

**City of Heath, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2019**

resources of those funds *are not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

**Component Units**

The City maintains the accounting and financial statements for two component units, the Heath Economic Development Corporation (EDC) and the Heath Municipal Benefits Corporation (MBC). The EDC and MBC are reported as discretely presented component units. The Club Municipal Management District is also 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 \$72,510,219 as of September 30, 2019, in the primary government.

The largest portion of the City's net position, \$57,171,937, 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**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2019

**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"), Heath Municipal Benefits Corporation (the "HMBC"), and the **Club Municipal Management District Number 1** (the "Club MMD") are legally separate and presented as discretely presented component units. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

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

**City of Heath, Texas**  
**NOTES TO FINANCIAL STATEMENTS, *Continued***  
**September 30, 2019**

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.

**Discretely Presented 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. 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 does not provide services entirely, or almost entirely to the City, nor does it maintain debt of any type that are repaid using City resources. The HEDC collects a half cent sales tax to support its 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. 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 does not provide services entirely, or almost entirely to the City, nor does it maintain debt of any type that are repaid using City resources. The HMBC collects a half cent sales tax to support its 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.

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 82<sup>nd</sup> Texas legislature in 2011. The primary purpose of the district is to facilitate the construction and continued maintenance of a quality mixed-use residential and commercial development to benefit city residents. The City of Heath Municipal Management District is governed by a board of directors appointed, at will, by the City Council. Club MMD does not provide services entirely, or almost entirely to the City, nor does it maintain debt of any type that are repaid using City resources. Club MMD issues separate financial statements that are available from their administrative office. The City has the ability to impose its will over the district, and therefore it is considered a component unit of the City.

**City of Heath, Texas**  
**BALANCE SHEET**  
**DISCRETELY PRESENTED COMPONENT UNITS**  
**September 30, 2019**

	<b>Heath Club MMD</b>	<b>Heath EDC</b>	<b>Heath MBC</b>	<b>Total</b>
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 6,862	\$ 1,894,336	\$ 1,962,468	\$ 3,863,666
Restricted cash	1,181,298	-	-	1,181,298
Receivables, net	12,170,269	78,120	78,120	12,326,509
Prepays	3,179	355	-	3,534
<b>Total Assets</b>	<b>\$ 13,361,608</b>	<b>\$ 1,972,811</b>	<b>\$ 2,040,588</b>	<b>\$ 17,375,007</b>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 18,905	\$ 6,432	\$ 7,255	\$ 32,592
Accrued debt service payments owed	341,873	-	-	341,873
<b>Total Liabilities</b>	<b>360,778</b>	<b>6,432</b>	<b>7,255</b>	<b>374,465</b>
<b><u>Deferred Inflows of Resources</u></b>				
Unavailable revenue - Property assessments	12,170,269	-	-	12,170,269
<b><u>Fund Balances</u></b>				
Nonspendable	3,179	-	-	3,179
Restricted for:				
Debt service	839,425	-	-	839,425
Economic development	-	1,966,379	-	1,966,379
Economic opportunities	-	-	2,033,333	2,033,333
Unassigned	(12,043)	-	-	(12,043)
<b>Total Fund Balance</b>	<b>830,561</b>	<b>1,966,379</b>	<b>2,033,333</b>	<b>4,830,273</b>
<b>Total Liabilities, Deferred Inflows, and Fund Balance</b>	<b>\$ 13,361,608</b>	<b>\$ 1,972,811</b>	<b>\$ 2,040,588</b>	<b>\$ 17,375,007</b>

See Notes to Financial Statements.

# City of Heath, Texas

## RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION DISCRETELY PRESENTED COMPONENT UNITS

September 30, 2019

<b>Fund Balance</b>	\$ 4,830,273
<b>Adjustments for the Statement of Net Position:</b>	
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
Property assessment receivable	12,170,269
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(63,798)
Non-current liabilities due in one year	(269,900)
Non-current liabilities due in more than one year	(12,336,860)
<b>Net Position of the Discretely Presented Component Unit</b>	<u><u>\$ 4,329,984</u></u>

See Notes to Financial Statements.

# City of Heath, Texas

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE DISCRETELY PRESENTED COMPONENT UNITS For the Year Ended September 30, 2019

	<b>Heath Club MMD</b>	<b>Heath EDC</b>	<b>Heath MBC</b>	<b>Total</b>
<b><u>Revenues</u></b>				
Sales tax	\$ -	\$ 396,146	\$ 396,146	\$ 792,292
Property tax	1,060,889	-	-	1,060,889
Investment income	27,362	43,841	43,886	115,089
Other revenue	-	-	2,400	2,400
<b>Total Revenues</b>	<b>1,088,251</b>	<b>439,987</b>	<b>442,432</b>	<b>1,970,670</b>
<b><u>Expenditures</u></b>				
Current:				
General government	109,045	310,338	138,560	557,943
Grant to primary government	-	-	-	-
Debt Service:				
Principal	155,000	47,450	57,450	259,900
Interest and fiscal charges	780,012	3,347	5,820	789,179
Capital outlay	-	-	114,240	114,240
<b>Total Expenditures</b>	<b>1,044,057</b>	<b>361,135</b>	<b>316,070</b>	<b>1,721,262</b>
<b>Total Revenues</b>				
<b>Over (Under) Expenditures</b>	44,194	78,852	126,362	249,408
<b>Net Change in Fund Balance</b>	44,194	78,852	126,362	249,408
Beginning fund balance	786,367	1,887,527	1,906,971	4,580,865
<b>Ending Fund Balance</b>	<b>\$ 830,561</b>	<b>\$ 1,966,379</b>	<b>\$ 2,033,333</b>	<b>\$ 4,830,273</b>

See Notes to Financial Statements.

# City of Heath, Texas

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE DISCRETELY PRESENTED COMPONENT UNIT TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2019

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

Net changes in fund balance	\$	249,408
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Accrued interest		1,108
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		(155,000)
<p>The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Principal payments expensed		259,900
<b>Change in Net Position of the Discretely Presented Component Unit</b>	<b>\$</b>	<b><u>355,416</u></b>

See Notes to Financial Statements.

**City of Heath, Texas**  
**COMBINING SCHEDULE OF NET POSITION**  
**DISCRETELY PRESENTED COMPONENT UNITS**  
**September 30, 2019**

	<b>Heath Club MMD</b>	<b>Heath EDC</b>	<b>Heath MBC</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 6,862	\$ 1,894,336	\$ 1,962,468	\$ 3,863,666
Restricted assets - cash	1,181,298	-	-	1,181,298
Receivables, net	-	78,120	78,120	156,240
Prepays	3,179	355	-	3,534
<b>Total Current Assets</b>	<b>1,191,339</b>	<b>1,972,811</b>	<b>2,040,588</b>	<b>5,204,738</b>
Assessment receivables, net	12,170,269	-	-	12,170,269
<b>Total Noncurrent Assets</b>	<b>12,170,269</b>	<b>-</b>	<b>-</b>	<b>12,170,269</b>
<b>Total Assets</b>	<b>13,361,608</b>	<b>1,972,811</b>	<b>2,040,588</b>	<b>17,375,007</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	18,905	6,432	7,255	32,592
Accrued interest payable	364,546	409	716	365,671
Debt due within one year	200,000	47,450	62,450	309,900
	<b>583,451</b>	<b>54,291</b>	<b>70,421</b>	<b>708,163</b>
Noncurrent liabilities:				
Debt due in more than one year	12,035,000	120,930	180,930	12,336,860
	<b>12,035,000</b>	<b>120,930</b>	<b>180,930</b>	<b>12,336,860</b>
<b>Total Liabilities</b>	<b>12,618,451</b>	<b>175,221</b>	<b>251,351</b>	<b>13,045,023</b>
<b>Net Position</b>				
Economic development	-	1,797,590	-	1,797,590
Economic opportunities	-	-	1,789,237	1,789,237
Unrestricted	743,157	-	-	743,157
<b>Total Net Position</b>	<b>\$ 743,157</b>	<b>\$ 1,797,590</b>	<b>\$ 1,789,237</b>	<b>\$ 4,329,984</b>



**City of Heath, Texas**  
**COMBINING SCHEDULE OF ACTIVITIES**  
**DISCRETELY PRESENTED COMPONENT UNITS**  
**For the Year Ended September 30, 2019**

Functions/Programs	Expenses
<b>Component Units</b>	
<b>Governmental Activities</b>	
Heath EDC	\$ 313,532
Heath MBC	258,390
Heath Club MMD	888,332
<b>Total Governmental Activities</b>	<b>1,460,254</b>
<b>Total Component Units</b>	<b>\$ 1,460,254</b>

**General Revenues:**

Property assessments

Sales taxes

Investment income

Other revenues

**Total General Revenues**

**Change in Net Position**

Beginning Net Position (Deficit)

**Ending Net Position**

**Net (Expense) Revenue and Changes in Net Position**

<b>Heath Club MMD</b>	<b>Heath EDC</b>	<b>Heath MBC</b>	<b>Total</b>
\$ -	\$ (313,532)	\$ -	\$ (313,532)
-	-	(258,390)	(258,390)
(888,332)	-	-	(888,332)
<u>(888,332)</u>	<u>(313,532)</u>	<u>(258,390)</u>	<u>(1,460,254)</u>
<u>\$ (888,332)</u>	<u>\$ (313,532)</u>	<u>\$ (258,390)</u>	<u>\$ (1,460,254)</u>
905,889	-	-	905,889
-	396,146	396,146	792,292
27,362	43,841	43,886	115,089
-	-	2,400	2,400
<u>933,251</u>	<u>439,987</u>	<u>442,432</u>	<u>1,815,670</u>
44,919	126,455	184,042	355,416
698,238	1,671,135	1,605,195	3,974,568
<u>\$ 743,157</u>	<u>\$ 1,797,590</u>	<u>\$ 1,789,237</u>	<u>\$ 4,329,984</u>