



City of Heath, Texas
Comprehensive Annual Financial Report
For the year Ended September 30, 2016
Prepared by the Finance Department



City of Heath, Texas

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September 30, 2016

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INTRODUCTORY SECTION



March 20, 2017

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, 2016. 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, 2016.

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, 2016. 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. North Texas Municipal Water District (NTMWD) provides water to the City of Rockwall who, in turn, provides water to the City of Heath. Sewage treatment is provided by NTMWD and Progressive Waste provides sanitation collection.

ECONOMIC CONDITION AND OUTLOOK

According to the Federal Reserve Bank of Dallas’ December 2016 Regional Economic Update, “The Texas economy continues to expand at a moderate pace, with payroll employment growing at a 2.1 percent annualized pace in the second half of the year versus the lackluster 0.8 percent rate in the first half. October job growth was subdued, but September data were revised up. The Texas Business Outlook Surveys (TBOS) point to stronger growth in both manufacturing and services in November. The Texas Employment Forecast suggests that job growth for the year will be 1.5 percent (December/December) and that growth next year will be close to the state’s long-term trend rate of 2.1 percent. The energy sector continues to stabilize as weekly West Texas Intermediate (WTI) crude oil prices have remained above \$40 per barrel since mid-April. Mining employment continued to decline in the third quarter but at a much more subdued pace than in the first half of the year. Manufacturing activity has also improved, with the Dallas Fed’s Texas Manufacturing Outlook Survey (TMOS) production index in positive territory for the fifth consecutive month in November. However, the strengthening of the Texas trade-weighted value of the dollar continues to be a headwind to recovery for Texas manufacturers.”

The City’s Fiscal Year 2016 Assessed Value increased \$59M, or 4.92%, over the Fiscal Year 2015 Assessed Value. This is the third consecutive year Assessed Values increased over the prior year. The City realized 47% growth in both the number and value of residential permits issued during 2016. Sales Tax Revenue increased \$47,000 in Fiscal Year 2016 making this the fifth consecutive year revenue has grown. The increase in sales tax was spread across several economic categories with Service and Retail showing the most growth. Franchise revenue was down \$8,114 or 1.45% compared to the prior year. Despite this slight decrease the current year revenue exceeds the rolling five year average of \$509,622. All of these indicators point to growth in the City of Heath.

Economic Indicators					
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Assessed Value	\$1,087,289,484	\$1,084,966,301	\$1,132,098,307	\$1,206,213,463	\$1,265,527,171
Residential Permits	47	64	71	79	116
Sales Tax Revenue	\$376,400	\$433,029	\$497,230	\$528,323	\$575,556
Franchise Fees	\$498,209	\$447,833	\$525,783	\$561,488	\$553,374

Projections based on future development played a key role during the 2017 budget process. The Fiscal Year 2017 Budget assumed the cost of the City’s immediate needs exceeded revenues therefore excess fund balance was used to balance the budget. Excess Fund Balance is defined as available funds above the target Fund Balance of 30% of budgeted expenditures. Water rates were increased to offset the increase in the cost of purchased water. Rates for sewer treatment remained unchanged and sanitation rates will be adjusted to reflect the new contract effective February 1, 2017. Healthy fund balances were maintained in both the General Fund and the Utility Fund.

The City completed the following capital improvement projects during Fiscal Year 2016: Phase II of the City Wide Street Rehab Program and the 24” Pipeline from Wallace to Kings Pass. Other projects started

during the year include Rabbit Ridge/Horizon Road Paving, McDonald Road Paving; and Heath Road Sewer Line. 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, 2015. This was the seventh 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**

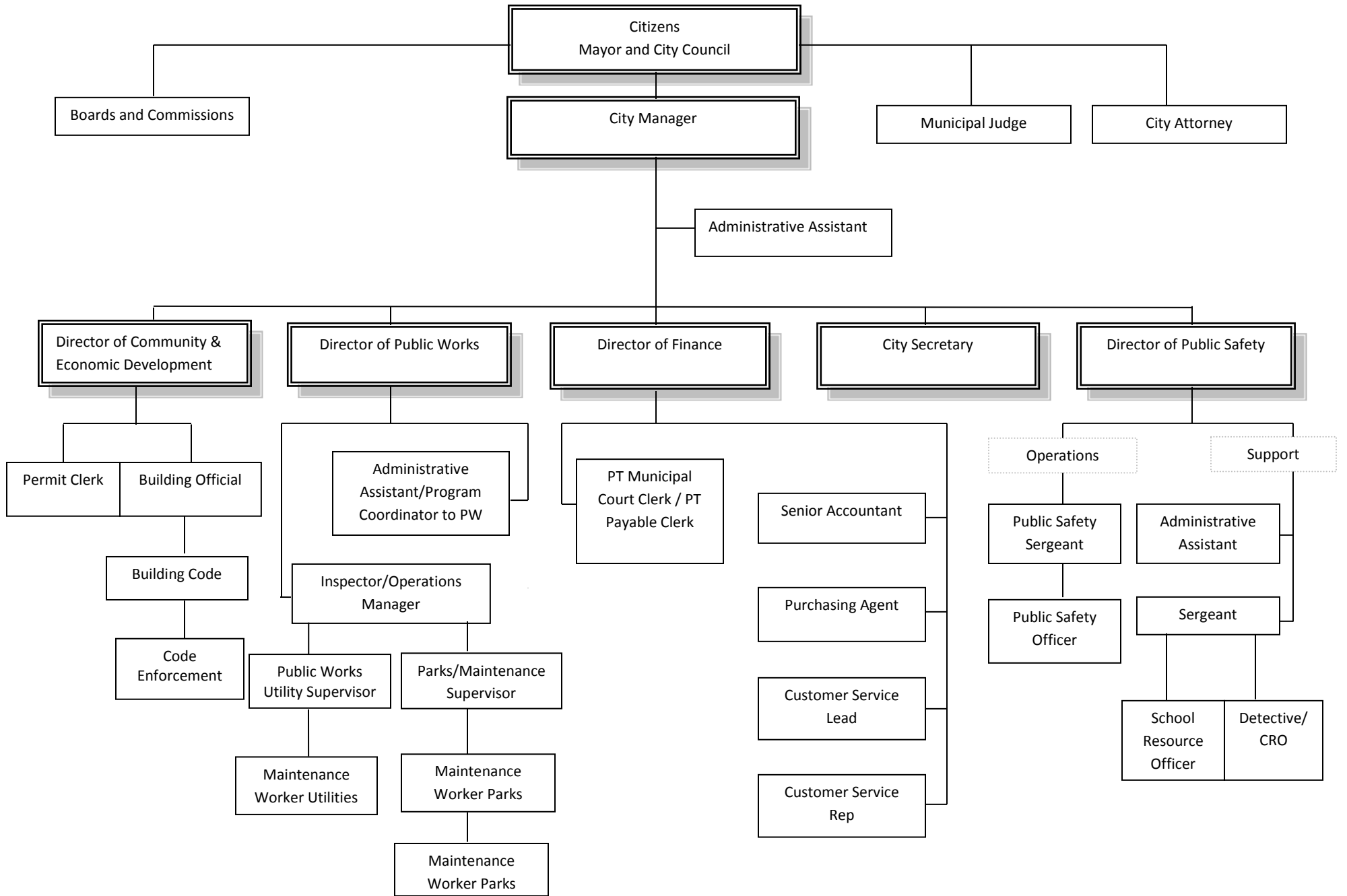
Presented to

**City of Heath
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2015

Executive Director/CEO



City of Heath, Texas

PRINCIPAL OFFICIALS

SEPTEMBER 30, 2016

CITY COUNCIL

Brian Berry, Mayor

Barry Brooks, Mayor Pro Tem

Kevin Lamberth, Council Member, Place 1

Kelson Elam, Council Member, Place 5

John Main, 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

Norma Duncan, City Secretary

David Herbert, Public Works

Terry Garrett, Department of Public Safety

Robert LaCroix, 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, 2016, 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, 2016 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 items listed in the table of contents as other supplementary information 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
March 20, 2017

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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, 2016

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, 2016. 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, 2016 by \$60,669,749. Of this amount, \$39,960,606 (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 \$11,803,240. 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 \$20,151,645 at September 30, 2016, a decrease of \$2,030,667 from the prior fiscal year; this includes a decrease of \$2,177,883 in the capital improvement fund, a decrease of \$251,509 in the debt service fund, and an increase of \$211,624 in the general fund.
- At the end of the fiscal year, unassigned fund balance for the general fund was \$2,886,117 or 50% of total general fund expenditures.
- The City's outstanding bonds payable demonstrated a net decrease of \$1,720,000. The total bonds payable at the close of the fiscal year was \$36,760,000 including self-supporting debt of the proprietary fund which was \$13,418,312.

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, 2016

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. The government-wide financial statements also include the Club Municipal Management District (Club MMD) which is governed by a board of directors appointed, at will, by the City Council. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

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.

City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2016

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

The City 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.

City of Heath, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2016

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

Component Units

The City maintains the accounting and financial statements for two component units. The Heath Economic Development Corporation and Heath Municipal Benefits Corporation are reported as blended component units and are nonmajor funds. The Club Municipal Management District is a discretely presented component unit, in which the City does not maintain financial statements. The City of Heath Municipal Management District is governed by a board of directors appointed, at will, by the City Council.

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 \$60,669,749 as of September 30, 2016, in the primary government.

The largest portion of the City's net position, \$39,960,606, 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, 2016

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2016			2015		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities		Activities	Activities	
Current and						
other assets	\$ 22,334,332	\$ 9,297,370	\$ 31,631,702	\$ 23,209,029	\$ 8,999,306	\$ 32,208,335
Capital assets, net	37,517,204	33,085,606	70,602,810	29,341,492	29,717,380	59,058,872
Total Assets	59,851,536	42,382,976	102,234,512	52,550,521	38,716,686	91,267,207
Total						
Deferred Outflows	1,036,502	206,982	1,243,484	286,653	189,974	476,627
Other liabilities	3,593,596	1,787,410	5,381,006	2,488,914	1,584,337	4,073,251
Long-term liabilities	23,969,609	13,469,179	37,438,788	24,448,085	14,311,886	38,759,971
Total Liabilities	27,563,205	15,256,589	42,819,794	26,936,999	15,896,223	42,833,222
Total						
Deferred Inflows	-	-	-	34,709	9,394	44,103
Net Position:						
Net investment						
in capital assets	20,842,321	19,118,285	39,960,606	17,619,628	17,729,466	35,349,094
Restricted	9,097,237	-	9,097,237	5,851,912	-	5,851,912
Unrestricted	3,385,275	8,215,084	11,600,359	2,393,926	5,271,577	7,665,503
Total Net Position	\$ 33,324,833	\$ 27,333,369	\$ 60,658,202	\$ 25,865,466	\$ 23,001,043	\$ 48,866,509

Total assets for the City increased by \$10,967,305. This increase is mostly attributed to capital contributions by development within city limits. There was a negligible change in current assets and in the City's liabilities.

City of Heath, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

Statement of Activities:

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

	<u>For the Year Ended September 30, 2016</u>			<u>For the Year Ended September 30, 2015</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
			<u>Primary</u>			<u>Primary</u>
	<u>Activities</u>	<u>Activities</u>	<u>Government</u>	<u>Activities</u>	<u>Activities</u>	<u>Government</u>
Revenues						
Program revenues:						
Charges for services	\$ 819,417	\$ 6,875,105	\$ 7,694,522	\$ 613,101	\$ 6,308,696	\$ 6,921,797
Operating grants	247,454	-	247,454	239,646	-	239,646
Capital contributions	7,053,743	4,112,483	11,166,226	2,721,107	1,030,273	3,751,380
General revenues:						
Property taxes	5,456,333	-	5,456,333	5,239,879	-	5,239,879
Sales taxes	1,158,386	-	1,158,386	1,056,647	-	1,056,647
Franchise and local taxes	553,374	-	553,374	567,992	-	567,992
Investment income	54,322	15,752	70,074	8,850	2,969	11,819
Other revenues	530,162	-	530,162	227,744	-	227,744
Total Revenues	<u>15,873,191</u>	<u>11,003,340</u>	<u>26,876,531</u>	<u>10,674,966</u>	<u>7,341,938</u>	<u>18,016,904</u>
Expenses						
General government	1,277,559	-	1,277,559	1,188,977	-	1,188,977
Public safety	3,112,772	-	3,112,772	3,024,089	-	3,024,089
Public works	2,686,868	-	2,686,868	2,336,387	-	2,336,387
Culture and recreation	452,702	-	452,702	392,967	-	392,967
Economic development	140,735	-	140,735	145,785	-	145,785
Economic opportunity	82,999	-	82,999	172,992	-	172,992
Interest and fiscal charges	900,039	1,201,497	2,101,536	887,976	1,140,974	2,028,950
Water, sewer, & solid waste	-	5,229,667	5,229,667	-	4,649,549	4,649,549
Total Expenses	<u>8,653,674</u>	<u>6,431,164</u>	<u>15,084,838</u>	<u>8,149,173</u>	<u>5,790,523</u>	<u>13,939,696</u>
Change in Net Position						
Before Transfers	7,219,517	4,572,176	11,791,693	2,525,793	1,551,415	4,077,208
Transfers	239,850	(239,850)	-	225,900	(225,900)	-
Total	<u>239,850</u>	<u>(239,850)</u>	<u>-</u>	<u>225,900</u>	<u>(225,900)</u>	<u>-</u>
Change in Net Position	7,459,367	4,332,326	11,791,693	2,751,693	1,325,515	4,077,208
Beginning Net Position	25,865,466	23,001,043	48,866,509	23,113,773	21,675,528	44,789,301
Ending Net Position	<u>\$ 33,324,833</u>	<u>\$ 27,333,369</u>	<u>\$ 60,658,202</u>	<u>\$ 25,865,466</u>	<u>\$ 23,001,043</u>	<u>\$ 48,866,509</u>

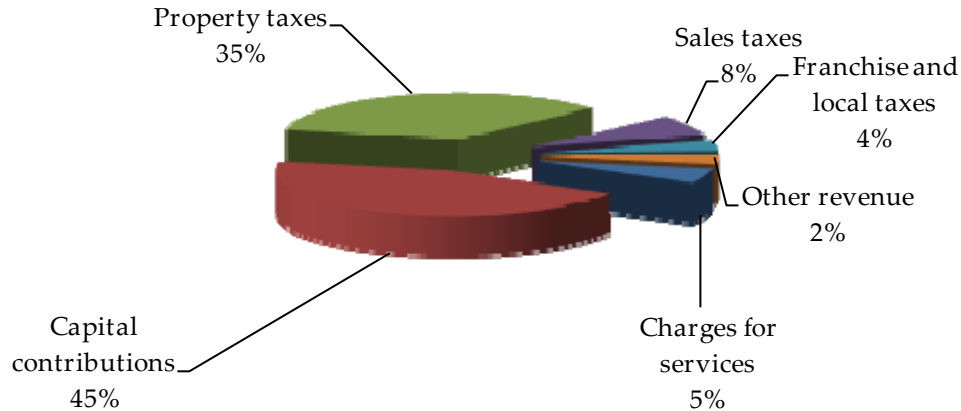
City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2016

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

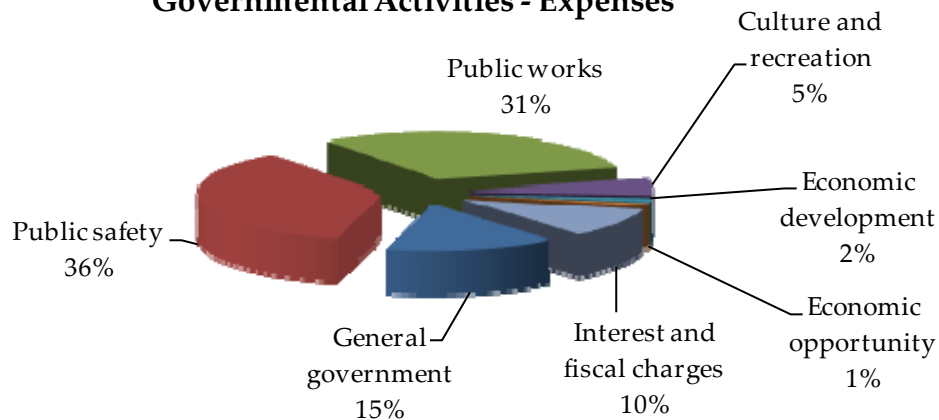
Governmental Activities - Revenues



For the year ended September 30, 2016, revenues from governmental activities totaled \$15,873,191. Property tax, franchise tax and sales tax are the City's largest general revenue sources. Sales tax increased \$101,739 or 10% due to increased business activities within the City. Charges for services increased \$206,316 or 34% primarily due to a rise in licenses and permits as a result of continued growth.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



For the year ended September 30, 2016, expenses for governmental activities totaled \$8,653,674. This represents an increase of \$504,501. This increase stems from increases in public works, culture and recreation, and public safety. Public works' increase was related to salaries and benefits and professional consultants. Culture and recreation spending increased due to watering and park maintenance. Public safety experienced increases in salaries and benefits as well as professional services. The City's largest functional expense was public safety of \$3,112,772.

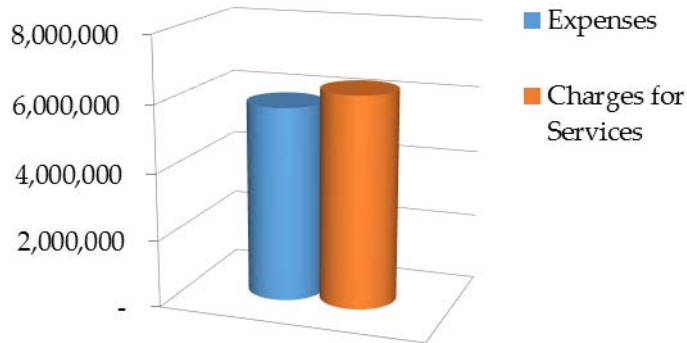
City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2016

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, 2016, charges for services by business-type activities totaled \$6,875,105. This is an increase of \$566,409, or 9%, from the previous year. This increase is primarily impact fees as a result of local development.

Total expenses increased \$640,641 to a total of \$6,431,164, a change of 11%. This increase is related to greater purchases of water to meet demand as well as additional personnel costs.

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, 2016, the City's governmental funds reported combined fund balances of \$20,151,645, a decrease of \$2,030,667 in comparison with the prior year. Approximately 14% of this amount, \$2,886,117, 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 \$27,139 in nonspendable funds at year end. Committed fund balance can be used only for the specific purposes determined by the City Council. Assigned fund balance is limited for specific purposes intended by council or management. The City had \$115,797 in assigned funds at year end. Restricted fund balance

City of Heath, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2016

represents funds that are restricted by law, debt agreements, or grantors for particular purposes. The City had \$17,122,592 in restricted funds at year end.

As of the end of the year the general fund reflected a total fund balance of \$2,913,256. Fund balance increased \$211,624 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 \$2,886,117 is 50% of total general fund expenditures.

The debt service fund had an ending fund balance of \$301,248 at September 30, 2016 compared to the previous year's balance of \$552,757. This is a change of \$251,509 due to a planned decrease in fund balance.

The capital improvements fund had a net decrease in fund balance of \$2,177,883 due to capital outlay. During the year, the City expended \$2,691,081 on improving the City's infrastructure compared to prior year expenditures of \$1,985,671 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 \$27,240,092. Unrestricted net position of the fund at the close of the fiscal year amounted to \$9,510,626. The capital assets of the water and sewer fund had a net book value of \$33,085,606. 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 \$3,368,226. 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 \$3,606,580. Cash and cash equivalents in the water and sewer fund were \$7,713,634 at fiscal year end.

The City's nonmajor solid waste fund recorded an increase of \$10,526 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, 2016

GENERAL FUND BUDGETARY HIGHLIGHTS

Budget amendments approved during the fiscal year total a net increase of \$0 in total expenditures. There was a positive variance of \$296,520 over budgeted general fund revenues. The following are additional comments regarding appropriations:

- There was a positive variance of \$276,630 in budgeted appropriations.
- \$573,150 is the variance surplus of revenues over expenditures before transfers.
- There was a net increase in fund balance of \$211,624.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$37,517,204 in a variety of capital assets and infrastructure, net of accumulated depreciation. The City's business-type activities funds had invested \$33,085,606 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 \$11,543,938 mainly due to developer capital contributions to the City's infrastructure in the current year.

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

- Contributed assets valued at \$7,053,743 consisting of roads and other infrastructure.
- Contributed assets valued at \$4,112,483 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 \$37,323,380. Of this amount, \$13,981,692 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, 2016

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City Council approved a tax rate for the fiscal year 2017 budget of \$0.417311 per \$100 of assessed value. This is a \$0.009289 per \$100 decrease from the prior year's rate of \$0.4266. Assessed values increased over the prior year's value for the fourth consecutive year and ad valorem tax revenue increased \$335,200 and \$134,500 in the General Fund and Debt Service Fund, respectively. The fiscal year 2017 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; two maintenance workers and one public safety officer. 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 businesses remain very interested in the City of Heath.

The City continues to maintain fund balances equal to or greater than 30% 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, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Heath Club MMD
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 21,538,256	\$ 7,752,397	\$ 29,290,653	\$ 3,217,484
Restricted cash	-	268,336	268,336	-
Receivables, net	685,219	1,261,367	1,946,586	-
Inventory	-	9,940	9,940	-
Prepays	27,139	5,330	32,469	-
Total Current Assets	22,250,614	9,297,370	31,547,984	3,217,484
Land held for sale	83,718	-	83,718	-
Capital assets:				
Non-depreciable	8,000,312	3,094,715	11,095,027	-
Net depreciable capital assets	29,516,892	29,990,891	59,507,783	-
	<u>37,600,922</u>	<u>33,085,606</u>	<u>70,686,528</u>	<u>-</u>
Total Assets	59,851,536	42,382,976	102,234,512	3,217,484
<u>Deferred Outflows of Resources</u>				
Pension contributions	254,622	10,609	265,231	-
Pension investment earnings	431,676	17,987	449,663	-
Pension investment - actual experience vs. assumption	171,281	7,137	178,418	-
Deferred charge on refunding	178,923	171,249	350,172	-
Total Deferred Outflows of Resources	1,036,502	206,982	1,243,484	-

See Notes to Financial Statements.

City of Heath, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Heath Club MMD
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 1,839,426	\$ 573,534	\$ 2,412,960	\$ 15,236
Accrued interest payable	98,775	66,468	165,243	-
Customer deposits	76,450	170,925	247,375	-
Noncurrent liabilities:				
Due within one year	1,578,945	976,483	2,555,428	-
Due in more than one year	22,785,216	13,419,829	36,205,045	9,400,000
Net pension liability	1,184,393	49,350	1,233,743	-
Total Liabilities	27,563,205	15,256,589	42,819,794	9,415,236
<u>Net Position</u>				
Net investment in capital assets	20,842,321	19,118,285	39,960,606	-
Restricted for:				
Debt service	301,248	-	301,248	-
Capital improvement	5,600,312	-	5,600,312	-
Economic development	1,609,363	-	1,609,363	-
Economic opportunities	1,559,681	-	1,559,681	-
Public safety	26,633	-	26,633	-
Unrestricted	3,385,275	8,215,084	11,600,359	(6,197,752)
Total Net Position	\$ 33,324,833	\$ 27,333,369	\$ 60,658,202	\$ (6,197,752)

See Notes to Financial Statements.

City of Heath, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 1,277,559	\$ 38,365	\$ -	\$ -
Public safety	3,112,772	641,126	247,454	-
Public works	2,686,868	133,966	-	7,053,743
Culture and recreation	452,702	5,960	-	-
Economic development	140,735	-	-	-
Economic opportunity	82,999	-	-	-
Interest and fiscal charges	900,039	-	-	-
Total Governmental Activities	8,653,674	819,417	247,454	7,053,743
Business-Type Activities				
Water & sewer	5,954,360	6,307,932	-	4,112,483
Solid waste	476,804	567,173	-	-
Total Business-Type Activities	6,431,164	6,875,105	-	4,112,483
Total Primary Government	\$ 15,084,838	\$ 7,694,522	\$ 247,454	\$ 11,166,226

General Revenues:

- Taxes
 - Property taxes
 - Sales taxes
 - Franchise and local 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			Component
Primary Government			Unit
Governmental	Business-Type		Heath
Activities	Activities	Total	Club MMD
\$ (1,239,194)	\$ -	\$ (1,239,194)	\$ -
(2,224,192)	-	(2,224,192)	-
4,500,841	-	4,500,841	(4,553,095)
(446,742)	-	(446,742)	-
(140,735)	-	(140,735)	-
(82,999)	-	(82,999)	-
(900,039)	-	(900,039)	(1,651,438)
(533,060)	-	(533,060)	(6,204,533)
-	4,466,055	4,466,055	-
-	90,369	90,369	-
-	4,556,424	4,556,424	-
(533,060)	4,556,424	4,023,364	(6,204,533)
5,456,333	-	5,456,333	-
1,158,386	-	1,158,386	-
553,374	-	553,374	-
54,322	15,752	70,074	1
530,162	-	530,162	6,780
239,850	(239,850)	-	-
7,992,427	(224,098)	7,768,329	6,781
7,459,367	4,332,326	11,791,693	(6,197,752)
25,865,466	23,001,043	48,866,509	-
<u>\$ 33,324,833</u>	<u>\$ 27,333,369</u>	<u>\$ 60,658,202</u>	<u>\$ (6,197,752)</u>

City of Heath, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2016

	General	Debt Service	Capital Improvements	Other Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 3,115,281	\$ 291,075	\$ 14,803,464	\$ 3,328,436
Receivables, net	464,758	111,523	-	108,938
Prepays	27,139	-	-	-
Total Assets	\$ 3,607,178	\$ 402,598	\$ 14,803,464	\$ 3,437,374
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 535,729	\$ -	\$ 1,177,797	\$ 125,900
Deposits payable	76,450	-	-	-
Total Liabilities	612,179	-	1,177,797	125,900
<u>Deferred Inflows of Resources</u>				
Unavailable revenue -				
Property taxes	76,779	23,975	-	-
Fines receivable, net	1,464	-	-	-
Assessments receivable	-	77,375	-	-
Other	3,500	-	-	-
Total Deferred Inflows	81,743	101,350	-	-
<u>Fund Balances</u>				
Nonspendable for:				
Prepays	27,139	-	-	-
Assigned	-	-	-	115,797
Restricted	-	301,248	13,625,667	3,195,677
Unassigned	2,886,117	-	-	-
Total Fund Balances	2,913,256	301,248	13,625,667	3,311,474
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,607,178	\$ 402,598	\$ 14,803,464	\$ 3,437,374

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$	21,538,256
	685,219
	27,139
<hr/>	
\$	22,250,614
<hr/> <hr/>	

\$	1,839,426
	76,450
<hr/>	
	1,915,876
<hr/>	

	100,754
	1,464
	77,375
	3,500
<hr/>	
	183,093
<hr/>	

	27,139
	115,797
	17,122,592
	2,886,117
<hr/>	
	20,151,645
<hr/>	

\$	22,250,614
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City of Heath, Texas
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
September 30, 2016

Fund Balances - Total Governmental Funds \$ 20,151,645

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	8,000,312
Capital assets - net depreciable	29,516,892

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

Property tax receivable	100,754
Fines receivable, net	1,464
Assessments receivable	77,374
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	254,622
Pension investment earnings	431,676
Pension gains	171,281
Deferred charge on refunding	178,923

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

Accrued interest	(98,774)
Bond premium	(420,602)
Bond discount	16,853
Non-current liabilities due in one year	(1,578,945)
Non-current liabilities due in more than one year	(22,381,467)
Net pension liability	(1,184,393)

Net Position of Governmental Activities \$ 33,324,833

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, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>
<u>Revenues</u>				
Taxes:				
Property tax	\$ 3,484,432	\$ 1,942,303	\$ -	\$ -
Sales tax	582,830	-	-	575,556
Franchise tax	553,374	-	-	-
Licenses and permits	638,651	-	-	-
Intergovernmental	247,454	-	-	-
Charges for services	139,238	-	-	-
Fines and forfeitures	41,528	-	-	-
Special assessments	-	2,710	-	-
Investment income	9,282	1,093	35,353	8,594
Other revenue	54,131	-	346,845	9,186
Total Revenues	<u>5,750,920</u>	<u>1,946,106</u>	<u>382,198</u>	<u>593,336</u>
<u>Expenditures</u>				
Administration	1,234,464	-	-	-
Highways and streets	650,513	-	-	-
Parks	258,840	-	-	-
Engineering and building inspection	597,175	-	-	-
Municipal court	54,685	-	-	-
Public safety	2,901,279	-	-	1,131
Economic development	105,364	-	-	55,377
Economic opportunity	-	-	-	103,004
Debt Service:				
Principal	-	1,432,295	-	50,000
Interest and fiscal charges	-	822,766	-	13,300
Bond issuance costs	-	46,474	-	-
Capital outlay	-	-	2,691,081	149,249
Total Expenditures	<u>5,802,320</u>	<u>2,301,535</u>	<u>2,691,081</u>	<u>372,061</u>
Excess of Rev. Over (Under)				
 Expenditures	(51,400)	(355,429)	(2,308,883)	221,275
<u>Other Financing Sources (Uses)</u>				
Transfers in (out)	263,024	-	11,000	(34,174)
Refunding bonds	-	4,725,000	-	-
Payment to bond escrow agent	-	(4,621,080)	-	-
Sale of capital assets	-	-	120,000	-
Total Other Financing Sources (Uses)	<u>263,024</u>	<u>103,920</u>	<u>131,000</u>	<u>(34,174)</u>
Net Change in Fund Balances	211,624	(251,509)	(2,177,883)	187,101
Beginning fund balances	2,701,632	552,757	15,803,550	3,124,373
Ending Fund Balances	<u>\$ 2,913,256</u>	<u>\$ 301,248</u>	<u>\$ 13,625,667</u>	<u>\$ 3,311,474</u>

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 5,426,735
1,158,386
553,374
638,651
247,454
139,238
41,528
2,710
54,322
410,162

8,672,560

1,234,464
650,513
258,840
597,175
54,685
2,902,410
160,741
103,004

1,482,295
836,066
46,474
2,840,330

11,166,997

(2,494,437)

239,850
4,725,000
(4,621,080)
120,000

463,770

(2,030,667)

22,182,312

\$ 20,151,645

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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, 2016

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

Net changes in fund balances - total governmental funds	\$	(2,030,667)
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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		2,931,333
Depreciation expense		(1,781,964)
Receipt of capital contributions		7,053,743
Loss on disposal of assets		(27,400)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		26,888
--	--	--------

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		87,980
Accrued interest		17,637
Pension expense		(161,422)

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 premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of refunding bonds		(4,725,000)
Current refunding of bond		4,504,934
Deferred charges on refunding for current year issue		157,175
Amortization of deferred charges on refunding		(23,750)
Amortization of debt premium		(121,228)
Amortization of debt discount		68,813
Principal payments		1,482,295

Change in Net Position of Governmental Activities	\$	7,459,367
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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, 2016

	Water & Sewer	Nonmajor Solid Waste	Total Proprietary Funds
<u>Assets</u>			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 7,713,634	\$ 38,763	\$ 7,752,397
Restricted cash	268,336	-	268,336
Receivables, net	1,161,966	99,401	1,261,367
Inventory	9,940	-	9,940
Prepays	5,330	-	5,330
Total Current Assets	9,159,206	138,164	9,297,370
<u>Noncurrent Assets</u>			
Capital assets:			
Non-depreciable	3,094,715	-	3,094,715
Net depreciable capital assets	29,990,891	-	29,990,891
Total Noncurrent Assets	33,085,606	-	33,085,606
Total Assets	42,244,812	138,164	42,382,976
<u>Deferred Outflows of Resources</u>			
Pension contributions	10,609	-	10,609
Pension investment earnings	17,987	-	17,987
Deferred charge on refunding	171,249	-	171,249
Deferred outflow - actual experience vs. assumption	7,137	-	7,137
Total Deferred Outflows	206,982	-	206,982

See Notes to Financial Statements.

City of Heath, Texas

STATEMENT OF NET POSITION (Page 2 of 2)

PROPRIETARY FUNDS

September 30, 2016

	Water & Sewer	Nonmajor Solid Waste	Total Proprietary Funds
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accounts payable and accrued liabilities	528,647	44,887	573,534
Accrued interest	66,468	-	66,468
Customer deposits	170,925	-	170,925
Compensated absences - current	74,272	-	74,272
Bonds payable - current	902,211	-	902,211
Total Current Liabilities	1,742,523	44,887	1,787,410
<u>Noncurrent Liabilities</u>			
Compensated absences	97,563	-	97,563
Bonds payable	13,322,266	-	13,322,266
Net pension liability	49,350	-	49,350
Total Liabilities	15,211,702	44,887	15,256,589
<u>Net Position</u>			
Net investment in capital assets	17,729,466	-	17,729,466
Unrestricted	9,510,626	93,277	9,603,903
Total Net Position	\$ 27,240,092	\$ 93,277	\$ 27,333,369

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, 2016

	Water & Sewer	Nonmajor Solid Waste	Total Proprietary Funds
<u>Operating Revenues</u>			
Water revenue	\$ 3,579,172	\$ -	\$ 3,579,172
Sewer revenue	2,201,194	-	2,201,194
Sanitation revenue	-	567,173	567,173
Connection and tap charges	527,191	-	527,191
Other revenue	375	-	375
Total Operating Revenues	6,307,932	567,173	6,875,105
<u>Operating Expenses</u>			
Personnel	1,073,838	-	1,073,838
Supplies and services	298,707	476,804	775,511
Operating expenses	461,715	-	461,715
Materials and equipment	57,160	-	57,160
Cost of water	909,066	-	909,066
Cost of sewer	811,786	-	811,786
Depreciation	1,140,591	-	1,140,591
Total Operating Expenses	4,752,863	476,804	5,229,667
Operating Income	1,555,069	90,369	1,645,438
<u>Nonoperating Revenues (Expenses)</u>			
Investment income	15,595	157	15,752
Interest expense	(1,201,497)	-	(1,201,497)
Total Nonoperating Revenues (Expenses)	(1,185,902)	157	(1,185,745)
Income Before Capital Contributions and Transfers	369,167	90,526	459,693
Capital contribution	4,112,483	-	4,112,483
Transfers in (out)	(159,850)	(80,000)	(239,850)
Change in Net Position	4,321,800	10,526	4,332,326
Beginning net position	22,918,292	82,751	23,001,043
Ending Net Position	\$ 27,240,092	\$ 93,277	\$ 27,333,369

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, 2016

	<u>Water & Sewer</u>	<u>Nonmajor Solid Waste</u>	<u>Total Proprietary Funds</u>
<u>Cash Flows from Operating Activities</u>			
Receipts from customers	\$ 6,617,865	\$ 570,720	\$ 7,188,585
Payments to suppliers	(2,383,314)	(479,309)	(2,862,623)
Payments to employees	(1,108,982)	-	(1,108,982)
Net Cash Provided by Operating Activities	<u>3,125,569</u>	<u>91,411</u>	<u>3,216,980</u>
<u>Cash Flows from Noncapital Financing Activities</u>			
Transfers in (out)	(159,850)	(80,000)	(239,850)
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>(159,850)</u>	<u>(80,000)</u>	<u>(239,850)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Capital purchases	(396,333)	-	(396,333)
Principal paid on debt	(856,336)	-	(856,336)
Interest paid on debt	(1,150,246)	-	(1,150,246)
Net Cash (Used for) Capital and Related Financing Activities	<u>(2,402,915)</u>	<u>-</u>	<u>(2,402,915)</u>
<u>Cash Flows from Investing Activities</u>			
Interest on investments	15,595	157	15,752
Net Cash Provided by Investing Activities	<u>15,595</u>	<u>157</u>	<u>15,752</u>
Net Increase (Decrease) in Cash and Cash Equivalents	578,399	11,568	589,967
Beginning cash and cash equivalents	<u>7,403,571</u>	<u>27,195</u>	<u>7,430,766</u>
Ending Cash and Cash Equivalents	<u><u>\$ 7,981,970</u></u>	<u><u>\$ 38,763</u></u>	<u><u>\$ 8,020,733</u></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, 2016

	<u>Water & Sewer</u>	<u>Nonmajor Solid Waste</u>	<u>Total Proprietary Funds</u>
<u>Reconciliation of Operating Income</u>			
<u>to Net Cash Provided by Operating Activities</u>			
Operating Income	\$ 1,555,069	\$ 90,369	\$ 1,645,438
Adjustments to reconcile operating income to net cash provided:			
Depreciation	1,140,591	-	1,140,591
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in:			
Accounts receivable	278,633	3,547	282,180
Inventory	5,367	-	5,367
Prepays	4,354	-	4,354
Increase (Decrease) in:			
Accounts payable and accrued liabilities	145,399	(2,505)	142,894
Compensated absences	(3,999)	-	(3,999)
Customer deposits	31,300	-	31,300
Deferred outflows - pension contributions	40,263	-	40,263
Deferred outflows - investment earnings	(3,590)	-	(3,590)
Deferred inflows- pension (gains) losses	(16,531)	-	(16,531)
Net pension liability	(51,287)	-	(51,287)
Net Cash Provided by Operating Activities	\$ 3,125,569	\$ 91,411	\$ 3,216,980

Schedule of non-cash capital and related financing activities:

Contributions of capital assets	\$ 4,112,483	\$ -	\$ 4,112,483
Debt refunding	\$ 3,200,000	\$ -	\$ 3,200,000

See Notes to Financial Statements.

City of Heath, Texas
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
September 30, 2016

		<u>Agency Fund</u> <u>Streets</u> <u>Escrow</u>
<u>Assets</u>		
<u>Current Assets</u>		
Cash and cash equivalents		\$ 627,380
	Total Assets	<u>627,380</u>
<u>Liabilities</u>		
Accrued liabilities		627,380
	Total Liabilities	<u>\$ 627,380</u>

See Notes to Financial Statements.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

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. The Club Municipal Management District Number 1 (the "Club MMD") is also legally separate and is presented as a discretely presented component unit. 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 costs 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

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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 and functions as a department of the City. The HEDC's main activities involve contributing to the City's construction of infrastructure within the City limits in order to improve economic development. 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 and it functions as a department of the City. The HMBC's goal is to improve the quality of life within the City and contributes to construction of items such as parks and recreational facilities. 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 (the "Club MMD") is a special purpose district within the City limits. This district was created by an act of the 82nd Texas legislature in 2011. The primary purpose of the district is to facilitate the construction and continued

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

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.

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, 2016

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.

Solid Waste Fund

This fund is used to account for the provision of solid waste disposal to the residents of the City. Activities of the fund include administration and the outsourcing of solid waste disposal service. 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.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

E. Measurement focus and basis of accounting

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. 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.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

F. Budgetary Information

1. Budgetary Basis of Accounting

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

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

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

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.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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

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

2. Fair Value Measurement

The City has applied Governmental Accounting Standards Board (“GASB”) Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. 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.

4. 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.

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

5. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

6. 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

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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.

7. 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.

8. 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.

9. 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

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

10. 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.

11. 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, 2016

12. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

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.

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, 2016

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As stated in I.G.1., 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. The City’s investments in 2a7-like pools such as TexPool are included in this category. Although the City’s investments in TexPool and TexStar are available for immediate withdrawal, disclosure of the pool’s weighted average maturity and bond rating are required. The City had the following deposits considered to be cash and cash equivalents at year end:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>	<u>Credit Rating</u>
Bank deposits	\$ 2,974,815		
External investment pools			
TexPool	13,565,596	45	AAAm
TexStar	13,587,391	41	AAAm
Total fair value	<u>\$ 30,127,802</u>		

The Club MMD had the following deposits considered to be cash and cash equivalents at year end.

<u>Investment Type</u>	<u>Fair Value</u>
Bank deposits	\$ 3,217,484

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

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

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, 2016, 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, 2016, the market values of pledged securities and FDIC insurance 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 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.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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:

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Water & Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
Property taxes	\$ 74,046	\$ 26,709	\$ -	\$ -	\$ -	\$ 100,755
Special assessments	-	84,814	-	-	-	84,814
Sales tax	109,270	-	108,938	-	-	218,208
Fines	2,440	-	-	-	-	2,440
Other	279,978	-	-	66,340	-	346,318
Accounts	-	-	-	1,143,745	110,181	1,253,926
Allowance	(976)	-	-	(48,119)	(10,780)	(59,875)
	<u>\$ 464,758</u>	<u>\$ 111,523</u>	<u>\$ 108,938</u>	<u>\$ 1,161,966</u>	<u>\$ 99,401</u>	<u>\$ 1,946,586</u>

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

C. Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 3,153,070	\$ -	\$ -	\$ 3,153,070
Construction in progress	2,638,776	2,840,329	(631,863)	4,847,242
Total capital assets not being depreciated	<u>5,791,846</u>	<u>2,840,329</u>	<u>(631,863)</u>	<u>8,000,312</u>
Capital assets, being depreciated:				
Buildings	2,162,395	-	-	2,162,395
Improvements other than buildings	4,636,840	-	-	4,636,840
Infrastructure	37,967,833	7,053,743	604,463	45,626,039
Machinery and equipment	2,273,071	91,004	(416,488)	1,947,587
Total capital assets being depreciated	<u>47,040,139</u>	<u>7,144,747</u>	<u>187,975</u>	<u>54,372,861</u>
Less accumulated depreciation:				
Buildings	(1,194,884)	(89,278)	-	(1,284,162)
Improvements other than buildings	(950,880)	(186,887)	-	(1,137,767)
Infrastructure	(18,561,213)	(1,348,652)	-	(19,909,865)
Machinery and equipment	(2,783,516)	(157,147)	416,488	(2,524,175)
Total accumulated depreciation	<u>(23,490,493)</u>	<u>(1,781,964)</u>	<u>416,488</u>	<u>(24,855,969)</u>
Net capital assets being depreciated	23,549,646	5,362,783	604,463	29,516,892
Total Capital Assets	<u>\$ 29,341,492</u>	<u>\$ 8,203,112</u>	<u>\$ (27,400)</u>	<u>\$ 37,517,204</u>

In the current year the City received \$7,053,743 in contributed capital assets from developers. Also in the current year, the City wrote off engineering work in the amount of \$27,400 that had been previously capitalized as the construction project was determined to be nonviable.

Depreciation was charged to governmental functions as follows:

General government	\$ 31,166
Public safety	170,935
Public works	1,397,365
Culture and recreation	182,498
Total Governmental Activities Depreciation Expense	<u>\$ 1,781,964</u>

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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	3,725,976	293,049	(1,127,748)	2,891,277
Total capital assets not being depreciated	<u>3,929,414</u>	<u>293,049</u>	<u>(1,127,748)</u>	<u>3,094,715</u>
Capital assets, being depreciated:				
Buildings	309,639	-	-	309,639
Improvements other than buildings	36,149,619	4,138,973	1,127,748	41,416,340
Machinery and equipment	423,136	76,795	-	499,931
Total capital assets being depreciated	<u>36,882,394</u>	<u>4,215,768</u>	<u>1,127,748</u>	<u>42,225,910</u>
Less accumulated depreciation:				
Buildings	(154,084)	(14,206)	-	(168,290)
Improvements other than buildings	(10,670,903)	(1,080,076)	-	(11,750,979)
Machinery and equipment	(269,441)	(46,309)	-	(315,750)
Total accumulated depreciation	<u>(11,094,428)</u>	<u>(1,140,591)</u>	<u>-</u>	<u>(12,235,019)</u>
Net capital assets being depreciated	<u>25,787,966</u>	<u>3,075,177</u>	<u>1,127,748</u>	<u>29,990,891</u>
Total Capital Assets	<u><u>\$ 29,717,380</u></u>	<u><u>\$ 3,368,226</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 33,085,606</u></u>

In the current year the City received \$4,112,483 in contributed assets, recorded at fair market value, from developers.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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	\$ 3,060,000	\$ 4,725,000	\$ (450,000)	\$ 7,335,000	\$ 365,000
Certificates of Obligation	21,353,734	-	(5,347,046)	16,006,688	959,451
Notes Payable	96,977	-	(32,002)	64,975	32,994
Premiums	541,830	-	(121,228)	420,602	-
Discounts	(85,666)	-	68,813	(16,853)	-
Other liabilities:					
Capital Lease	53,346	-	(53,346)	-	-
Compensated Absences	641,730	241,593	(329,574)	553,749	221,500
Total Governmental Activities	<u>\$ 25,661,951</u>	<u>\$ 4,966,593</u>	<u>\$ (6,264,383)</u>	<u>\$ 24,364,161</u>	<u>\$ 1,578,945</u>
Long-term liabilities due in more than one year				<u>\$ 22,785,216</u>	
Business-Type Activities:					
Bonds, notes and other payables:					
General Obligation Bonds	\$ 3,625,000	\$ 3,200,000	\$ (340,000)	\$ 6,485,000	\$ 495,000
Certificates of Obligation	10,441,266	-	(3,507,954)	6,933,312	355,549
Premium	352,944	-	(87,980)	264,964	-
Discount	(65,851)	-	43,672	(22,179)	-
Contract Revenue Bonds	613,380	-	(50,000)	563,380	51,662
Other liabilities:					
Compensated Absences	175,835	80,767	(84,767)	171,835	74,272
Total Business-Type Activities	<u>\$ 15,142,574</u>	<u>\$ 3,280,767</u>	<u>\$ (4,027,029)</u>	<u>\$ 14,396,312</u>	<u>\$ 976,483</u>
Long-term liabilities due in more than one year				<u>\$ 13,419,829</u>	

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

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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:			
2015 General Obligation Refunding Bonds	2.03%	\$ 4,725,000	\$ 4,600,000
2013 General Obligation Refunding Bonds	2.00-4.00%	1,600,000	1,420,000
2010 General Obligation Refunding Bonds	3.00-4.00%	2,230,000	1,315,000
Total General Obligation Bonds		<u>8,555,000</u>	<u>7,335,000</u>
2013 Combination Tax & Revenue Certificates	2.00-4.00%	1,654,037	1,555,000
2007 Combination Tax & Revenue Certificates	4.00-5.00%	8,392,369	776,688
2014 Combination Tax & Revenue Certificates	3.00-4.00%	14,205,000	13,675,000
Total Certificates of Obligation		<u>24,251,406</u>	<u>16,006,688</u>
Total Governmental Activities		<u>\$ 32,806,406</u>	<u>\$ 23,341,688</u>
Business-type Activities:			
2015 General Obligation Refunding Bonds	2.03%	\$ 3,200,000	\$ 3,200,000
2010 General Obligation Refunding Bonds	3.00-4.00%	4,840,000	3,285,000
Total General Obligation Bonds		<u>8,040,000</u>	<u>6,485,000</u>
2013 Combination Tax & Revenue Certificates	2.00-4.00%	6,540,963	6,400,000
2007 Combination Tax & Revenue Certificates	4.00-5.00%	5,052,631	533,312
Total Certificates of Obligation		<u>11,593,594</u>	<u>6,933,312</u>
2005 Contract Revenue Bonds	3.75-4.625%	1,006,566	563,380
Total Contract Revenue Bonds		<u>1,006,566</u>	<u>563,380</u>
Total Business-Type Activities		<u>\$ 20,640,160</u>	<u>\$ 13,981,692</u>
Total Long-Term Debt			
General Obligation Refunding Bonds		\$ 16,595,000	\$ 13,820,000
Certificates of Obligation		35,845,000	22,940,000
Contract Revenue Bonds		1,006,566	563,380
Total Primary Government		<u>\$ 53,446,566</u>	<u>\$ 37,323,380</u>

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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
2017	\$ 365,000	\$ 185,376	\$ 959,450	\$ 559,713
2018	335,000	172,942	1,007,238	518,957
2019	760,000	156,670	635,000	486,488
2020	785,000	135,610	660,000	460,988
2021	805,000	113,872	685,000	434,488
2022	835,000	91,981	705,000	407,038
2023	855,000	70,637	730,000	382,138
2024	870,000	47,591	755,000	359,688
2025	565,000	29,283	860,000	334,688
2026	575,000	17,712	885,000	307,288
2027	585,000	5,938	915,000	279,013
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	\$ 7,335,000	\$ 1,027,612	\$ 16,006,688	\$ 5,505,019

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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
2017	\$ 495,000	\$ 186,559	\$ 355,549	\$ 265,924
2018	580,000	165,256	307,763	252,480
2019	895,000	138,711	25,000	246,125
2020	925,000	108,073	25,000	245,375
2021	960,000	76,234	20,000	244,700
2022	700,000	49,584	180,000	241,700
2023	370,000	35,424	180,000	236,300
2024	380,000	27,811	190,000	229,800
2025	385,000	20,046	195,000	222,100
2026	395,000	12,129	205,000	214,100
2027	400,000	4,060	215,000	205,700
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	\$ 6,485,000	\$ 823,887	\$ 6,933,312	\$ 3,232,204

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
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	\$ 563,380	\$ 124,038

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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
2017	\$ 31,895	\$ 3,142
2018	33,079	1,958
Total	\$ 64,974	\$ 5,100

The following is a summary of changes in the Club MMDs total long-term liabilities for the year ended.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Club Municipal Mangement District					
Special Assessment					
Revenue Bonds Series 2016	\$ -	\$ 9,255,000	\$ -	\$ 9,255,000	\$ -

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

Club Municipal Management District		
Year ending September 30,	Special Assessment Revenue	
	Principal	Interest
2017	\$ -	\$ 185,376
2018	110,000	172,942
2019	115,000	156,670
2020	120,000	135,610
2021	130,000	113,872
2022-2026	760,000	91,981
2027-2031	1,215,000	70,637
2032-2036	1,630,000	47,591
2037-2041	2,195,000	29,283
2042-2046	2,980,000	17,712
Total	\$ 9,255,000	\$ 1,021,674

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

E. Advance Refunding

On December 22, 2015, the City issued \$7,925,000 in general obligation refunding bonds with an interest rate of 2 - 4%. The proceeds were used to advance refund \$7,470,000 of outstanding 2007 combination tax and revenue certificates of obligation which had an interest rate of 5%. The net proceeds of \$7,925,000 (after payment of \$222,557 in underwriting fees, accrued interest and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the obligations are considered defeased and the liability for those bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$232,443. This amount is being amortized over the remaining life of the refunding debt. This advance refunding reduced its total debt service payments by \$852,268 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$778,424.

F. Deferred Charge on Refunding

A deferred charge resulting from the issuance of the 2015 general obligation refunding bonds has been recorded as a deferred outflow of resources and is being amortized to interest expense over the term of the refunded debt. Current year balances for governmental activities and business-type activity totaled \$143,090 and \$70,038, respectively. Current year amortization expense for governmental activities and business-type activities totaled \$14,085 and \$5,230, respectively.

A deferred charge resulting from the issuance of the 2010 general obligation refunding bonds has been recorded as a deferred outflow of resources and is being amortized to interest expense over the term of the refunded debt. Current year balances for governmental activities and business-type activity totaled \$35,835 and \$105,116, respectively. Current year amortization expense for governmental activities and business-type activities totaled \$9,665 and \$19,589, respectively.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

G. Intergovernmental Transfers

Transfers between the primary government funds during the 2016 year were as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
Water & Sewer	General Fund	\$ 199,850
Other Governmental Funds	General Fund	34,174
Solid Waste Fund	General Fund	40,000
General Fund	Capital Improvement	11,000
Solid Waste Fund	Water & Sewer	40,000
	Total	\$ 325,024

The City uses fund accounting so that it may track the City's activities in specific detail. Transfers are made between funds to support operations as budgeted.

H. Restricted Net Position / Fund Balance

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

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

	<u>Governmental Activities</u>
Restricted for:	
* Municipal court	\$ 26,633
Debt service	301,248
Capital improvements	13,625,667
Economic development	1,609,363
Economic opportunity	1,559,681
Total Restricted	\$ 17,122,592
Assigned for:	
Police Department	\$ 115,797

* Restricted by enabling legislation

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
 September 30, 2016

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 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, 2016. The project includes the construction of additional water lines. At year end the government’s commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Business-Type Activities		
City Wide Street Rehabilitation Phase II	\$ 748,811	\$ 212,920
Total	\$ 748,811	\$ 212,920

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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.tmr.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 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.

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

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, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	30
Active employees	45
Total	88

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 10.75% and 10.70% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$369,180, and were equal to the required contributions.

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

4. Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2015, 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, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.50 to 10.50% per year including inflation
Investment Rate of Return	6.75%, 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, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2010 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2013, 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 2015 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. 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 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

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	<u>5.0%</u>	8.00%
Total	100.0%	

Discount Rate:

The discount rate used to measure the Total Pension Liability was 6.75%. 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.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 2,570,689	\$ 1,233,743	\$ 137,870

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Changes in the Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/14	\$ 7,750,391	\$ 7,277,915	\$ 472,476
Changes for the year:			
Service Cost	511,422	-	511,422
Interest	553,402	-	553,402
Difference between expected and actual experience	77,120	-	77,120
Changes of assumptions	185,491	-	185,491
Contributions – employer	-	340,543	(340,543)
Contributions – employee	-	221,749	(221,749)
Net investment income	-	10,741	(10,741)
Benefit payments, including refunds of emp. contributions	(200,712)	(200,712)	-
Administrative expense	-	(6,541)	6,541
Other changes	-	(323)	323
Net changes	1,126,723	365,457	761,266
Balance at 12/31/15	\$ 8,877,114	\$ 7,643,372	\$ 1,233,742

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, 2016

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

At September 30, 2016, 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	\$ 449,663	\$ -
Difference between projected and investment earnings	178,418	
Contributions subsequent to the measurement date	265,231	-
Total	\$ 893,312	\$ -

The City reported \$265,231 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:	
2016	\$ 156,730
2017	156,730
2018	156,732
2019	148,763
2020	9,126
Thereafter	-
Total	\$ 628,081

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

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

insurance coverage to both current and retired employees. The city may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

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

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

Contributions

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

The City's contributions to the TMRS SDBF for the years ended 2016, 2015 and 2014 were \$339, \$302 and \$291, 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

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

Article 16, Section 59 of the Texas Constitution. The District comprises all of the territory of its member cities, Garland, Princeton, Plano, Mesquite, Wylie, Rockwall, Farmersville, McKinney, Richardson, Forney and Royse City (the "Member Cities"). The District was created for the purpose of providing a source of water supply for municipal, domestic and industrial use and for the treatment, processing and transportation of such water to its Member Cities, and to its other customers located in North Central Texas, all within the Dallas Standard Metropolitan Statistical Area.

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

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

In the fiscal year ended September 30, 2005, the City entered into a contract with the District to construct a water storage facility. Under the terms of the contract, the City's payments, which began when the facilities were first utilized, are equal to the operating and maintenance expenses for the ensuing fiscal year, as shown in the Annual Budget. The 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 Creek Wastewater Interceptor System (System) for the purpose of providing facilities to

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

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.

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 for the construction of the Center and the City of Heath agreed to pay 17.4% for an equal interest in the Center.

City of Heath, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

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 classified the land related to this agreement as Land Held for Sale.

K. Subsequent Events

On February 9, 2017 the City issued a \$4,360,000 General Obligation Refunding Bond, Series 2017. Effectively reducing the remaining balance of the Certificates of Obligation, Series 2007 and General Obligation Funding Bonds, Series 2010 from an interest rate of 4% to 2.29%.

On February 9, 2017 the city issued the \$17,540,000 Combination Tax and Limited Surplus Revenue Certificate of Obligation, Series 2017. The 2017 bond will provide \$6,000,000 for Government type projects which include streets, parks, trails and municipal building improvements; \$615,400 to fund the purchase of a fire truck; and \$13,000,000 for Utility type projects which include water and sewer infrastructure and municipal building improvements.

There were no other material subsequent events through March 20, 2017, the date the financial statements were issued.

City of Heath, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

L. New Accounting Pronouncements

The GASB issued Statement No. 72, entitled *Fair Value Measurement and Application*; The provisions of GASB Statement No. 72 are effective for reporting periods beginning after June 15, 2015. GASB Statement No. 72 provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The statement generally requires state and local governments to measure investments at fair value. The statement defines an *investment* as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. *Fair value* is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. The City has adopted this statement during the current fiscal year, but it had no material effect on these accompanying financial statements.

The GASB issued Statement No. 74 titled, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; GASB Statement No. 75, titled, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; GASB Statement No. 77; titled, *Tax Abatement Disclosures*; GASB Statement No. 78, titled, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, 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.

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, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes:				
Property tax	\$ 3,489,100	\$ 3,489,100	\$ 3,484,432	\$ (4,668)
Sales & beverage tax	555,000	555,000	582,830	27,830
Franchise tax	537,000	537,000	553,374	16,374
Licenses and permits	397,900	397,900	638,651	240,751
Intergovernmental	239,550	239,550	247,454	7,904
Charges for services	110,650	110,650	139,238	28,588
Fines and forfeitures	40,200	40,200	41,528	1,328
Investment income	1,000	1,000	9,282	8,282
Other revenue	84,000	84,000	54,131	(29,869)
Total Revenues	<u>5,454,400</u>	<u>5,454,400</u>	<u>5,750,920</u>	<u>296,520</u>
Expenditures				
Current:				
Administration	1,248,850	1,300,250	1,234,464	65,786
Highways and streets	774,300	722,900	650,513	72,387
Parks	238,100	268,100	258,840	9,260
Engineering and building inspection	648,000	608,000	597,175	10,825
Municipal court	60,700	60,700	54,685	6,015
Public safety	2,999,500	2,999,500	2,901,279	98,221
Communication and economic development	109,500	119,500	105,364	14,136
Total Expenditures	<u>6,078,950</u>	<u>6,078,950</u>	<u>5,802,320</u>	<u>276,630</u>
Revenues Over (Under)	<u>(624,550)</u>	<u>(624,550)</u>	<u>(51,400)</u>	<u>573,150</u>
Other Financing Sources (Uses)				
Transfers in (out)	258,850	258,850	263,024	4,174
Total Other Financing Sources (Uses)	<u>258,850</u>	<u>258,850</u>	<u>263,024</u>	<u>4,174</u>
Net Change in Fund Balance	<u>\$ (365,700)</u>	<u>\$ (365,700)</u>	211,624	<u>\$ 577,324</u>
Beginning fund balance			<u>2,701,632</u>	
Ending Fund Balance			<u>\$ 2,913,256</u>	

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 CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

For the Year Ended September 30, 2016

	2015	2014
Total pension liability		
Service cost	\$ 511,422	\$ 464,674
Interest	553,402	501,186
Changes in benefit terms	-	-
Differences between expected and actual experience	77,120	(54,710)
Changes of assumptions	185,491	-
Benefit payments, including refunds of participant contributions	(200,712)	(176,432)
Net change in total pension liability	1,126,723	734,718
Total pension liability - beginning	\$ 7,750,391	\$ 7,015,673
Total pension liability - ending (a)	\$ 8,877,114	\$ 7,750,391
Plan fiduciary net position		
Contributions - employer	\$ 340,543	\$ 267,260
Contributions - members	221,749	200,947
Net investment income	10,741	378,357
Benefit payments, including refunds of participant contributions	(200,712)	(176,432)
Administrative expenses	(6,541)	(3,949)
Other	(323)	(325)
Net change in plan fiduciary net position	365,457	665,858
Plan fiduciary net position - beginning	7,277,915	6,612,057
Plan fiduciary net position - ending (b)	\$ 7,643,372	\$ 7,277,915
Fund's net pension liability - ending (a) - (b)	\$ 1,233,742	\$ 472,476
 Plan fiduciary net position as a percentage of the total pension liability	 86.10%	 93.90%
Covered employee payroll	\$ 3,135,634	\$ 2,870,669
Fund's net position as a percentage of covered employee payroll	 39.35%	 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, 2016

	9/30/2016	9/30/2015
Actuarially determined employer contributions	\$ 369,180	\$ 312,836
Contributions in relation to the actuarially determined contribution	\$ 369,180	\$ 312,836
Contribution deficiency (excess)	\$ -	\$ -
Annual covered employee payroll	\$ 3,135,634	\$ 2,870,669
Employer contributions as a percentage of covered employee payroll	11.77%	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: Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.
Notes

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	2.5%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2009 - 2013
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, 2016

	Public Safety	Heath EDC	Heath MBC	Total Nonmajor Governmental
<u>Assets</u>				
Cash and cash equivalents	\$ 142,430	\$ 1,559,512	\$ 1,626,494	\$ 3,328,436
Receivables, net	-	53,569	55,369	108,938
Total Assets	\$ 142,430	\$ 1,613,081	\$ 1,681,863	\$ 3,437,374
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ -	\$ 3,718	\$ 122,182	\$ 125,900
Total Liabilities	-	3,718	122,182	125,900
Fund Balances:				
Restricted	26,633	1,609,363	1,559,681	3,195,677
Assigned	115,797	-	-	115,797
Total Fund Balances	142,430	1,609,363	1,559,681	3,311,474
Total Liabilities and Fund Balances	\$ 142,430	\$ 1,613,081	\$ 1,681,863	\$ 3,437,374

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, 2016

	<u>Public Safety</u>	<u>Heath EDC</u>	<u>Heath MBC</u>	<u>Total Nonmajor Governmental</u>
<u>Revenues</u>				
Taxes:				
Sales tax	\$ -	\$ 287,778	\$ 287,778	\$ 575,556
Investment income	369	3,950	4,275	8,594
Other revenue	4,186	-	5,000	9,186
Total Revenues	<u>4,555</u>	<u>291,728</u>	<u>297,053</u>	<u>593,336</u>
<u>Expenditures</u>				
Current:				
Public safety	1,131	-	-	1,131
Economic development	-	55,377	-	55,377
Economic opportunity	-	-	103,004	103,004
Debt service:				
Principal	-	20,000	30,000	50,000
Interest and fiscal charges	-	5,000	8,300	13,300
Capital outlay	-	-	149,249	149,249
Total Expenditures	<u>1,131</u>	<u>80,377</u>	<u>290,553</u>	<u>372,061</u>
Excess (Deficiency) of Revenues over Expenditures	3,424	211,351	6,500	221,275
<u>Other Financing Sources (Uses)</u>				
Transfers (out)	-	(17,087)	(17,087)	(34,174)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(17,087)</u>	<u>(17,087)</u>	<u>(34,174)</u>
Net Change in Fund Balances	3,424	194,264	(10,587)	187,101
Beginning fund balances	<u>139,006</u>	<u>1,415,099</u>	<u>1,570,268</u>	<u>3,124,373</u>
Ending Fund Balances	<u>\$ 142,430</u>	<u>\$ 1,609,363</u>	<u>\$ 1,559,681</u>	<u>\$ 3,311,474</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, 2016

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ 1,935,200	\$ 1,942,303	\$ 7,103
Special assessments	2,900	2,710	(190)
Investment income	400	1,093	693
Total Revenues	1,938,500	1,946,106	7,606
<u>Expenditures</u>			
Debt service:			
Principal	1,307,400	1,432,295	(124,895) *
Interest	897,500	822,766	74,734
Bond issuance costs	47,037	46,474	563
Total Expenditures	2,251,937	2,301,535	(49,598)
Revenues Over (Under) Expenditures	(313,437)	(355,429)	(41,992)
<u>Other Financing Sources (Uses)</u>			
Refunding bonds	4,725,000	4,725,000	-
Payment to bond escrow agent	(4,848,500)	(4,621,080)	227,420
Premium on refunding bond issued	170,537	-	(170,537)
Total Other Financing Sources (Uses)	47,037	103,920	56,883
Net Change in Fund Balance	\$ (266,400)	(251,509)	\$ 14,891
Beginning fund balance		552,757	
Ending Fund Balance		\$ 301,248	

Notes to Required Supplementary Information

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

City of Heath, Texas
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
HEATH ECONOMIC DEVELOPMENT CORPORATION
For the Year Ended September 30, 2016

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Sales tax	\$ 274,600	\$ 287,778	\$ 13,178
Investment income	600	3,950	3,350
Total Revenues	275,200	291,728	16,528
<u>Expenditures</u>			
Current:			
Economic development	129,550	55,377	74,173
Debt service:			
Principal	20,000	20,000	-
Interest and fiscal charges	5,000	5,000	-
Total Expenditures	154,550	80,377	74,173
Revenues Over (Under)			
Expenditures	120,650	211,351	90,701
<u>Other Financing Sources (Uses)</u>			
Transfers (out)	(16,000)	(17,087)	(1,087)
Total Other Financing Sources (Uses)	(16,000)	(17,087)	(1,087)
Net Change in Fund Balance	\$ 104,650	194,264	\$ 89,614
Beginning fund balance		1,415,099	
Ending Fund Balance		\$ 1,609,363	

Notes to Required Supplementary Information

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

City of Heath, Texas
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
HEATH MUNICIPAL BENEFITS CORPORATION
For the Year Ended September 30, 2016

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Sales tax	\$ 274,600	\$ 287,778	\$ 13,178
Investment income	1,000	4,275	3,275
Other income	-	5,000	5,000
Total Revenues	275,600	297,053	21,453
<u>Expenditures</u>			
Current:			
Economic opportunity	207,800	103,004	104,796
Debt service:			
Principal	30,000	30,000	-
Interest and fiscal charges	8,300	8,300	-
Capital outlay	150,000	149,249	751
Total Expenditures	396,100	290,553	105,547
Revenues Over (Under) Expenditures	(120,500)	6,500	127,000
<u>Other Financing Sources (Uses)</u>			
Transfers (out)	(16,000)	(17,087)	(1,087)
Total Other Financing Sources (Uses)	(16,000)	(17,087)	(1,087)
Net Change in Fund Balance	\$ (136,500)	(10,587)	\$ 125,913
Beginning fund balance		1,570,268	
Ending Fund Balance		\$ 1,559,681	

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, 2016

	<u>Balance</u> <u>October 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>September 30, 2016</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 543,197	\$ 84,183	\$ -	\$ 627,380
Total Assets	<u>543,197</u>	<u>84,183</u>	<u>-</u>	<u>627,380</u>
<u>Liabilities</u>				
Accrued liabilities	543,197	84,183	-	627,380
Total Liabilities	<u>\$ 543,197</u>	<u>\$ 84,183</u>	<u>\$ -</u>	<u>\$ 627,380</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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Governmental Activities				
Net investment in				
capital assets	\$ 18,540,309	\$ 17,984,906	\$ 19,089,641	\$ 17,895,266
Restricted	146,285	1,117,725	2,104,386	5,438,453
Unrestricted	4,200,838	4,158,988	3,197,493	513,677
Total Governmental				
Net Position	<u>\$ 22,887,432</u>	<u>\$ 23,261,619</u>	<u>\$ 24,391,520</u>	<u>\$ 23,847,396</u>
 Business-type Activities				
Net investment in				
capital assets	\$ 14,951,597	\$ 15,211,002	\$ 16,063,136	\$ 15,935,522
Restricted	-	-	-	-
Unrestricted	2,094,056	1,886,366	1,600,713	2,118,300
Total Business-type Activities Net Position	<u>\$ 17,045,653</u>	<u>\$ 17,097,368</u>	<u>\$ 17,663,849</u>	<u>\$ 18,053,822</u>
 Primary Government				
Net investment in				
capital assets	\$ 33,491,906	\$ 33,195,908	\$ 35,152,777	\$ 33,830,788
Restricted	146,285	1,117,725	2,104,386	5,438,453
Unrestricted	6,294,894	6,045,354	4,798,206	2,631,977
Total Primary Government Net Position	<u>\$ 39,933,085</u>	<u>\$ 40,358,987</u>	<u>\$ 42,055,369</u>	<u>\$ 41,901,218</u>

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
\$ 17,130,797	\$ 14,959,471	\$ 13,894,049	\$ 17,139,345	\$ 17,619,628	\$ 20,842,321
3,416,119	5,555,525	6,690,500	4,069,297	5,851,912	9,097,237
2,117,843	2,117,843	2,244,000	1,905,131	2,393,926	3,385,275
<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>	<u>\$ 33,324,833</u>
\$ 14,406,551	\$ 14,406,551	\$ 14,592,909	\$ 18,020,897	\$ 17,729,466	\$ 19,118,285
-	-	-	-	-	-
6,135,299	6,135,299	7,066,450	3,654,631	5,271,577	8,215,084
<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>	<u>\$ 27,333,369</u>
\$ 29,366,022	\$ 29,366,022	\$ 28,486,958	\$ 35,160,242	\$ 35,349,094	\$ 39,960,606
3,416,119	5,555,525	6,690,500	4,069,297	5,851,912	9,097,237
8,253,142	8,253,142	9,310,450	5,559,762	7,665,503	11,600,359
<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>	<u>\$ 60,658,202</u>

City of Heath, Texas

CHANGES IN NET POSITION

Last Ten Fiscal Years

(accrual basis of accounting)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Expenses				
Governmental activities:				
General government	\$ 1,152,697	\$ 1,173,682	\$ 1,045,672	\$ 928,201
Public safety	2,141,045	2,335,528	2,335,201	2,320,231
Public works	2,206,035	2,006,940	1,890,939	2,081,969
Culture and recreation	129,028	147,672	135,669	229,222
Economic development	-	13,183	355,286	5,146
Economic opportunity	5,000	6,003	8,119	4,258
Interest and fiscal charges	272,184	627,347	677,118	522,894
Total governmental activities	<u>5,905,989</u>	<u>6,310,355</u>	<u>6,448,004</u>	<u>6,091,921</u>
Business-type activities:				
Water and sewer	3,386,289	4,129,623	4,288,635	4,207,851
Solid waste	408,575	444,502	435,416	459,086
Total business-type activities	<u>3,794,864</u>	<u>4,574,125</u>	<u>4,724,051</u>	<u>4,666,937</u>
Total primary government	<u>\$ 9,700,853</u>	<u>\$ 10,884,480</u>	<u>\$ 11,172,055</u>	<u>\$ 10,758,858</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$ 25,820	\$ 17,374	\$ 27,772	\$ 61,063
Public safety	273,430	275,953	323,136	309,515
Public works	311,495	370,217	126,626	154,797
Culture and recreation	6,515	5,445	17,124	14,280
Operating grants and contributions	222,927	62,087	30,949	20,865
Capital grants and contributions	41,938	963,491	2,013,667	1,000
Total governmental activities	<u>882,125</u>	<u>1,694,567</u>	<u>2,539,274</u>	<u>561,520</u>
Business-type activities:				
Charges for services:				
Water and sewer	2,283,472	3,153,315	3,836,944	4,432,549
Solid waste	407,953	494,465	510,248	557,623
Operating grants and contributions	-	-	-	-
Capital grants and contributions	646,231	881,966	974,396	94,075
Total business-type activities	<u>3,337,656</u>	<u>4,529,746</u>	<u>5,321,588</u>	<u>5,084,247</u>
Total primary government	<u>\$ 4,219,781</u>	<u>\$ 6,224,313</u>	<u>\$ 7,860,862</u>	<u>\$ 5,645,767</u>
Net (Expense)/Revenue				
Governmental activities	\$ (5,023,864)	\$ (4,615,788)	\$ (3,908,730)	\$ (5,530,401)
Business-type activities	(457,208)	(44,379)	597,537	417,310
Total primary government	<u>\$ (5,481,072)</u>	<u>\$ (4,660,167)</u>	<u>\$ (3,311,193)</u>	<u>\$ (5,113,091)</u>

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
\$ 972,529	\$ 972,108	\$ 1,130,893	\$ 1,037,325	\$ 1,188,977	\$ 1,277,559
2,892,734	2,563,884	2,594,015	2,924,001	3,024,089	3,112,772
1,603,281	2,400,169	2,010,404	2,064,771	2,336,387	2,686,868
243,985	244,264	232,883	250,703	392,967	452,702
6,620	74,363	45,149	121,733	145,785	140,735
3,809	9,876	46,407	29,413	172,992	82,999
518,723	440,348	487,552	697,067	887,976	900,039
<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>	<u>8,653,674</u>
4,486,947	4,636,550	4,696,947	4,779,334	5,300,822	5,954,360
457,809	455,154	459,156	477,945	489,701	476,804
<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>6,431,164</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>	<u>\$ 15,084,838</u>
\$ 70,017	\$ 35,030	\$ 28,000	\$ 45,070	\$ 39,260	\$ 38,365
325,953	339,991	374,837	437,582	484,400	641,126
122,527	20,572	33,163	60,684	84,226	133,966
16,630	7,857	9,830	6,190	5,215	5,960
32,744	223,971	205,204	206,313	239,646	247,454
262,258	-	801,848	1,004,919	2,721,107	7,053,743
<u>830,129</u>	<u>627,421</u>	<u>1,452,882</u>	<u>1,760,758</u>	<u>3,573,854</u>	<u>8,120,614</u>
5,657,062	5,263,550	5,445,750	4,973,658	5,759,498	6,307,932
559,007	541,434	540,592	541,124	549,198	567,173
-	503,138	-	-	-	-
-	-	317,567	-	1,030,273	4,112,483
<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>10,987,588</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>	<u>\$ 19,108,202</u>
\$ (5,411,552)	\$ (6,077,591)	\$ (5,094,421)	\$ (5,364,255)	\$ (4,575,319)	\$ (533,060)
1,271,313	1,216,418	1,147,806	257,503	1,548,446	4,556,424
<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>	<u>\$ 4,023,364</u>

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
General Revenues				
Governmental activities:				
Taxes:				
Property taxes	\$ 3,163,746	\$ 3,514,859	\$ 3,726,270	\$ 3,797,959
Sales and other taxes	681,606	734,738	713,804	763,036
Franchise taxes	259,663	387,143	444,648	406,495
Investment earnings	278,568	394,001	112,500	35,500
Other income	27,552	45,596	42,642	19,839
Gain (loss) on sale of assets	-	-	-	2,461
Special items	-	-	-	-
Transfers, net	-	-	85,494	47,200
Total governmental activities	<u>4,411,135</u>	<u>5,076,337</u>	<u>5,125,358</u>	<u>5,072,490</u>
Business-type activities:				
Investment earnings	110,018	157,476	51,708	16,259
Other Income	4,700	9,668	2,730	2,223
Gain (loss) on sale of assets	-	7,060	-	1,381
Special items	-	-	-	-
Transfers, net	-	-	(85,494)	(47,200)
Total business-type activities	<u>114,718</u>	<u>174,204</u>	<u>(31,056)</u>	<u>(27,337)</u>
Total primary government	<u>\$ 4,525,853</u>	<u>\$ 5,250,541</u>	<u>\$ 5,094,302</u>	<u>\$ 5,045,153</u>
Change in Net Position				
Governmental activities	\$ (612,729)	\$ 460,549	\$ 1,216,628	\$ (457,911)
Business-type activities	(342,490)	129,825	566,481	389,973
Total primary government	<u>\$ (955,219)</u>	<u>\$ 590,374</u>	<u>\$ 1,783,109</u>	<u>\$ (67,938)</u>

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
\$	3,762,727	\$ 3,764,144	\$ 3,770,807	\$ 3,894,536	\$ 5,239,879	\$ 5,456,333
	742,285	764,377	870,171	1,000,205	1,063,151	1,158,386
	483,349	570,755	496,413	525,783	561,488	553,374
	37,129	11,577	10,280	8,187	8,850	54,322
	6,791	145,622	102,460	180,712	227,744	530,162
	58,354	-	-	-	-	-
	1,601,389	-	-	-	-	-
	(1,659,610)	40,000	40,000	204,000	225,900	239,850
	<u>5,032,414</u>	<u>5,296,475</u>	<u>5,290,131</u>	<u>5,813,423</u>	<u>7,327,012</u>	<u>7,992,427</u>
	33,578	7,677	9,703	7,037	2,969	15,752
	9,166	-	-	-	-	-
	-	-	-	-	-	-
	(1,706,810)	-	-	-	-	-
	1,659,610	(40,000)	(40,000)	(204,000)	(225,900)	(239,850)
	<u>(4,456)</u>	<u>(32,323)</u>	<u>(30,297)</u>	<u>(196,963)</u>	<u>(222,931)</u>	<u>(224,098)</u>
\$	<u>5,027,958</u>	<u>5,264,152</u>	<u>5,259,834</u>	<u>5,616,460</u>	<u>7,104,081</u>	<u>7,768,329</u>
\$	(379,138)	\$ (781,116)	\$ 195,710	\$ 449,168	\$ 2,751,693	\$ 7,459,367
	1,266,857	1,184,095	1,117,509	60,540	1,325,515	4,332,326
\$	<u>887,719</u>	<u>402,979</u>	<u>1,313,219</u>	<u>509,708</u>	<u>4,077,208</u>	<u>11,791,693</u>

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
General fund:				
Reserved	\$ 9,816	\$ 230,000	\$ 9,132	\$ 12,007
Nonspendable	-	-	-	-
Committed	-	-	-	-
Unreserved	2,630,293	2,453,094	1,760,597	2,038,657
Unassigned	-	-	-	-
Total general fund	<u>\$ 2,640,109</u>	<u>\$ 2,683,094</u>	<u>\$ 1,769,729</u>	<u>\$ 2,050,664</u>
All other governmental funds:				
Reserved	\$ 1,210,352	\$ 919,619	\$ 1,492,263	\$ 1,224,566
Restricted	-	-	-	-
Unreserved, reported in:				
Special revenue funds	1,333,917	1,725,133	1,653,512	1,948,523
Capital projects funds	(1,272,997)	6,194,274	4,359,876	4,077,618
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total all other governmental funds	<u>\$ 1,271,272</u>	<u>\$ 8,839,026</u>	<u>\$ 7,505,651</u>	<u>\$ 7,250,707</u>

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

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	6,720	13,410	19,013	26,332	27,139
11,000	11,000	11,000	11,000	11,000	-
-	-	-	-	-	-
2,482,201	2,380,554	2,545,423	2,534,965	2,664,300	2,886,117
<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>	<u>\$ 2,913,256</u>

\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5,491,603	5,555,525	6,690,500	19,981,226	19,366,246	17,122,592
-	-	-	-	-	-
-	-	-	-	-	-
92,758	104,849	107,915	131,558	114,434	115,797
-	-	-	-	-	-
<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>	<u>\$ 17,238,389</u>

City of Heath, Texas

CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS

Last Ten Years

(modified accrual basis of accounting)

	2007	2008	2009	2010
Revenues				
Taxes	\$ 4,194,544	\$ 4,665,869	\$ 4,847,760	\$ 5,015,072
Licenses and permits	242,760	376,404	129,832	160,568
Intergovernmental	183,249	237,935	735,123	240,290
Charges for services	111,828	25,776	69,779	94,694
Fines and forfeitures	63,711	47,842	56,907	43,467
Special assessments	42,455	15,499	25,267	19,219
Investment income	288,311	397,653	121,090	50,204
Other revenue	295,332	220,193	637,078	43,171
Total Revenues	5,422,190	5,987,171	6,622,836	5,666,685
Expenditures				
Administration	1,110,994	1,112,099	965,693	868,210
Highways and streets	753,069	385,222	257,256	592,398
Parks	241,029	174,385	78,711	133,050
Engineering and building inspection	330,352	464,099	404,487	429,663
Municipal court	98,849	82,268	89,384	84,535
Public safety	1,884,376	2,140,221	2,544,061	2,215,536
Economic development	0	12,984	355,286	5,146
Economic opportunity	5,000	6,202	8,119	4,258
Debt service				
Principal	355,060	577,938	608,947	617,745
Interest	271,074	704,191	712,808	739,814
Bond issuance costs	-	102,771	-	-
Capital outlay	1,289,531	1,038,444	3,151,084	-
Total Expenditures	6,339,334	6,800,824	9,175,836	5,690,355
Revenues over (under) expenditures	(917,144)	(813,653)	(2,553,000)	(23,670)
Other Financing Sources (Uses)				
Transfers in	-	263,278	1,379,045	334,052
Transfers (out)	-	(263,278)	(1,370,138)	(286,852)
Sale of capital assets	-	-	-	2,461
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	49,661
Special items	-	-	-	-
Net Change in Fund Balances	\$ (917,144)	\$ 7,610,739	\$ (2,246,740)	\$ 25,991
Ratio of total debt service expenditures to noncapital expenditures	12%	22%	22%	24%

	2011	2012	2013	2014	2015	2016
\$	4,946,164	\$ 4,997,248	\$ 5,146,045	\$ 5,441,572	\$ 6,873,071	\$ 7,138,495
	133,627	247,002	293,488	394,519	401,364	638,651
	246,703	223,971	205,204	1,211,232	239,646	247,454
	98,495	105,415	103,513	117,496	170,445	139,238
	52,107	39,016	48,829	37,511	41,292	41,528
	13,611	11,284	15,504	20,651	14,641	2,710
	48,356	11,577	10,280	8,187	8,850	54,322
	300,225	140,650	92,316	189,889	1,224,304	410,162
	<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>	<u>8,672,560</u>
	925,233	940,172	956,640	1,030,082	1,257,621	1,234,464
	310,584	307,928	361,169	410,568	653,586	650,513
	189,515	133,073	133,338	150,219	246,842	258,840
	354,838	399,720	495,373	409,396	427,916	597,175
	86,400	61,577	51,263	50,923	54,875	54,685
	2,648,686	2,275,336	2,415,348	2,643,877	2,813,878	2,902,410
	6,620	67,345	44,850	121,007	133,823	160,741
	3,809	2,857	46,108	28,687	161,030	103,004
	533,864	789,852	606,244	822,747	878,533	1,482,295
	798,546	428,911	396,836	430,307	1,081,188	836,066
	32,230	-	25,017	87,555	-	46,474
	-	500,582	806,680	3,772,108	1,985,671	2,840,330
	<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>	<u>11,166,997</u>
	(51,037)	(131,190)	(423,687)	(2,536,419)	(721,350)	(2,494,437)
	93,083	40,000	40,000	1,339,657	225,900	239,850
	(1,752,693)	-	-	-	-	-
	58,883	-	-	-	-	120,000
	(15,723)	-	-	-	-	-
	163,962	-	89,116	301,276	-	-
	2,536,500	-	3,254,037	14,205,000	-	4,725,000
	(2,343,654)	-	(1,649,866)	-	-	(4,621,080)
	<u>(1,259,642)</u>	<u>40,000</u>	<u>1,733,287</u>	<u>15,845,933</u>	<u>225,900</u>	<u>463,770</u>
	-	(105,421)	-	-	-	-
\$	<u>(1,310,679)</u>	<u>(196,611)</u>	<u>\$ 1,309,600</u>	<u>\$ 13,309,514</u>	<u>\$ (495,450)</u>	<u>\$ (2,030,667)</u>
	23%	23%	18%	20%	34%	29%

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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
2007	\$ 909,186,855	\$ 44,590,348	\$ 51,704,348	\$ 902,072,855	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	1,192,942,377	18,668,100	107,786,000	1,103,824,477	0.34330
2014	1,222,944,691	19,788,280	110,634,664	1,132,098,307	0.42660
2015	1,303,855,443	20,525,510	118,167,490	1,206,213,463	0.42660
2016	1,363,145,688	21,756,470	119,374,987	1,265,527,171	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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Direct Rates:				
City of Heath - Operating	0.27860	0.27860	0.27860	0.27860
City of Heath - Debt Service	0.06470	0.06470	0.06470	0.06470
Total Direct Rate	<u>0.34330</u>	<u>0.34330</u>	<u>0.34330</u>	<u>0.34330</u>
Overlapping Rates:				
Rockwall Independent School District	1.71000	1.47000	1.47000	1.47000
Rockwall County	0.35070	0.35000	0.37500	0.38640
Kaufman County	0.56220	0.56150	0.55650	0.55650
Total Direct and Overlapping Rates	<u>2.9662</u>	<u>2.7248</u>	<u>2.7448</u>	<u>2.7562</u>

Tax rates per \$100 of assessed valuation.

Source: Rockwall Central Appraisal Districts and City records.

2011	2012	2013	2014	2015	2016
0.27860	0.26360	0.26360	0.27360	0.27360	0.27360
0.06470	0.07970	0.07970	0.15300	0.15300	0.15300
0.34330	0.34330	0.34330	0.42660	0.42660	0.42660
1.47000	1.47000	1.46000	1.44000	1.44000	1.44000
0.38640	0.38640	0.39590	0.39590	0.39590	0.39590
0.55650	0.55650	0.55650	0.50220	0.48950	0.49670
2.7562	2.7562	2.7557	2.7647	2.7520	2.7592

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

Property Tax Payer	2016			2007		
	Taxable Assessed Value	Rank	% of Taxable Assessed Value	Taxable Assessed Value	Rank	% of Taxable Assessed Value
HGYC, LLC	\$ 13,600,109	1	1.355%	\$ -	n/a	-
Oncor Electric Delivery Co	6,405,890	2	0.506%	5,259,730	3	0.663%
SNH Medical Office Properties	5,606,980	3	0.443%	-	n/a	-
Megatel Homes, Inc.	3,722,690	4	0.294%	-	n/a	-
BC Golf LTD	3,349,160	5	0.265%	2,703,330	6	0.342%
Marion Shawn	2,988,530	6	0.236%	-	n/a	-
McCrummen Estates Lot	2,720,000	7	0.215%	-	n/a	-
Heath JMU, LLC	2,655,320	8	0.210%	-	n/a	-
TR Heath Partners Ltd.	2,585,060	9	0.204%	3,109,760	5	0.393%
Ford, Rick & Brandi	2,516,280	10	0.199%	-	n/a	-
Whittle Development Inc	-	n/a	-	13,015,380	1	1.646%
Rainier Baylor Medical	-		-	6,314,530	2	0.799%
Daedelus Corporation	-	n/a	-	4,562,050	4	0.577%
Maul, Greg & Stacy	-	n/a	-	2,428,100	7	0.307%
Corona Resources	-	n/a	-	2,101,990	8	0.266%
Kelldorf, Mark	-	n/a	-	2,188,080	9	0.277%
Linehan, Stephen D & Rhonda	-	n/a	-	2,130,640	10	0.270%
Total	\$ 46,150,019		3.93%	\$ 43,813,590		5.54%
Total Assessed Valuation	\$ 1,265,527,171		100%	\$ 902,072,855		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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Tax levy	\$ 3,113,532	\$ 3,436,291	\$ 3,687,280	\$ 3,773,230
Current tax collected	\$ 3,021,159	\$ 3,373,108	\$ 3,603,302	\$ 3,709,041
Percent of current tax collections	97.0%	98.2%	97.7%	98.3%
Delinquent tax collections	\$ 92,373	\$ 63,183	\$ 57,594	\$ 31,968
Total tax collections	\$ 3,113,532	\$ 3,436,291	\$ 3,660,896	\$ 3,741,009
Total collections as a percentage of levy	100%	100%	99%	99%

Source: Rockwall Central Appraisal District

	2011	2012	2013	2014	2015	2016
\$	3,738,632	\$ 3,732,665	\$ 3,724,689	\$ 3,886,493	\$ 5,144,086	\$ 5,398,739
\$	3,673,075	\$ 3,684,359	\$ 3,684,359	\$ 3,844,606	\$ 5,125,661	\$ 5,353,707
	98.2%	98.7%	98.9%	98.9%	99.6%	99.2%
\$	49,363	\$ 42,891	\$ 27,894	\$ 37,226	\$ 16,230	\$ -
\$	3,722,438	\$ 3,727,250	\$ 3,712,253	\$ 3,881,832	\$ 5,141,891	\$ 5,353,707
	99.6%	99.6%	99.5%	99.7%	99.6%	99.2%

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Governmental activities:				
General Obligation Bonds	\$ 2,175,000	\$ 2,005,000	\$ 1,830,000	\$ 1,625,000
Certificates of Obligation	4,004,750	11,915,285	11,457,516	10,987,884
Capital Leases	-	-	-	-
Notes Payable	-	-	271,534	244,052
Business-type activities:				
General Obligation Bonds	939,906	904,910	868,246	829,917
Certificates of Obligation	7,221,250	11,754,715	11,252,484	10,732,116
Total primary government	<u>\$ 14,340,906</u>	<u>\$ 26,579,910</u>	<u>\$ 25,679,780</u>	<u>\$ 24,418,969</u>
Percentage of personal income (1)	4.42%	7.57%	7.04%	6.46%
Per capita (1)	\$ 1,121	\$ 2,156	\$ 2,094	\$ 1,978

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 123.

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
\$	2,955,000	\$ 2,530,000	\$ 3,915,000	\$ 3,490,000	\$ 3,060,000	\$ 2,735,000
	7,176,457	6,888,508	6,652,956	21,693,106	21,353,734	20,435,070
	251,263	202,684	154,627	104,868	53,346	-
	216,607	188,258	159,057	128,017	96,977	65,909
	789,921	748,333	705,000	3,955,000	3,625,000	563,380
	11,658,542	10,986,492	12,537,044	10,921,894	10,441,266	13,259,930
	<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>	<u>\$ 37,059,289</u>
	5.25%	4.41%	4.76%	8.92%	7.97%	7.29%
\$	1,564	\$ 1,377	\$ 1,457	\$ 3,551	\$ 3,277	\$ 2,697

City of Heath, Texas

RATIO OF GENERAL BONDED DEBT OUTSTANDING

Last Ten Years

	2007	2008	2009	2010
NET TAXABLE ASSESSED VALUE				
All property	\$ 902,072,855	\$ 1,000,424,437	\$ 1,071,826,749	\$ 1,101,524,185
NET BONDED DEBT (1)				
Gross bonded debt	7,119,656	14,825,195	14,155,762	13,442,801
Less debt service funds	-	-	-	-
Net Bonded Debt	\$ 7,119,656	\$ 14,825,195	\$ 14,155,762	\$ 13,442,801
RATIO OF NET BONDED DEBT TO ASSESSED VALUE	0.79%	1.48%	1.32%	1.22%
POPULATION	6,350	6,875	6,890	6,921
NET BONDED DEBT PER CAPITA	\$ 1,121	\$ 2,156	\$ 2,055	\$ 1,942

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>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
\$ 1,089,241,489	\$ 1,087,289,484	\$ 1,103,824,477	\$ 1,132,098,307	\$ 1,206,213,463	\$ 1,265,527,171
10,921,378	10,166,841	11,272,956	29,138,106	28,038,734	23,733,450
-	-	-	-	-	-
<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>	<u>\$ 23,733,450</u>
1.00%	0.94%	1.02%	2.57%	2.32%	1.88%
7,284	7,667	7,953	8,271	8,602	8,823
\$ 1,499	\$ 1,326	\$ 1,417	\$ 3,523	\$ 3,260	\$ 2,690

City of Heath, Texas

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

September 30, 2016

Governmental Unit	Net Bonded Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Rockwall Independent School District	\$ 428,976,671	18.11%	\$ 77,687,675
Rockwall County	110,610,000	15.22%	16,834,842
Kaufman County	98,492,742	19.70%	19,403,070
Subtotal, overlapping debt			113,925,587
City direct debt			23,170,070
Total direct and overlapping debt			\$ 137,095,657

Sources: Rockwall ISD, Rockwall County, Kaufman County

City of Heath, Texas
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years

Year	Estimated Population	Personal Income	Per Capita Personal Income	School Enrollment	Unemployment Rate
				<u>Rockwall ISD</u>	<u>Rockwall County</u>
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	8,602	508,128,742	59,071	4,650	3.9%
2016	8,823	508,151,862	57,594	4,677	3.7%

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

City of Heath, Texas
PRINCIPAL EMPLOYERS
Current Fiscal Year and Nine Years Ago

Employer	2016			2007		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Rockwall ISD	1,700	1	8.27%	1,601	1	9.97%
Texas Health Presbyterian Hospital	600	2	2.92%	n/a	n/a	n/a
Wal-Mart Superstore	450	3	2.19%	450	3	2.80%
County of Rockwall	307	4	1.49%	253	4	1.58%
Texas Star Express	300	5	1.46%	484	2	3.01%
City of Rockwall	262	6	1.27%	238	5	1.48%
Special Products & Manufacturing	168	7	0.81%	205	6	1.28%
L-3 Communications	150	8	0.73%	n/a	n/a	n/a
Home Depot	140	9	0.68%	130	10	0.81%
Bimbo Bakeries	134	10	0.65%	n/a	n/a	n/a
Target	n/a	n/a	n/a	200	7	1.25%
Rockwall Nursing Home	n/a	n/a	n/a	160	8	1.00%
Kohl's Department Store	n/a	n/a	n/a	140	9	0.87%
Total	4,211		20%	3,861		21%

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>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>	<u>2016</u>
General government and administration	6.5	7.5	7.5	5.5	5.5	5.5	6	5	5	6
Public safety	16	20	21	19	19	19	19	19	22	23
Public works	5	6	6	6	6	4	5	5	5	7
Culture and recreation	1	1	1	1	1	1	1	1	1	1
Water and sewer	11	11	11	9	9	9	10	9	9	10
Total	<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>	<u>47</u>

Sources: Various City departments.

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

Function/Program	2007	2008	2009	2010
General government				
Building permits issued	142	99	40	35
Building inspections conducted	597	698	800	721
Public safety				
Police				
Physical arrests	84	53	58	43
Burglary	23	38	14	32
Robbery	-	-	-	-
Theft	82	54	48	50
Traffic violations	170	189	147	185
Fire				
Emergency responses	253	316	149	210
Fires extinguished	9	9	7	10
Inspections	30	48	52	60
Public works				
Streets (feet)	6,936	103,400	88,000	270,000
Potholes repaired	770	800	800	800
Water				
New connections	171	174	126	90
Average annual consumption (thousands of gallons)	402	460	460	440
Wastewater				
Average daily sewage treatment (thousands of gallons)	317	317	310	390

Sources: Various City departments.

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
31	47	64	71	79	116
721	921	911	1,224	1,352	4,949
22	168	137	71	58	79
16	24	16	5	8	5
-	1	-	-	-	-
31	82	86	35	38	37
303	330	331	309	242	347
225	173	169	143	145	172
25	11	5	3	7	9
60	52	69	4	2	49
-	-	-	1,370	2,100	4,365
800	800	100	200	125	-
94	103	115	100	92	143
491	487	474	371	445	496
312	377	255	284	411	526

City of Heath, Texas
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Years

Function/Program	2007	2008	2009	2010
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	175	175
Cultural and recreational				
Acreage	71	71	71	94
Playgrounds (1)	1	1	2	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	52	52
Fire hydrants	163	183	199	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>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
1	1	1	1	1	1
12	12	12	12	12	12
3	3	3	3	3	3
175	175	175	176	176	178
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
54	54	55	55	55	56
223	223	229	229	254	282
61	61	62	62	64	66
14	14	14	14	15	15

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