
Fines receivable, net	1,466	-	-	-
Assessments receivable	-	107,938	-	-
Code enforcement receivable	10,903	-	-	-
Other	5,770	-	-	-
Total Deferred Inflows	97,516	129,318	-	-
<u>Fund Balances</u>				
Nonspendable for:				
Prepays	13,410	-	-	-
Committed	11,000	-	-	-
Restricted	-	829,597	3,284,588	2,576,315
Assigned	-	-	-	107,915
Unassigned reported in:				
General fund	2,545,423	-	-	-
Total Fund Balances	2,569,833	829,597	3,284,588	2,684,230
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,915,344	\$ 961,835	\$ 3,360,251	\$ 2,711,284

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 9,304,002
631,302
13,410

\$ 9,948,714

\$ 328,632
25,000

353,632

100,757
1,466
107,938
10,903
5,770

226,834

13,410
11,000
6,690,500
107,915

2,545,423

9,368,248

\$ 9,948,714

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City of Heath, Texas
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
September 30, 2013

Fund Balances - Total Governmental Funds	\$ 9,368,248
 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	3,834,686
Capital assets - net depreciable	21,097,306
 Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
Property tax receivable	100,757
Fines receivable, net	1,466
Assessments receivable	107,938
Code enforcement receivable	10,903
Other	5,770
 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	64,776
 Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(83,508)
Bond premium	(323,021)
Bond discount	101,942
Non-current liabilities due in one year	(1,143,610)
Non-current liabilities due in more than one year	(10,315,104)
Net Position of Governmental Activities	<u>\$ 22,828,549</u>

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, 2013

	General	Debt Service	Capital Improvements	Other Governmental Funds
<u>Revenues</u>				
Taxes:				
Property tax	\$ 2,903,114	\$ 876,347	\$ -	\$ -
Sales tax	433,029	-	-	433,026
Franchise tax	496,413	-	-	-
Alcoholic beverage tax	4,116	-	-	-
Licenses and permits	293,488	-	-	-
Intergovernmental	205,204	-	-	-
Charges for services	103,513	-	-	-
Fines and forfeitures	48,829	-	-	-
Special assessments	-	15,504	-	-
Investment income	3,328	1,848	1,698	3,406
Other revenue	20,905	-	64,562	6,849
Total Revenues	4,511,939	893,699	66,260	443,281
<u>Expenditures</u>				
Current:				
Administration	956,640	-	-	-
Highways and streets	361,169	-	-	-
Parks	133,338	-	-	-
Engineering and building inspection	495,373	-	-	-
Municipal court	51,263	-	-	-
Public safety	2,411,914	-	-	3,434
Economic development	-	-	-	44,850
Economic opportunity	-	-	-	46,108
Debt Service:				
Principal	-	592,244	-	14,000
Interest and fiscal charges	-	375,983	-	20,853
Bond issuance costs	-	(9,454)	29,728	4,743
Capital outlay	-	-	806,680	-
Total Expenditures	4,409,697	958,773	836,408	133,988
Excess of Revenues Over (Under) Expenditures	102,242	(65,074)	(770,148)	309,293

**Total
Governmental
Funds**

\$ 3,779,461
866,055
496,413
4,116
293,488
205,204
103,513
48,829
15,504
10,280
92,316

5,915,179

956,640
361,169
133,338

495,373
51,263
2,415,348
44,850
46,108

606,244
396,836
25,017
806,680

6,338,866

(423,687)

City of Heath, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS (Continued) For the Year Ended September 30, 2013

	General	Debt Service	Capital Improvements	Other Governmental Funds
<u>Other Financing Sources (Uses)</u>				
Transfers in (out)	69,317	-	-	(29,317)
Proceeds from bond issuance	-	1,040,000	1,654,037	560,000
Premium on bonds issued	-	41,227	25,691	22,198
Payment to refunded bond escrow agen	-	(1,072,411)	-	(577,455)
Total Other Financing Sources (Uses)	69,317	8,816	1,679,728	(24,574)
Net Change in Fund Balances	171,559	(56,258)	909,580	284,719
Beginning fund balances	2,398,274	885,855	2,375,008	2,399,511
Ending Fund Balances	\$ 2,569,833	\$ 829,597	\$ 3,284,588	\$ 2,684,230

See Notes to Financial Statements.

**Total
Governmental
Funds**

40,000

3,254,037

89,116

(1,649,866)

1,733,287

1,309,600

8,058,648

\$ 9,368,248

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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, 2013

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

Net changes in fund balances - total governmental funds	\$	1,309,600
<p>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.</p>		
Capital outlay		864,690
Depreciation expense		(1,576,692)
The effect of capital assets contributed to the City during the current year.		801,848
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(14,014)
<p>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.</p>		
Compensated absences		(12,582)
Accrued interest		(21,870)
<p>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.</p>		
Amortization of deferred charges on refunding		(9,639)
Amortization of debt premium		(65,303)
Amortization of debt discount		(8,138)
Principal payments		<u>(1,072,190)</u>
Change in Net Position of Governmental Activities	\$	<u>195,710</u>

See Notes to Financial Statements.

City of Heath, Texas
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2013

	<u>Water & Sewer</u>	<u>Nonmajor Solid Waste</u>	<u>Total Proprietary Funds</u>
<u>Assets</u>			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 12,263,805	\$ 67,813	\$ 12,331,618
Restricted cash	174,029	-	174,029
Receivables, net	1,347,859	93,572	1,441,431
Inventory	14,558	-	14,558
Prepays	5,102	-	5,102
Total Current Assets	<u>13,805,353</u>	<u>161,385</u>	<u>13,966,738</u>
<u>Noncurrent Assets</u>			
Capital assets:			
Non-depreciable	368,705	-	368,705
Net depreciable capital assets	25,573,789	-	25,573,789
Total Noncurrent Assets	<u>25,942,494</u>	<u>-</u>	<u>25,942,494</u>
Total Assets	<u>39,747,847</u>	<u>161,385</u>	<u>39,909,232</u>
<u>Deferred Outflows of Resources</u>			
Deferred charge on refunding	163,722	-	163,722
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accounts payable and accrued liabilities	160,649	41,378	202,027
Accrued interest	72,385	-	72,385
Customer deposits	123,624	-	123,624
Compensated absences - current	52,499	-	52,499
Bonds payable - current	868,388	-	868,388
Total Current Liabilities	<u>1,277,545</u>	<u>41,378</u>	<u>1,318,923</u>
<u>Noncurrent Liabilities</u>			
Compensated absences	88,475	-	88,475
Bonds payable	17,006,197	-	17,006,197
Total Liabilities	<u>18,372,217</u>	<u>41,378</u>	<u>18,413,595</u>
<u>Net Position</u>			
Invested in capital assets, net of related debt	14,592,909	-	14,592,909
Unrestricted	6,946,443	120,007	7,066,450
Total Net Position	<u>\$ 21,539,352</u>	<u>\$ 120,007</u>	<u>\$ 21,659,359</u>

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, 2013

	Water & Sewer	Nonmajor Solid Waste	Total Proprietary Funds
<u>Operating Revenues</u>			
Water revenue	\$ 3,077,253	\$ -	\$ 3,077,253
Sewer revenue	1,935,570	-	1,935,570
Sanitation revenue	-	540,592	540,592
Connection and tap charges	415,564	-	415,564
Other revenue	17,363	-	17,363
Total Operating Revenues	5,445,750	540,592	5,986,342
<u>Operating Expenses</u>			
Personnel	852,652	-	852,652
Supplies and services	256,287	459,156	715,443
Operating expenses	260,414	-	260,414
Materials and equipment	136,189	-	136,189
Cost of water	874,085	-	874,085
Cost of sewer	387,408	-	387,408
Depreciation	965,119	-	965,119
Total Operating Expenses	3,732,154	459,156	4,191,310
Operating Income	1,713,596	81,436	1,795,032
<u>Nonoperating Revenues (Expenses)</u>			
Intergovernmental	55,865	-	55,865
Investment income	9,585	118	9,703
Interest expense	(860,869)	-	(860,869)
Bond issuance costs	(103,924)	-	(103,924)
Total Nonoperating Revenues (Expenses)	(899,343)	118	(899,225)
Income Before Capital Contributions and Transfers	814,253	81,554	895,807
Capital contributions	261,702	-	261,702
Transfers in (out)	40,000	(80,000)	(40,000)
Change in Net Position	1,115,955	1,554	1,117,509
Beginning net position	20,423,397	118,453	20,541,850
Ending Net Position	\$ 21,539,352	\$ 120,007	\$ 21,659,359

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, 2013

	<u>Water & Sewer</u>	<u>Nonmajor Solid Waste</u>	<u>Total Proprietary Funds</u>
<u>Cash Flows from Operating Activities</u>			
Receipts from customers	\$ 5,123,618	\$ 536,469	\$ 5,660,087
Payments to suppliers	(2,455,111)	(495,744)	(2,950,855)
Payments to employees	(826,006)	-	(826,006)
Net Cash Provided by Operating Activities	<u>1,842,501</u>	<u>40,725</u>	<u>1,883,226</u>
<u>Cash Flows from Noncapital Financing Activities</u>			
Operating transfers in (out)	40,000	(80,000)	(40,000)
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>40,000</u>	<u>(80,000)</u>	<u>(40,000)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Capital purchases	(401,124)	-	(401,124)
Capital grant	55,865	-	55,865
Proceeds from bond issuance	6,642,560	-	6,642,560
Bond issuance costs	(103,924)	-	(103,924)
Principal paid on debt	(758,744)	-	(758,744)
Interest paid on debt	(849,398)	-	(849,398)
Net Cash (Used for) Capital and Related Financing Activities	<u>4,585,235</u>	<u>-</u>	<u>4,585,235</u>
<u>Cash Flows from Investing Activities</u>			
Interest on investments	9,585	118	9,703
Net Cash Provided by Investing Activities	<u>9,585</u>	<u>118</u>	<u>9,703</u>
Net Increase (Decrease) in Cash and Cash Equivalents	6,477,321	(39,157)	6,438,164
Beginning cash and cash equivalents	5,960,513	106,970	6,067,483
Ending Cash and Cash Equivalents	<u>\$ 12,437,834</u>	<u>\$ 67,813</u>	<u>\$ 12,505,647</u>

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, 2013

	Water & Sewer	Nonmajor Solid Waste	Total Proprietary Funds
<u>Reconciliation of Operating Income</u>			
<u>to Net Cash Provided by Operating Activities</u>			
Operating Income	\$ 1,713,596	\$ 81,436	\$ 1,795,032
Adjustments to reconcile operating income to net cash provided:			
Depreciation	965,119	-	965,119
Amortization	(10,516)	-	(10,516)
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in:			
Accounts receivable	(322,132)	(4,123)	(326,255)
Inventory	(381)	-	(381)
Prepays	(5,102)	-	(5,102)
Increase (Decrease) in:			
Accounts payable and accrued liabilities	(547,028)	(36,588)	(583,616)
Compensated absences	26,646	-	26,646
Customer deposits	22,299	-	22,299
Net Cash Provided by Operating Activities	\$ 1,842,501	\$ 40,725	\$ 1,883,226

See Notes to Financial Statements.

City of Heath, Texas
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
September 30, 2013

		<u>Agency Fund</u> <u>Streets</u> <u>Escrow</u>
<u>Assets</u>		
<u>Current Assets</u>		
Cash and cash equivalents		\$ 113,603
	Total Assets	<u>113,603</u>
<u>Liabilities</u>		
Accrued liabilities		113,603
	Total Liabilities	<u>\$ 113,603</u>

See Notes to Financial Statements.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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, highway and streets, parks and recreation, health and social services, planning and zoning, and general administrative services. In addition, the City provides water and sewer service, and sanitation service as 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 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.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

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.

B. 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.

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

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2013

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 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.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

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.

C. 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. 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 yearend). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2013

met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of yearend). 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.

D. 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

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

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

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 \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. 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, 2013

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.

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

5. 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.

6. 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

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

7. 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.

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.

8. 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, 2013

E. 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, 2013

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. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2013, the primary government had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
External investment pools	\$ 5,717,059	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, 2013, the City's investment in TexPool was 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, 2013, 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, 2013

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.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

B. Receivables

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

	<u>General</u>	<u>Debt Service</u>	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>	<u>Water & Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
Property taxes	\$ 80,186	\$ 20,569	\$ -	\$ -	\$ -	\$ -	\$ 100,755
Special assessments	-	107,938	-	-	-	-	107,938
Sales tax	86,151	-	-	86,150	-	-	172,301
Fines	2,440	-	-	-	-	-	2,440
Code enforcement	10,903	-	-	-	-	-	10,903
Other	187,168	18,270	30,368	2,329	373,687	101,429	713,251
Accounts	-	-	-	-	1,008,365	-	1,008,365
Allowance	(1,170)	-	-	-	(34,193)	(7,857)	(43,220)
	<u>\$ 365,678</u>	<u>\$ 146,777</u>	<u>\$ 30,368</u>	<u>\$ 88,479</u>	<u>\$ 1,347,859</u>	<u>\$ 93,572</u>	<u>\$ 2,072,733</u>

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

C. Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 3,036,088	\$ -	\$ -	\$ 3,036,088
Construction in progress	118,416	680,182	-	798,598
Total capital assets not being depreciated	<u>3,154,504</u>	<u>680,182</u>	<u>-</u>	<u>3,834,686</u>
Capital assets, being depreciated:				
Buildings	2,162,395	-	-	2,162,395
Improvements other than buildings	2,935,163	-	-	2,935,163
Infrastructure	33,322,007	801,849	-	34,123,856
Machinery and equipment	2,015,618	184,509	(31,815)	2,168,312
Total capital assets being depreciated	<u>40,435,183</u>	<u>986,358</u>	<u>(31,815)</u>	<u>41,389,726</u>
Less accumulated depreciation				
Buildings	(927,049)	(89,278)	-	(1,016,327)
Improvements other than buildings	(554,270)	(104,490)	-	(658,760)
Infrastructure	(14,978,984)	(1,186,225)	-	(16,165,209)
Machinery and equipment	(2,287,240)	(196,699)	31,815	(2,452,124)
Total accumulated depreciation	<u>(18,747,543)</u>	<u>(1,576,692)</u>	<u>31,815</u>	<u>(20,292,420)</u>
Net capital assets being depreciated	<u>21,687,640</u>	<u>(590,334)</u>	<u>-</u>	<u>21,097,306</u>
Total Capital Assets	<u><u>\$ 24,842,144</u></u>	<u><u>\$ 89,848</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 24,931,992</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 30,319
Public safety	221,153
Public works	1,225,241
Culture and recreation	99,979
Total Governmental Activities Depreciation Expense	<u><u>\$ 1,576,692</u></u>

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 203,438	\$ -	\$ -	\$ 203,438
Construction in progress	3,493,599	366,523	(3,694,855)	165,267
Total capital assets not being depreciated	<u>3,697,037</u>	<u>366,523</u>	<u>(3,694,855)</u>	<u>368,705</u>
Capital assets, being depreciated:				
Buildings	309,639	-	-	309,639
Improvements other than buildings	30,124,811	3,956,557	-	34,081,368
Machinery and equipment	264,308	34,602	(13,572)	285,338
Total capital assets being depreciated	<u>30,698,758</u>	<u>3,991,159</u>	<u>(13,572)</u>	<u>34,676,345</u>
Less accumulated depreciation				
Buildings	(111,465)	(14,206)	-	(125,671)
Improvements other than buildings	(7,863,204)	(906,795)	-	(8,769,999)
Machinery and equipment	(176,340)	(44,118)	13,572	(206,886)
Total accumulated depreciation	<u>(8,151,009)</u>	<u>(965,119)</u>	<u>13,572</u>	<u>(9,102,556)</u>
Net capital assets being depreciated	<u>22,547,749</u>	<u>3,026,040</u>	<u>-</u>	<u>25,573,789</u>
Total Capital Assets	<u>\$ 26,244,786</u>	<u>\$ 3,392,563</u>	<u>\$ (3,694,855)</u>	<u>\$ 25,942,494</u>

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

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</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts</u> <u>Due within</u> <u>One Year</u>
Governmental Activities:					
Bonds, notes and other payables:					
General Obligation Bonds	\$ 2,530,000	\$ 1,600,000	\$ (215,000)	\$ 3,915,000	\$ 425,000
Certificates of Obligation	6,888,508	1,654,037	(1,889,589)	6,652,956	276,575
Notes Payable	188,258	-	(29,201)	159,057	30,106
Premiums	257,718	89,116	(23,813)	323,021	-
Discounts	(110,080)	-	8,138	(101,942)	-
Other liabilities:					
Capital Lease	202,684	-	(48,057)	154,627	49,759
Compensated Absences	564,492	208,835	(196,253)	577,074	362,170
Total Governmental Activities	<u>\$ 10,521,580</u>	<u>\$ 3,551,988</u>	<u>\$ (2,393,775)</u>	<u>\$ 11,679,793</u>	<u>\$ 1,143,610</u>
Long-term liabilities due in more than one year				<u>\$ 10,536,183</u>	
Business-Type Activities:					
Bonds, notes and other payables:					
General Obligation Bonds	\$ 4,565,000	\$ -	\$ (290,000)	\$ 4,275,000	\$ 320,000
Certificates of Obligation	6,421,492	6,540,963	(425,411)	12,537,044	503,388
Premium	373,980	101,597	(37,861)	437,716	-
Discount	(87,259)	-	7,136	(80,123)	-
Contract Revenue Bonds	748,333	-	(43,333)	705,000	45,000
Other liabilities:					
Compensated Absences	114,327	55,590	(28,942)	140,975	52,499
Total Business-Type Activities	<u>\$ 12,135,873</u>	<u>\$ 6,698,150</u>	<u>\$ (818,411)</u>	<u>\$ 18,015,612</u>	<u>\$ 920,887</u>
Long-term liabilities due in more than one year				<u>\$ 17,094,725</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 general

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

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	\$ 1,600,000
2010 General Obligation Refunding Bonds	3.00-4.00%	2,230,000	2,000,000
2004 General Obligation Bonds	3.68%	1,835,000	315,000
Total General Obligation Bonds		<u>5,665,000</u>	<u>3,915,000</u>
2013 Combination Tax & Revenue Certificates	2.00-4.00%	1,654,037	1,654,037
2007 Combination Tax & Revenue Certificates	4.00-5.00%	2,000,000	4,998,919
Total Certificates of Obligation		<u>3,654,037</u>	<u>6,652,956</u>
Total Governmental Activities		<u>\$ 9,319,037</u>	<u>\$ 10,567,956</u>
Business-type Activities:			
2010 General Obligation Refunding Bonds	3.00-4.00%	\$ 4,840,000	\$ 4,275,000
Total General Obligation Bonds		<u>4,840,000</u>	<u>4,275,000</u>
2013 Combination Tax & Revenue Certificates	2.00-4.00%	6,540,963	6,540,963
2007 Combination Tax & Revenue Certificates	4.00-5.00%	11,445,000	5,516,081
2004 Combination Tax & Revenue Certificates	3.68%	1,640,000	480,000
Total Certificates of Obligation		<u>19,625,963</u>	<u>12,537,044</u>
2005 Contract Revenue Bonds	3.75-4.625%	1,006,566	705,000
Total Contract Revenue Bonds		<u>1,006,566</u>	<u>705,000</u>
Total Business-Type Activities		<u>\$ 25,472,529</u>	<u>\$ 17,517,044</u>
Total Long-Term Debt			
General Obligation Refunding Bonds		\$ 10,505,000	\$ 8,190,000
Certificates of Obligation		23,280,000	19,190,000
Contract Revenue Bonds		1,006,566	705,000
Total Primary Government		<u>\$ 34,791,566</u>	<u>\$ 28,085,000</u>

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

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
2014	\$ 425,000	\$ 130,877	\$ 276,575	\$ 279,484
2015	430,000	116,469	291,883	264,510
2016	325,000	104,100	304,778	250,093
2017	335,000	92,300	329,491	234,872
2018	305,000	80,475	332,652	220,431
2019	315,000	69,025	343,528	207,044
2020	330,000	57,100	357,790	182,933
2021	340,000	44,700	371,043	177,998
2022	360,000	32,350	417,958	161,282
2023	370,000	20,750	435,606	143,211
2024	380,000	7,600	454,264	124,373
2025	-	-	491,446	103,890
2026	-	-	513,489	82,151
2027	-	-	535,533	59,459
2028	-	-	179,633	44,283
2029	-	-	187,706	36,936
2030	-	-	194,771	29,286
2031	-	-	202,845	21,334
2032	-	-	211,965	13,039
2033	-	-	220,000	4,400
Total	\$ 3,915,000	\$ 755,746	\$ 6,652,956	\$ 2,641,009

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

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
2014	\$ 320,000	\$ 159,700	\$ 503,388	\$ 509,630
2015	330,000	149,950	528,116	483,001
2016	340,000	138,200	550,222	460,255
2017	485,000	121,700	435,509	436,179
2018	570,000	100,600	407,348	418,920
2019	605,000	77,100	416,472	402,983
2020	630,000	52,400	432,210	386,290
2021	660,000	26,600	443,957	368,731
2022	335,000	6,700	582,042	347,955
2023	-	-	604,394	324,346
2024	-	-	630,736	299,114
2025	-	-	723,555	270,297
2026	-	-	756,511	238,886
2027	-	-	789,467	206,078
2028	-	-	710,367	175,117
2029	-	-	742,294	146,064
2030	-	-	770,229	115,814
2031	-	-	802,156	84,366
2032	-	-	838,071	51,561
2033	-	-	870,000	17,400
Total	\$ 4,275,000	\$ 832,950	\$ 12,537,044	\$ 5,742,987

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

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:

<u>Year ending September 30,</u>	<u>Contract Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 45,000	\$ 29,053
2015	46,667	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	68,333	9,068
2024	71,666	6,197
2025	75,000	3,187
Total	\$ 705,000	\$ 204,935

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:

<u>Year ending September 30,</u>	<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 30,077	\$ 4,960
2015	31,009	4,028
2016	31,971	3,066
2017	31,895	3,142
2018	34,105	932
Total	\$ 159,057	\$ 16,128

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

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:

<u>Year ending September 30,</u>	<u>Capital Lease</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 49,759	\$ 5,477
2015	51,521	3,715
2016	53,347	1,889
Total	<u>\$ 154,627</u>	<u>\$ 11,081</u>

Current Refunding Bond

The City issued \$1,600,000 in bonds with interest rates ranging from 2.0-4.0%. The proceeds were used to refund \$1,600,000 of outstanding 2004 Tax & Surplus revenue bonds which had an interest rate of 3.68%. The net proceeds of \$1,600,000 (including a \$63,425 premium and after payment of \$13,559 in underwriting fees and other issuance costs) were used to refund the original bond holders. As a result, the liability for those bonds has been removed from the statement of net position. The result is a reduction in total debt service payments over 11 years of \$894,037 and to obtain an economic gain of \$576,252. The effect of the issuance is demonstrated below:

<u>Year ending September 30,</u>	<u>Original Issue 2004 Tax & Surplus Bonds</u>		<u>Current Refunding 2013 Refunding Bond</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 40,000	\$ 59,616	\$ -	\$ -
2014	25,000	158,750	45,000	50,013
2015	25,000	156,250	45,000	48,150
2016	135,000	148,250	90,000	46,800
2017	30,000	140,000	50,000	45,400
2018	35,000	136,750	95,000	43,475
2019	45,000	132,750	95,000	40,625
2020	65,000	127,250	100,000	37,700
2021	90,000	119,500	100,000	34,700
2022	350,000	97,500	230,000	29,750
2023	380,000	61,000	370,000	20,750
2024	420,000	21,000	380,000	7,600
Total	<u>\$ 1,600,000</u>	<u>\$ 1,299,000</u>	<u>\$ 1,600,000</u>	<u>\$ 404,963</u>

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
 September 30, 2013

E. Intergovernmental Transfers

Transfers between the primary government funds during the 2013 year were as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
Other Governmental Funds	General	\$ 29,317
Solid Waste Fund	General	40,000
	Water & Sewer	40,000
	Total	\$ 109,317

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.

The following is a list of restricted net position / fund balance of the City:

	<u>Governmental Activities</u>
Restricted for:	
* Municipal court	20,453
Debt service	811,327
Capital improvements	3,284,588
Economic development	1,125,948
Economic opportunity	1,429,914
Total Restricted	<u>6,672,230</u>
Committed for:	
Park Donations	11,000
Assigned for:	
Police Department	107,915

* 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

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2013

participates along with 2,617 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 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.

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2013

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 2012</u>	<u>Plan Year 2013</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 Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

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>2013</u>	<u>2012</u>	<u>2011</u>
Annual Pension Cost (ARC)	\$ 248,824	\$ 248,848	\$ 287,934
Actual Contributions Made	\$ 248,824	\$ 248,848	\$ 287,934
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation/Asset	-	-	-
NPO at the End of Period	<u>-\$</u>	<u>-\$</u>	<u>-\$</u>

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2013

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation Date	<u>12/31/2010</u>	<u>12/31/2011</u>	<u>12/31/2012</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	22.0 years; closed period	20.9 years; closed period	20.0 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 Cost-of-Living Adjustments	3.00% 0.0%	3.00% 0.0%	3.00% 0.0%

The funded status as of December 31, 2012, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	12/31/2012
Actuarial Value of Assets	\$ 5,501,838
Actuarial Accrued Liability	\$ 6,449,182
Percentage Funded	85.3%
Annual Covered Payroll	\$ 2,616,174
Unfunded Actuarial Accrued Liability (UAAL) % of Covered Payroll	\$ (947,344) (36.2)%

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, 2013

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.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

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 maintenance expenses for the ensuing fiscal year, as shown in the Annual Budget. The

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2013

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, 2013

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 \$24,426 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. Restatement

The City has restated beginning fund balance/net position within governmental and business-type activities due to the implementation of GASB 63 & 65. The restatement of beginning net position/fund balance is as follows:

	General fund	Governmental Activities	Water & Sewer
Prior year ending net position			
fund balance as reported	\$ 2,325,728	\$ 22,694,343	\$ 20,762,800
Change in reporting of franchise tax receivable	72,546	72,546	-
Change in reporting of bond reserve	-	-	(101,710)
Change in reporting of bond issuance costs	-	(134,050)	(119,240)
Restated beginning net position/fund balance	\$ 2,398,274	\$ 22,632,839	\$ 20,541,850

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

J. Subsequent Events

There were no material subsequent events through December 13, 2013, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

City of Heath, Texas

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

GENERAL FUND (Page 1 of 2)

For the Year Ended September 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Taxes:				
Property tax	\$ 2,870,300	\$ 2,870,300	\$ 2,903,114	\$ 32,814
Sales tax	385,000	385,000	433,029	48,029
Franchise tax	475,000	475,000	496,413	21,413
Alcoholic beverage tax	3,600	3,600	4,116	516
Licenses and permits	283,450	283,450	293,488	10,038
Intergovernmental	192,000	192,000	205,204	13,204
Charges for services	90,400	90,400	103,513	13,113
Fines and forfeitures	40,200	40,200	48,829	8,629
Investment income	3,000	3,000	3,328	328
Other revenue	42,000	42,000	20,905	(21,095)
Total Revenues	4,384,950	4,384,950	4,511,939	126,989
<u>Expenditures</u>				
Current:				
Administration	969,800	1,069,800	956,640	113,160
Highways and streets	525,625	525,625	361,169	164,456
Parks	152,700	152,700	133,338	19,362
Engineering and building inspection	553,400	553,400	495,373	58,027
Municipal court	64,800	64,800	51,263	13,537
Public safety	2,565,000	2,565,000	2,411,914	153,086
Total Expenditures	4,831,325	4,931,325	4,409,697	521,628
Revenues Over (Under)	(446,375)	(546,375)	102,242	648,617

City of Heath, Texas

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

GENERAL FUND (Page 2 of 2)

For the Year Ended September 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Other Financing Sources (Uses)</u>				
Transfers in (out)	64,000	64,000	69,317	5,317
Total Other Financing Sources				
(Uses)	64,000	64,000	69,317	5,317
Net Change in Fund Balance	\$ (382,375)	\$ (482,375)	171,559	\$ 653,934
Beginning fund balance			2,398,274	
Ending Fund Balance			\$ 2,569,833	

Notes to Required Supplementary Information

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

City of Heath, Texas
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2012

	Public Safety	Heath EDC	Heath MBC	Total Nonmajor Governmental
<u>Assets</u>				
Cash and cash equivalents	\$ 126,039	\$ 1,084,150	\$ 1,412,616	\$ 2,622,805
Receivables, net	2,329	43,075	43,075	88,479
Total Assets	\$ 128,368	\$ 1,127,225	\$ 1,455,691	\$ 2,711,284
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ -	\$ 1,277	\$ 25,777	\$ 27,054
Total Liabilities	-	1,277	25,777	27,054
 Fund Balances:				
Restricted	20,453	1,125,948	1,429,914	2,576,315
Assigned	107,915	-	-	107,915
Total Fund Balances	128,368	1,125,948	1,429,914	2,684,230
 Total Liabilities and Fund Balances	 \$ 128,368	 \$ 1,127,225	 \$ 1,455,691	 \$ 2,711,284

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, 2013

	<u>Public Safety</u>	<u>Heath EDC</u>	<u>Heath MBC</u>	<u>Total Nonmajor Governmental</u>
Revenues				
Taxes:				
Sales tax	\$ -	\$ 216,513	\$ 216,513	\$ 433,026
Investment income	143	1,409	1,854	3,406
Other revenue	6,849	-	-	6,849
Total Revenues	<u>6,992</u>	<u>217,922</u>	<u>218,367</u>	<u>443,281</u>
Expenditures				
Current:				
Public safety	3,434	-	-	3,434
Economic development	-	44,850	-	44,850
Economic opportunity	-	-	46,108	46,108
Debt service:				
Principal	-	5,200	8,800	14,000
Interest and fiscal charges	-	7,735	13,118	20,853
Bond issuance costs	-	1,760	2,983	4,743
Total Expenditures	<u>3,434</u>	<u>59,545</u>	<u>71,009</u>	<u>133,988</u>
Excess (Deficiency) of Revenues over Expenditures	3,558	158,377	147,358	309,293
Other Financing Sources (Uses)				
Transfers (out)	-	(14,658)	(14,659)	(29,317)
General obligation refunding bonds issued	-	208,000	352,000	560,000
Premium on refunding bonds issued	-	8,245	13,953	22,198
Payment to refunded bond escrow agent	-	(214,485)	(362,970)	(577,455)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(12,898)</u>	<u>(11,676)</u>	<u>(24,574)</u>
Net Change in Fund Balances	3,558	145,479	135,682	284,719
Beginning fund balances	<u>124,810</u>	<u>980,469</u>	<u>1,294,232</u>	<u>2,399,511</u>
Ending Fund Balances	<u>\$ 128,368</u>	<u>\$ 1,125,948</u>	<u>\$ 1,429,914</u>	<u>\$ 2,684,230</u>

See Notes to Financial Statements.

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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.

Actuarial Valuation Date	<u>12/31/2012</u>	<u>12/31/2011</u>	<u>12/31/2010</u>
Actuarial Value of Assets	\$ 5,501,838	\$ 4,868,868	\$ 4,190,126
Actuarial Accrued Liability	\$ 6,449,182	\$ 6,013,506	\$ 5,432,513
Percentage Funded	85.3%	81.0%	77.1%
Unfunded Actuarial			
Accrued Liability	\$ 947,344	\$ 1,144,638	\$ 1,242,387
Annual Covered Payroll	\$ 2,616,174	\$ 2,597,274	\$ 2,594,628
Unfunded Actuarial Accrued Liability			
(UAAL) % of Covered Payroll	36.2%	44.1%	47.9%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	\$ 248,824	\$ 248,848	\$ 287,934
Contributions Made	\$ 248,824	\$ 248,848	\$ 287,934
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
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended September 30, 2013

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ 868,900	\$ 876,347	\$ 7,447
Special assessments	-	15,504	15,504
Investment income	4,500	1,848	(2,652)
Total Revenues	873,400	893,699	20,299
<u>Expenditures</u>			
Debt service:			
Principal	592,275	592,244	31
Interest	382,334	375,983	6,351
Bond issuance costs	-	(9,454)	9,454
Total Expenditures	974,609	958,773	15,836
Revenues Over (Under) Expenditures	(101,209)	(65,074)	36,135
<u>Other Financing Sources (Uses)</u>			
General obligation refunding bonds issued	-	1,040,000	1,040,000
Premium on refunding bonds issued	-	41,227	41,227
Payment to refunded bond escrow agent	-	(1,072,411)	(1,072,411)
Total Other Financing Sources (Uses)	-	8,816	8,816
Net Change in Fund Balance	\$ (101,209)	(56,258)	\$ 44,951
Beginning fund balance		885,855	
Ending Fund Balance		\$ 829,597	

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 ECONOMIC DEVELOPMENT CORPORATION
For the Year Ended September 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Sales tax	\$ 192,000	\$ 192,000	\$ 216,513	\$ 24,513
Investment income	1,200	1,200	1,409	209
Total Revenues	193,200	193,200	217,922	24,722
<u>Expenditures</u>				
Current:				
Economic development	102,450	117,650	44,850	72,800
Debt service:				
Principal	5,200	5,200	5,200	-
Interest and fiscal charges	7,750	7,750	7,735	15
Bond issuance costs	-	-	1,760	(1,760)
Total Expenditures	115,400	130,600	59,545	71,055
Revenues Over (Under)				
Expenditures	77,800	62,600	158,377	95,777
<u>Other Financing Sources (Uses)</u>				
Transfers (out)	(16,000)	(16,000)	(14,658)	1,342
General obligation refunding bonds issued	-	-	208,000	208,000
Premium on refunding bonds issued	-	-	8,245	8,245
Payment to refunded bond escrow agent	-	-	(214,485)	(214,485)
Total Other Financing Sources (Uses)	(16,000)	(16,000)	(12,898)	3,102
Net Change in Fund Balance	\$ 61,800	\$ 46,600	145,479	\$ 98,879
Beginning fund balance			980,469	
Ending Fund Balance			\$ 1,125,948	

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, 2013

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Sales tax	\$ 192,000	\$ 216,513	\$ 24,513
Investment income	1,800	1,854	54
Total Revenues	193,800	218,367	24,567
<u>Expenditures</u>			
Current:			
Economic opportunity	155,450	46,109	109,341
Debt service:			
Principal	8,800	8,800	-
Interest and fiscal charges	13,118	13,118	-
Bond issuance costs	-	2,983	(2,983)
Total Expenditures	177,368	71,010	106,358
Revenues Over (Under)			
Expenditures	16,432	147,357	130,925
<u>Other Financing Sources (Uses)</u>			
Transfers (out)	(16,000)	(14,658)	1,342
General obligation refunding bonds issued	-	352,000	352,000
Premium on refunding bonds issued	-	13,953	13,953
Payment to refunded bond escrow agent	-	(362,970)	(362,970)
Total Other Financing Sources (Uses)	(16,000)	(11,675)	4,325
Net Change in Fund Balance	\$ 432	135,682	\$ 135,250
Beginning fund balance		1,294,232	
Ending Fund Balance		\$ 1,429,914	

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, 2013

	<u>Balance</u> <u>October 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>September 30, 2013</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 113,487	\$ 116	\$ -	\$ 113,603
Total Assets	<u>113,487</u>	<u>116</u>	<u>-</u>	<u>113,603</u>
<u>Liabilities</u>				
Accrued liabilities	113,487	116	-	113,603
Total Liabilities	<u>\$ 113,487</u>	<u>\$ 116</u>	<u>\$ -</u>	<u>\$ 113,603</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>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Governmental Activities				
Invested in capital assets, net of related debt	\$ 10,004,583	\$ 10,468,375	\$ 18,837,137	\$ 18,540,309
Restricted	1,884,760	1,807,568	1,358,534	146,285
Unrestricted	1,802,067	2,792,442	3,408,712	4,200,838
Total Governmental Activities Net Position	<u>\$ 13,691,410</u>	<u>\$ 15,068,385</u>	<u>\$ 23,604,383</u>	<u>\$ 22,887,432</u>
Business-type Activities				
Invested in capital assets, net of related debt	\$ 10,026,885	\$ 11,724,391	\$ 14,611,160	\$ 14,951,597
Restricted	416,005	1,566,904	-	-
Unrestricted	575,926	964,550	3,498,273	2,094,056
Total Business-type Activities Net Position	<u>\$ 11,018,816</u>	<u>\$ 14,255,845</u>	<u>\$ 18,109,433</u>	<u>\$ 17,045,653</u>
Primary Government				
Invested in capital assets, net of related debt	\$ 20,031,468	\$ 22,192,766	\$ 33,448,297	\$ 33,491,906
Restricted	2,300,765	3,374,472	1,358,534	146,285
Unrestricted	2,377,993	3,756,992	6,906,985	6,294,894
Total Primary Government Net Assets	<u>\$ 24,710,226</u>	<u>\$ 29,324,230</u>	<u>\$ 41,713,816</u>	<u>\$ 39,933,085</u>

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$ 17,984,906	\$ 19,089,641	\$ 17,895,266	\$ 17,130,797	\$ 14,959,471	\$ 13,894,049
1,117,725	2,104,386	5,438,453	3,416,119	5,555,525	6,690,500
4,158,988	3,197,493	513,677	2,117,843	2,117,843	2,244,000
<u>\$ 23,261,619</u>	<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>
\$ 15,211,002	\$ 16,063,136	\$ 15,935,522	\$ 14,406,551	\$ 14,406,551	\$ 14,592,909
-	-	-	-	-	-
1,886,366	1,600,713	2,118,300	6,135,299	6,135,299	7,066,450
<u>\$ 17,097,368</u>	<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>
\$ 33,195,908	\$ 35,152,777	\$ 33,830,788	\$ 29,366,022	\$ 29,366,022	\$ 28,486,958
1,117,725	2,104,386	5,438,453	3,416,119	5,555,525	6,690,500
6,045,354	4,798,206	2,631,977	8,253,142	8,253,142	9,310,450
<u>\$ 40,358,987</u>	<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>

City of Heath, Texas

CHANGES IN NET POSITION

Last Ten Fiscal Years
(accrual basis of accounting)

	2004	2005	2006	2007
Expenses				
Governmental activities:				
General government	749,019	806,768	1,101,712	1,152,697
Public safety	1,475,941	1,640,083	1,705,415	2,141,045
Public works	862,532	1,031,079	1,508,117	2,206,035
Culture and recreation	210,688	192,694	190,621	129,028
Economic development and	126,508	2,698	227	0
Economic opportunity	126,500	2,998	127	5,000
Interest and fiscal charges	238,048	278,350	276,431	272,184
Total governmental activities	<u>3,789,236</u>	<u>3,954,670</u>	<u>4,782,650</u>	<u>5,905,989</u>
Business-type activities:				
Water and sewer	2,657,435	2,771,907	3,264,137	3,386,289
Solid waste	-	-	-	408,575
Total business-type activities	<u>2,657,435</u>	<u>2,771,907</u>	<u>3,264,137</u>	<u>3,794,864</u>
Total primary government	<u>\$ 6,446,671</u>	<u>\$ 6,726,577</u>	<u>\$ 8,046,787</u>	<u>\$ 9,700,853</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$ 30,280	\$ 75,595	\$ 21,512	\$ 25,820
Public safety	200,722	170,908	225,418	273,430
Public works	157,605	267,816	303,319	311,495
Culture and recreation	3,784	4,275	4,463	6,515
Operating grants and contributions	76,949	30,631	13,926	222,927
Capital grants and contributions	16,182	1,155,398	8,687,378	41,938
Total governmental activities	<u>485,522</u>	<u>1,704,623</u>	<u>9,256,016</u>	<u>882,125</u>
Business-type activities:				
Charges for services:				
Water and sewer	2,025,421	2,712,152	3,288,982	2,283,472
Solid waste	-	-	-	407,953
Operating grants and contributions	-	-	-	-
Capital grants and contributions	794,542	3,087,794	3,746,562	646,231
Total business-type activities	<u>2,819,963</u>	<u>5,799,946</u>	<u>7,035,544</u>	<u>3,337,656</u>
Total primary government	<u>\$ 3,305,485</u>	<u>\$ 7,504,569</u>	<u>\$ 16,291,560</u>	<u>\$ 4,219,781</u>
Net (Expense)/Revenue				
Governmental activities	\$ (3,303,714)	\$ (2,250,047)	\$ 4,473,366	\$ (5,023,864)
Business-type activities	162,528	3,028,039	3,771,407	(457,208)
Total primary government	<u>\$ (3,141,186)</u>	<u>\$ 777,992</u>	<u>\$ 8,244,773</u>	<u>\$ (5,481,072)</u>

2008	2009	2010	2011	2012	2013
1,173,682	1,045,672	928,201	972,529	972,108	\$ 1,130,893
2,335,528	2,335,201	2,320,231	2,892,734	2,563,884	2,594,015
2,006,940	1,890,939	2,081,969	1,603,281	2,400,169	2,010,404
147,672	135,669	229,222	243,985	244,264	232,883
13,183	355,286	5,146	6,620	74,363	45,149
6,003	8,119	4,258	3,809	9,876	46,407
627,347	677,118	522,894	518,723	440,348	487,552
<u>6,310,355</u>	<u>6,448,004</u>	<u>6,091,921</u>	<u>6,241,681</u>	<u>6,705,012</u>	<u>6,547,303</u>
4,129,623	4,288,635	4,207,851	4,486,947	4,636,550	4,696,947
444,502	435,416	459,086	457,809	455,154	459,156
<u>4,574,125</u>	<u>4,724,051</u>	<u>4,666,937</u>	<u>4,944,756</u>	<u>5,091,704</u>	<u>5,156,103</u>
<u>\$ 10,884,480</u>	<u>\$ 11,172,055</u>	<u>\$ 10,758,858</u>	<u>\$ 11,186,437</u>	<u>\$ 11,796,716</u>	<u>\$ 11,703,406</u>
\$ 17,374	\$ 27,772	\$ 61,063	\$ 70,017	\$ 35,030	\$ 28,000
275,953	323,136	309,515	325,953	339,991	374,837
370,217	126,626	154,797	122,527	20,572	33,163
5,445	17,124	14,280	16,630	7,857	9,830
62,087	30,949	20,865	32,744	223,971	205,204
963,491	2,013,667	1,000	262,258	-	801,848
<u>1,694,567</u>	<u>2,539,274</u>	<u>561,520</u>	<u>830,129</u>	<u>627,421</u>	<u>1,452,882</u>
3,153,315	3,836,944	4,432,549	5,657,062	5,263,550	5,445,750
494,465	510,248	557,623	559,007	541,434	540,592
-	-	-	-	503,138	-
881,966	974,396	94,075	-	-	317,567
<u>4,529,746</u>	<u>5,321,588</u>	<u>5,084,247</u>	<u>6,216,069</u>	<u>6,308,122</u>	<u>6,303,909</u>
<u>\$ 6,224,313</u>	<u>\$ 7,860,862</u>	<u>\$ 5,645,767</u>	<u>\$ 7,046,198</u>	<u>\$ 6,935,543</u>	<u>\$ 7,756,791</u>
\$ (4,615,788)	\$ (3,908,730)	\$ (5,530,401)	\$ (5,411,552)	\$ (6,077,591)	\$ (5,094,421)
(44,379)	597,537	417,310	1,271,313	1,216,418	1,147,806
<u>\$ (4,660,167)</u>	<u>\$ (3,311,193)</u>	<u>\$ (5,113,091)</u>	<u>\$ (4,140,239)</u>	<u>\$ (4,861,173)</u>	<u>\$ (3,946,615)</u>

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Revenues				
Governmental activities:				
Taxes:				
Property taxes	\$ 2,343,186	\$ 2,552,545	\$ 2,750,401	\$ 3,163,746
Sales and other taxes	454,065	553,424	651,212	678,808
Franchise taxes	277,621	293,995	508,640	259,663
Alcoholic beverage taxes	3,447	3,533	3,147	2,798
Investment earnings	12,832	53,469	248,428	278,568
Other income	15,686	274,792	14,984	27,552
Gain (loss) on sale of assets	-	64,034	1,141	-
Special items	-	-	-	-
Transfers, net	-	-	-	-
Total governmental activities	<u>3,106,837</u>	<u>3,795,792</u>	<u>4,177,953</u>	<u>4,411,135</u>
Business-type activities:				
Investment earnings	67,941	167,088	39,961	110,018
Other Income	17,330	41,902	42,220	4,700
Gain (loss) on sale of assets	-	-	-	-
Special items	-	-	-	-
Transfers, net	-	-	-	-
Total business-type activities	<u>85,271</u>	<u>208,990</u>	<u>82,181</u>	<u>114,718</u>
Total primary government	<u>\$ 3,192,108</u>	<u>\$ 4,004,782</u>	<u>\$ 4,260,134</u>	<u>\$ 4,525,853</u>
Change in Net Position				
Governmental activities	\$ (196,877)	\$ 1,545,745	\$ 8,651,319	\$ (612,729)
Business-type activities	247,799	3,237,029	3,853,588	(342,490)
Total primary government	<u>\$ 50,922</u>	<u>\$ 4,782,774</u>	<u>\$ 12,504,907</u>	<u>\$ (955,219)</u>

Note: The City implemented GASB Statement 34 in fiscal year 2004.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$	3,514,859	\$ 3,726,270	\$ 3,797,959	\$ 3,762,727	\$ 3,764,144	\$ 3,770,807
	731,427	710,195	759,577	739,093	752,800	866,055
	387,143	444,648	406,495	483,349	570,755	496,413
	3,311	3,609	3,459	3,192	3,098	4,116
	394,001	112,500	35,500	37,129	11,577	10,280
	45,596	42,642	19,839	6,791	145,622	102,460
	-	-	2,461	58,354	-	-
	-	-	-	1,601,389	-	-
	-	85,494	47,200	(1,659,610)	40,000	40,000
	<u>5,076,337</u>	<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>
	157,476	51,708	16,259	33,578	7677	9,703
	9,668	2,730	2,223	9,166	-	-
	7,060	-	1,381	-	-	-
	-	-	-	(1,706,810)	-	-
	-	(85,494)	(47,200)	1,659,610	(40,000)	(40,000)
	<u>174,204</u>	<u>(31,056)</u>	<u>(27,337)</u>	<u>(4,456)</u>	<u>(32,323)</u>	<u>(30,297)</u>
\$	<u><u>5,250,541</u></u>	<u><u>5,094,302</u></u>	<u><u>5,045,153</u></u>	<u><u>5,027,958</u></u>	<u><u>5,255,673</u></u>	<u><u>5,259,834</u></u>
\$	460,549	\$ 1,216,628	\$ (457,911)	\$ (379,138)	\$ (789,595)	\$ 195,710
	129,825	566,481	389,973	1,266,857	1,184,095	1,117,509
\$	<u>590,374</u>	<u>1,783,109</u>	<u>(67,938)</u>	<u>887,719</u>	<u>394,500</u>	<u>1,313,219</u>

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General fund:				
Reserved	\$ 22,578	\$ -	\$ 7,630	\$ 9,816
Nonspendable	-	-	-	-
Committed	-	-	-	-
Unreserved	1,819,613	2,410,935	2,715,760	2,630,293
Unassigned	-	-	-	-
Total general fund	<u>\$ 1,842,191</u>	<u>\$ 2,410,935</u>	<u>\$ 2,723,390</u>	<u>\$ 2,640,109</u>
All other governmental funds:				
Reserved	\$ 892,295	\$ 884,251	\$ 1,101,406	\$ 1,210,352
Restricted	-	-	-	-
Unreserved, reported in:				
Special revenue funds	465,626	699,011	992,696	1,333,917
Capital projects funds	574,929	537,392	11,033	(1,272,997)
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total all other governmental funds	<u>\$ 1,932,850</u>	<u>\$ 2,120,654</u>	<u>\$ 2,105,135</u>	<u>\$ 1,271,272</u>

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

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$ 230,000	\$ 9,132	\$ 12,007	\$ -	\$ -	\$ -
-	-	-	-	6,720	13,410
-	-	-	11,000	11,000	11,000
2,453,094	1,760,597	2,038,657	-	-	-
-	-	-	2,482,201	2,380,554	2,545,423
<u>\$ 2,683,094</u>	<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>
\$ 919,619	\$ 1,492,263	\$ 1,224,566	\$ -	\$ -	\$ -
-	-	-	5,491,603	5,555,525	6,690,500
-	-	-	-	-	-
1,725,133	1,653,512	1,948,523	-	-	-
6,194,274	4,359,876	4,077,618	-	-	-
-	-	-	92,758	104,849	107,915
-	-	-	-	-	-
<u>\$ 8,839,026</u>	<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>

City of Heath, Texas

CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS

Last Ten Years

(modified accrual basis of accounting)

	2004	2005	2006	2007
Revenues				
Taxes	\$ 3,083,909	\$ 3,379,276	\$ 3,863,094	\$ 4,194,544
Licenses and permits	176,691	277,728	287,814	242,760
Intergovernmental	143,001	103,344	119,913	183,249
Charges for services	25,034	80,168	49,073	111,828
Fines and forfeitures	107,945	69,256	97,706	63,711
Special assessments	99,501	57,329	112,192	42,455
Investment income	38,131	61,054	276,374	288,311
Other revenue	30,801	351,840	183,052	295,332
Total Revenues	3,705,013	4,379,995	4,989,218	5,422,190
Expenditures				
Administration	742,783	814,557	1,074,008	1,110,994
Highways and streets	298,689	189,084	273,730	753,069
Parks	211,830	175,002	149,324	241,029
Engineering and building inspection	96,980	176,990	300,154	330,352
Municipal court	143,435	104,567	112,883	98,849
Public safety	1,822,866	1,613,067	1,674,692	1,884,376
Economic development	126,508	2,698	227	-
Economic opportunity	126,500	2,998	127	5,000
Debt service				
Principal	290,074	296,959	277,783	355,060
Interest	161,250	238,750	271,250	271,074
Bond issuance costs	-	-	-	-
Capital outlay	1,690,017	72,809	559,245	1,289,531
Total Expenditures	5,710,932	3,687,481	4,693,423	6,339,334
Revenues over (under) expenditures	(2,005,919)	692,514	295,795	(917,144)
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
Sale of capital assets	-	-	-	-
Discount on bonds issued	-	-	-	-
Premium on bonds issued	-	-	-	-
Debt issued	4,025,000	-	-	-
Payment to refunded bond escrow agent	(1,881,087)	-	-	-
Total other financing sources	2,143,913	-	-	-
Special items	-	-	-	-
Net Change in Fund Balances	\$ 137,994	\$ 692,514	\$ 295,795	\$ (917,144)
Ratio of total debt service expenditures to noncapital expenditures	11.22%	14.82%	13.28%	12.40%

	2008	2009	2010	2011	2012	2013
\$	4,665,869	\$ 4,847,760	\$ 5,015,072	\$ 4,946,164	\$ 4,997,248	\$ 5,146,045
	376,404	129,832	160,568	133,627	247,002	293,488
	237,935	735,123	240,290	246,703	223,971	205,204
	25,776	69,779	94,694	98,495	105,415	103,513
	47,842	56,907	43,467	52,107	39,016	48,829
	15,499	25,267	19,219	13,611	11,284	15,504
	397,653	121,090	50,204	48,356	11,577	10,280
	220,193	637,078	43,171	300,225	140,650	92,316
	<u>5,987,171</u>	<u>6,622,836</u>	<u>5,666,685</u>	<u>5,839,288</u>	<u>5,776,163</u>	<u>5,915,179</u>
	1,112,099	965,693	868,210	925,233	940,172	956,640
	385,222	257,256	592,398	310,584	307,928	361,169
	174,385	78,711	133,050	189,515	133,073	133,338
	464,099	404,487	429,663	354,838	399,720	495,373
	82,268	89,384	84,535	86,400	61,577	51,263
	2,140,221	2,544,061	2,215,536	2,648,686	2,275,336	2,415,348
	12,984	355,286	5,146	6,620	67,345	44,850
	6,202	8,119	4,258	3,809	2,857	46,108
	577,938	608,947	617,745	533,864	789,852	606,244
	704,191	712,808	739,814	798,546	428,911	396,836
	102,771	-	-	32,230	-	25,017
	1,038,444	3,151,084	-	-	500,582	806,680
	<u>6,800,824</u>	<u>9,175,836</u>	<u>5,690,355</u>	<u>5,890,325</u>	<u>5,907,353</u>	<u>6,338,866</u>
	(813,653)	(2,553,000)	(23,670)	(51,037)	(131,190)	(423,687)
	263,278	1,379,045	334,052	93,083	40,000	40,000
	(263,278)	(1,370,138)	(286,852)	(1,752,693)	-	-
	-	-	2,461	58,883	-	-
	(130,093)	-	-	(15,723)	-	-
	162,116	-	-	163,962	-	89,116
	8,392,369	297,353	-	2,536,500	-	3,254,037
	-	-	-	(2,343,654)	-	(1,649,866)
	<u>8,424,392</u>	<u>306,260</u>	<u>49,661</u>	<u>(1,259,642)</u>	<u>40,000</u>	<u>1,733,287</u>
	-	-	-	-	(105,421)	-
\$	<u>7,610,739</u>	<u>\$ (2,246,740)</u>	<u>\$ 25,991</u>	<u>\$ (1,310,679)</u>	<u>\$ (196,611)</u>	<u>\$ 1,309,600</u>
	24.03%	21.94%	23.86%	23.17%	22.54%	18.58%

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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
2004	\$ 670,218,413	\$ 28,322,693	\$ 28,379,577	\$ 670,161,529	\$ 0.34330
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	1,084,966,301	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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Direct Rates:				
City of Heath - Operating	0.29110	0.28640	0.27280	0.27860
City of Heath - Debt Service	0.05220	0.05690	0.07050	0.06470
Total Direct Rate	<u>0.34330</u>	<u>0.34330</u>	<u>0.34330</u>	<u>0.34330</u>
Overlapping Rates:				
Rockwall Independent School District	1.88000	1.88000	1.71000	1.47000
Rockwall County	0.35340	0.35070	0.35070	0.35070
Kaufman County	0.58930	0.54270	0.53770	0.56220
Total Direct and Overlapping Rates	<u>3.1660</u>	<u>3.1167</u>	<u>2.9417</u>	<u>2.7262</u>

Tax rates per \$100 of assessed valuation.

Source: Rockwall Central Appraisal Districts and City records.

2008	2009	2010	2011	2012	2013
0.27860	0.27860	0.27860	0.27860	0.26360	0.26360
0.06470	0.06470	0.06470	0.06470	0.07970	0.07970
<u>0.34330</u>	<u>0.34330</u>	<u>0.34330</u>	<u>0.34330</u>	<u>0.34330</u>	<u>0.34330</u>
1.47000	1.47000	1.47000	1.47000	1.47000	1.46000
0.35000	0.37500	0.37500	0.38640	0.38640	0.39590
0.56150	0.55650	0.55650	0.55650	0.55650	0.55650
<u>2.7248</u>	<u>2.7448</u>	<u>2.7448</u>	<u>2.7562</u>	<u>2.7562</u>	<u>2.7557</u>

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

Property Tax Payer	2013			2004		
	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	\$ 35,146,790		3.23%	\$ 31,187,525		1.89%
Total Assessed Valuation	\$ 1,084,966,301		100%	\$ 670,161,529		100%

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>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Tax levy	\$ 2,306,058	\$ 2,517,346	\$ 2,731,312	\$ 3,120,793
Current tax collected	\$ 2,294,190	\$ 2,498,756	\$ 2,688,666	\$ 3,021,159
Percent of current tax collections	99.49%	99.26%	98.44%	96.81%
Delinquent tax collections	\$ 273,037	\$ 295,773	\$ 521,891	\$ 505,321
Total tax collections	\$ 2,567,227	\$ 2,794,529	\$ 3,210,557	\$ 3,526,480
Total collections as a percentage of levy	111%	111%	118%	113%

Source: Rockwall Central Appraisal District

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$	3,442,488	\$ 3,666,601	\$ 3,752,365	\$ 3,738,632	\$ 3,724,689	\$ 3,722,360
\$	3,373,108	\$ 3,603,302	\$ 3,709,041	\$ 3,673,075	\$ 3,684,359	\$ 3,686,271
	97.98%	98.27%	98.85%	98.25%	98.9%	99.0%
\$	364,657	\$ 202,388	\$ 67,986	\$ 73,434	\$ 32,522	\$ -
\$	3,737,765	\$ 3,805,690	\$ 3,777,027	\$ 3,746,509	\$ 3,716,881	\$ 3,686,271
	109%	103.8%	100.7%	100.2%	99.8%	99.0%

City of Heath, Texas
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Years

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Governmental activities:				
General Obligation Bonds	\$ 2,565,000	\$ 2,495,000	\$ 2,340,000	\$ 2,175,000
Certificates of Obligation	4,427,500	4,258,750	4,142,500	4,004,750
Capital Leases	-	-	-	-
Notes Payable	-	-	-	-
Business-type activities:				
General Obligation Bonds	-	1,006,566	973,236	939,906
Certificates of Obligation	8,112,500	7,831,250	7,532,500	7,221,250
Total primary government	<u>\$ 15,105,000</u>	<u>15,591,566</u>	<u>14,988,236</u>	<u>14,340,906</u>
Percentage of personal income (1)	5.53%	5.41%	4.75%	4.42%
Per capita (1)	\$ 1,307	\$ 1,374	\$ 1,207	\$ 1,121

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.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$	2,005,000	\$ 1,830,000	\$ 1,625,000	\$ 2,955,000	\$ 2,530,000	\$ 3,915,000
	11,915,285	11,457,516	10,987,884	7,176,457	6,888,508	6,652,956
	-	-	-	251,263	202,684	154,627
	-	271,534	244,052	216,607	188,258	159,057
	904,910	868,246	829,917	789,921	748,333	705,000
	11,754,715	11,252,484	10,732,116	11,658,542	10,986,492	16,812,044
	<u>26,579,910</u>	<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>
	7.57%	7.04%	6.46%	5.25%	4.41%	5.60%
\$	2,156	\$ 2,094	\$ 1,978	\$ 1,564	\$ 1,377	\$ 1,457

City of Heath, Texas

RATIO OF GENERAL BONDED DEBT OUTSTANDING Last Ten Years

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
NET TAXABLE ASSESSED VALUE				
All property	\$ 670,161,529	\$ 731,802,499	\$ 790,658,292	\$ 905,467,302
NET BONDED DEBT (1)				
Gross bonded debt	6,992,500	7,760,316	7,455,736	7,119,656
Less debt service funds	-	-	-	-
Net Bonded Debt	<u><u>\$ 6,992,500</u></u>	<u><u>\$ 7,760,316</u></u>	<u><u>\$ 7,455,736</u></u>	<u><u>\$ 7,119,656</u></u>
RATIO OF NET BONDED DEBT TO ASSESSED VALUE	1.04%	1.06%	0.94%	0.79%
POPULATION	5,350	5,650	6,177	6,350
NET BONDED DEBT PER CAPITA	\$ 1,307	\$ 1,374	\$ 1,207	\$ 1,121

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.

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$ 1,000,424,437	\$ 1,071,826,749	\$ 1,101,524,185	\$ 1,089,241,489	\$ 1,087,289,484	\$ 1,084,966,301
14,825,195	14,155,762	13,442,801	10,921,378	10,166,841	11,272,956
-	-	-	-	-	-
<u>\$ 14,825,195</u>	<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>
1.48%	1.32%	1.22%	1.00%	0.94%	1.04%
6,875	6,890	6,921	7,284	7,667	7,953
\$ 2,156	\$ 2,055	\$ 1,942	\$ 1,499	\$ 1,326	\$ 1,417

City of Heath, Texas

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

September 30, 2013

Governmental Unit	Net Bonded Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Rockwall Independent School District	\$ 348,148,255	16.04%	\$ 55,856,857
Rockwall County	106,415,000	13.66%	14,534,881
Kaufman County	21,018,855	18.45%	3,878,284
Subtotal, overlapping debt			74,270,022
City direct debt			10,881,640
Total direct and overlapping debt			\$ 85,151,662

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	Unemployment
				Enrollment Rockwall	Rate Rockwall County
2004	5,350	273,112,150	51,049	2,117	5.3%
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%

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	2013			2004		
	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	2	2.90%
County of Rockwall	253	5	1.24%	250	4	1.61%
City of Rockwall	205	6	1.01%	200	5	1.29%
Special Products & Manufacturir	205	7	1.01%	200	7	1.29%
Target	200	8	0.98%	170	9	1.10%
Rockwall Nursing Home	160	9	0.79%	150	10	0.97%
Kohl's Department Store	140	10	0.69%	n/a	n/a	n/a
Texas Star Express	484	n/a	-	400	3	2.58%
James Helwig & Son	-	n/a	-	200	6	1.29%
GE PMI Services	-	n/a	-	200	8	1.29%
Total	4,754		21%	3,570		23%

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

<u>Function/Program</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General government and administration	7	7	6	6.5	7.5	7.5	5.5	5.5	5.5	6
Public safety	14	15	14	16	20	21	19	19	19	19
Public works	4	4	5	5	6	6	6	6	4	5
Culture and recreation	1	1	1	1	1	1	1	1	1	1
Water and sewer	1	1	10	11	11	11	9	9	9	10
Total	<u>27</u>	<u>28</u>	<u>37</u>	<u>40</u>	<u>46</u>	<u>47</u>	<u>40</u>	<u>41</u>	<u>39</u>	<u>41</u>

Sources: Various City departments.

City of Heath, Texas
OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Function/Program	2004	2005	2006	2007
General government				
Building permits issued	-	-	106	142
Building inspections conducted	-	-	905	597
Public safety				
Police				
Physical arrests	-	-	80	84
Burglary	-	-	23	23
Robbery	-	-	1	-
Theft	-	-	82	82
Traffic violations	-	-	112	170
Fire				
Emergency responses	-	-	151	253
Fires extinguished	-	-	6	9
Inspections	-	-	24	30
Public works				
Streets (feet)	-	-	57,200	6,936
Potholes repaired	-	-	750	770
Water				
New connections	-	-	198	171
Average annual consumption (thousands of gallons)	-	-	575	402
Wastewater				
Average daily sewage treatment (thousands of gallons)	-	-	-	317

Sources: Various City departments.

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
99	40	35	31	47	64
698	800	721	721	921	911
53	58	43	22	168	137
38	14	32	16	24	16
-	-	-	-	1	-
54	48	50	31	82	86
189	147	185	303	330	331
316	149	210	225	173	169
9	7	10	25	11	5
48	52	60	60	52	69
103,400	88,000	270,000	-	-	-
800	800	800	800	800	100
174	126	90	94	103	115
460	460	440	491	487	474
317	310	390	312	377	255

City of Heath, Texas

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

Last Ten Years

Function/Program	2004	2005	2006	2007
Public safety				
Police stations	-	-	1	1
Police patrol units	-	-	12	12
Fire engines	-	-	3	3
Public works				
Streets (miles)	-	-	146	146
Cultural and recreational				
Acreage	-	-	71	71
Playgrounds (1)	-	-	1	1
Baseball/Softball fields	-	-	1	1
Soccer/Football fields			3	3
Community centers	-	-	1	1
Water and sewer				
Water mains (miles)	-	-	50	50
Fire hydrants	-	-	143	163
Wastewater				
Sanitary sewers (miles)	-	-	61	61
Storm sewers (miles)	-	-	12	12

Sources: Various City departments.

(1) Does not include HOA playgrounds.

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
1	1	1	1	1	1
12	12	12	12	12	12
3	3	3	3	3	3
146	175	175	175	175	175
71	71	94	94	94	94
1	2	2	2	2	2
1	1	1	1	1	1
3	3	3	3	3	3
1	1	1	1	1	1
50	52	52	54	54	55
183	199	199	223	223	229
61	61	61	61	61	62
12	12	12	14	14	14

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