



City of Heath, Texas
Comprehensive Annual Financial Report
For the year ended September 30, 2015
Prepared by the Finance Department

City of Heath, Texas

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September 30, 2015

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City of Heath, Texas

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INTRODUCTORY SECTION



December 11, 2015

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, 2015. 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, 2015.

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.

BrooksCardiel and Company, PLLC. has issued an unqualified opinion on the City of Heath's financial statements for the year ended September 30, 2015. The independent auditors' report is located at the front of the financial section of this report.

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

PROFILE OF THE GOVERNMENT

The City of Heath is located in southwestern Rockwall County and northern Kaufman County along the eastern shore of Lake Ray Hubbard. Heath is conveniently positioned just minutes from Interstate Highway 30 to the north and U. S. Highway 80 to the south providing easy access to the Dallas/Fort Worth Metroplex. The City is primarily residential but has seen growth in its commercial development over the past few years. Within the guidelines set forth in the City's Comprehensive Master Plan, the City Council and the Economic Development Corporation continue to actively pursue and promote commercial development in the City of Heath.

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

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

ECONOMIC CONDITION AND OUTLOOK

According to the Federal Reserve Bank of Dallas' October 2015 Regional Economic Update, "The Texas economy is growing at a modest pace after slowing from a slight acceleration near mid-year." "Employment picked up in September to an annualized 1.4 percent pace after posting essentially no growth in August." "The Texas Business Outlook Surveys (TBOS) point to continued weakness in the manufacturing sector and moderate strength in services." "The headwinds of declining energy markets and a strengthening dollar have continued to dampen growth prospects for the region." "Despite continued job losses in mining and manufacturing, the Texas unemployment rate has been persistently low, inching up just slightly to 4.2 percent in September." "As suggested by the rebound in third-quarter construction activity, real estate markets remain strong in the state." "Residential home inventories are still lean in all major markets and are at a low 3.4 months' supply in the state." "The health of commercial real estate is mixed across markets, but even in softening metros such as Houston, office vacancy rates have not increased to an extent that would indicate distress." "The strong dollar and renewed fall in energy prices have put further downward pressure on prices." "The Texas Leading Index (TLI) fell 0.2 percent in September on the heels of a sharp 1.4 percent decline in August." "The Texas employment forecast is for 1.2 percent growth for 2015." "The forecast for the rest of the year is for annualized growth of 0.8 percent, which is slightly weaker than the 1.3 percent rate thus far this year." "This indicates that growth will likely fall back below the national rate in the fourth quarter."

The City's Fiscal Year 2015 Assessed Value increased \$74M, or 6.55%, over the Fiscal Year 2014 Assessed Value. This is the second consecutive year Assessed Values increased over the prior year. The City realized 11% growth in the number of residential permits issued in 2015 and 14% growth in the value of residential permits issued. Improvement to FM 740 has generated increased developer interest in the City. Retail sales account for the majority of the \$36,574 increase in sales tax revenue. Fiscal Year 2015 is the third consecutive year sales tax revenue has increased. Franchise revenue was up \$35,705 or 6.79% over the prior year. All of these indicators point to a recovering economy and growth in the City of Heath.

Economic Indicators					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Assessed Value	1,089,241,489	1,087,289,484	1,084,966,301	1,132,098,307	1,206,213,463
Residential Permits	31	47	64	71	79
Sales Tax Revenue	\$369,548	\$376,400	\$433,029	\$497,230	\$528,323
Franchise Fees	\$466,218	\$498,209	\$447,833	\$525,783	\$561,488

Projections based on future development played a key role during the 2016 budget process. The Fiscal Year 2016 Budget assumed the cost of the City's immediate needs exceeded revenues and excess fund balance was used to balance the budget. Excess Fund Balance is defined as available funds above the target Fund Balance of 25% of budgeted expenditures. The 2016 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 completed several capital improvement projects during Fiscal Year 2015. The Terry Park Sea Wall, Phase 1 of the City-Wide Street Rehab Program, Shepherds Glen Force Main, and the Woodbridge Lift Station were all completed in Fiscal Year 2015. Engineering began on the FM 740 Entry Feature. The City is committed to completing the Capital Improvement Program projects in a timely manner.

FINANCIAL INFORMATION

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

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

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

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual budget approved by the City Council. Activities of the general fund, enterprise funds, and debt service fund are included in the annual budget. The level of budgetary control, the level at which expenditures cannot legally exceed the appropriated amount, is established at the divisional level. Examples of a Division include Streets, Engineering, and Parks. These Divisions are part of the Public Works Department. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. The Finance Department generates monthly reports that detail expenditures and revenue on a division and line item level. The reports provide monthly expenditures with year-to-date totals along with a comparison to budget giving a budget balance and expended percentage. As demonstrated by the statements and schedules included in the financial section of this report, the City continues meeting its responsibilities for sound financial management.

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

Under state law, the City is limited to a maximum tax rate of \$2.50 per \$100 assessed valuation. The tax rate adopted by the City Council has historically been substantially lower than the maximum provided by

law. Allocations of property tax levy by purpose for Fiscal Year 2015 is \$.2736 for maintenance and operations and \$.1530 for debt service on each one hundred dollars of assessed value.

OTHER INFORMATION

Independent Audit – The City of Heath’s financial statements have been audited by BrooksCardiel and Company, PLLC. Their responsibility is to express an opinion on the City’s financial statements. They conducted the audit in accordance with auditing standards generally accepted in the United States. Those standards require that they plan and perform the audit to obtain reasonable assurance that the City’s financial statements are free of material misstatements. The independent auditors issued an unqualified opinion concluding that the statements are presented fairly in accordance with generally accepted accounting principles. The independent auditors’ report is included in the CAFR.

Awards – The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Heath for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2014. This was the sixth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

In addition, the City also received the GFOA’s Distinguished Budget Presentation Award for the period beginning October 1, 2014. 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. I would like to express sincere appreciation to all employees who contributed to its preparation.

I 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**

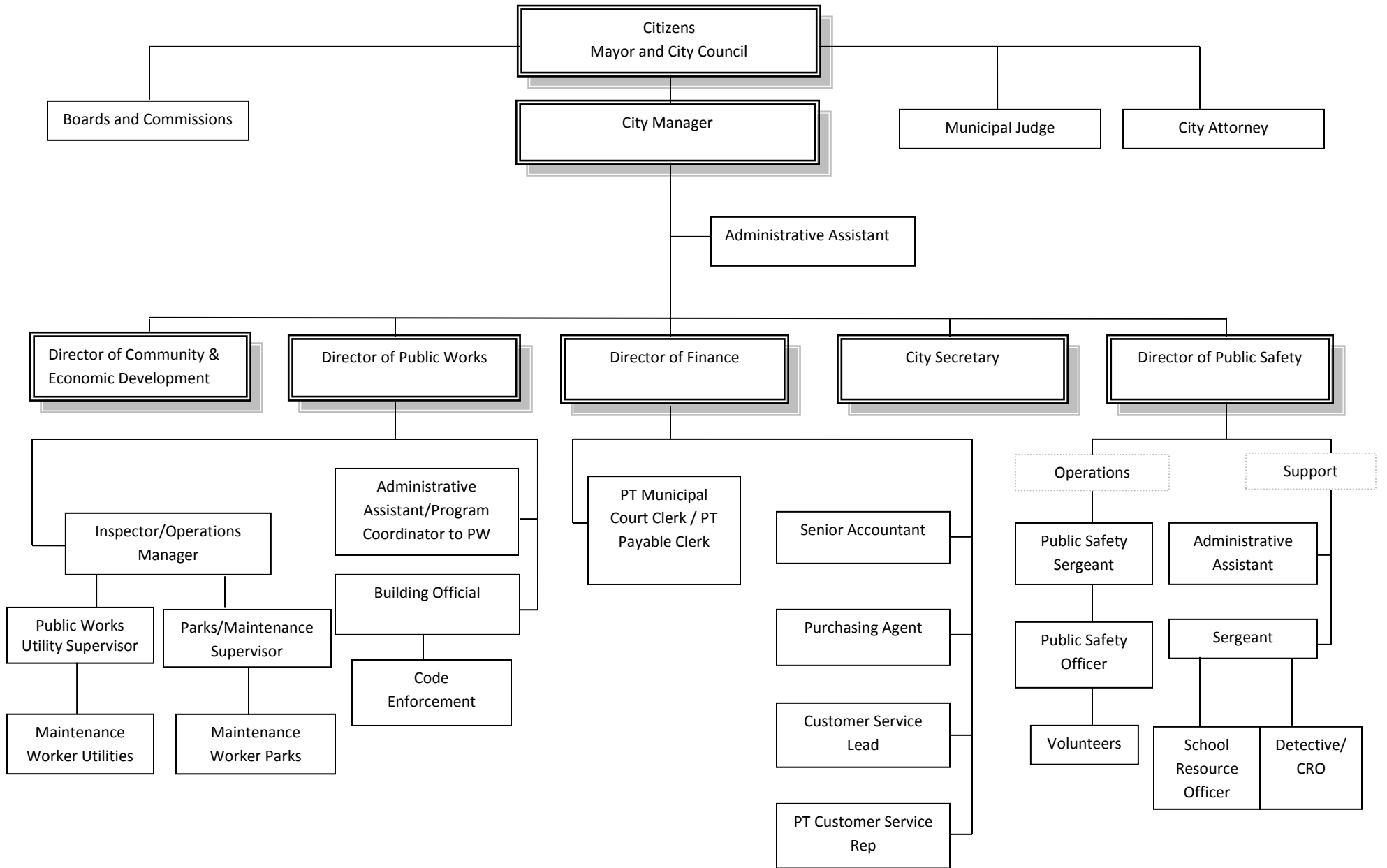
Presented to

**City of Heath
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2014

Executive Director/CEO



City of Heath, Texas
PRINCIPAL OFFICIALS
SEPTEMBER 30, 2015

CITY COUNCIL

Lorne Liechty, Mayor

Brian Berry, Mayor Pro Tem

Kevin Lamberth, Council Member, Place 1

Barry Brooks, Council Member, Place 4

Justin Holland, Council Member, Place 2

Rich Krause, Council Member, Place 6

Joe Chamberlain, Council Member, Place 3

CITY STAFF

Ed Thatcher, City Manager

Andy Messer, City Attorney

Stephanie Galanides, City Secretary

David Herbert, Public Works

Terry Garrett, Department of Public Safety

Kim Dobbs, Community Development

Roy Stacy, Municipal Court Judge

Laurie Mays, Finance

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the statement of fiduciary net position of the City of Heath, Texas (the "City"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the statement of fiduciary net position of the City as of September 30, 2015 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, schedule of changes in net pension liability and related ratios, and schedule of employer contributions to pension plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining balance sheet, statement of revenues, schedules of revenues, expenditures, and changes in fund balances – budget and actual for the debt service fund, Heath, Economic Development Corporation, and Heath Municipal Benefits Corporation, as well as the Statement of Changes in Assets and

Liabilities – Streets Escrow Fund are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

A handwritten signature in cursive script that reads "Brooks Cardiel, PLLC".

BrooksCardiel, PLLC
Certified Public Accountants
The Woodlands, Texas
December 11, 2015

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*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

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City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2015

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, 2015. 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, 2015 by \$48,866,509. Of this amount, \$35,349,094 (net investment in capital assets) has been invested in the City's infrastructure, buildings, and other assets.
- The City's total net position increased by \$4,077,208. The majority of the City's net position is either invested in capital assets or restricted for specific purposes. The increase is related to the City's current year investment in capital assets.
- The City's governmental funds reported combined ending fund balances of \$22,182,312 at September 30, 2015, a decrease of \$495,450 from the prior fiscal year; this includes a decrease of \$671,399 in the capital improvement fund, a decrease of \$16,500 in the debt service fund, and an increase of \$136,654 in the general fund.
- At the end of the fiscal year, unassigned fund balance for the general fund was \$2,664,300 or 48% of total general fund expenditures.
- The City's outstanding bonds payable demonstrated a net decrease of \$1,626,620. The total bonds payable at the close of the fiscal year was \$39,093,380 including self-supporting debt of the proprietary fund which was \$14,679,646.

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, 2015

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

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

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

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By

City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2015

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 (EDC), and Heath Municipal Benefit Corporation (MBC) are considered nonmajor for reporting purposes.

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

Proprietary Funds

The City maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer and its solid waste operations. All activities associated with providing such services are accounted for in these funds, including administration, operation, maintenance, debt service, capital improvements, meter maintenance, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

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

Fiduciary Funds

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

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

City of Heath, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2015

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 \$48,866,509 as of September 30, 2015, in the primary government.

The largest portion of the City's net position, \$35,349,094, 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, 2015

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2015			2014		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and						
other assets	\$ 23,209,029	\$ 8,999,306	\$ 32,208,335	\$ 23,633,682	\$ 10,186,251	\$ 33,819,933
Capital assets, net	29,341,492	29,717,380	59,058,872	27,081,817	28,363,779	55,445,596
Total Assets	52,550,521	38,716,686	91,267,207	50,715,499	38,550,030	89,265,529
Total						
Deferred Outflows	286,653	189,974	476,627	208,839	185,839	394,678
Other liabilities	2,488,914	1,584,337	4,073,251	2,071,047	1,879,294	3,950,341
Long-term liabilities	24,448,085	14,311,886	38,759,971	25,739,518	15,181,047	40,920,565
Total Liabilities	26,936,999	15,896,223	42,833,222	27,810,565	17,060,341	44,870,906
Total						
Deferred Inflows	34,709	9,394	44,103	-	-	-
Net Position:						
Net investment						
in capital assets	17,619,628	17,729,466	35,349,094	17,139,345	18,020,897	35,160,242
Restricted	5,851,912	-	5,851,912	4,069,297	-	4,069,297
Unrestricted	2,393,926	5,271,577	7,665,503	1,905,131	3,654,631	5,559,762
Total Net Position	\$ 25,865,466	\$ 23,001,043	\$ 48,866,509	\$ 23,113,773	\$ 21,675,528	\$ 44,789,301

Due to spending on the City's infrastructure total current assets decreased by \$1,611,598. Other liabilities increased due to capital improvement projects that started, but did not finish in the current year.

City of Heath, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2015

Statement of Activities:

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

	For the Year Ended September 30, 2015			For the Year Ended September 30, 2014		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 613,101	\$ 6,308,696	\$ 6,921,797	\$ 549,526	\$ 5,514,782	\$ 6,064,308
Grants and contributions	2,960,753	1,030,273	3,991,026	1,211,232	-	1,211,232
General revenues:						
Property taxes	5,239,879	-	5,239,879	3,894,536	-	3,894,536
Sales taxes	1,056,647	-	1,056,647	994,460	-	994,460
Franchise and local taxes	567,992	-	567,992	531,528	-	531,528
Investment income	8,850	2,969	11,819	8,187	7,037	15,224
Other revenues	227,744	-	227,744	180,712	-	180,712
Total Revenues	10,674,966	7,341,938	18,016,904	7,370,181	5,521,819	12,892,000
Expenses						
General government	1,188,977	-	1,188,977	1,037,325	-	1,037,325
Public safety	3,024,089	-	3,024,089	2,924,001	-	2,924,001
Public works	2,336,387	-	2,336,387	2,064,771	-	2,064,771
Culture and recreation	392,967	-	392,967	250,703	-	250,703
Economic development	145,785	-	145,785	121,733	-	121,733
Economic opportunity	172,992	-	172,992	29,413	-	29,413
Interest and fiscal charges	887,976	1,140,974	2,028,950	697,067	1,111,490	1,808,557
Water, sewer, & solid waste	-	4,649,549	4,649,549	-	4,145,789	4,145,789
Total Expenses	8,149,173	5,790,523	13,939,696	7,125,013	5,257,279	12,382,292
Change in Net Position						
Before Transfers	2,525,793	1,551,415	4,077,208	245,168	264,540	509,708
Transfers	225,900	(225,900)	-	204,000	(204,000)	-
Total	225,900	(225,900)	-	204,000	(204,000)	-
Change in Net Position	2,751,693	1,325,515	4,077,208	449,168	60,540	509,708
Beginning Net Position	23,113,773	21,675,528	44,789,301	22,664,605	21,614,988	44,279,593
Ending Net Position	\$ 25,865,466	\$ 23,001,043	\$ 48,866,509	\$ 23,113,773	\$ 21,675,528	\$ 44,789,301

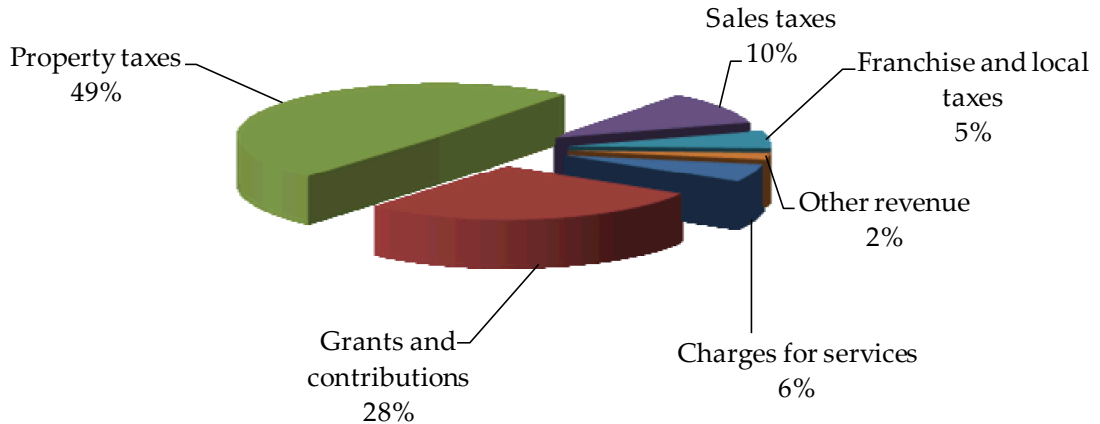
City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2015

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

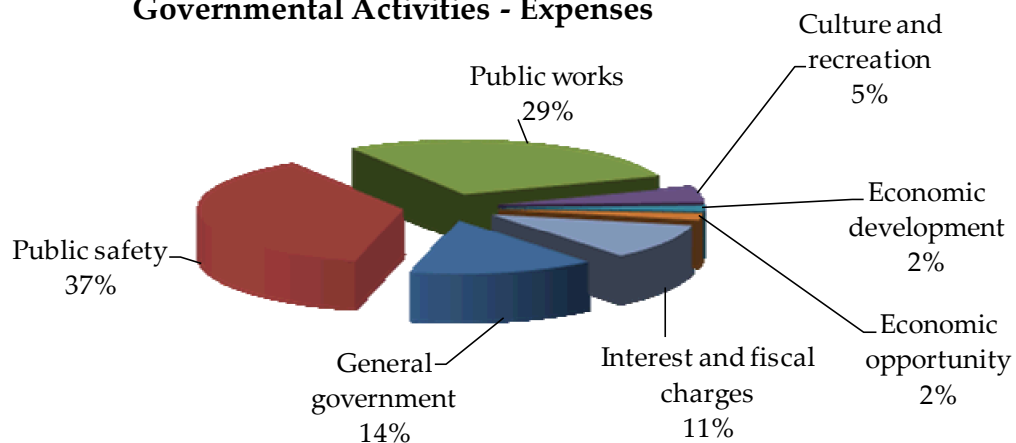
Governmental Activities - Revenues



For the year ended September 30, 2015, revenues from governmental activities totaled \$10,674,966. Property tax, franchise tax and sales tax are the City's largest general revenue sources. Sales tax increased \$62,187 or 6% due to cyclical business activities within the City. Grants and contributions increased by \$1,749,521 due to contributions of infrastructure and cash from developers.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



For the year ended September 30, 2015, expenses for governmental activities totaled \$8,149,173. This represents an increase of \$1,024,160. This increase stems from increases in general government, public works, and culture and recreation spending. General government's increase was related to salaries and benefits. Public works spending increased in road maintenance and increased depreciation. Culture and recreation spending increased due to increased watering and park maintenance. The City's largest functional expense was public safety of \$3,024,089.

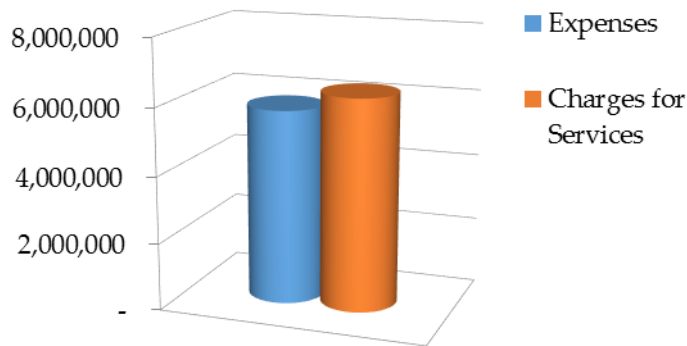
City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2015

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, 2015, charges for services by business-type activities totaled \$6,308,696. This is an increase of \$793,914, or 14%, from the previous year. This increase directly relates to water restrictions that were eased during the year.

Total expenses increased \$533,244 to a total of \$5,790,523, a change of 10%. This increase is related to greater purchases of water to meet demand as well as an increase in legal expenses that occurred during the year.

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, 2015, the City's governmental funds reported combined fund balances of \$22,182,312, a decrease of \$495,450 in comparison with the prior year. Approximately 12% of this amount, \$2,664,300, constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable, committed, assigned, or restricted*. Nonspendable fund balance indicates that it is not in spendable form. The City had \$26,332 in nonspendable funds at year end. Committed fund balance can be used only for the specific purposes determined by the City Council. The City had \$11,000 in committed funds at year end. Assigned fund balance is limited for specific purposes intended by council or management. The City had \$114,434 in

City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2015

assigned funds at year end. Restricted fund balance represents funds that are restricted by law, debt agreements, or grantors for particular purposes. The City had \$5,851,912 in restricted funds at year end.

As of the end of the year the general fund reflected a total fund balance of \$2,701,632. Fund balance increased \$136,654 primarily due to an increase in revenue.

As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. The unassigned (the amount available for spending) fund balance of the general fund of \$2,664,300 is 48% of total general fund expenditures.

The debt service fund had an ending fund balance of \$552,757 at September 30, 2015 compared to the previous year's balance of \$569,257. This is a change of \$16,500 due to a planned decrease in fund balance.

The capital improvements fund had a net decrease in fund balance of \$671,399 due to capital outlay. During the year, the City expended \$1,985,671 on improving the City's infrastructure compared to prior year expenditures of \$3,772,108 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 \$22,918,292. Unrestricted net position of the fund at the close of the fiscal year amounted to \$5,188,826. The capital assets of the water and sewer fund had a net book value of \$29,717,380. The City operates and maintains a water and sewer distribution system with force mains and lift stations. Other factors concerning the finances of the water and sewer enterprise fund have already been addressed in the discussion of the City's business-type activities; however, the following are additional comments regarding operations of the enterprise fund:

Net increases to capital assets were \$1,353,601. The increase in capital assets was a mixture of assets constructed by the City as well as contributed assets from developers. Operational expenses excluding depreciation and amortization were \$3,137,104. Cash and cash equivalents in the water and sewer fund were \$7,403,573 at fiscal year end.

The City's nonmajor solid waste fund recorded a decrease of \$20,482 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, 2015

GENERAL FUND BUDGETARY HIGHLIGHTS

Budget amendments approved during the fiscal year total a net increase of \$222,000 in total expenditures. There was a positive variance of \$345,356 over budgeted general fund revenues. The following are additional comments regarding appropriations:

- There was a positive variance of \$253,814 in budgeted appropriations.
- \$599,170 is the variance surplus of revenues over expenditures before transfers.
- There was a net increase in fund balance of \$136,654. The original budget planned for a decrease of \$242,100 and the final budget planned for a decrease of \$464,100.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$29,341,4952 in a variety of capital assets and infrastructure, net of accumulated depreciation. The City's business-type activities funds had invested \$29,717,380 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 \$3,613,276 due to improvements made to the City's infrastructure in the current year.

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

- Contributed assets valued at \$1,721,107 consisting of roads and other infrastructure.
- Contributed assets valued at \$1,030,273 consisting of water and sewer infrastructure.

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 \$39,093,380. Of this amount, \$14,679,646 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.

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

City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2015

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City Council approved a tax rate for the fiscal year 2016 budget of \$0.4266 per \$100 of assessed value. This rate remained unchanged from the prior year's rate. Assessed values increased over the prior year's value for the third consecutive year and ad valorem tax revenue increased \$159,400 and \$90,700 in the General Fund and Debt Service Fund, respectively. The fiscal year 2016 budget included funding for vehicle and equipment purchases, street repairs and maintenance, parks and landscaping maintenance and salaries and benefits. The City added 3 full-time positions and converted one part-time position to full-time. The budget also included an increase for the purchase of wholesale water and wastewater treatment.

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

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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FINANCIAL STATEMENTS

City of Heath, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 22,549,549	\$ 7,163,205	\$ 29,712,754
Restricted cash	-	267,563	267,563
Receivables, net	549,430	1,543,547	2,092,977
Inventory	-	15,307	15,307
Prepays	26,332	9,684	36,016
Total Current Assets	23,125,311	8,999,306	32,124,617
Land held for sale	83,718	-	83,718
Capital assets:			
Non-depreciable	5,791,846	3,929,414	9,721,260
Net depreciable capital assets	23,549,646	25,787,966	49,337,612
	<u>29,425,210</u>	<u>29,717,380</u>	<u>59,142,590</u>
Total Assets	52,550,521	38,716,686	91,267,207
<u>Deferred Outflows of Resources</u>			
Pension contributions	187,962	50,872	238,834
Pension investment earnings	53,193	14,397	67,590
Deferred charge on refunding	45,498	124,705	170,203
Total Deferred Outflows of Resources	286,653	189,974	476,627

See Notes to Financial Statements.

City of Heath, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	741,795	430,642	1,172,437
Accrued interest payable	116,414	82,745	199,159
Customer deposits	45,000	139,625	184,625
Noncurrent liabilities:			
Due within one year	1,585,705	931,325	2,517,030
Due in more than one year	24,076,246	14,211,249	38,287,495
Net pension liability	371,839	100,637	472,476
Total Liabilities	26,936,999	15,896,223	42,833,222
<u>Deferred Inflows of Resources</u>			
Pension losses	34,709	9,394	44,103
<u>Net Position</u>			
Net investment in capital assets	17,619,628	17,729,466	35,349,094
Restricted for:			
Debt service	552,757	-	552,757
Capital improvement	2,289,216	-	2,289,216
Economic development	1,415,099	-	1,415,099
Economic opportunities	1,570,268	-	1,570,268
Public safety	24,572	-	24,572
Unrestricted	2,393,926	5,271,577	7,665,503
Total Net Position	\$ 25,865,466	\$ 23,001,043	\$ 48,866,509

See Notes to Financial Statements.

City of Heath, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 1,188,977	\$ 39,260	\$ -	\$ -
Public safety	3,024,089	484,400	239,646	-
Public works	2,336,387	84,226	-	2,721,107
Culture and recreation	392,967	5,215	-	-
Economic development	145,785	-	-	-
Economic opportunity	172,992	-	-	-
Interest and fiscal charges	887,976	-	-	-
Total Governmental Activities	8,149,173	613,101	239,646	2,721,107
Business-Type Activities				
Water & sewer	5,300,822	5,759,498	-	1,030,273
Solid waste	489,701	549,198	-	-
Total Business-Type Activities	5,790,523	6,308,696	-	1,030,273
Total Primary Government	\$ 13,939,696	\$ 6,921,797	\$ 239,646	\$ 3,751,380

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
\$ (1,149,717)	\$ -	\$ (1,149,717)
(2,300,043)	-	(2,300,043)
468,946	-	468,946
(387,752)	-	(387,752)
(145,785)	-	(145,785)
(172,992)	-	(172,992)
(887,976)	-	(887,976)
<u>(4,575,319)</u>	<u>-</u>	<u>(4,575,319)</u>
-	1,488,949	1,488,949
-	59,497	59,497
-	1,548,446	1,548,446
<u>(4,575,319)</u>	<u>1,548,446</u>	<u>(3,026,873)</u>
5,239,879	-	5,239,879
1,056,647	-	1,056,647
561,488	-	561,488
6,504	-	6,504
8,850	2,969	11,819
227,744	-	227,744
225,900	(225,900)	-
<u>7,327,012</u>	<u>(222,931)</u>	<u>7,104,081</u>
2,751,693	1,325,515	4,077,208
23,113,773	21,675,528	44,789,301
<u>\$ 25,865,466</u>	<u>\$ 23,001,043</u>	<u>\$ 48,866,509</u>

City of Heath, Texas

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 2,817,900	\$ 542,166	\$ 16,065,027	\$ 3,124,456
Receivables, net	341,780	105,148	-	102,502
Prepays	26,332	-	-	-
Total Assets	\$ 3,186,012	\$ 647,314	\$ 16,065,027	\$ 3,226,958
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 377,733	\$ -	\$ 261,477	\$ 102,585
Deposits payable	45,000	-	-	-
Total Liabilities	422,733	-	261,477	102,585
<u>Deferred Inflows of Resources</u>				
Unavailable revenue -				
Property taxes	56,683	14,473	-	-
Fines receivable, net	1,464	-	-	-
Assessments receivable	-	80,084	-	-
Other	3,500	-	-	-
Total Deferred Inflows	61,647	94,557	-	-
<u>Fund Balances</u>				
Nonspendable for:				
Prepays	26,332	-	-	-
Committed	11,000	-	-	-
Assigned	-	-	-	114,434
Restricted	-	552,757	15,803,550	3,009,939
Unassigned	2,664,300	-	-	-
Total Fund Balances	2,701,632	552,757	15,803,550	3,124,373
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,186,012	\$ 647,314	\$ 16,065,027	\$ 3,226,958

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 22,549,549
549,430
26,332

\$ 23,125,311

\$ 741,795
45,000

786,795

71,156
1,464
80,084
3,500

156,204

26,332
11,000
114,434
19,366,246
2,664,300

22,182,312

\$ 23,125,311

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City of Heath, Texas
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
September 30, 2015

Fund Balances - Total Governmental Funds	\$ 22,182,312
 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	5,791,846
Capital assets - net depreciable	23,549,646
 Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
Property tax receivable	71,156
Fines receivable, net	1,464
Assessments receivable	80,084
Other	3,500
Land held for sale	83,718
 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.	
Pension contributions	187,962
Pension investment earnings	53,193
Deferred charge on refunding	45,498
 Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.	
Pension losses	(34,709)
 Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(116,414)
Bond premium	(541,830)
Bond discount	85,666
Non-current liabilities due in one year	(1,585,705)
Non-current liabilities due in more than one year	(23,620,082)
Net pension liability	(371,839)
Net Position of Governmental Activities	\$ 25,865,466

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, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>
<u>Revenues</u>				
Taxes:				
Property tax	\$ 3,379,536	\$ 1,868,896	\$ -	\$ -
Sales tax	528,323	-	-	528,324
Franchise tax	561,488	-	-	-
Alcoholic beverage tax	6,504	-	-	-
Licenses and permits	401,364	-	-	-
Intergovernmental	239,646	-	-	-
Charges for services	170,445	-	-	-
Fines and forfeitures	41,292	-	-	-
Special assessments	-	14,641	-	-
Investment income	1,245	434	5,786	1,385
Other revenue	64,513	-	1,158,486	1,305
Total Revenues	5,394,356	1,883,971	1,164,272	531,014
<u>Expenditures</u>				
Current:				
Administration	1,257,621	-	-	-
Highways and streets	653,586	-	-	-
Parks	246,842	-	-	-
Engineering and building inspection	427,916	-	-	-
Municipal court	54,875	-	-	-
Public safety	2,797,396	-	-	16,482
Economic development	76,950	-	-	56,873
Economic opportunity	-	-	-	161,030
Debt Service:				
Principal	-	833,533	-	45,000
Interest and fiscal charges	-	1,066,938	-	14,250
Capital outlay	-	-	1,985,671	-
Total Expenditures	5,515,186	1,900,471	1,985,671	293,635
Excess of Revenues				
Over (Under) Expenditures	(120,830)	(16,500)	(821,399)	237,379
<u>Other Financing Sources (Uses)</u>				
Transfers in (out)	257,484	-	150,000	(181,584)
Total Other Financing Sources (Uses)	257,484	-	150,000	(181,584)
Net Change in Fund Balances	136,654	(16,500)	(671,399)	55,795
Beginning fund balances	2,564,978	569,257	16,474,949	3,068,578
Ending Fund Balances	\$ 2,701,632	\$ 552,757	\$ 15,803,550	\$ 3,124,373

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 5,248,432
1,056,647
561,488
6,504
401,364
239,646
170,445
41,292
14,641
8,850

1,224,304

8,973,613

1,257,621
653,586
246,842
427,916
54,875
2,813,878
133,823
161,030

878,533
1,081,188
1,985,671

9,694,963

(721,350)

225,900

225,900

(495,450)

22,677,762

\$ 22,182,312

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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, 2015

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

Net changes in fund balances - total governmental funds	\$ (495,450)
---	--------------

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

Capital outlay	3,894,066
Depreciation expense	(1,633,713)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(19,754)
--	----------

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

Compensated absences	(37,153)
Accrued interest	165,468
Pension expense	(1,449)

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.

Amortization of deferred charges on refunding	(9,639)
Amortization of debt premium	45,521
Amortization of debt discount	(8,138)
Principal payments	851,934

Change in Net Position of Governmental Activities	\$ 2,751,693
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See Notes to Financial Statements.

City of Heath, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
PROPRIETARY FUNDS
September 30, 2015

	<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	\$ 7,136,010	\$ 27,195	\$ 7,163,205
Restricted cash	267,563	-	267,563
Receivables, net	1,440,599	102,948	1,543,547
Inventory	15,307	-	15,307
Prepays	9,684	-	9,684
Total Current Assets	<u>8,869,163</u>	<u>130,143</u>	<u>8,999,306</u>
<u>Noncurrent Assets</u>			
Capital assets:			
Non-depreciable	3,929,414	-	3,929,414
Net depreciable capital assets	25,787,966	-	25,787,966
Total Noncurrent Assets	<u>29,717,380</u>	<u>-</u>	<u>29,717,380</u>
Total Assets	<u>38,586,543</u>	<u>130,143</u>	<u>38,716,686</u>
<u>Deferred Outflows of Resources</u>			
Pension contributions	50,872	-	50,872
Pension investment earnings	14,397	-	14,397
Deferred charge on refunding	124,705	-	124,705
Total Deferred Outflows	<u>189,974</u>	<u>-</u>	<u>189,974</u>

See Notes to Financial Statements.

City of Heath, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
PROPRIETARY FUNDS
September 30, 2015

	<u>Water & Sewer</u>	<u>Nonmajor Solid Waste</u>	<u>Total Proprietary Funds</u>
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accounts payable and accrued liabilities	383,250	47,392	430,642
Accrued interest	82,745	-	82,745
Customer deposits	139,625	-	139,625
Compensated absences - current	74,989	-	74,989
Bonds payable - current	856,336	-	856,336
Total Current Liabilities	<u>1,536,945</u>	<u>47,392</u>	<u>1,584,337</u>
<u>Noncurrent Liabilities</u>			
Compensated absences	100,846	-	100,846
Bonds payable	14,110,403	-	14,110,403
Net pension liability	100,637	-	100,637
Total Liabilities	<u>15,848,831</u>	<u>47,392</u>	<u>15,896,223</u>
<u>Deferred Inflows of Resources</u>			
Deferred inflow - actual experience vs. assumption	9,394	-	9,394
<u>Net Position</u>			
Net investment in capital assets	17,729,466	-	17,729,466
Unrestricted	5,188,826	82,751	5,271,577
Total Net Position	<u>\$ 22,918,292</u>	<u>\$ 82,751</u>	<u>\$ 23,001,043</u>

See Notes to Financial Statements.

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City of Heath, Texas

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

For the Year Ended September 30, 2015

	Water & Sewer	Nonmajor Solid Waste	Total Proprietary Funds
<u>Operating Revenues</u>			
Water revenue	\$ 3,248,394	\$ -	\$ 3,248,394
Sewer revenue	2,032,589	-	2,032,589
Sanitation revenue	-	549,198	549,198
Connection and tap charges	477,765	-	477,765
Other revenue	750	-	750
Total Operating Revenues	5,759,498	549,198	6,308,696
<u>Operating Expenses</u>			
Personnel	932,837	-	932,837
Supplies and services	274,137	489,701	763,838
Operating expenses	534,707	-	534,707
Materials and equipment	67,992	-	67,992
Cost of water	737,964	-	737,964
Cost of sewer	589,467	-	589,467
Depreciation	1,022,744	-	1,022,744
Total Operating Expenses	4,159,848	489,701	4,649,549
Operating Income	1,599,650	59,497	1,659,147
<u>Nonoperating Revenues (Expenses)</u>			
Investment income	2,948	21	2,969
Interest expense	(1,140,974)	-	(1,140,974)
Capital contribution	1,030,273	-	1,030,273
Total Nonoperating Revenues (Expenses)	(107,753)	21	(107,732)
Income Before Capital Contributions and Transfers	1,491,897	59,518	1,551,415
Transfers in (out)	(145,900)	(80,000)	(225,900)
Change in Net Position	1,345,997	(20,482)	1,325,515
Beginning net position	21,572,295	103,233	21,675,528
Ending Net Position	\$ 22,918,292	\$ 82,751	\$ 23,001,043

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, 2015

	<u>Water & Sewer</u>	<u>Nonmajor Solid Waste</u>	<u>Total Proprietary Funds</u>
<u>Cash Flows from Operating Activities</u>			
Receipts from customers	\$ 5,294,308	\$ 538,271	\$ 5,832,579
Payments to suppliers	(2,548,271)	(485,377)	(3,033,648)
Payments to employees	(911,553)	-	(911,553)
Net Cash Provided by Operating Activities	<u>1,834,484</u>	<u>52,894</u>	<u>1,887,378</u>
<u>Cash Flows from Noncapital Financing Activities</u>			
Transfers in (out)	(145,900)	(80,000)	(225,900)
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>(145,900)</u>	<u>(80,000)</u>	<u>(225,900)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Capital purchases	(1,346,071)	-	(1,346,071)
Principal paid on debt	(857,248)	-	(857,248)
Interest paid on debt	(1,134,772)	-	(1,134,772)
Net Cash (Used for) Capital and Related Financing Activities	<u>(3,338,091)</u>	<u>-</u>	<u>(3,338,091)</u>
<u>Cash Flows from Investing Activities</u>			
Interest on investments	2,948	21	2,969
Net Cash Provided by Investing Activities	<u>2,948</u>	<u>21</u>	<u>2,969</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,646,559)	(27,085)	(1,673,644)
Beginning cash and cash equivalents	9,050,132	54,280	9,104,412
Ending Cash and Cash Equivalents	<u>\$ 7,403,573</u>	<u>\$ 27,195</u>	<u>\$ 7,430,768</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, 2015

	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	\$ 1,599,650	\$ 59,497	\$ 1,659,147
Adjustments to reconcile operating income to net cash provided:			
Depreciation	1,022,744	-	1,022,744
Amortization	(17,848)	-	(17,848)
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in:			
Accounts receivable	(469,062)	(10,927)	(479,989)
Inventory	(4,986)	-	(4,986)
Prepays	(1,724)	-	(1,724)
Increase (Decrease) in:			
Accounts payable and accrued liabilities	(319,446)	4,324	(315,122)
Compensated absences	20,893	-	20,893
Customer deposits	3,872	-	3,872
Deferred outflows - pension contributions	(9,273)	-	(9,273)
Deferred outflows - investment earnings	(14,397)	-	(14,397)
Deferred inflows- pension (gains) losses	9,394	-	9,394
Net pension liability	14,667	-	14,667
Net Cash Provided by Operating Activities	\$ 1,834,484	\$ 52,894	\$ 1,887,378

Schedule of non-cash capital and related financing activities:

Contributions of capital assets	\$ 1,030,273
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See Notes to Financial Statements.

City of Heath, Texas
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
September 30, 2015

		<u>Agency Fund</u> <u>Streets</u> <u>Escrow</u>
<u>Assets</u>		
<u>Current Assets</u>		
Cash and cash equivalents	\$	543,197
Total Assets		<u>543,197</u>
<u>Liabilities</u>		
Accrued liabilities		543,197
Total Liabilities	\$	<u>543,197</u>

See Notes to Financial Statements.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

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

B. Reporting Entity

The City of Heath, Texas (the "City") was incorporated in 1959 and is governed by an elected mayor and six city councilmen which comprise the city council. The City provides a full range of municipal services including public safety, streets, parks and recreation, planning and zoning, and general administrative services. In addition, the City provides water and sewer service, and sanitation service as an enterprise function of the City.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Heath Economic Development Corporation (the "HEDC") and the Heath Municipal Benefits Corporation (the "HMBC"), although legally separate, are considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity. Both entities use the City's staff for operations. During the current year the majority of the HEDC's and the HMBC's expenses were related to those salaries as well as assisting the primary government by paying a portion of long-term debt, and funding capital improvements on behalf of the City.

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

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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.

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.

Discretely Presented Component Units

Club Municipal Management District Number 1

The Club Municipal Management District is special purpose district within the City limits. This district was created by an act of the 82nd Texas legislature in 2011, but has no assets and has had no activity through the date of the financial statements. The primary purpose of the district is to facilitate the construction and continued maintenance of a quality mixed-use residential and commercial development to benefit city residents. The City of Heath Municipal Management District is governed by a board of directors appointed, at will, by the City Council.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

C. Basis of Presentation - Government-Wide 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.

D. Basis of Presentation -Fund Financial Statements

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

The government reports the following major governmental funds:

General Fund

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

Debt Service Fund

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

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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.

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

E. Measurement focus and basis of accounting

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

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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

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

F. Budgetary Information

1. Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, debt service fund, Heath Economic Development Corporation, and Heath Municipal Benefits Corporation. The capital improvements fund is

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

appropriated on a project-length basis. Other special revenue funds do not have appropriated budgets since other means control the use of these resources (e.g., grant awards and endowment requirements) and sometimes span a period of more than one fiscal year.

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

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

2. Excess of Expenditures over Appropriations

For the year ended September 30, 2015, the general fund demonstrated expenditures exceeding appropriations by \$2,342 on parks.

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

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

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

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

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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 outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

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

3. Inventories and Prepaid Items

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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.

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 to 22 years

5. Deferred outflows/inflows of resources

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

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

6. Net Position Flow Assumptions

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

7. Fund Balance Flow Assumptions

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

8. Fund Balance Policies

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

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

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

9. Long-Term Obligations

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

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

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

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

10. Estimates

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

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

H. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

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

3. Compensated Absences

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

4. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer fund are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2015, the primary government had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
External investment pools	\$ 10,812,285	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, 2015, the City's investments in TexPool and TexStar were rated AAAM by Standard & Poor's.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2015, 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, 2015

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

TexPool

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

TexStar

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

B. Receivables

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

	General	Debt Service	Other Governmental Funds	Water & Sewer	Solid Waste	Total
Property taxes	\$ 56,683	\$ 14,473	\$ -	\$ -	\$ -	\$ 71,156
Special assessments	-	90,675	-	-	-	90,675
Sales tax	102,502	-	102,502	-	-	205,004
Fines	2,440	-	-	-	-	2,440
Other	181,131	-	-	46,008	-	227,139
Accounts	-	-	-	1,444,195	112,419	1,556,614
Allowance	(976)	-	-	(49,604)	(9,471)	(60,051)
	<u>\$ 341,780</u>	<u>\$ 105,148</u>	<u>\$ 102,502</u>	<u>\$ 1,440,599</u>	<u>\$ 102,948</u>	<u>\$ 2,092,977</u>

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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	\$ 2,952,370	\$ 200,700	\$ -	\$ 3,153,070
Construction in progress	3,320,629	1,859,241	(2,541,094)	2,638,776
Total capital assets not being depreciated	<u>6,272,999</u>	<u>2,059,941</u>	<u>(2,541,094)</u>	<u>5,791,846</u>
Capital assets, being depreciated:				
Buildings	2,162,395	-	-	2,162,395
Improvements other than buildings	3,188,645	2,434	1,445,761	4,636,840
Infrastructure	35,129,515	1,742,985	1,095,333	37,967,833
Machinery and equipment	2,218,957	88,706	(34,592)	2,273,071
Total capital assets being depreciated	<u>42,699,512</u>	<u>1,834,125</u>	<u>2,506,502</u>	<u>47,040,139</u>
Less accumulated depreciation:				
Buildings	(1,105,605)	(89,279)	-	(1,194,884)
Improvements other than buildings	(764,183)	(186,697)	-	(950,880)
Infrastructure	(17,369,941)	(1,191,272)	-	(18,561,213)
Machinery and equipment	(2,651,643)	(166,465)	34,592	(2,783,516)
Total accumulated depreciation	<u>(21,891,372)</u>	<u>(1,633,713)</u>	<u>34,592</u>	<u>(23,490,493)</u>
Net capital assets being depreciated	<u>20,808,140</u>	<u>200,412</u>	<u>2,541,094</u>	<u>23,549,646</u>
Total Capital Assets	<u><u>\$ 27,081,139</u></u>	<u><u>\$ 2,260,353</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 29,341,492</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 31,517
Public safety	183,758
Public works	1,236,182
Culture and recreation	182,256
Total Governmental Activities Depreciation Expense	<u><u>\$ 1,633,713</u></u>

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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	3,540,610	1,223,344	(1,037,978)	3,725,976
Total capital assets not being depreciated	<u>3,744,048</u>	<u>1,223,344</u>	<u>(1,037,978)</u>	<u>3,929,414</u>
Capital assets, being depreciated:				
Buildings	309,639	-	-	309,639
Improvements other than buildings	34,081,368	1,030,273	1,037,978	36,149,619
Machinery and equipment	300,408	122,728	-	423,136
Total capital assets being depreciated	<u>34,691,415</u>	<u>1,153,001</u>	<u>1,037,978</u>	<u>36,882,394</u>
Less accumulated depreciation:				
Buildings	(139,877)	(14,207)	-	(154,084)
Improvements other than buildings	(9,697,254)	(973,649)	-	(10,670,903)
Machinery and equipment	(234,553)	(34,888)	-	(269,441)
Total accumulated depreciation	<u>(10,071,684)</u>	<u>(1,022,744)</u>	<u>-</u>	<u>(11,094,428)</u>
Net capital assets being depreciated	<u>24,619,731</u>	<u>130,257</u>	<u>1,037,978</u>	<u>25,787,966</u>
Total Capital Assets	<u><u>\$ 28,363,779</u></u>	<u><u>\$ 1,353,601</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 29,717,380</u></u>

In the current year the City received \$1,030,273 in contributed assets, recorded at fair market value, from a developer.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

D. Long-term Debt

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Bonds, notes and other payables:					
General Obligation Bonds	\$ 3,490,000	\$ -	\$ (430,000)	\$ 3,060,000	\$ 325,000
Certificates of Obligation	21,693,106	-	(339,372)	21,353,734	918,664
Notes Payable	128,017	-	(31,040)	96,977	32,003
Premiums	587,351	-	(45,521)	541,830	-
Discounts	(93,804)	-	8,138	(85,666)	-
Other liabilities:					
Capital Lease	104,868	-	(51,522)	53,346	53,346
Compensated Absences	604,577	119,330	(82,177)	641,730	256,692
Total Governmental Activities	<u>\$ 26,514,115</u>	<u>\$ 119,330</u>	<u>\$ (971,494)</u>	<u>\$ 25,661,951</u>	<u>\$ 1,585,705</u>
Long-term liabilities due in more than one year				<u>\$ 24,076,246</u>	
Business-Type Activities:					
Bonds, notes and other payables:					
General Obligation Bonds	\$ 3,955,000	\$ -	\$ (330,000)	\$ 3,625,000	\$ 340,000
Certificates of Obligation	10,921,894	-	(480,628)	10,441,266	466,336
Premium	395,304	-	(42,360)	352,944	-
Discount	(72,987)	-	7,136	(65,851)	-
Contract Revenue Bonds	660,000	-	(46,620)	613,380	50,000
Other liabilities:					
Compensated Absences	154,942	116,183	(95,290)	175,835	74,989
Total Business-Type Activities	<u>\$ 16,014,153</u>	<u>\$ 116,183</u>	<u>\$ (987,762)</u>	<u>\$ 15,142,574</u>	<u>\$ 931,325</u>
Long-term liabilities due in more than one year				<u>\$ 14,211,249</u>	

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

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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

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

Description	Interest Rates	Original Balance	Current Balance
Governmental Activities:			
2013 General Obligation Refunding Bonds	2.00-4.00%	\$ 1,600,000	\$ 1,510,000
2010 General Obligation Refunding Bonds	3.00-4.00%	2,230,000	1,550,000
Total General Obligation Bonds		<u>3,830,000</u>	<u>3,060,000</u>
2013 Combination Tax & Revenue Certificates	2.00-4.00%	1,654,037	1,585,000
2007 Combination Tax & Revenue Certificates	4.00-5.00%	8,392,369	5,563,734
2014 Combination Tax & Revenue Certificates	3.00-4.00%	14,205,000	14,205,000
Total Certificates of Obligation		<u>24,251,406</u>	<u>21,353,734</u>
Total Governmental Activities		<u>\$ 28,081,406</u>	<u>\$ 24,413,734</u>
Business-type Activities:			
2010 General Obligation Refunding Bonds	3.00-4.00%	\$ 4,840,000	\$ 3,625,000
Total General Obligation Bonds		<u>4,840,000</u>	<u>3,625,000</u>
2013 Combination Tax & Revenue Certificates	2.00-4.00%	6,540,963	6,455,000
2007 Combination Tax & Revenue Certificates	4.00-5.00%	5,052,631	3,821,266
2004 Combination Tax & Revenue Certificates	3.68%	1,640,000	165,000
Total Certificates of Obligation		<u>13,233,594</u>	<u>10,441,266</u>
2005 Contract Revenue Bonds	3.75-4.625%	1,006,566	613,380
Total Contract Revenue Bonds		<u>1,006,566</u>	<u>613,380</u>
Total Business-Type Activities		<u>\$ 19,080,160</u>	<u>\$ 14,679,646</u>
Total Long-Term Debt			
General Obligation Refunding Bonds		\$ 8,670,000	\$ 6,685,000
Certificates of Obligation		37,485,000	31,795,000
Contract Revenue Bonds		1,006,566	613,380
Total Primary Government		<u>\$ 47,161,566</u>	<u>\$ 39,093,380</u>

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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
2016	\$ 325,000	\$ 104,100	\$ 918,664	\$ 951,114
2017	335,000	92,300	959,413	897,789
2018	305,000	80,475	1,007,198	845,064
2019	315,000	69,025	1,047,019	793,239
2020	330,000	57,100	1,089,804	738,886
2021	340,000	44,700	1,132,589	681,767
2022	360,000	32,350	1,173,338	620,876
2023	370,000	20,750	1,219,087	560,669
2024	380,000	7,600	1,264,836	501,876
2025	-	-	1,393,549	438,375
2026	-	-	1,442,263	370,726
2027	-	-	1,495,974	300,450
2028	-	-	945,000	248,775
2029	-	-	980,000	215,938
2030	-	-	1,010,000	180,925
2031	-	-	1,050,000	143,575
2032	-	-	1,090,000	103,625
2033	-	-	1,130,000	61,594
2034	-	-	1,005,000	20,100
Total	\$ 3,060,000	\$ 508,400	\$ 21,353,734	\$ 8,675,363

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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

Year ending September 30,	Business-Type Activities			
	General Obligation Bonds		Certificates of Obligation	
	Principal	Interest	Principal	Interest
2016	\$ 340,000	\$ 138,200	\$ 466,336	\$ 416,730
2017	485,000	121,700	355,587	396,485
2018	570,000	100,600	307,802	383,040
2019	605,000	77,100	307,981	371,024
2020	630,000	52,400	320,196	358,526
2021	660,000	26,600	327,411	345,384
2022	335,000	6,700	501,662	328,768
2023	-	-	515,913	308,992
2024	-	-	540,164	287,694
2025	-	-	561,451	264,318
2026	-	-	587,733	239,929
2027	-	-	614,030	214,429
2028	-	-	755,000	186,300
2029	-	-	790,000	155,400
2030	-	-	820,000	123,200
2031	-	-	855,000	89,700
2032	-	-	890,000	54,800
2033	-	-	925,000	18,500
Total	\$ 3,625,000	\$ 523,300	\$ 10,441,266	\$ 4,543,219

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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

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

Year ending September 30,	Contract Revenue Bonds	
	Principal	Interest
2016	\$ 50,000	\$ 24,872
2017	51,667	22,997
2018	53,333	21,008
2019	56,667	18,927
2020	60,000	16,661
2021	61,667	14,261
2022	65,000	11,732
2023	68,380	9,068
2024	71,666	6,197
2025	75,000	3,187
Total	\$ 613,380	\$ 148,910

Note Payable

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

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

Year ending September 30,	Note Payable	
	Principal	Interest
2016	\$ 32,003	\$ 3,034
2017	31,895	3,142
2018	33,079	1,958
Total	\$ 96,977	\$ 8,134

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

Capital Lease

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

Year ending September 30,	Capital Lease	
	Principal	Interest
2016	\$ 53,346	\$ 1,890
Total	\$ 53,346	\$ 1,890

E. Intergovernmental Transfers

Transfers between the primary government funds during the 2015 year were as follows:

Transfer Out	Transfer In	Amount
Water & Sewer	General	\$ 185,900
Other Governmental Funds	General	31,584
Solid Waste Fund	General	40,000
Other Governmental Funds	Capital Improvement	150,000
Solid Waste Fund	Water & Sewer	40,000
	Total	\$ 447,484

F. Restricted Net Position / Fund Balance

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

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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

	Governmental Activities
Restricted for:	
* Municipal court	\$ 24,572
Debt service	552,757
Capital improvements	15,803,550
Economic development	1,415,099
Economic opportunity	1,570,268
Total Restricted	\$ 19,366,246
Committed for:	
Park Donations	\$ 11,000
Assigned for:	
Police Department	\$ 114,434

* Restricted by enabling legislation

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with over 2,800 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

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

C. Construction Commitments

The government has an active construction project as of September 30, 2015. The project includes the construction of additional water lines. At year end the government's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment
Business-Type Activities		
24" Pipeline	\$ 964,525	\$ 20,335
Total	\$ 964,525	\$ 20,335

D. Defined Benefit Pension Plans

1. Texas Municipal Retirement Systems

Plan Description

The City of Heath participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the city are required to participate in TMRS.

2. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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 2014</u>	<u>Plan Year 2015</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

Employees covered by benefit terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	11
Inactive employees entitled to but not yet receiving benefits	31
Active employees	42
Total	84

3. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Heath were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Heath were 9.31% and 10.75% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$312,836, and were equal to the required contributions.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

4. Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate:

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

Changes in the Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/13	\$ 7,015,673	\$ 6,612,057	\$ 403,616
Changes for the year:			
Service Cost	464,674	-	464,674
Interest	501,186	-	501,186
Difference between expected and actual experience	(54,710)	-	(54,710)
Contributions – employer	-	267,260	(267,260)
Contributions – employee	-	200,947	(200,947)
Net investment income	-	378,357	(378,357)
Benefit payments, including refunds of emp. contributions	(176,432)	(176,432)	-
Administrative expense	-	(3,949)	3,949
Other changes	-	(325)	325
Net changes	734,718	665,858	68,860
Balance at 12/31/14	\$ 7,750,391	\$ 7,277,915	\$ 472,476

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

1% Decrease 6.00%	Current Single Rate Assumption 7.00%	1% Increase 8.00%
\$ 1,642,537	\$ 472,476	\$ (488,672)

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

5. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 67,590	\$	-
Difference between projected and investment earnings	-		44,103
Contributions subsequent to the measurement date	238,834		-
Total	\$ 306,424	\$	44,103

The City reported \$238,834 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:		
2015	\$	6,290
2016		6,290
2017		6,290
2018		6,292
2019		(1,675)
Thereafter	\$	-

E. 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

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

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

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

Contributions

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

The City's contributions to the TMRS SDBF for the years ended 2015, 2014 and 2013 were \$302, \$291 and \$273, respectively, which equaled the required contributions each year.

Three-Year Contribution Information

	<u>2013</u>	<u>2012</u>	<u>2011</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%

F. 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

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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 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.

G. 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

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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.

H. 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.

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 \$26,599 under this agreement.

I. 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

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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.

J. Lease Agreement with Great Eventures, Inc.

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

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

K. Restatement

Due to the implementation of GASB No. 68, the City restated its beginning net position within government activities and business-type activities to properly reflect the net pension liability and deferred outflows of resources as prescribed by this accounting standard. This adjustment was recorded at the fund level for proprietary funds only, and recorded at the government wide level for both governmental activities and business-type activities. The below tables summarize the changes to net position as a result of this change in accounting method.

	Governmental Activities
Prior year ending net position, as reported	\$ 23,277,717
Addition of net pension liability	(317,646)
Addition of deferred outflow of resources due to pension contributions	153,702
Restated beginning net position	\$ 23,113,773
	Business-Type Activities
Prior year ending net position, as reported	\$ 21,719,899
Addition of net pension liability	(85,970)
Addition of deferred outflow of resources due to pension contributions	41,599
Restated beginning net position	\$ 21,675,528
	Water & Sewer
Prior year ending net position, as reported	\$ 21,616,666
Addition of net pension liability	(85,970)
Addition of deferred outflow of resources due to pension contributions	41,599
Restated beginning net position	\$ 21,572,295

L. Subsequent Events

There were no material subsequent events through December 11, 2015, the date the financial statements were issued.

M. New Accounting Pronouncements

The City has adopted the provision of Governmental Accounting Standard Board (GASB) Statement No. 68, entitled *Accounting and Financial Reporting for Pensions, an amendment of*

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. As part of GASB 68 the City is required to record its net funded pension liability.

GASB also issued Statement No. 69, entitled *Government Combinations and Disposals of Government Operation*, and GASB Statement No. 70, entitled *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Both statements were adopted this fiscal year but had no effect on these accompanying financial statements.

The, GASB has issued Statement No. 72, entitled *Fair Value Measurement and Application*; Statement No. 73, entitled, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68*; GASB Statement No. 74 entitled, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; GASB Statement No. 75, entitled, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; GASB Statement No. 76; entitled, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*; and GASB Statement No. 77; entitled, *Tax Abatement Disclosures, which will require adoption in the future, if applicable*. These statements may or will have a material effect on the City's financial statements once implemented. The City will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date.

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REQUIRED SUPPLEMENTARY INFORMATION

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City of Heath, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Taxes:				
Property tax	\$ 3,305,700	\$ 3,305,700	\$ 3,379,536	\$ 73,836
Sales tax	482,000	482,000	528,323	46,323
Franchise tax	485,000	485,000	561,488	76,488
Alcoholic beverage tax	4,000	4,000	6,504	2,504
Licenses and permits	360,450	360,450	401,364	40,914
Intergovernmental	236,000	236,000	239,646	3,646
Charges for services	99,650	99,650	170,445	70,795
Fines and forfeitures	40,200	40,200	41,292	1,092
Investment income	3,000	3,000	1,245	(1,755)
Other revenue	33,000	33,000	64,513	31,513
Total Revenues	<u>5,049,000</u>	<u>5,049,000</u>	<u>5,394,356</u>	<u>345,356</u>
<u>Expenditures</u>				
Current:				
Administration	1,119,200	1,319,200	1,257,621	61,579
Highways and streets	577,450	682,450	653,586	28,864
Parks	244,500	244,500	246,842	(2,342) *
Engineering and building inspection	546,850	473,850	427,916	45,934
Municipal court	60,000	60,000	54,875	5,125
Public safety	2,894,900	2,894,900	2,797,396	97,504
Communication and economic development	104,100	94,100	76,950	17,150
Total Expenditures	<u>5,547,000</u>	<u>5,769,000</u>	<u>5,515,186</u>	<u>253,814</u>
Revenues Over (Under)	<u>(498,000)</u>	<u>(720,000)</u>	<u>(120,830)</u>	<u>599,170</u>
<u>Other Financing Sources (Uses)</u>				
Transfers in (out)	255,900	255,900	257,484	1,584
Total Other Financing Sources (Uses)	<u>255,900</u>	<u>255,900</u>	<u>257,484</u>	<u>1,584</u>
Net Change in Fund Balance	<u>\$ (242,100)</u>	<u>\$ (464,100)</u>	136,654	<u>\$ 600,754</u>
Beginning fund balance			<u>2,564,978</u>	
Ending Fund Balance			<u>\$ 2,701,632</u>	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- * 2. Expenditures exceeded appropriations at the legal level of control.

City of Heath, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

For the Year Ended September 30, 2015

	2014	1
Total pension liability		
Service cost	\$ 464,674	
Interest	501,186	
Changes in benefit terms	-	
Differences between expected and actual experience	(54,710)	
Changes of assumptions	-	
Benefit payments, including refunds of participant contributions	(176,432)	
Net change in total pension liability	734,718	
Total pension liability - beginning	\$ 7,015,673	
Total pension liability - ending (a)	\$ 7,750,391	
Plan fiduciary net position		
Contributions - employer	\$ 267,260	
Contributions - members	200,947	
Net investment income	378,357	
Benefit payments, including refunds of participant contributions	(176,432)	
Administrative expenses	(3,949)	
Other	(325)	
Net change in plan fiduciary net position	665,858	
Plan fiduciary net position - beginning	6,612,057	
Plan fiduciary net position - ending (b)	\$ 7,277,915	
Fund's net pension liability - ending (a) - (b)	\$ 472,476	
Plan fiduciary net position as a percentage of the total pension liability	93.90%	
Covered employee payroll	\$ 2,870,669	
Fund's net position as a percentage of covered employee payroll	16.46%	

Notes to schedule:

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

City of Heath, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2015

	12/31/2014 ¹
Actuarially determined employer contributions	\$ 312,836
Contributions in relation to the actuarially determined contribution	\$ 312,836
Contribution deficiency (excess)	\$ -
Annual covered employee payroll	\$ 2,870,669
Employer contributions as a percentage of covered employee payroll	10.90%

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	21 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.0%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009

Mortality RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.

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OTHER SUPPLEMENTARY INFORMATION

City of Heath, Texas
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2015

	Public Safety	Heath EDC	Heath MBC	Total Nonmajor Governmental
<u>Assets</u>				
Cash and cash equivalents	\$ 139,006	\$ 1,365,876	\$ 1,619,574	\$ 3,124,456
Receivables, net	-	51,251	51,251	102,502
Total Assets	\$ 139,006	\$ 1,417,127	\$ 1,670,825	\$ 3,226,958
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ -	\$ 2,028	\$ 100,557	\$ 102,585
Total Liabilities	-	2,028	100,557	102,585
 Fund Balances:				
Restricted	24,572	1,415,099	1,570,268	3,009,939
Assigned	114,434	-	-	114,434
Total Fund Balances	139,006	1,415,099	1,570,268	3,124,373
 Total Liabilities and Fund Balances	 \$ 139,006	 \$ 1,417,127	 \$ 1,670,825	 \$ 3,226,958

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, 2015

	<u>Public Safety</u>	<u>Heath EDC</u>	<u>Heath MBC</u>	<u>Total Nonmajor Governmental</u>
Revenues				
Taxes:				
Sales tax	\$ -	\$ 264,162	\$ 264,162	\$ 528,324
Investment income	55	614	716	1,385
Other revenue	1,305	-	-	1,305
Total Revenues	<u>1,360</u>	<u>264,776</u>	<u>264,878</u>	<u>531,014</u>
Expenditures				
Current:				
Public safety	16,482	-	-	16,482
Economic development	-	56,873	-	56,873
Economic opportunity	-	-	161,030	161,030
Debt service:				
Principal	-	15,000	30,000	45,000
Interest and fiscal charges	-	5,350	8,900	14,250
Total Expenditures	<u>16,482</u>	<u>77,223</u>	<u>199,930</u>	<u>293,635</u>
Excess (Deficiency) of Revenues over Expenditures	(15,122)	187,553	64,948	237,379
Other Financing Sources (Uses)				
Transfers (out)	-	(90,792)	(90,792)	(181,584)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(90,792)</u>	<u>(90,792)</u>	<u>(181,584)</u>
Net Change in Fund Balances	(15,122)	96,761	(25,844)	55,795
Beginning fund balances	<u>154,128</u>	<u>1,318,338</u>	<u>1,596,112</u>	<u>3,068,578</u>
Ending Fund Balances	<u>\$ 139,006</u>	<u>\$ 1,415,099</u>	<u>\$ 1,570,268</u>	<u>\$ 3,124,373</u>

See Notes to Financial Statements.

City of Heath, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended September 30, 2015

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ 1,839,200	\$ 1,868,896	\$ 29,696
Special assessments	6,800	14,641	7,841
Investment income	1,800	434	(1,366)
Total Revenues	1,847,800	1,883,971	36,171
<u>Expenditures</u>			
Debt service:			
Principal	832,700	833,533	(833)
Interest	1,073,300	1,066,938	6,362
Total Expenditures	1,906,000	1,900,471	5,529
Net Change in Fund Balance	\$ (58,200)	(16,500)	\$ 41,700
Beginning fund balance		569,257	
Ending Fund Balance		\$ 552,757	

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, 2015

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Sales tax	\$ 241,000	\$ 264,162	\$ 23,162
Investment income	900	614	(286)
Total Revenues	241,900	264,776	22,876
<u>Expenditures</u>			
Current:			
Economic development	142,900	56,873	86,027
Debt service:			
Principal	15,000	15,000	-
Interest and fiscal charges	5,350	5,350	-
Total Expenditures	163,250	77,223	86,027
Revenues Over (Under)			
Expenditures	78,650	187,553	108,903
<u>Other Financing Sources (Uses)</u>			
Transfers (out)	(91,000)	(90,792)	208
Total Other Financing Sources (Uses)	(91,000)	(90,792)	208
Net Change in Fund Balance	\$ (12,350)	96,761	\$ 109,111
Beginning fund balance		1,318,338	
Ending Fund Balance		\$ 1,415,099	

Notes to Required Supplementary Information

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

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, 2015

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Sales tax	\$ 241,000	\$ 264,162	\$ 23,162
Investment income	1,000	716	(284)
Total Revenues	242,000	264,878	22,878
<u>Expenditures</u>			
Current:			
Economic opportunity	399,150	161,030	238,120
Debt service:			
Principal	30,000	30,000	-
Interest and fiscal charges	8,900	8,900	-
Total Expenditures	438,050	199,930	238,120
Revenues Over (Under)			
Expenditures	(196,050)	64,948	260,998
<u>Other Financing Sources (Uses)</u>			
Transfers (out)	(91,000)	(90,792)	208
Total Other Financing Sources (Uses)	(91,000)	(90,792)	208
Net Change in Fund Balance	\$ (287,050)	(25,844)	\$ 261,206
Beginning fund balance		1,596,112	
Ending Fund Balance		\$ 1,570,268	

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, 2015

	<u>Balance</u> <u>October 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>September 30, 2015</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 177,891	\$ 365,306	\$ -	\$ 543,197
Total Assets	<u>177,891</u>	<u>365,306</u>	<u>-</u>	<u>543,197</u>
<u>Liabilities</u>				
Accrued liabilities	177,891	365,306	-	543,197
Total Liabilities	<u>\$ 177,891</u>	<u>\$ 365,306</u>	<u>\$ -</u>	<u>\$ 543,197</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
Financial Trends	100-109
<i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	
Revenue Capacity	111-117
<i>These schedules contain information to help the reader assess the City's most significant local revenue source, property tax.</i>	
Debt Capacity	118-122
<i>These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	123-124
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.</i>	
Operating Information	125-129
<i>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.</i>	

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Governmental Activities				
Net investment in				
capital assets	\$ 18,837,137	\$ 18,540,309	\$ 17,984,906	\$ 19,089,641
Restricted	1,358,534	146,285	1,117,725	2,104,386
Unrestricted	<u>3,408,712</u>	<u>4,200,838</u>	<u>4,158,988</u>	<u>3,197,493</u>
Total Governmental				
Net Position	<u>\$ 23,604,383</u>	<u>\$ 22,887,432</u>	<u>\$ 23,261,619</u>	<u>\$ 24,391,520</u>
Business-type Activities				
Net investment in				
capital assets	\$ 14,611,160	\$ 14,951,597	\$ 15,211,002	\$ 16,063,136
Restricted	-	-	-	-
Unrestricted	<u>3,498,273</u>	<u>2,094,056</u>	<u>1,886,366</u>	<u>1,600,713</u>
Total Business-type				
Activities Net Position	<u>\$ 18,109,433</u>	<u>\$ 17,045,653</u>	<u>\$ 17,097,368</u>	<u>\$ 17,663,849</u>
Primary Government				
Net investment in				
capital assets	\$ 33,448,297	\$ 33,491,906	\$ 33,195,908	\$ 35,152,777
Restricted	1,358,534	146,285	1,117,725	2,104,386
Unrestricted	<u>6,906,985</u>	<u>6,294,894</u>	<u>6,045,354</u>	<u>4,798,206</u>
Total Primary				
Government Net	<u>\$ 41,713,816</u>	<u>\$ 39,933,085</u>	<u>\$ 40,358,987</u>	<u>\$ 42,055,369</u>

<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
\$ 17,895,266	\$ 17,130,797	\$ 14,959,471	\$ 13,894,049	\$ 17,139,345	\$ 17,619,628
5,438,453	3,416,119	5,555,525	6,690,500	4,069,297	5,851,912
513,677	2,117,843	2,117,843	2,244,000	1,905,131	2,393,926
<u>\$ 23,847,396</u>	<u>\$ 22,664,759</u>	<u>\$ 22,632,839</u>	<u>\$ 22,828,549</u>	<u>\$ 23,113,773</u>	<u>\$ 25,865,466</u>
\$ 15,935,522	\$ 14,406,551	\$ 14,406,551	\$ 14,592,909	\$ 18,020,897	\$ 17,729,466
-	-	-	-	-	-
2,118,300	6,135,299	6,135,299	7,066,450	3,654,631	5,271,577
<u>\$ 18,053,822</u>	<u>\$ 20,541,850</u>	<u>\$ 20,541,850</u>	<u>\$ 21,659,359</u>	<u>\$ 21,675,528</u>	<u>\$ 23,001,043</u>
\$ 33,830,788	\$ 29,366,022	\$ 29,366,022	\$ 28,486,958	\$ 35,160,242	\$ 35,349,094
5,438,453	3,416,119	5,555,525	6,690,500	4,069,297	5,851,912
2,631,977	8,253,142	8,253,142	9,310,450	5,559,762	7,665,503
<u>\$ 41,901,218</u>	<u>\$ 41,035,283</u>	<u>\$ 43,174,689</u>	<u>\$ 44,487,908</u>	<u>\$ 44,789,301</u>	<u>\$ 48,866,509</u>

City of Heath, Texas

CHANGES IN NET POSITION

Last Ten Fiscal Years

(accrual basis of accounting)

	2006	2007	2008	2009
Expenses				
Governmental activities:				
General government	\$ 1,101,712	\$ 1,152,697	\$ 1,173,682	\$ 1,045,672
Public safety	1,705,415	2,141,045	2,335,528	2,335,201
Public works	1,508,117	2,206,035	2,006,940	1,890,939
Culture and recreation	190,621	129,028	147,672	135,669
Economic development and	227	-	13,183	355,286
Economic opportunity	127	5,000	6,003	8,119
Interest and fiscal charges	276,431	272,184	627,347	677,118
Total governmental activities	<u>4,782,650</u>	<u>5,905,989</u>	<u>6,310,355</u>	<u>6,448,004</u>
Business-type activities:				
Water and sewer	3,264,137	3,386,289	4,129,623	4,288,635
Solid waste	-	408,575	444,502	435,416
Total business-type activities	<u>3,264,137</u>	<u>3,794,864</u>	<u>4,574,125</u>	<u>4,724,051</u>
Total primary government	<u>\$ 8,046,787</u>	<u>\$ 9,700,853</u>	<u>\$ 10,884,480</u>	<u>\$ 11,172,055</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$ 21,512	\$ 25,820	\$ 17,374	\$ 27,772
Public safety	225,418	273,430	275,953	323,136
Public works	303,319	311,495	370,217	126,626
Culture and recreation	4,463	6,515	5,445	17,124
Operating grants and contributions	13,926	222,927	62,087	30,949
Capital grants and contributions	8,687,378	41,938	963,491	2,013,667
Total governmental activities	<u>9,256,016</u>	<u>882,125</u>	<u>1,694,567</u>	<u>2,539,274</u>
Business-type activities:				
Charges for services:				
Water and sewer	3,288,982	2,283,472	3,153,315	3,836,944
Solid waste	-	407,953	494,465	510,248
Operating grants and contributions	-	-	-	-
Capital grants and contributions	3,746,562	646,231	881,966	974,396
Total business-type activities	<u>7,035,544</u>	<u>3,337,656</u>	<u>4,529,746</u>	<u>5,321,588</u>
Total primary government	<u>\$ 16,291,560</u>	<u>\$ 4,219,781</u>	<u>\$ 6,224,313</u>	<u>\$ 7,860,862</u>
Net (Expense)/Revenue				
Governmental activities	\$ 4,473,366	\$ (5,023,864)	\$ (4,615,788)	\$ (3,908,730)
Business-type activities	3,771,407	(457,208)	(44,379)	597,537
Total primary government	<u>\$ 8,244,773</u>	<u>\$ (5,481,072)</u>	<u>\$ (4,660,167)</u>	<u>\$ (3,311,193)</u>

2010	2011	2012	2013	2014	2015
\$ 928,201	\$ 972,529	\$ 972,108	\$ 1,130,893	\$ 1,037,325	\$ 1,188,977
2,320,231	2,892,734	2,563,884	2,594,015	2,924,001	3,024,089
2,081,969	1,603,281	2,400,169	2,010,404	2,064,771	2,336,387
229,222	243,985	244,264	232,883	250,703	392,967
5,146	6,620	74,363	45,149	121,733	145,785
4,258	3,809	9,876	46,407	29,413	172,992
522,894	518,723	440,348	487,552	697,067	887,976
<u>6,091,921</u>	<u>6,241,681</u>	<u>6,705,012</u>	<u>6,547,303</u>	<u>7,125,013</u>	<u>8,149,173</u>
4,207,851	4,486,947	4,636,550	4,696,947	4,779,334	5,300,822
459,086	457,809	455,154	459,156	477,945	489,701
<u>4,666,937</u>	<u>4,944,756</u>	<u>5,091,704</u>	<u>5,156,103</u>	<u>5,257,279</u>	<u>5,790,523</u>
<u>\$ 10,758,858</u>	<u>\$ 11,186,437</u>	<u>\$ 11,796,716</u>	<u>\$ 11,703,406</u>	<u>\$ 12,382,292</u>	<u>\$ 13,939,696</u>
\$ 61,063	\$ 70,017	\$ 35,030	\$ 28,000	\$ 45,070	\$ 39,260
309,515	325,953	339,991	374,837	437,582	484,400
154,797	122,527	20,572	33,163	60,684	84,226
14,280	16,630	7,857	9,830	6,190	5,215
20,865	32,744	223,971	205,204	206,313	239,646
1,000	262,258	-	801,848	1,004,919	2,721,107
<u>561,520</u>	<u>830,129</u>	<u>627,421</u>	<u>1,452,882</u>	<u>1,760,758</u>	<u>3,573,854</u>
4,432,549	5,657,062	5,263,550	5,445,750	4,973,658	5,759,498
557,623	559,007	541,434	540,592	541,124	549,198
-	-	503,138	-	-	-
94,075	-	-	317,567	-	1,030,273
<u>5,084,247</u>	<u>6,216,069</u>	<u>6,308,122</u>	<u>6,303,909</u>	<u>5,514,782</u>	<u>7,338,969</u>
<u>\$ 5,645,767</u>	<u>\$ 7,046,198</u>	<u>\$ 6,935,543</u>	<u>\$ 7,756,791</u>	<u>\$ 7,275,540</u>	<u>\$ 10,912,823</u>
\$ (5,530,401)	\$ (5,411,552)	\$ (6,077,591)	\$ (5,094,421)	\$ (5,364,255)	\$ (4,575,319)
417,310	1,271,313	1,216,418	1,147,806	257,503	1,548,446
<u>\$ (5,113,091)</u>	<u>\$ (4,140,239)</u>	<u>\$ (4,861,173)</u>	<u>\$ (3,946,615)</u>	<u>\$ (5,106,752)</u>	<u>\$ (3,026,873)</u>

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General Revenues				
Governmental activities:				
Taxes:				
Property taxes	\$ 2,750,401	\$ 3,163,746	\$ 3,514,859	\$ 3,726,270
Sales and other taxes	651,212	678,808	731,427	710,195
Franchise taxes	508,640	259,663	387,143	444,648
Alcoholic beverage taxes	3,147	2,798	3,311	3,609
Investment earnings	248,428	278,568	394,001	112,500
Other income	14,984	27,552	45,596	42,642
Gain (loss) on sale of assets	1,141	-	-	-
Special items	-	-	-	-
Transfers, net	-	-	-	85,494
Total governmental activities	<u>4,177,953</u>	<u>4,411,135</u>	<u>5,076,337</u>	<u>5,125,358</u>
Business-type activities:				
Investment earnings	39,961	110,018	157,476	51,708
Other Income	42,220	4,700	9,668	2,730
Gain (loss) on sale of assets	-	-	7,060	-
Special items	-	-	-	-
Transfers, net	-	-	-	(85,494)
Total business-type activities	<u>82,181</u>	<u>114,718</u>	<u>174,204</u>	<u>(31,056)</u>
Total primary government	<u>\$ 4,260,134</u>	<u>\$ 4,525,853</u>	<u>\$ 5,250,541</u>	<u>\$ 5,094,302</u>
Change in Net Position				
Governmental activities	\$ 8,651,319	\$ (612,729)	\$ 460,549	\$ 1,216,628
Business-type activities	3,853,588	(342,490)	129,825	566,481
Total primary government	<u>\$ 12,504,907</u>	<u>\$ (955,219)</u>	<u>\$ 590,374</u>	<u>\$ 1,783,109</u>

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
\$	3,797,959	\$ 3,762,727	\$ 3,764,144	\$ 3,770,807	\$ 3,894,536	\$ 5,239,879
	759,577	739,093	752,800	866,055	994,460	1,056,647
	406,495	483,349	570,755	496,413	525,783	561,488
	3,459	3,192	3,098	4,116	5,745	6,504
	35,500	37,129	11,577	10,280	8,187	8,850
	19,839	6,791	145,622	102,460	180,712	227,744
	2,461	58,354	-	-	-	-
	-	1,601,389	-	-	-	-
	47,200	(1,659,610)	40,000	40,000	204,000	225,900
	<u>5,072,490</u>	<u>5,032,414</u>	<u>5,287,996</u>	<u>5,290,131</u>	<u>5,813,423</u>	<u>7,327,012</u>
	16,259	33,578	7,677	9,703	7,037	2,969
	2,223	9,166	-	-	-	-
	1,381	-	-	-	-	-
	-	(1,706,810)	-	-	-	-
	(47,200)	1,659,610	(40,000)	(40,000)	(204,000)	(225,900)
	<u>(27,337)</u>	<u>(4,456)</u>	<u>(32,323)</u>	<u>(30,297)</u>	<u>(196,963)</u>	<u>(222,931)</u>
\$	<u>5,045,153</u>	<u>5,027,958</u>	<u>5,255,673</u>	<u>5,259,834</u>	<u>5,616,460</u>	<u>7,104,081</u>
\$	(457,911)	\$ (379,138)	\$ (789,595)	\$ 195,710	\$ 449,168	\$ 2,751,693
	389,973	1,266,857	1,184,095	1,117,509	60,540	1,325,515
\$	<u>(67,938)</u>	<u>887,719</u>	<u>394,500</u>	<u>1,313,219</u>	<u>509,708</u>	<u>4,077,208</u>

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General fund:				
Reserved	\$ 7,630	\$ 9,816	\$ 230,000	\$ 9,132
Nonspendable	-	-	-	-
Committed	-	-	-	-
Unreserved	2,715,760	2,630,293	2,453,094	1,760,597
Unassigned	-	-	-	-
Total general fund	<u>\$ 2,723,390</u>	<u>\$ 2,640,109</u>	<u>\$ 2,683,094</u>	<u>\$ 1,769,729</u>
All other governmental funds:				
Reserved	\$ 1,101,406	\$ 1,210,352	\$ 919,619	\$ 1,492,263
Restricted	-	-	-	-
Unreserved, reported in:				
Special revenue funds	992,696	1,333,917	1,725,133	1,653,512
Capital projects funds	11,033	(1,272,997)	6,194,274	4,359,876
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total all other governmental funds	<u>\$ 2,105,135</u>	<u>\$ 1,271,272</u>	<u>\$ 8,839,026</u>	<u>\$ 7,505,651</u>

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

<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
\$ 12,007	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	6,720	13,410	19,013	26,332
-	11,000	11,000	11,000	11,000	11,000
2,038,657	-	-	-	-	-
-	2,482,201	2,380,554	2,545,423	2,534,965	2,664,300
<u>\$ 2,050,664</u>	<u>\$ 2,493,201</u>	<u>\$ 2,398,274</u>	<u>\$ 2,569,833</u>	<u>\$ 2,564,978</u>	<u>\$ 2,701,632</u>
\$ 1,224,566	\$ -	\$ -	\$ -	\$ -	\$ -
-	5,491,603	5,555,525	6,690,500	19,981,226	19,366,246
-	-	-	-	-	-
1,948,523	-	-	-	-	-
4,077,618	-	-	-	-	-
-	92,758	104,849	107,915	131,558	114,434
-	-	-	-	-	-
<u>\$ 7,250,707</u>	<u>\$ 5,584,361</u>	<u>\$ 5,660,374</u>	<u>\$ 6,798,415</u>	<u>\$ 20,112,784</u>	<u>\$ 19,480,680</u>

City of Heath, Texas

CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS

Last Ten Years

(modified accrual basis of accounting)

	2006	2007	2008	2009
Revenues				
Taxes	\$ 3,863,094	\$ 4,194,544	\$ 4,665,869	\$ 4,847,760
Licenses and permits	287,814	242,760	376,404	129,832
Intergovernmental	119,913	183,249	237,935	735,123
Charges for services	49,073	111,828	25,776	69,779
Fines and forfeitures	97,706	63,711	47,842	56,907
Special assessments	112,192	42,455	15,499	25,267
Investment income	276,374	288,311	397,653	121,090
Other revenue	183,052	295,332	220,193	637,078
Total Revenues	4,989,218	5,422,190	5,987,171	6,622,836
Expenditures				
Administration	1,074,008	1,110,994	1,112,099	965,693
Highways and streets	273,730	753,069	385,222	257,256
Parks	149,324	241,029	174,385	78,711
Engineering and building inspection	300,154	330,352	464,099	404,487
Municipal court	112,883	98,849	82,268	89,384
Public safety	1,674,692	1,884,376	2,140,221	2,544,061
Economic development	227	-	12,984	355,286
Economic opportunity	127	5,000	6,202	8,119
Debt service				
Principal	277,783	355,060	577,938	608,947
Interest	271,250	271,074	704,191	712,808
Bond issuance costs	-	-	102,771	-
Capital outlay	559,245	1,289,531	1,038,444	3,151,084
Total Expenditures	4,693,423	6,339,334	6,800,824	9,175,836
Revenues over (under) expenditures	295,795	(917,144)	(813,653)	(2,553,000)
Other Financing Sources (Uses)				
Transfers in	-	-	263,278	1,379,045
Transfers (out)	-	-	(263,278)	(1,370,138)
Sale of capital assets	-	-	-	-
Discount on bonds issued	-	-	(130,093)	-
Premium on bonds issued	-	-	162,116	-
Debt issued	-	-	8,392,369	297,353
Payment to refunded bond escrow agent	-	-	-	-
Total other financing sources	-	-	8,424,392	306,260
Special items	-	-	-	-
Net Change in Fund Balances	\$ 295,795	\$ (917,144)	\$ 7,610,739	\$ (2,246,740)
Ratio of total debt service expenditures to noncapital expenditures	13%	12%	22%	22%

	2010	2011	2012	2013	2014	2015
\$	5,015,072	\$ 4,946,164	\$ 4,997,248	\$ 5,146,045	\$ 5,441,572	\$ 6,873,071
	160,568	133,627	247,002	293,488	394,519	401,364
	240,290	246,703	223,971	205,204	1,211,232	239,646
	94,694	98,495	105,415	103,513	117,496	170,445
	43,467	52,107	39,016	48,829	37,511	41,292
	19,219	13,611	11,284	15,504	20,651	14,641
	50,204	48,356	11,577	10,280	8,187	8,850
	43,171	300,225	140,650	92,316	189,889	1,224,304
	<u>5,666,685</u>	<u>5,839,288</u>	<u>5,776,163</u>	<u>5,915,179</u>	<u>7,421,057</u>	<u>8,973,613</u>
	868,210	925,233	940,172	956,640	1,030,082	1,257,621
	592,398	310,584	307,928	361,169	410,568	653,586
	133,050	189,515	133,073	133,338	150,219	246,842
	429,663	354,838	399,720	495,373	409,396	427,916
	84,535	86,400	61,577	51,263	50,923	54,875
	2,215,536	2,648,686	2,275,336	2,415,348	2,643,877	2,813,878
	5,146	6,620	67,345	44,850	121,007	133,823
	4,258	3,809	2,857	46,108	28,687	161,030
	617,745	533,864	789,852	606,244	822,747	878,533
	739,814	798,546	428,911	396,836	430,307	1,081,188
	-	32,230	-	25,017	87,555	-
	-	-	500,582	806,680	3,772,108	1,985,671
	<u>5,690,355</u>	<u>5,890,325</u>	<u>5,907,353</u>	<u>6,338,866</u>	<u>9,957,476</u>	<u>9,694,963</u>
	(23,670)	(51,037)	(131,190)	(423,687)	(2,536,419)	(721,350)
	334,052	93,083	40,000	40,000	1,339,657	225,900
	(286,852)	(1,752,693)	-	-	-	-
	2,461	58,883	-	-	-	-
	-	(15,723)	-	-	-	-
	-	163,962	-	89,116	301,276	-
	-	2,536,500	-	3,254,037	14,205,000	-
	-	(2,343,654)	-	(1,649,866)	-	-
	<u>49,661</u>	<u>(1,259,642)</u>	<u>40,000</u>	<u>1,733,287</u>	<u>15,845,933</u>	<u>225,900</u>
	-	-	(105,421)	-	-	-
\$	<u>25,991</u>	<u>\$ (1,310,679)</u>	<u>\$ (196,611)</u>	<u>\$ 1,309,600</u>	<u>\$ 13,309,514</u>	<u>\$ (495,450)</u>
	24%	23%	23%	18%	20%	25%

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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
2006	\$ 799,418,375	32,284,758	41,044,841	790,658,292	0.34330
2007	909,186,855	44,590,348	48,309,901	905,467,302	0.34330
2008	1,038,154,247	17,273,990	55,003,800	1,000,424,437	0.34330
2009	1,114,604,499	19,412,750	62,190,500	1,071,826,749	0.34330
2010	1,144,155,185	22,176,080	64,807,080	1,101,524,185	0.34330
2011	1,174,590,968	18,462,161	103,811,640	1,089,241,489	0.34330
2012	1,175,437,703	18,660,011	106,808,230	1,087,289,484	0.34330
2013	1,174,084,201	18,660,100	107,786,000	1,084,958,301	0.34330
2014	1,221,658,581	19,628,320	112,938,456	1,128,348,445	0.42660
2015	1,303,855,443	20,525,510	118,167,490	1,206,213,463	0.42660

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

	2006	2007	2008	2009
Direct Rates:				
City of Heath - Operating	0.27280	0.27860	0.27860	0.27860
City of Heath - Debt Service	0.07050	0.06470	0.06470	0.06470
Total Direct Rate	0.34330	0.34330	0.34330	0.34330
Overlapping Rates:				
Rockwall Independent School District	1.71000	1.47000	1.47000	1.47000
Rockwall County	0.35070	0.35070	0.35000	0.37500
Kaufman County	0.53770	0.56220	0.56150	0.55650
Total Direct and Overlapping Rates	2.9417	2.7262	2.7248	2.7448

Tax rates per \$100 of assessed valuation.

Source: Rockwall Central Appraisal Districts and City records.

2010	2011	2012	2013	2014	2015
0.27860	0.27860	0.26360	0.26360	0.27360	0.27360
0.06470	0.06470	0.07970	0.07970	0.15300	0.15300
<u>0.34330</u>	<u>0.34330</u>	<u>0.34330</u>	<u>0.34330</u>	<u>0.42660</u>	<u>0.42660</u>
1.47000	1.47000	1.47000	1.46000	1.44000	1.44000
0.37500	0.38640	0.38640	0.39590	0.39590	0.39590
0.55650	0.55650	0.55650	0.55650	0.50220	0.48950
<u>2.7448</u>	<u>2.7562</u>	<u>2.7562</u>	<u>2.7557</u>	<u>2.7647</u>	<u>2.7520</u>

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

Property Tax Payer	2015			2006		
	Taxable Assessed Value	Rank	% of Taxable Assessed Value	Taxable Assessed Value	Rank	% of Taxable Assessed Value
SNH Medical Office Properties	\$ 8,143,800	1	0.749%	\$ -	n/a	-
Oncor Electric Delivery Co	6,078,490	2	0.559%	4,450,950	3	0.410%
BC Golf LTD	3,467,570	3	0.319%	3,319,720	4	0.306%
Seales, Gregory P & Kelly S	3,049,120	4	0.280%	-	n/a	-
Rosenburg, James M	2,616,760	5	0.241%	-	n/a	-
Kirwan Revocable Living Trust	2,525,430	6	0.233%	-	n/a	-
Corona Resources	2,478,920	7	0.228%	1,945,640	7	0.246%
Paolucci, Raymond J	2,454,000	8	0.226%	-	n/a	-
Knowlton, Larry & Tricia	2,309,660	9	0.212%	-	n/a	-
Kelldorf, Mark	2,127,210	10	0.196%	2,144,025	5	0.198%
Whittle Development Inc	-	n/a	-	6,473,300	1	0.597%
Rainier Baylor Medical	-	-	-	4,800,600	2	0.443%
Linehan, Stephen D & Rhonda	-	n/a	-	1,961,760	6	0.181%
Lighthouse Private School	-	n/a	-	1,852,810	8	0.171%
Rockwall Heat Surgery Center LLP	-	n/a	-	1,772,890	9	0.163%
Rogers, Frank M & Judy J	-	n/a	-	1,711,520	10	0.158%
Total	\$ 35,250,960		3.24%	\$ 30,433,215		2.87%
Total Assessed Valuation	\$ 1,206,213,463		100%	\$ 790,658,292		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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Tax levy	\$ 2,728,576	\$ 3,113,532	\$ 3,436,291	\$ 3,687,280
Current tax collected	\$ 2,688,666	\$ 3,021,159	\$ 3,373,108	\$ 3,603,302
Percent of current tax collections	98.54%	97.03%	98.16%	97.72%
Delinquent tax collections	\$ 39,095	\$ 88,981	\$ 63,183	\$ 57,594
Total tax collections	\$ 2,727,761	\$ 3,110,140	\$ 3,436,291	\$ 3,660,896
Total collections as a percentage of levy	100%	100%	100%	99%

Source: Rockwall Central Appraisal District

<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
\$ 3,773,230	\$ 3,738,632	\$ 3,732,665	\$ 3,724,689	\$ 3,886,493	\$ 5,144,086
\$ 3,709,041	\$ 3,673,075	\$ 3,684,359	\$ 3,684,359	\$ 3,844,606	\$ 5,125,661
98.30%	98.25%	98.7%	98.9%	98.9%	99.6%
\$ 31,968	\$ 48,871	\$ 35,178	\$ 20,445	\$ 28,411	\$ -
\$ 3,741,009	\$ 3,721,946	\$ 3,719,537	\$ 3,704,804	\$ 3,873,017	\$ 5,125,661
99.1%	99.6%	99.6%	99.5%	99.7%	99.6%

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Governmental activities:				
General Obligation Bonds	\$ 2,340,000	\$ 2,175,000	\$ 2,005,000	\$ 1,830,000
Certificates of Obligation	4,142,500	4,004,750	11,915,285	11,457,516
Capital Leases	-	-	-	-
Notes Payable	-	-	-	271,534
Business-type activities:				
General Obligation Bonds	973,236	939,906	904,910	868,246
Certificates of Obligation	7,532,500	7,221,250	11,754,715	11,252,484
Total primary government	<u>\$ 14,988,236</u>	<u>14,340,906</u>	<u>26,579,910</u>	<u>25,679,780</u>
Percentage of personal income (1)	4.75%	4.42%	7.57%	7.04%
Per capita (1)	\$ 1,207	\$ 1,121	\$ 2,156	\$ 2,094

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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
\$	1,625,000	\$ 2,955,000	\$ 2,530,000	\$ 3,915,000	\$ 3,490,000	\$ 3,060,000
	10,987,884	7,176,457	6,888,508	6,652,956	21,693,106	21,353,734
	-	251,263	202,684	154,627	104,868	53,346
	244,052	216,607	188,258	159,057	128,017	96,977
	829,917	789,921	748,333	705,000	3,955,000	3,625,000
	10,732,116	11,658,542	10,986,492	12,537,044	10,921,894	10,441,266
	<u>24,418,969</u>	<u>23,047,790</u>	<u>21,544,275</u>	<u>24,123,684</u>	<u>40,292,885</u>	<u>38,630,323</u>
	6.46%	5.25%	4.41%	4.76%	8.92%	7.97%
\$	1,978	\$ 1,564	\$ 1,377	\$ 1,457	\$ 3,551	\$ 3,435

City of Heath, Texas

RATIO OF GENERAL BONDED DEBT OUTSTANDING Last Ten Years

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
NET TAXABLE ASSESSED VALUE				
All property	\$ 790,658,292	\$ 905,467,302	\$ 1,000,424,437	\$ 1,071,826,749
NET BONDED DEBT (1)				
Gross bonded debt	7,455,736	7,119,656	14,825,195	14,155,762
Less debt service funds	-	-	-	-
Net Bonded Debt	<u><u>\$ 7,455,736</u></u>	<u><u>\$ 7,119,656</u></u>	<u><u>\$ 14,825,195</u></u>	<u><u>\$ 14,155,762</u></u>
RATIO OF NET BONDED DEBT TO ASSESSED VALUE	0.94%	0.79%	1.48%	1.32%
POPULATION	6,177	6,350	6,875	6,890
NET BONDED DEBT PER CAPITA	\$ 1,207	\$ 1,121	\$ 2,156	\$ 2,055

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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
\$ 1,101,524,185	\$ 1,089,241,489	\$ 1,087,289,484	\$ 1,084,958,301	\$ 1,128,348,445	\$ 1,206,213,463
13,442,801	10,921,378	10,166,841	11,272,956	29,138,106	28,038,734
-	-	-	-	-	-
<u>\$ 13,442,801</u>	<u>\$ 10,921,378</u>	<u>\$ 10,166,841</u>	<u>\$ 11,272,956</u>	<u>\$ 29,138,106</u>	<u>\$ 28,038,734</u>
1.22%	1.00%	0.94%	1.04%	2.58%	2.32%
6,921	7,284	7,667	7,953	8,271	8,206
\$ 1,942	\$ 1,499	\$ 1,326	\$ 1,417	\$ 3,523	\$ 3,417

City of Heath, Texas

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

September 30, 2015

Governmental Unit	Net Bonded Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Rockwall Independent School District	\$ 326,241,461	15.55%	\$ 50,731,852
Rockwall County	100,450,000	16.88%	16,958,510
Kaufman County	44,571,953	0.00%	1,327
Subtotal, overlapping debt			67,691,689
City direct debt			24,564,057
Total direct and overlapping debt			\$ 92,255,746

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
2006	6,177	315,329,673	51,049	3,116	4.5%
2007	6,350	324,161,150	51,049	3,696	4.0%
2008	6,875	350,961,875	51,049	4,163	4.0%
2009	6,890	364,997,750	52,975	4,271	4.8%
2010	6,921	377,762,022	54,582	4,313	6.7%
2011	7,284	438,766,308	60,237	4,235	7.2%
2012	7,667	488,449,236	63,708	4,294	5.5%
2013	7,953	506,669,724	63,708	4,283	6.1%
2014	8,271	451,571,787	54,597	4,539	5.5%
2015	8,206	484,736,626	59,071	4,650	3.9%

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

<u>Employer</u>	<u>2015</u>			<u>2006</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total County Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total County Employment</u>
Rockwall ISD	1,365	1	6.70%	1,601	1	8.71%
Lake Pointe Medical Center	700	2	3.43%	n/a	n/a	n/a
Texas Health Presbyterian Hospi	592	3	2.90%	n/a	n/a	n/a
Wal-Mart Superstore	450	4	2.21%	450	3	2.90%
Texas Star Express Transport	300	5	2.21%	484	2	2.37%
County of Rockwall	253	6	1.24%	235	4	1.61%
City of Rockwall	205	7	1.01%	227	5	1.29%
Special Products & Manufacturir	205	8	1.01%	205	6	1.29%
Target	200	9	0.98%	170	7	1.10%
Rockwall Nursing Home	160	10	0.79%	160	8	0.97%
Kohl's Department Store	-	n/a	0.69%	140	9	0.69%
Home Depot	-	n/a	-	130	10	2.58%
Total	4,430		23%	3,802		24%

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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
General government and administration	6	6.5	7.5	7.5	5.5	5.5	5.5	6	5	5
Public safety	14	16	20	21	19	19	19	19	19	22
Public works	5	5	6	6	6	6	4	5	5	5
Culture and recreation	1	1	1	1	1	1	1	1	1	1
Water and sewer	10	11	11	11	9	9	9	10	9	9
Total	<u>37</u>	<u>40</u>	<u>46</u>	<u>47</u>	<u>40</u>	<u>41</u>	<u>39</u>	<u>41</u>	<u>39</u>	<u>42</u>

Sources: Various City departments.

City of Heath, Texas

OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Ten Fiscal Years

Function/Program	2006	2007	2008	2009
General government				
Building permits issued	106	142	99	40
Building inspections conducted	905	597	698	800
Public safety				
Police				
Physical arrests	80	84	53	58
Burglary	23	23	38	14
Robbery	1	-	-	-
Theft	82	82	54	48
Traffic violations	112	170	189	147
Fire				
Emergency responses	151	253	316	149
Fires extinguished	6	9	9	7
Inspections	24	30	48	52
Public works				
Streets (feet)	57,200	6,936	103,400	88,000
Potholes repaired	750	770	800	800
Water				
New connections	198	171	174	126
Average annual consumption (thousands of gallons)	575	402	460	460
Wastewater				
Average daily sewage treatment (thousands of gallons)	-	317	317	310

Sources: Various City departments.

<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
35	31	47	64	71	79
721	721	921	911	1224	1352
43	22	168	137	71	58
32	16	24	16	5	8
-	-	1	-	-	-
50	31	82	86	35	38
185	303	330	331	309	242
210	225	173	169	143	145
10	25	11	5	3	7
60	60	52	69	4	2
270,000	-	-	-	1,370	2,100
800	800	800	100	200	125
90	94	103	115	100	92
440	491	487	474	371	445
390	312	377	255	284	411

City of Heath, Texas

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

Last Ten Years

Function/Program	2006	2007	2008	2009
Public safety				
Police stations	1	1	1	1
Police patrol units	12	12	12	12
Fire engines	3	3	3	3
Public works				
Streets (miles)	146	146	146	175
Cultural and recreational				
Acreage	71	71	71	71
Playgrounds (1)	1	1	1	2
Baseball/Softball fields	1	1	1	1
Soccer/Football fields	3	3	3	3
Community centers	1	1	1	1
Water and sewer				
Water mains (miles)	50	50	50	52
Fire hydrants	143	163	183	199
Wastewater				
Sanitary sewers (miles)	61	61	61	61
Storm sewers (miles)	12	12	12	12

Sources: Various City departments.

(1) Does not include HOA playgrounds.

<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
1	1	1	1	1	1
12	12	12	12	12	12
3	3	3	3	3	3
175	175	175	175	176	176
94	94	94	94	94	94
2	2	2	2	2	2
1	1	1	1	1	1
3	3	3	3	3	3
1	1	1	1	1	1
52	54	54	55	55	55
199	223	223	229	229	254
61	61	61	62	62	64
12	14	14	14	14	15

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