

CITY OF HENDERSON
Henderson, Texas

ANNUAL FINANCIAL REPORT
September 30, 2010

**City of Henderson, Texas
Annual Financial Report
For the Year Ended September 30, 2010**

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FINANCIAL SECTION

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Independent Auditor's Report

March 17, 2011

Honorable City Council
City of Henderson
400 W. Main
Henderson, Texas 75652

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Henderson, Texas ("City") as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Henderson, Texas as of September 30, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2011, on our consideration the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

MEMBER

1

The Management's Discussion and Analysis and the budgetary comparison information on pages 3 through 12 and pages 47 through 48, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the City of Henderson, Texas' basic financial statements. The combining fund financial statements, the Schedule of Expenditures of Federal Awards, and the Schedule of Expenditures of State Awards are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



Richard P. Loughlin
Certified Public Accountant

City of Henderson, Texas
Management's Discussion and Analysis
 September 30, 2010

This section of the City of Henderson, Texas ("City") annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2010. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

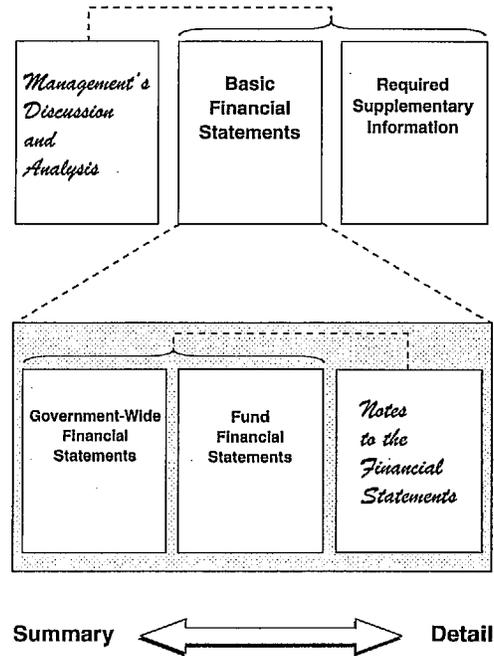
- The City's total combined net assets were \$39,696,449 at September 30, 2010.
- The total cost of the City's programs increased by 4.37% from the prior year. The most significant increases were in Public Services due to the opening of the new civic center.
- The general fund reported a fund balance this year of \$4,364,077, of which \$4,287,280 was unreserved and undesignated, and the remaining \$76,797 was reserved for various purposes.
- The City issued no new debt during the year ended September 30, 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts—management's discussion and analysis (this section), the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses.
- Fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

Figure A-1, Required Components of the City's Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2010

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 private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets 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 in this statement 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 are designed to distinguish functions of the City that are principally supported by taxes, intergovernmental revenues, fees, and fines (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, sanitation, streets, culture and recreation, and debt service. The business-type activities of the City are comprised of a water and sewer utility fund.

The Government-wide Financial Statements include not only the City itself (known as the primary government) but also a legally separate economic development corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The Government-wide Financial Statements can be found on pages 13-14 of this report.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- Governmental funds — Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between them.

The City maintains twelve (12) 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, which is considered to be a major fund. A budgetary comparison schedule has been provided for the General Fund on pages 47-48 to demonstrate compliance with the annual appropriated budget. Data from the other eleven (11) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of Combining Statements elsewhere in this report.

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2010

The basic Governmental Fund Financial Statements can be found on pages 15-18 of this report.

- Proprietary funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

The City maintains two different 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 an enterprise fund to account for its Water and Sewer utility. The City also maintains an Internal Service Fund, which is an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses the Internal Service Fund to account for its self-insured health insurance activities (the collection of payments by the City and its employees for health insurance premiums and the payment of health insurance claims of City employees). Because this service predominately benefits the governmental rather than business-type functions of the City, it has been included within governmental activities in the Government-wide Financial Statements.

Proprietary Funds provide the same type of information as the Government-wide Financial Statements, only in more detail.

The basic Proprietary Fund Financial Statements can be found on pages 19-21 of this report.

- Fiduciary funds — The City is the trustee, or fiduciary, for certain funds. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

The City's basic Fiduciary Fund Financial Statements can be found on pages 22-23 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-wide and Fund Financial Statements. The Notes to the Financial Statements can be found on pages 24-46 of this report.

Other Information

In addition to the Basic Financial Statements and accompanying Notes, this report also presents Combining and Individual Fund Financial Statements for the nonmajor governmental funds. The Combining and Individual Fund Financial Statements may be found on pages 49-54 of this report.

Single Audit

The City did not expend in excess of \$500,000 in federal financial assistance during the year ended September 30, 2010. As a result, a single audit in accordance with Office of Management and Budget (OMB) Circular A-133 was not required. Additionally, the City did not expend in excess of \$500,000 in state financial assistance during the year ended September 30, 2010. Consequently, a single audit in accordance with the State of Texas Single Audit Circular was also not required. The Compliance, Federal, and State Financial Assistance section of this report begins on page 55.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, Net Assets may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$39,696,449 at the close of the most recent fiscal year.

By far, the largest portion of the City's Net Assets (72.7%) reflects its investment in capital assets (e.g., Land, Buildings, Machinery and Equipment, Infrastructure, and its Water and Wastewater Distribution System), less the related debt to acquire those assets that is 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 capital assets is reported net of related

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2010

debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table A-1
City of Henderson, Texas
Net Assets

	Governmental		Business-Type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Current Assets:						
Cash and Cash Equivalents	\$ 5,523,625	\$ 7,181,390	\$ 3,988,534	\$ 4,669,330	\$ 9,512,159	\$ 11,850,720
Investments	13,960	71,389	25,064	107,055	39,024	178,444
Taxes Receivable (Net)	1,196,215	1,083,631	-	-	1,196,215	1,083,631
Accounts Receivable (Net)	533,898	442,461	604,374	602,302	1,138,272	1,044,763
Other Receivables	234,760	170,446	5,485	26,489	240,245	196,935
Total Current Assets	\$ 7,502,458	\$ 8,949,317	\$ 4,623,457	\$ 5,405,176	\$ 12,125,915	\$ 14,354,493
Noncurrent Assets:						
Capitalized Bond Issue Cost	\$ 31,161	\$ 34,669	\$ 118,524	\$ 135,898	\$ 149,685	\$ 170,567
Capital Assets	24,954,991	22,139,570	27,413,781	26,546,406	52,368,772	48,685,976
Accumulated Depreciation	(4,051,812)	(3,567,798)	(8,390,983)	(7,805,468)	(12,442,795)	(11,373,266)
Total Noncurrent Assets	\$ 20,934,340	\$ 18,606,441	\$ 19,141,322	\$ 18,876,836	\$ 40,075,662	\$ 37,483,277
Total Assets	\$ 28,436,798	\$ 27,555,758	\$ 23,764,779	\$ 24,282,012	\$ 52,201,577	\$ 51,837,770
Current Liabilities:						
Accounts Payable & Accrued Expenses	\$ 653,900	\$ 935,724	\$ 160,003	\$ 256,771	\$ 813,903	\$ 1,192,495
Due to Component Unit	194,437	173,458	-	-	194,437	173,458
Unearned Revenue	67,542	71,339	-	-	67,542	71,339
Customer Deposits	-	-	293,884	286,172	293,884	286,172
Total Current Liabilities	\$ 915,879	\$ 1,180,521	\$ 453,887	\$ 542,943	\$ 1,369,766	\$ 1,723,464
Noncurrent Liabilities:						
Due within one year	325,000	300,000	1,070,000	1,049,995	\$ 1,395,000	\$ 1,349,995
Due in more than one year	3,334,752	3,642,929	6,405,610	7,460,106	9,740,362	11,103,035
Total Noncurrent Liabilities	\$ 3,659,752	\$ 3,942,929	\$ 7,475,610	\$ 8,510,101	\$ 11,135,362	\$ 12,453,030
Total Liabilities	\$ 4,575,631	\$ 5,123,450	\$ 7,929,497	\$ 9,053,044	\$ 12,505,128	\$ 14,176,494
Net Assets:						
Invested in Capital Assets	\$ 17,492,219	\$ 14,862,979	\$ 11,357,468	\$ 11,148,973	\$ 28,849,687	\$ 26,011,952
Restricted	98,850	92,773	383,491	415,701	482,341	508,474
Unrestricted	6,270,098	7,476,556	4,094,323	3,664,294	10,364,421	11,140,850
Total Net Assets	\$ 23,861,167	\$ 22,432,308	\$ 15,835,282	\$ 15,228,968	\$ 39,696,449	\$ 37,661,276

\$405,544 of the City's net assets are restricted for debt service, \$11,297 are restricted for use in the Municipal Court, and \$65,500 are restricted for a cemetery endowment. The \$10,364,421 of unrestricted net assets represents resources available to fund the programs of the City next year.

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2010

Changes in Net Assets

Table A-2
City of Henderson, Texas
Changes in Net Assets

	Governmental		Business-Type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Program Revenues:						
Charges for Services	\$ 2,729,411	\$ 2,443,652	\$ 4,836,759	\$ 4,661,686	\$ 7,566,170	\$ 7,105,338
Operating Grants & Contributions	252,514	265,050	-	-	252,514	265,050
Capital Grants & Contributions	718,490	4,862,162	-	14,642	718,490	4,876,804
General Revenues:						
Property Taxes	3,085,032	2,880,966	-	-	3,085,032	2,880,966
Sales Taxes	3,020,465	3,690,531	-	-	3,020,465	3,690,531
Franchise and Other Taxes	1,061,752	1,053,915	-	-	1,061,752	1,053,915
Other	373,197	518,226	151,641	234,980	524,838	753,206
Total Revenues	\$ 11,240,861	\$ 15,714,502	\$ 4,988,400	\$ 4,911,308	\$ 16,229,261	\$ 20,625,810
Functions/Programs:						
General Government	\$ 2,101,906	\$ 1,997,335	\$ -	\$ -	\$ 2,101,906	\$ 1,997,335
Public Safety	4,058,991	4,025,537	-	-	4,058,991	4,025,537
Sanitation	1,336,593	1,314,358	-	-	1,336,593	1,314,358
Public Services	2,385,389	1,969,789	-	-	2,385,389	1,969,789
Interest on Long-Term Debt	147,405	157,380	-	-	147,405	157,380
Water & Sewer	-	-	4,163,804	4,135,046	4,163,804	4,135,046
Total Expenses	\$ 10,030,284	\$ 9,464,399	\$ 4,163,804	\$ 4,135,046	\$ 14,194,088	\$ 13,599,445
Increase in Net Assets						
Before Transfers	\$ 1,210,577	\$ 6,250,103	\$ 824,596	\$ 776,262	\$ 2,035,173	\$ 7,026,365
Transfers	218,282	312,609	(218,282)	(312,609)	-	-
Increase in Net Assets	\$ 1,428,859	\$ 6,562,712	\$ 606,314	\$ 463,653	\$ 2,035,173	\$ 7,026,365
Net Assets, Beginning	\$ 22,432,308	\$ 15,869,596	\$ 15,228,968	\$ 14,765,315	\$ 37,661,276	\$ 30,634,911
Net Assets, Ending	\$ 23,861,167	\$ 22,432,308	\$ 15,835,282	\$ 15,228,968	\$ 39,696,449	\$ 37,661,276

City of Henderson, Texas
Management's Discussion and Analysis
 September 30, 2010

Chart A-1
City of Henderson, Texas
Revenues for the Year Ended September 30, 2010

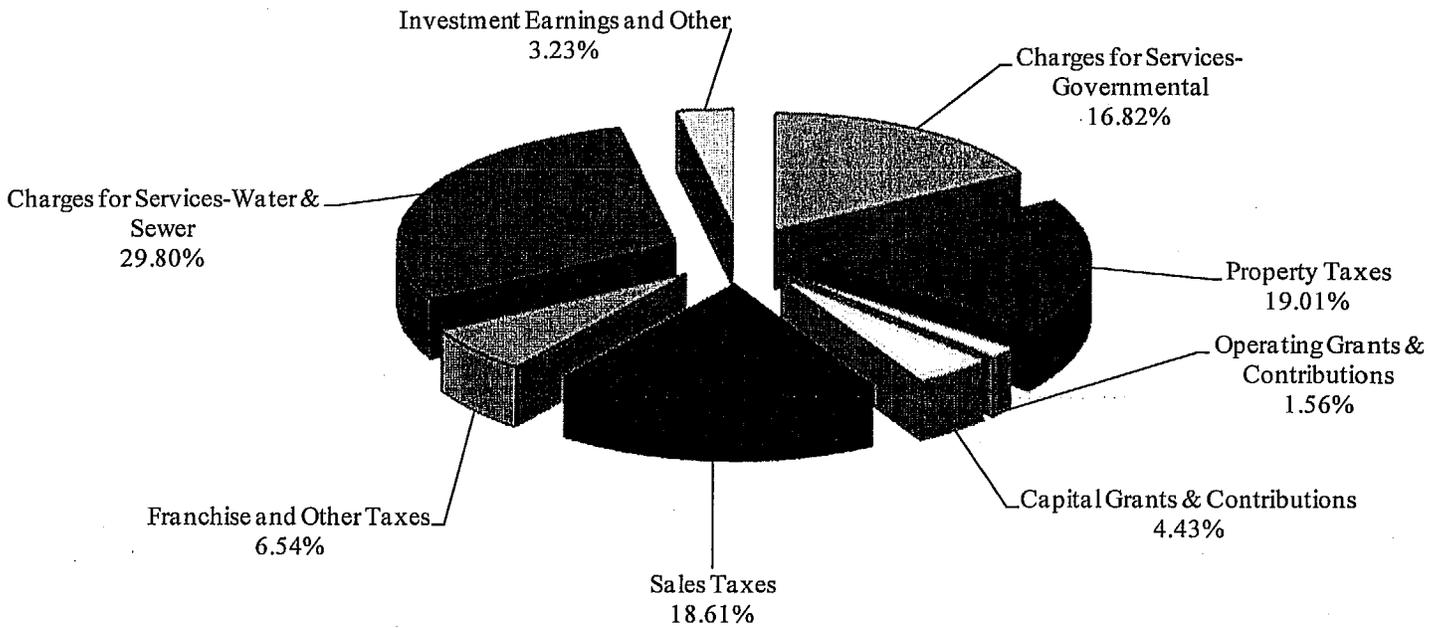
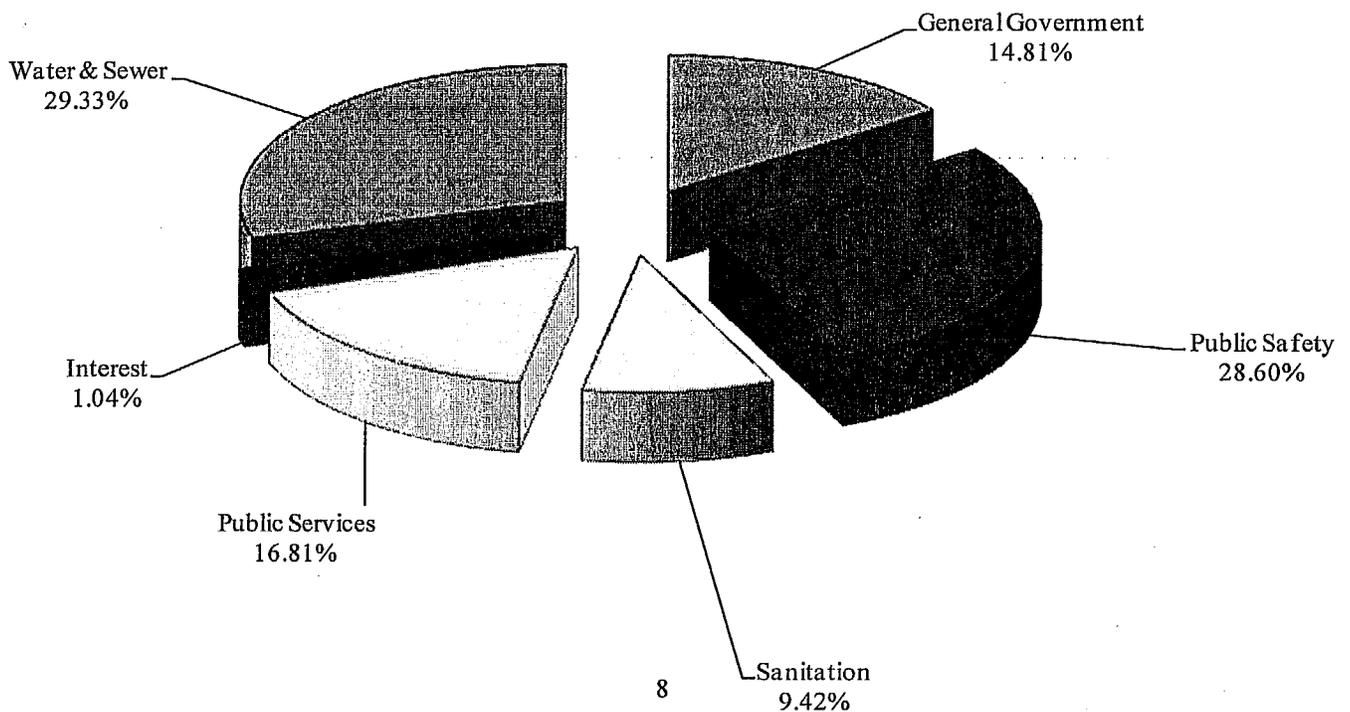


Chart A-2
City of Henderson, Texas
Expenses for the Year Ended September 30, 2010



City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2010

Governmental Activities

Governmental activities increased the City's net assets by \$1,428,859, thereby accounting for 70% of the total growth in the net assets of the City. Key elements in this increase are as follows:

- Property tax revenue increased \$204,066 or 7.08% as a result in the increase in the City's tax base.
- Sales tax revenue decreased \$670,066, or 18.16%. This decrease was a result of a general downturn in the national, state and local economy.
- Capital grants and contributions revenue decreased \$4,143,672, resulting primarily from the receipt of contributions and grants in the prior year from HEDCO, the City's component unit, the Federal Emergency Management Agency, the U.S. Housing and Urban Development through the State of Texas Office of Rural Community Affairs, Rusk County, Texas, and a local nonprofit organization for assistance in the construction of the civic center.
- Expenses for Governmental Activities increased only 5.98% for the year, as the City responded to the economic downturn by maintain expenses close to 2009 levels.

The resulting increase of \$1,428,859 was more consistent with years prior to 2009, when the increase was \$6,562,712.

Business-Type Activities

Business-type activities increased the City's net assets by \$606,314, thereby accounting for 30% of the total growth in the net assets of the City. Key elements in this increase are as follows:

- Water and sewer sales were up by 3.76%. Operating expenses were up by only 0.7%, again, as the City responded to the economic downturn by maintaining expenses close to 2009 levels.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, Unreserved Fund Balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's Governmental Funds reported combined ending Fund Balances of \$5,976,095, a decrease of \$1,335,969 in comparison with the prior year. The decrease in combined fund balances was as a direct result of the factors mentioned above (property taxes, sales taxes, and grants). Expenditures in Governmental Funds decreased \$2,938,127 from 2009. The primary reason for the decrease was due to decreased capital outlay expenditures, resulting from the majority of expenditures for the City's civic center project were in 2009.

A portion of the City's Fund Balance in its Governmental Funds (1.65%, which is \$98,850) is reserved to indicate that it is not available for new spending because it has already been committed (1) to generate income to pay for the perpetual care of City cemeteries-\$65,500; or (2) for security and technology improvements in the City's Municipal Court-\$11,297; or (3) for payment of the City's bonded debt-\$22,053. The remainder of the City's Fund Balances (\$5,877,245) are detailed below in Table A-3.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, Unreserved Fund Balance of the General Fund was \$4,287,280, while total Fund Balance was \$4,364,077. As a measure of the General Fund's liquidity, it may be useful to compare both Unreserved Fund Balance and total Fund Balance to total fund expenditures. Unreserved Fund Balance represents 46.64% of total General Fund expenditures, while total Fund Balance represents 47.48% of that same amount.

City of Henderson, Texas
Management's Discussion and Analysis
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The Fund Balance of the City's General Fund decreased by \$124,720 during the current fiscal year. Key factors in this decrease are:

- ◆ Overall revenues were down from 2009, approximately 3.9%, the most significant decline was in sales tax revenues as a result of the economic factors mentioned above.
- ◆ Expenditures increased only 2.0% as the City maintained spending near 2009 amounts.

Table A-3
City of Henderson, Texas
Unreserved Fund Balances - Governmental Funds

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
General Fund	\$ 4,287,280	\$ 4,415,961
Special Revenue Funds:		
Restricted Law Enforcement Fund	10,316	29,359
Task Force Fund	4,693	4,693
Tourism Fund	350,356	371,390
Main Street Fund	9,351	8,906
Cemetery Fund	81,867	84,221
Animal Shelter Fund	38,210	30,184
Capital Projects Funds:		
Street and Drainage Fund	652,031	503,773
General Construction Fund	237,988	450,764
Civic Center Fund	84,252	912,295
Parks Fund	120,901	407,745
Total	\$ 5,877,245	\$ 7,219,291

Proprietary Funds. The City's Proprietary Funds provide the same type of information as the Government-wide Financial Statements, only in more detail.

Unrestricted net assets of the Water & Sewer Enterprise Fund at the end of the year amounted to \$4,094,323. The total growth in net assets for the fund was \$606,314. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities above.

The City's other proprietary fund is the Self-Insurance Internal Service Fund. Unrestricted Net Assets at the end of the current year amounted to (\$17,645). The City experienced an increase in administrative costs and health claims paid by the fund during 2010. The City's operating budgets maintained contributions to the fund at approximately the 2009 levels.

General Fund Budgetary Highlights

The City budgets on a departmental basis, without regard to whether expenditures are current, capital, debt service, or a transfer to another fund. Additionally, transfers from other funds and carryovers from prior years are budgeted as revenue. Refer to Exhibits A-1 and A-2 and Note III to the financial statements for further information regarding the City's General Fund budgeting practices.

Over the course of the year, the City revised its budget. Differences between the original budget and the final amended budget were a net decrease in appropriations of \$363,868, reacting to the downturn in the economy. The most significant among the changes were in Public Services.

Differences between the final amended budget and actual General Fund expenditures were a net positive variance of \$22,313. There were no significant variances.

Additionally, available general fund revenues approximated the estimated amounts.

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2010

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the City's investment in capital assets for its governmental and business-type activities amounts to \$39,925,977 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, water and wastewater distribution system, infrastructure and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was 7%. The overall increase was primarily due to the additional infrastructure assets resulting from the completion of street projects, the purchase of a fire truck, and the completion of the construction of the City's civic center and park renovations. (See Table A-4.) More detailed information about the City's capital assets is presented in Note IV.C to the financial statements.

Table A-4
City of Henderson, Texas
Capital Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 1,320,523	\$ 1,277,585	\$ 410,131	\$ 410,131	\$ 1,730,654	\$ 1,687,716
Buildings and Improvements	7,348,318	2,565,332	442,426	442,426	7,790,744	3,007,758
Machinery and Equipment	3,345,728	3,059,432	1,021,984	1,031,524	4,367,712	4,090,956
Improvements other than Buildings	1,663,418	1,051,042	-	-	1,663,418	1,051,042
Water and Wastewater Distribution	-	-	25,539,240	24,596,426	25,539,240	24,596,426
Infrastructure	10,841,450	9,050,938	-	-	10,841,450	9,050,938
Construction in Progress	435,553	5,135,241	-	65,900	435,553	5,201,141
Total Capital Assets	\$24,954,990	\$22,139,570	\$27,413,781	\$26,546,407	\$52,368,771	\$48,685,977
Less: Accumulated Depreciation	(4,051,811)	(3,567,798)	(8,390,983)	(7,805,469)	(12,442,794)	(11,373,267)
Net Capital Assets	\$20,903,179	\$18,571,772	\$19,022,798	\$18,740,938	\$39,925,977	\$37,312,710

Long-Term Debt

At year-end, the City had \$11,135,362 in bonds, certificates of obligation, tax notes, and other long-term liabilities outstanding as shown in Table A-5. More detailed information about the City's debt is presented in Note IV.E to the financial statements.

Table A-5
City of Henderson, Texas
Long-Term Debt

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Bonds payable	\$ -	\$ -	\$ 6,653,276	\$ 7,540,163	\$ 6,653,276	\$ 7,540,163
Certificates of obligation payable	3,425,000	3,725,000	-	-	3,425,000	3,725,000
Tax Notes	-	-	785,000	900,000	785,000	900,000
Loans payable	-	-	-	29,995	-	29,995
Other Post-Employment Benefits (OPEB)	20,468	-	-	-	20,468	-
Compensated absences	214,284	217,929	37,334	39,943	251,618	257,872
Total	\$ 3,659,752	\$ 3,942,929	\$ 7,475,610	\$ 8,510,101	\$ 11,135,362	\$ 12,453,030

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2011 budget preparation is \$572,338,488 with a tax rate of \$0.4386 per \$100 valuation for general operations and a debt service rate of \$0.0831 per \$100 valuation for a total tax rate of \$0.5217 per \$100 valuation.
- Sales tax revenues in the 2011 budget are projected to be slightly higher than the actual amounts in the 2010 fiscal year.
- Sanitation revenues and the related payments to the sanitation contractor will increase due to an increase in the rate and increase in services provided.
- Water rates will remain the same as the 2010 year. Wastewater rates will increase effective October 1, 2010. The minimum charge for all accounts will increase by \$2, and there will be a slight increase in the price per thousand gallons.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT STAFF

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances. In addition, it provides evidence of accountability for funds the City receives.

Complete financial statements for HEDCO, the City's component unit may be obtained at HEDCO's administrative offices at 400 W. Main, Henderson, Texas 75652.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's Finance Department, at City of Henderson, Texas, 404 West Main Street, Henderson, Texas 75652.

BASIC FINANCIAL STATEMENTS

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**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

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City of Henderson, Texas
Statement of Net Assets
September 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	HEDCO
Assets				
Cash and cash equivalents	\$ 5,523,625	\$ 3,195,043	\$ 8,718,668	\$ 1,488,208
Investments	13,960	25,064	39,024	-
Receivables (net allowances for uncollectibles)				
Taxes	1,196,215	-	1,196,215	194,437
Accounts	533,898	604,374	1,138,272	-
Due from other governments	207,879	-	207,879	-
Notes	-	-	-	1,269,046
Special assessments	28,795	-	28,795	-
Other	-	3,571	3,571	-
Internal balances	(1,914)	1,914	-	-
Restricted cash and investments				
Cash and cash equivalents	-	793,491	793,491	-
Bond issuance costs	31,161	118,524	149,685	-
Capital assets (Net of accumulated depreciation)				
Land	1,320,523	410,130	1,730,653	1,678,904
Buildings and improvements	6,572,665	343,778	6,916,443	-
Machinery and equipment	1,057,375	409,226	1,466,601	-
Improvements other than buildings	1,358,688	-	1,358,688	-
Water and wastewater distribution	-	17,859,664	17,859,664	-
Infrastructure	10,158,375	-	10,158,375	-
Construction in progress	435,553	-	435,553	-
Total assets	\$ 28,436,798	\$ 23,764,779	\$ 52,201,577	\$ 4,630,595
Liabilities				
Accounts payable	\$ 550,386	\$ 131,408	\$ 681,794	\$ 31,183
Accrued liabilities	86,393	-	86,393	-
Accrued interest payable	17,121	28,595	45,716	-
Due to component unit	194,437	-	194,437	-
Unearned revenue	67,542	-	67,542	-
Customer deposits	-	293,884	293,884	-
Noncurrent liabilities:				
Due within one year	325,000	1,070,000	1,395,000	127,255
Due in more than one year	3,334,752	6,405,610	9,740,362	1,042,253
Total liabilities	\$ 4,575,631	\$ 7,929,497	\$ 12,505,128	\$ 1,200,691
Net Assets				
Invested in capital assets, net of related debt	\$ 17,492,219	\$ 11,357,468	\$ 28,849,687	\$ 1,678,904
Restricted:				
Cemetery endowment	65,500	-	65,500	-
Debt service	22,053	383,491	405,544	-
Municipal court	11,297	-	11,297	-
Unrestricted	6,270,098	4,094,323	10,364,421	1,751,000
Total net assets	\$ 23,861,167	\$ 15,835,282	\$ 39,696,449	\$ 3,429,904

The notes to the financial statements are an integral part of this statement.

City of Henderson, Texas
Statement of Activities
For the Year Ended September 30, 2009

Functions/Programs:	Programs Revenues				Net (Expenses) Revenue and Changes in Net Assets			Component Unit HEDCO
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 2,101,906	\$ 410,726	\$ 23,140	\$ -	\$ (1,668,040)		\$ (1,668,040)	
Public safety	4,058,991	-	199,456	182,000	(3,677,535)		(3,677,535)	
Sanitation	1,336,593	1,870,061	-	-	533,468		533,468	
Public services	2,385,389	448,624	29,918	536,490	(1,370,357)		(1,370,357)	
Interest on long-term debt	147,405	-	-	-	(147,405)		(147,405)	
Total governmental activities	<u>\$ 10,030,284</u>	<u>\$ 2,729,411</u>	<u>\$ 252,514</u>	<u>\$ 718,490</u>	<u>\$ (6,329,869)</u>		<u>\$ (6,329,869)</u>	
Business-type activities:								
Water and sewer	\$ 4,163,804	\$ 4,836,759	\$ -	\$ -		\$ 672,955	\$ 672,955	
Total business-type activities	<u>\$ 4,163,804</u>	<u>\$ 4,836,759</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 672,955</u>	<u>\$ 672,955</u>	
Total primary government	<u>\$ 14,194,088</u>	<u>\$ 7,566,170</u>	<u>\$ 252,514</u>	<u>\$ 718,490</u>	<u>\$ (6,329,869)</u>	<u>\$ 672,955</u>	<u>\$ (5,656,914)</u>	
Component units:								
Economic development	<u>\$ 404,937</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>			<u>\$ (404,937)</u>	
General revenues:								
Taxes:								
Property taxes					\$ 3,085,032	\$ -	\$ 3,085,032	
Sales taxes					3,020,465	-	3,020,465	
Franchise taxes					829,981	-	829,981	
Other taxes					231,771	-	231,771	
Investment earnings					204,042	130,867	334,909	
Gain/(loss) on disposition of capital assets					25,505	-	25,505	
Miscellaneous					143,650	20,774	164,424	
Transfers					218,282	(218,282)	-	
Total general revenues and transfers					<u>\$ 7,758,728</u>	<u>\$ (66,641)</u>	<u>\$ 7,692,087</u>	
Change in net assets					\$ 1,428,859	\$ 606,314	\$ 2,035,173	
Net assets, beginning					<u>22,432,308</u>	<u>15,228,968</u>	<u>37,661,276</u>	
Net assets, ending					<u>\$ 23,861,167</u>	<u>\$ 15,835,282</u>	<u>\$ 39,696,449</u>	

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

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City of Henderson, Texas
Balance Sheet
Governmental Funds
September 30, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 3,866,220	\$ 1,571,497	\$ 5,437,717
Investments	1,977	11,415	13,392
Receivables (net allowances for uncollectibles)			
Taxes:			
Sales	777,749	-	777,749
Property	196,393	-	196,393
Franchise	136,031	66,073	202,104
Hotel/Motel	-	19,969	19,969
Accounts			
Warrants	420,059	-	420,059
Sanitation	63,283	-	63,283
Other	24,534	26,022	50,556
Special assessments	-	28,795	28,795
Due from other governments	182,879	25,000	207,879
Due from other funds	3,544	4,953	8,497
Total assets	<u>\$ 5,672,669</u>	<u>\$ 1,753,724</u>	<u>\$ 7,426,393</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 404,791	\$ 41,474	\$ 446,265
Accrued liabilities	86,393	-	86,393
Due to component unit	194,437	-	194,437
Due to other funds	4,954	5,457	10,411
Unearned revenue	618,017	94,775	712,792
Total liabilities	<u>\$ 1,308,592</u>	<u>\$ 141,706</u>	<u>\$ 1,450,298</u>
Fund balances:			
Reserved for:			
Cemetery endowment	\$ 65,500	\$ -	\$ 65,500
Municipal court	11,297	-	11,297
Debt service	-	22,053	22,053
Unreserved, reported in:			
General fund	4,287,280	-	4,287,280
Special revenue funds	-	494,793	494,793
Capital projects funds	-	1,095,172	1,095,172
Total fund balances	<u>\$ 4,364,077</u>	<u>\$ 1,612,018</u>	<u>\$ 5,976,095</u>
Total liabilities and fund balances	<u>\$ 5,672,669</u>	<u>\$ 1,753,724</u>	<u>\$ 7,426,393</u>

The notes to the financial statements are an integral part of this statement.

City of Henderson, Texas
Reconciliation of the Balance Sheet-Governmental Funds
to the Statement of Net Assets
September 30, 2010

Amounts Reported for Governmental Activities in the Statement of Net Assets
are Different Because:

Total Fund Balances-Total Governmental Funds (Page 15)	\$ 5,976,095
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	20,903,179
Certain long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. (See Note II.A.)	645,250
An Internal Service Fund is used by management to charge the cost of claims to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Assets.	(17,645)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (See Note II.A.)	<u>(3,645,712)</u>
Net Assets of Governmental Activities (page 13)	<u>\$ 23,861,167</u>

City of Henderson, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes:			
Sales	\$ 3,020,465	\$ -	\$ 3,020,465
Property	2,635,989	440,181	3,076,170
Franchise	620,405	209,576	829,981
Hotel/Motel	-	231,771	231,771
Permits & fees	126,484	-	126,484
Charges for services	1,719,798	355,395	2,075,193
Fines & forfeitures	364,980	-	364,980
Intergovernmental	396,556	301,670	698,226
Miscellaneous	252,188	398,159	650,347
Total revenues	<u>\$ 9,136,865</u>	<u>\$ 1,936,752</u>	<u>\$ 11,073,617</u>
Expenditures:			
Current:			
General government:			
Administration	\$ 623,457	\$ -	\$ 623,457
Finance	254,102	-	254,102
Municipal court	233,662	-	233,662
Nondepartmental	945,768	-	945,768
Public safety			
Police	2,563,836	48,746	2,612,582
Fire	1,296,169	-	1,296,169
Sanitation	1,324,992	11,601	1,336,593
Public services:			
Tourism	-	239,075	239,075
Civic Center	-	79,428	79,428
Main Street	-	34,060	34,060
Streets	927,824	136,145	1,063,969
Parks	39,134	12,955	52,089
Community center	7,752	-	7,752
Cemeteries	7,875	28,406	36,281
Community development	285,967	42,680	328,647
Animal shelter	129,132	3,048	132,180
Capital outlay	552,146	2,354,670	2,906,816
Debt service:			
Principal	-	300,000	300,000
Interest and fiscal charges	-	145,238	145,238
Total expenditures	<u>\$ 9,191,816</u>	<u>\$ 3,436,052</u>	<u>\$ 12,627,868</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (54,951)</u>	<u>\$ (1,499,300)</u>	<u>\$ (1,554,251)</u>
Other Financing Sources (Uses):			
Transfers in	\$ 293,454	\$ 288,051	\$ 581,505
Transfers out	(363,223)	-	(363,223)
Total Other Financing Sources (Uses)	<u>\$ (69,769)</u>	<u>\$ 288,051</u>	<u>\$ 218,282</u>
Net Change in Fund Balances	\$ (124,720)	\$ (1,211,249)	\$ (1,335,969)
Fund Balances, Beginning	<u>4,488,797</u>	<u>2,823,267</u>	<u>7,312,064</u>
Fund Balances, Ending	<u>\$ 4,364,077</u>	<u>\$ 1,612,018</u>	<u>\$ 5,976,095</u>

The notes to the financial statements are an integral part of this statement.

City of Henderson, Texas
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances-Governmental Funds
To the Statement of Activities
For the Year Ended September 30, 2010

Amounts Reported for Governmental Activities in the Statement of Activities
are Different Because:

Net Change in Fund Balances-Total Governmental Funds (Page 17)	\$ (1,335,969)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (See Note II.B.)	2,331,407
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (See Note II.B.)	171,941
The issuance of long-term debt (e.g., bonds, leases) 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 assets. (See Note II.B.)	283,177
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. (See Note II.B.)	(2,167)
Internal Service Funds are used by management to charge the costs of health insurance to individual funds.	<u>(19,530)</u>
Changes in Net Assets of Governmental Activities (Page 14)	<u><u>\$ 1,428,859</u></u>

City of Henderson, Texas
Statement of Net Assets
Proprietary Funds
September 30, 2010

	Business-type Activities- Enterprise Fund	Governmental Activities- Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 3,195,043	\$ 85,908
Investments	25,064	568
Restricted cash and investments:		
Cash and cash equivalents	793,491	-
Accounts receivable - net of allowances for uncollectibles	604,374	-
Accrued interest receivable	3,571	-
Due from other funds	1,914	-
Total Current Assets	\$ 4,623,457	\$ 86,476
Noncurrent assets:		
Bond issuance costs	\$ 118,524	\$ -
Capital assets:		
Land	410,130	-
Buildings and improvements	442,426	-
Motor vehicles	314,356	-
Equipment	707,629	-
Water and wastewater distribution	25,539,240	-
Less: accumulated depreciation	(8,390,983)	-
Total capital assets	\$ 19,022,798	\$ -
Total noncurrent assets	\$ 19,141,322	\$ -
Total assets	\$ 23,764,779	\$ 86,476
<u>Liabilities</u>		
Current Liabilities:		
Accounts payable	\$ 131,408	\$ 104,121
Customer deposits	293,884	-
Accrued interest	28,595	-
Notes payable	115,000	-
Bonds payable	955,000	-
Total current liabilities	\$ 1,523,887	\$ 104,121
Long-term liabilities:		
Notes payable	\$ 670,000	\$ -
Bonds payable	5,698,276	-
Compensated absences payable	37,334	-
Total long-term liabilities	\$ 6,405,610	\$ -
Total liabilities	\$ 7,929,497	\$ 104,121
<u>Net Assets</u>		
Invested in capital assets, net of related debt	\$ 11,357,468	\$ -
Restricted for debt service and bond reserve	383,491	-
Unrestricted	4,094,323	(17,645)
Total net assets	\$ 15,835,282	\$ (17,645)

The notes to the financial statements are an integral part of this statement.

City of Henderson, Texas
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2010

	Business-type Activities- Enterprise Fund	Governmental Activities- Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
Operating Revenues:		
Charges for services	\$ 4,836,759	\$ 1,128,202
Total operating revenues	<u>\$ 4,836,759</u>	<u>\$ 1,128,202</u>
Operating Expenses		
Cost of sales and services	\$ 2,604,855	\$ -
Administration	489,152	257,622
Claims	-	891,654
Depreciation and amortization	<u>688,695</u>	<u>-</u>
Total operating expenses	<u>\$ 3,782,702</u>	<u>\$ 1,149,276</u>
Operating income (loss)	<u>\$ 1,054,057</u>	<u>\$ (21,074)</u>
Nonoperating Revenues (Expenses):		
Investment earnings	\$ 130,867	\$ 1,544
Miscellaneous revenue	20,774	-
Interest and fiscal charges on debt	<u>(381,102)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>\$ (229,461)</u>	<u>\$ 1,544</u>
Income (loss) Before Contributions and Transfers	<u>\$ 824,596</u>	<u>\$ (19,530)</u>
Transfers		
Transfers in	\$ 75,172	\$ -
Transfers out	<u>(293,454)</u>	<u>-</u>
Total transfers	<u>\$ (218,282)</u>	<u>\$ -</u>
Change in Net Assets	<u>\$ 606,314</u>	<u>\$ (19,530)</u>
Total Net Assets, Beginning	<u>15,228,968</u>	<u>1,885</u>
Total Net Assets, Ending	<u><u>\$ 15,835,282</u></u>	<u><u>\$ (17,645)</u></u>

The notes to the financial statements are an integral part of this statement.

City of Henderson, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2010

	Business-type Activities- Enterprise Fund	Governmental Activities- Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
Cash Flows from Operating Activities		
Cash received from customers	\$ 4,834,687	\$ -
Cash received from interfund services provided	-	1,210,612
Cash payments to suppliers and employees	(3,188,933)	(1,163,348)
Cash provided (used) by operating activities	<u>\$ 1,645,754</u>	<u>\$ 47,264</u>
Cash Flows from Noncapital Financing Activities		
(Increase)/decrease in due to/due from other funds	\$ 15,411	\$ -
Increase in customer deposits	7,712	-
Transfers to other funds	(293,454)	-
Cash provided (used) by noncapital financing activities	<u>\$ (270,331)</u>	<u>\$ -</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	\$ (878,010)	\$ -
Nonoperating miscellaneous revenue	20,774	-
Principal repayments on bonds and debt	(1,049,995)	-
Interest and fiscal charges on debt	(367,439)	-
Cash provided (used) by capital and related financing activities	<u>\$ (2,274,670)</u>	<u>\$ -</u>
Cash Flows from Investing Activities		
(Purchases)/Sales of investments	\$ 81,991	\$ (1)
Earnings on investments	136,460	1,544
Cash provided (used) by investing activities	<u>\$ 218,451</u>	<u>\$ 1,543</u>
Net Increase in Cash and Cash Equivalents	<u>\$ (680,796)</u>	<u>\$ 48,807</u>
Cash and Cash Equivalents, Beginning	<u>4,669,330</u>	<u>37,101</u>
Cash and Cash Equivalents, Ending	<u>\$ 3,988,534</u>	<u>\$ 85,908</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating income (loss)	\$ 1,054,057	\$ (21,074)
Adjustments to reconcile operating income to Net Cash provided (used) by operating activities:		
Depreciation	671,321	-
Amortization	17,374	-
Decrease in compensated absences	(2,608)	-
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	(2,072)	82,410
Increase (decrease) in accounts payable	(92,318)	(14,072)
Total adjustments	<u>\$ 591,697</u>	<u>\$ 68,338</u>
Net cash provided (used) by operating activities	<u>\$ 1,645,754</u>	<u>\$ 47,264</u>

Noncash Capital and Noncapital Financing Activities

Equipment was purchased by the Equipment Replacement fund for the Water & Sewer Fund for \$75,172.

City of Henderson, Texas
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2010

	<u>Firemen Retirement Pension Trust</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 4,200
Investments	448
Total Assets	<u>4,648</u>
<u>Liabilities</u>	
	<u>-</u>
<u>Net Assets</u>	
Held in trust for pension benefits and other purposes	<u>\$ 4,648</u>

The accompanying notes are an integral part of this statement.

City of Henderson, Texas
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended September 30, 2010

	<u>Firemen Retirement Pension Trust</u>
Additions	
Contributions:	
Employer	\$ 3,000
Retirees	197
Investment earnings	120
Total additions	<u>\$ 3,317</u>
Deductions	
Benefits	\$ 2,959
Total deductions	<u>\$ 2,959</u>
Change in Net Assets	\$ 358
Net Assets, Beginning	<u>4,290</u>
Net Assets, Ending	<u><u>\$ 4,648</u></u>

The accompanying notes are an integral part of this statement.

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CITY OF HENDERSON, TEXAS

Notes to the Financial Statements

September 30, 2010

I. Summary of Significant Accounting Policies

The financial statements of the City of Henderson, Texas ("City") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The City, a home-rule municipal corporation organized and existing under the provisions of the Constitution of the State of Texas, adopted its first charter on April 1, 1947, and is operating under a charter amendment date of April 6, 1985. The City operates under a council-manager form of government and, as authorized by its charter, provides the following services: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units for which the City may be financially accountable and, as such, should be included within the City's financial statements. The City is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization, or (2) there is a potential for the organization to provide specific financial burden on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. Based upon the application of these criteria, the following component is included in the City's reporting entity:

Discretely Presented Component Unit

Henderson Economic Development Corporation (HEDCO) is a nonprofit corporation organized to promote and develop new or expanding employment roles within the City of Henderson or adjacent areas of Rusk County. The economic benefits provided by the corporation will benefit the City by stimulating the need for housing, retail sales, entertainment, etc. within the City. The Directors of the corporation are appointed by the City Council. Its budget must also be approved by the City Council. The ½ percent sales tax that funds HEDCO is received by the City from the State and is passed to HEDCO. (Refer to Note VI for more information.)

Complete financial statements for HEDCO may be obtained at the entity's administrative offices at 400 W. Main, Henderson, Texas 75652.

Blended Component Unit

Henderson Main Street Advisory Board, Inc. (Main Street) is a nonprofit corporation organized to create a program to revitalize the downtown business district into a regional marketplace, increase capital investment downtown, attract new business, and improve the business mix, restore downtown to its earlier social significance, and preserve the historic buildings on the square. Members of the Board are appointed by the City Council. Main Street's primary source of funding is from the City. Main Street is reported in the City's financial statements as a Special Revenue Fund "Main Street."

B. Government-wide and Fund Financial Statements

The Government-wide Financial Statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component unit. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely, to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Certain indirect costs have been included as part of the program expenses reported for the various function activities. *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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the Government-wide Financial Statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the Fund Financial Statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Government-wide Financial Statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary Fund and Fiduciary Fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenue 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.

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 City considers revenues to be available if collected within 60 days of the end of the fiscal year, with the exception of property taxes, which are recognized as revenue when received. 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.

Franchise taxes, sales taxes, hotel-motel taxes, and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major Governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

The *Water and Sewer Fund* is used to account for the operation of the City's water and sewer utility. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for bonds and certificates of obligation when due throughout the year. All costs are financed

through user charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure the integrity of the Fund.

Additionally, the City reports the following fund types:

Special Revenue Funds are used to account for revenue sources that are restricted to expenditures for specific purposes.

The *Debt Service Fund* is used to account for the accumulation of resources for and the payment of general long-term debt principal, interest, and related costs.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The *Internal Service Fund* accounts for health insurance services provided to other departments of the City on a cost-reimbursement basis.

The *Firemen Retirement Pension Trust Fund* accounts for the accumulation of resources for pension benefits payments to qualified volunteer firefighters.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges for interfund services between the City's General Fund and the Water and Sewer Fund.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Water and Sewer Fund are charges to customers for sales and services. Operating expenses for the Water and Sewer Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Cash includes currency on hand and demand deposits with banks or other financial institutions. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. State statutes and the City's investment policy authorize the City to invest in U.S. Government obligations, certificates of deposit, money market mutual funds, and public funds investment pools.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal

year are referred to as either “Due to/from Other Funds” (i.e., the current portion of interfund loans) or “Advances to/from Other Funds” (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” All trade receivables are shown net of an allowance for uncollectibles.

3. *Property Taxes*

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. The City bills and collects its own property taxes. In the government-wide financial statements, City property tax revenue is recognized when levied, and in the fund financial statements, City property tax revenue is recognized when collected. An allowance is established for delinquent taxes to the extent that their collectability is improbable. The City’s property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and personal property located in the City. The assessment ratio of the City is 100 percent of market value.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, water and wastewater distribution systems, and infrastructure (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. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Donated capital assets are recorded at estimated fair market value at the date of donation.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the City, a Phase 3 government as defined by GASB Statement No. 34, chose not to report infrastructure retroactively but only prospectively.

The cost 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 is depreciated using the straight line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Vehicles	5
Improvements	5-20
Equipment	3-5
Water & Wastewater System	40-60
Infrastructure	60

5. *Compensated Absences*

It is the City’s policy to permit employees to accumulate a limited amount of earned, but unused, vacation and sick leave. Upon separation from City employment, a regular employee who has completed at least one year of continuous employment will be paid for accrued and unused vacation leave up to the limit of his or her maximum allowable accumulation. No more than 160 hours for regular fulltime employees and 240 hours for firefighters can be carried over to the next year. On the employee’s anniversary date, any vacation leave balance in excess of the appropriate maximum is reduced to the maximum without compensation.

Compensatory time off (comp time) may be granted by the City in lieu of overtime pay to non-exempt employees. The maximum accrual of comp time that may be accumulated by regular full-time employees is 60 hours and by firefighters is 120. Upon termination of employment, any accrued comp time is paid to the terminated employee.

Accumulated unpaid vacation amounts and comp time are accrued as a current liability in the period they are earned in proprietary funds (using the accrual basis of accounting) and the government-wide financial statements. In governmental funds, the cost of vacation and comp time is recognized when payments are due. In the event of termination or retirement, sick pay is not paid. Therefore, no accrued liabilities for sick pay are recorded. The General Fund and the Water and Sewer Enterprise Fund are used to liquidate the accrued compensated absences liability.

6. Long-term Obligations

In the Government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose.

8. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

9. Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the proprietary fund considers all cash, certificates of deposit, and restricted cash and certificates of deposit to be cash equivalents.

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 Assets

Exhibit 3-A on page 16 is a reconciliation between Total Fund Balances-Total Governmental Funds and Net Assets-Governmental Activities. One element of that reconciliation explains that "Certain long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds." The details of this \$645,250 difference are as follows:

Delinquent Property Taxes Receivable	\$ 196,396
Outstanding Warrants Receivable	420,059
Special Assessments Receivable	28,795
	<hr/>
Net Adjustment to <i>Increase</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Assets-Governmental Activities	\$ 645,250
	<hr/> <hr/>

Another element of the reconciliation states that “Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$3,645,712 difference are as follows:

Certificates of Obligation Payable	\$ (3,425,000)
Accrued Compensated Absences	(214,284)
Unamortized Bond Issue Costs	31,161
Other Post-Employment Benefits (OPEB) Liability	(20,468)
Accrued Interest Payable	(17,121)
	<hr/>
Net Adjustment to <i>Decrease</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Assets-Governmental Activities	\$ (3,645,712)
	<hr/> <hr/>

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

Exhibit 4-A on page 18 is a reconciliation between Net Changes in Fund Balances-Total Governmental Funds and Changes in Net Assets of Governmental Activities as reported in the Government-wide Statement of Activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$2,331,407 difference are as follows:

Capital Outlay Expenditures	\$ 2,906,816
Capital Assets Retired	(6,241)
Depreciation Expense	(569,168)
	<hr/>
Net Adjustment to <i>Increase</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Assets-Governmental Activities	\$ 2,331,407
	<hr/> <hr/>

Another element of the reconciliation states that “Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$171,941 difference are as follows:

Current Year Increase/(Decrease) in Net Property Taxes Receivable	\$ 8,862
Current Year Increase/(Decrease) in Net Outstanding Warrants Receivable	\$ 188,790
Current Year Increase/(Decrease) in Special Assessment Receivables	\$ (325)
Current Year Increase/(Decrease) in Demolition Receivables	(25,386)
	<hr/>
Net Adjustment to <i>Increase</i> Net Changes in Fund Balances-Total Governmental Funds to Arrive at Changes in Net Assets-Governmental Activities	\$ 171,941
	<hr/> <hr/>

Another element of the reconciliation states that “The issuance of long-term debt (e.g., bonds, leases) 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 assets.” The details of this \$283,177 difference are as follows:

Principal Payments on Certificates of Obligation	\$ 300,000
Increase in OPEB Liability	(20,468)
(Increase)/Decrease in Accrued Compensated Absences	<u>3,645</u>
Net Adjustment to <i>Increase</i> Net Changes in Fund Balances-Total Governmental Funds to Arrive at Changes in Net Assets-Governmental Activities	<u>\$ 283,177</u>

Another element of the reconciliation states that “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.” The details of this \$2,167 difference are as follows:

Decrease in Accrued Interest Payable	\$ 1,341
Amortization of Bond Issue Costs	<u>(3,508)</u>
Net Adjustment to <i>Decrease</i> Net Changes in Fund Balances-Total Governmental Funds to Arrive at Changes in Net Assets-Governmental Activities	<u>\$ (2,167)</u>

III. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required for all governmental funds except the Street Renovation Fund, the Drug Seizure Fund, the Task Force Fund, the Street Grant Fund, the Cemetery Fund, and the Animal Shelter Improvement Fund. Additionally, the Water and Sewer Enterprise Fund is budgeted. Encumbrance accounting is employed in all funds. Encumbrances outstanding at year-end are cancelled. All annual appropriations lapse at fiscal year end.

The City budgets on a departmental basis, without regard to whether expenditures are current, capital, debt service, or a transfer to another fund. Additionally, transfers from other funds and carryovers from prior years are budgeted as revenue.

Total appropriations for all departments of the City may not exceed the reasonable and anticipated revenues of the City in excess of fixed charges for the year. Formal budgetary integration is employed as a management control device during the year for the General Fund, Debt Service Fund, and Special Revenue Funds, as well as the Water and Sewer Enterprise Fund.

For the year ended September 30, 2010, expenditures exceeded appropriations in the Sanitation Department, Street Department, and Nondepartmental. These over-expenditures were funded by greater than anticipated revenues from Charges for Services and Intergovernmental Revenues.

B. Fund Deficit

The City’s Self-Insurance Fund (an internal service fund) is reporting a deficit in its net assets of \$17,645 as of September 30, 2010. The City intends to clear the deficit with increased contributions to the fund.

IV. Detailed Notes on all Funds

A. Deposits and Investments

Deposits

At September 30, 2010, the carrying amount of the City’s deposits with financial institutions, including time deposits and certificates of deposits, was \$9,516,359 and the bank balance was \$9,843,643. The bank balance was fully covered by federal depository insurance or collateral held by the pledging financial institution’s agent in the City’s name.

Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

During the year ended September 30, 2010, the City invested in certificates of deposit with its depository bank and a public funds investment pool. The City's investment in the public funds investment pool as of September 30, 2010, is shown below.

<u>Investment or Investment Type</u>	<u>Weighted Avg Maturity</u>	<u>Fair Value</u>
TexSTAR	46 days	\$ 39,472
Total Investments		<u>\$ 39,472</u>

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

• **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The City's investment policy limits its investments to U.S. government securities, investment pools, certificates of deposit, and money market funds. The City was not significantly exposed to credit risk.

At September 30, 2010, the City's investments, other than those which are obligations of or guaranteed by the U.S. Government, are rated as to credit quality as follows:

<u>Investment</u>	<u>S&P Rating</u>
TexSTAR	AAAm

• **Custodial Credit Risk**

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. The City was not exposed to custodial credit risk.

• **Concentration of Credit Risk**

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's

investment policy limits the concentration of its investments by investment type. The City was not exposed to concentration of credit risk.

- Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. The City was not exposed to interest rate risk.

- Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. The City does not engage in foreign currency transactions. The City was not exposed to foreign currency risk.

B. Receivables

Receivables as of year-end for the City's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Water & Sewer Enterprise</u>	<u>Other Funds Aggregate</u>	<u>Total</u>
Receivables:				
Taxes	\$ 1,144,831	\$ -	\$ 86,042	\$ 1,230,873
Accounts	952,135	607,764	26,022	1,585,921
Other Governments	182,879	-	25,000	207,879
Special Assessments	-	-	28,795	28,795
Other	-	3,571	-	3,571
Gross receivables	<u>2,279,845</u>	<u>611,335</u>	<u>165,859</u>	<u>3,057,039</u>
Less: allowance for uncollectibles	<u>(478,917)</u>	<u>(3,390)</u>	<u>-</u>	<u>(482,307)</u>
Net total receivables	<u>\$ 1,800,928</u>	<u>\$ 607,945</u>	<u>\$ 165,859</u>	<u>\$ 2,574,732</u>

The only receivables not expected to be collected within one year are \$28,795 of Special Assessment receivables in the Street and Drainage Special Revenue Fund.

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General fund:			
Delinquent property taxes receivable	\$ 196,396	\$ -	\$ 196,396
Warrants	420,059	-	420,059
Other	-	1,563	1,563
Other governmental funds:			
Seizures	-	55,129	55,129
Deposits	-	10,850	10,850
Special Assessments	<u>28,795</u>	<u>-</u>	<u>28,795</u>
Total governmental funds	<u>\$ 645,250</u>	<u>\$ 67,542</u>	<u>\$ 712,792</u>

C. Capital Assets

Capital asset activity for the year ended September 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government				
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,277,585	\$ 42,938	\$ -	\$ 1,320,523
Construction in progress	5,135,241	2,413,333	7,113,021	435,553
Total capital assets not being depreciated	<u>6,412,826</u>	<u>2,456,271</u>	<u>7,113,021</u>	<u>1,756,076</u>
Capital assets being depreciated:				
Buildings	2,565,332	4,782,986	-	7,348,318
Improvements other than buildings	1,051,042	612,376	-	1,663,418
Equipment	3,059,432	377,692	91,396	3,345,728
Infrastructure	9,050,938	1,790,512	-	10,841,450
Total capital assets being depreciated	<u>15,726,744</u>	<u>7,563,566</u>	<u>91,396</u>	<u>23,198,914</u>
Less accumulated depreciation:				
Buildings	715,652	60,002	-	775,654
Improvements other than buildings	253,826	50,902	-	304,728
Equipment	2,069,559	303,950	85,155	2,288,354
Infrastructure	528,759	154,315	-	683,074
Total accumulated depreciation	<u>3,567,796</u>	<u>569,169</u>	<u>85,155</u>	<u>4,051,810</u>
Total capital assets being depreciated, net	<u>12,158,948</u>	<u>6,994,397</u>	<u>6,241</u>	<u>19,147,104</u>
Governmental activities capital assets, net	<u>\$ 18,571,774</u>	<u>\$ 9,450,668</u>	<u>\$ 7,119,262</u>	<u>\$ 20,903,180</u>
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 410,131	\$ -	\$ -	\$ 410,131
Construction in progress	65,900	458,110	524,010	-
Total capital assets not being depreciated	<u>476,031</u>	<u>458,110</u>	<u>524,010</u>	<u>410,131</u>
Capital assets being depreciated:				
Buildings	442,426	-	-	442,426
Water and Wastewater Distribution	24,596,426	943,910	1,096	25,539,240
Equipment	1,031,524	75,172	84,711	1,021,985
Total capital assets being depreciated	<u>26,070,376</u>	<u>1,019,082</u>	<u>85,807</u>	<u>27,003,651</u>
Less accumulated depreciation:				
Buildings	87,996	10,654	-	98,650
Water and Wastewater Distribution	7,117,372	563,300	1,096	7,679,576
Equipment	600,101	97,368	84,711	612,758
Total accumulated depreciation	<u>7,805,469</u>	<u>671,322</u>	<u>85,807</u>	<u>8,390,984</u>
Total capital assets being depreciated, net	<u>18,264,907</u>	<u>347,760</u>	<u>-</u>	<u>18,612,667</u>
Business-type activities capital assets, net	<u>\$ 18,740,938</u>	<u>\$ 805,870</u>	<u>\$ 524,010</u>	<u>\$ 19,022,798</u>

Included in increases in capital assets for the City's Governmental Activities is \$22,500 for a portion of the cost of public facilities for the City's ongoing Civic Center project contributed by HEDCO. Also, the payments from HEDCO are reported as contributions for the City's Civic Center Fund.

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:		
General government		\$ 22,380
Public safety		138,697
Public services		<u>408,092</u>
Total depreciation expense - governmental activities		<u>\$ 569,169</u>
Business-type activities:		
Water and sewer		<u>\$ 671,322</u>
Total depreciation expense - business-type activities		<u>\$ 671,322</u>

D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of September 30, 2010, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General	General Construction	\$ 3,523
General	Main Street	21
Park	General	4,932
Tourism	General	21
Water and Sewer	Tourism	<u>1,914</u>
Total		<u>\$ 10,411</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers:

	Transfers In			Total
	General	Water & Sewer	Other Governmental	
Transfers out:				
General	\$ -	\$ 75,172	\$ 288,051	\$ 363,223
Water and sewer	<u>293,454</u>	<u>-</u>	<u>-</u>	<u>293,454</u>
Total transfers	<u>\$ 293,454</u>	<u>\$ 75,172</u>	<u>\$ 288,051</u>	<u>\$ 656,677</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires collecting them to the fund that statute or budget requires expending them, and (2) use unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Long-Term Debt

General Obligation Bonds, Certificates of Obligation and Tax Notes

The City issues general obligation bonds, certificates of obligation, and tax notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds, certificates of obligation, and tax notes have been issued for both governmental and business-type activities. These debt obligations are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenue. The original amount of outstanding general obligation bonds and certificates of obligation issued in prior years was \$11,095,000.

General obligation bonds, certificates of obligation, and tax notes are direct obligations and pledge the full faith and credit of the City. Original issue amounts currently outstanding are as follows:

Purpose	Interest Rates	Original Issue Amount
Governmental activities:		
2004 Tax & Waterworks and Sewer System Limited Pledge Revenue Certificates of Obligation	3.2%-4.2%	\$ 5,000,000
Business-type activities:		
2004 General Obligation Refunding Bonds	2.0%-4.8%	735,000
2005 General Obligation Refunding Bonds	3.4%-4.35%	4,460,000
2009 Tax Notes	4.50%	900,000
Total General Obligation Bonds, Certificates of Obligation and Tax Notes		<u>\$ 11,095,000</u>

Revenue Bonds

The City also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of outstanding revenue bonds issued in prior years was \$5,125,000 and none was issued in the current year.

Purpose	Interest Rates	Original Issue Amount
Business-type activities:		
2001 Waterworks and Sewer System Revenue Bonds	4.4%-5.25%	\$ 3,450,000
2004 Waterworks and Sewer System Revenue Bonds	4.0%-4.7%	1,675,000
Total Revenue Bonds		<u>\$ 5,125,000</u>

Annual debt service requirements to maturity for the City for general obligation bonds, certificates of obligation, tax notes, and revenue bonds are as follows:

Year Ending September 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 325,000	\$ 133,988	\$ 458,988	\$ 1,070,000	\$ 321,521	\$ 1,391,521
2012	325,000	122,287	447,287	1,100,000	274,468	1,374,468
2013	350,000	110,100	460,100	1,145,000	226,051	1,371,051
2014	375,000	96,800	471,800	460,000	191,550	651,550
2015	375,000	82,175	457,175	470,000	170,867	640,867
2016-2020	1,675,000	175,475	1,850,475	2,060,000	552,209	2,612,209
2021-2025	-	-	-	1,150,000	128,150	1,278,150
Total	<u>\$ 3,425,000</u>	<u>\$ 720,825</u>	<u>\$ 4,145,825</u>	<u>\$ 7,455,000</u>	<u>\$ 1,864,816</u>	<u>\$ 9,319,816</u>

Debt Refunding

GASB Statement No. 7 "Advance Refundings Resulting in Defeasance of Debt," provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of September 30, 2010, outstanding balances of bond issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments are as follows:

<u>Debt Issue</u>	<u>Outstanding Balance</u>
City of Henderson 1996 Tax & Waterworks and Sewer System Limited Pledge Certificates of Obligation	<u>September 30, 2010</u>
	<u>\$900,000</u>

Changes in Long-Term Debt

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Certificates of Obligation	\$ 3,725,000	\$ -	\$ 300,000	\$ 3,425,000	\$ 325,000
OPEB Liability	-	20,468	-	20,468	-
Compensated absences	217,929	-	3,645	214,284	-
Governmental activity					
Long-term liabilities	<u>\$ 3,942,929</u>	<u>\$ 20,468</u>	<u>\$ 303,645</u>	<u>\$ 3,659,752</u>	<u>\$ 325,000</u>
Business-type activities					
General obligation bonds	\$ 3,225,000	\$ -	\$ 680,000	\$ 2,545,000	\$ 705,000
Less: Deferred amount on refunding	(34,837)	-	(18,113)	(16,724)	-
Tax Notes	900,000	-	115,000	785,000	115,000
Revenue bonds	4,350,000	-	225,000	4,125,000	250,000
Total bonds payable	<u>8,440,163</u>	<u>-</u>	<u>1,001,887</u>	<u>7,438,276</u>	<u>1,070,000</u>
Notes payable	\$ 29,995	\$ -	\$ 29,995	\$ -	\$ -
Compensated absences	39,943	-	2,609	37,334	-
Business-type activities					
Long-term liabilities	<u>\$ 8,510,101</u>	<u>\$ -</u>	<u>\$ 1,034,491</u>	<u>\$ 7,475,610</u>	<u>\$ 1,070,000</u>

Compensated absences are liquidated by the General Fund or the Water & Sewer Enterprise Fund, depending upon which fund records the employee's salary.

F. Commitments Under Noncapitalized Leases

Commitments under operating lease agreements for equipment provide for minimum future rental payments as of September 30, 2010, as follows:

<u>Year Ending September 30,</u>	
2011	2,760
2012	2,760
2013	2,760
2014	2,760
2015	2,760
Total Minimum Rentals	<u>\$ 13,800</u>
Rental Expenditures in 2010	<u>\$ 3,203</u>

V. Other Information

A. Risk Management

The City of Henderson, Texas is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries commercial insurance. There have been no significant reductions in insurance coverages during the year ended September 30, 2010. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Also, the City of Henderson, Texas is a member of the Texas Municipal League (TML) Intergovernmental Risk Pool, a public entity risk pool, participating in workers' compensation, general liability, law enforcement liability, errors and omissions liability, automobile liability, automobile physical damage and real and personal property coverages.

During the year ended September 30, 2010, employees of the City were covered by a health insurance plan (the Plan). The City contributes 100% of the cost for employee coverage and 50% of the cost for dependent coverage to the Plan and, employees electing dependent coverage authorize payroll withholding to pay the balance of contributions for their dependents. All contributions were paid to an internal service fund maintained by the City for the purpose of self-insuring these health costs. A claims administration agreement (the Agreement) was executed with a 3rd party administrator to provide for the payment of health benefits to the employees of the City. Reinsurance coverage was obtained for a \$45,000 specific deductible and a \$1,000,000 aggregate deductible. The aggregate deductible is based on factors of \$432.14 per employee and \$1,188.37 per family.

<u>Service</u>	<u>Employee Rate</u>	<u>Family Rate</u>
Specific reinsurance premium	\$82.82	\$208.60
Aggregate reinsurance premium	6.78	

The City was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Fidelity Security Life Insurance Company, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect as stated in the paragraph above. Latest financial statements for Fidelity Security Life Insurance Company have been filed with the Texas State Board of Insurance, Austin, Texas, and are public record.

According to claims payments from October 1, 2010 through December 31, 2010 for claims incurred September 30, 2010 and prior, a liability was recorded for \$104,121 estimated incurred, but not reported claims. Of these claims none are expected to be covered by stop-loss coverage. An analysis of claims activity is presented below:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Actual Claim Payments</u>	<u>End of Year Liability</u>
September 30, 2010	\$ 118,193	\$ 891,654	\$ 905,726	\$ 104,121
September 30, 2009	6,780	870,313	758,900	118,193
September 30, 2008	78,162	846,574	917,956	6,780

B. Contingencies and Commitments

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

The City has active construction projects as of September 30, 2010. The projects include street construction, general construction and water and wastewater facilities. At year-end, the City's remaining commitments with architects, engineers, and contractors totaled \$473,555.

On November 16, 2006, the City entered into an agreement with Angelina and Nacogdoches Counties Water Control and Improvement District No. 1 ("District") to acquire the option to purchase from the District up to four (4) million gallons of water per day. In consideration for the option granted by the District, the City shall pay \$150,000 annually for each year of the option. The option is for a term commencing as of the date executed and terminating on the earlier of (1) the date the parties enter into a water supply agreement, or (2) September 30, 2016, unless extended pursuant to a written agreement executed by the parties. The annual payment is reported by the City's Water and Sewer Fund as an operating expense.

No reportable litigation was pending against the City as of September 30, 2010.

C. Pension Plan

Plan Description:

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

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

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 2009</u>	<u>Plan Year 2010</u>
Employee deposit rate	7.0%	7.0%
Matching ration (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5,0/25	60/5,0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions:

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefits allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as updated service credits and annuity increases.

The City contributes to the TMRS plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2008 valuation is effective for rates beginning January 2010).

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Actuarial Assumptions

Actuarial Valuation Date	12/31/2007	12/31/2008	12/31/2009
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	30 Years - Closed Period	29 Years - Closed Period	28 Years - Closed Period
Asset Valuation Method	Amortized Cost	Amortized Cost	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return	7.0%	7.5%	7.5%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at	3.0%	3.0%	3.0%
Cost-of-living Adjustments	2.1%	2.1%	2.1%

Schedule of Funding Progress

Actuarial Valuation Date	12/31/07	12/31/08	12/31/09
Actuarial value of assets	\$ 7,742,127	\$ 8,531,849	\$ 9,018,917
Actuarial accrued liability	\$ 12,695,929	\$ 13,962,395	\$ 14,822,552
Unfunded (overfunded) actuarial accrued liability (UAAL)	\$ 4,953,802	\$ 5,430,546	\$ 5,803,635
Percent funded	61.0%	61.1%	60.8%
Annual covered payroll	\$ 4,257,581	\$ 4,763,628	\$ 4,878,743
UAAL as a percentage of covered payroll	116.4%	114.0%	119.0%
Net pension obligation (NPO) at the beginning of period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual required contribution (ARC)	\$ 503,960	\$ 721,061	\$ 836,787
Contributions made	503,960	721,061	836,787
Increase in NPO	\$ -	\$ -	\$ -
NPO at the end of the period	\$ -	\$ -	\$ -

D. Other Post-Employment Benefits

Effective for fiscal year 2010, the City implemented GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)" prospectively (no beginning Net OPEB Obligation).

Retiree Health Insurance:

Plan Participants

Full time employees of the City are eligible to receive retiree health care benefits.

Normal Retirement Benefit Eligibility

The City provides retiree health care coverage upon retirement with 20 or more years of consecutive service with the City. Coverage will be effective as of the date the employee would otherwise lose coverage due to retirement, and will be identical to the coverage received by active employees, as that coverage may change from time to time. Coverage ceases when the member becomes eligible for Medicare. Dependents are not covered under the plan.

Vested Termination Benefits

Members terminating before normal retirement conditions are not eligible for retiree health care.

Death-in-Service Retirement Benefits

The City does not provide death-in-service benefits to a surviving spouse.

Disability Retirement Benefits (Non-Duty and Duty)

Employees who retire under a disability retirement are immediately eligible for retiree health care benefits.

Dental/Vision Coverage

The City does not provide subsidized retiree vision care coverage.

Employee Contributions to the Plan

Retiree pays 100% of the monthly premium for health coverage.

As of November 1, 2009 the retiree premiums are as follows:

<u>Premiums Effective Nov 1, 2009 - Oct 1, 2010</u>		
<u>Plan Type</u>	<u>Employee Only</u>	<u>Employee & Spouse</u>
Medical	\$ 536	\$ 1,251
Dental	25	49

Funding Policy and Annual OPEB Cost

The City's annual other post employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameter of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not exceed thirty years. The City had its first OPEB actuarial valuation performed for the fiscal year beginning October 1, 2009 as required by GASB.

The City's annual OPEB cost for the fiscal year ending September 30, 2010, is as follows:

Annual Required Contribution	\$ 27,987
Interest on OPEB Obligation	-
Adjustment to ARC	-
End of Year Annual OPEB Cost (Expense)	<u>27,987</u>
Net Estimated Employer Contributions	<u>(7,519)</u>
Increase in Net OPEB Obligation	20,468
Beginning of Year Net OPEB Obligation (Asset)	-
End of Year Net OPEB Obligation (Asset)	<u>\$ 20,468</u>

Funding Status and Funding Progress

The funded status of the City's retiree health care plan, under GASB Statement No. 45 as of December 31, 2009 is as follows:

Actuarial Valuation Date as of December 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)
2009	-	\$ 243,166	\$ 243,166	0%

Under the reporting parameters, the City's retiree health care plan is 0% funded with an estimated actuarial accrued liability exceeding actuarial assets by \$243,166 at December 31, 2009.

Actuarial Methods and Assumptions

The projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the City's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial Methods and Assumptions

Inflation rate	3.00% per annum
Investment rate of return	4.50% net of expenses
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level as a percentage of employee payroll
Amortization period	30-year open amortization
Salary Growth	3.00% per annum
Healthcare cost trend rate	Initial rate of 9.0% declining to an ultimate rate of 4.50% after 9 years

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of

the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

TMRS Supplemental Death Benefit Fund

Plan Description and Participants

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

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

Contributions and Funding Policy

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 for retirees to the TMRS SDBF for the fiscal years ended September 30, 2010, 2009, and 2008 were \$2,459, \$2,417, and \$2,357, respectively.

Schedule of Contribution Rates (Retiree-only portion of the rate)

<u>Plan/Fiscal Year</u>	<u>Annual Required Contribution (Rate)</u>	<u>Actual Contribution Made (b)</u>	<u>Percentage of ARC Contributed</u>
2008	0.05%	0.05%	100.00%
2009	0.05%	0.05%	100.00%
2010	0.05%	0.05%	100.00%

E. Joint Venture

On February 11, 1994, the City entered into a contract with the Sabine River Authority of Texas (SRA) and the City of Kilgore for the purchase of raw water. The contract provided for the construction of a raw water pump station and related facilities, and for the issuance of debt to finance the construction project. In consideration of the payments to the SRA under the contract, the City is entitled to a proportionate share of the raw water output equal to 4.5/10.5. The City's annual payment to the SRA is calculated by determining its percentage of the water delivered and multiplying that times the total operation and maintenance expenses. The agreement continues in effect throughout the entire useful life of the project.

VI. Henderson Economic Development Corporation

Henderson Economic Development Corporation is a nonprofit corporation created and organized under the constitution and laws of the State of Texas, particularly the Development Corporation Act of 1979, Article 5190.6 (the "Act"),

Vernon's Annotated Texas Civil Statutes, as amended for the promotion and/or development of new and/or expanding employment rolls within the City of Henderson, and/or Rusk County, Texas, and/or adjacent areas that will provide economic benefits to the City, and/or creation of jobs within Rusk County and, in some instances, adjoining counties that will stimulate the need for housing, retail sales, entertainment, etc. with the City. HEDCO is governed by Section 4A of the Act and is a constituted authority and instrumentality of the City of Henderson, Texas (the "City").

HEDCO was created in January 1992 with revenue generated from a ½ of 1% sales tax passed by vote of the citizens of the City of Henderson with the proceeds dedicated to economic development.

HEDCO is governed by a board of five directors. All directors are appointed by the City Council of the City for a term of three (3) years, except the director representing banking institutions, who is appointed for a term of one (1) year. The City Council must also approve HEDCO's budget.

HEDCO is exempt from federal income tax as an organization described in Section 501(c)(6) of the Internal Revenue Code.

Budgetary Information

HEDCO's budget is adopted on a basis consistent with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB), except that HEDCO budgets a portion of its fund balance as "contingency funds" available for appropriation, and loans made to other entities are reported as expenditures.

The original budget is adopted by the Board of Directors prior to the beginning of the fiscal year. The legal level of control is the total approved budget for the General fund. All amendments to the budget must be approved by the Board. In addition, HEDCO's budget and any amendments must be approved by the City of Henderson. During the year ended September 30, 2010, HEDCO revised its budget. Appropriations lapse at the end of the year.

A. Deposits and Investments

HEDCO's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with HEDCO's agent bank approved pledged securities in an amount sufficient to protect HEDCO funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Deposits:

At September 30, 2010, the carrying amount of HEDCO's deposits (cash, certificates of deposit, and interest-bearing money-market accounts) was \$1,488,208 and the bank balance was \$1,513,969. HEDCO's cash deposits at September 30, 2010 and during the period ended September 30, 2010 were entirely covered by FDIC insurance or by pledged collateral held by HEDCO's agent bank in HEDCO's name.

2. Investments:

HEDCO is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, HEDCO adhered to the requirements of the Act. Additionally, investment practices of HEDCO were in accordance with local policies.

The Act determines the types of investments which are allowable for HEDCO. These include, with certain restrictions, (1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

During the year ended September 30, 2010, HEDCO had no investments. All HEDCO's deposits were in demand deposits, including a money market account.

3. **Analysis of Specific Deposit and Investment Risks**

GASB Statement No. 40 requires a determination as to whether HEDCO was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, HEDCO was not exposed to credit risk.

b. **Custodial Credit Risk**

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in HEDCO's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in HEDCO's name.

At year end, HEDCO was not exposed to custodial credit risk.

c. **Concentration of Credit Risk**

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, HEDCO was not exposed to concentration of credit risk.

d. **Interest Rate Risk**

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, HEDCO was not exposed to interest rate risk.

e. **Foreign Currency Risk**

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, HEDCO was not exposed to foreign currency risk.

B. Receivables

Receivables at September 30, 2010 are as follows:

Sales Taxes (from City of Henderson)	\$ 194,437
Notes Receivable	<u>1,269,046</u>
Total	<u>\$ 1,463,483</u>

Notes Receivable:

On July 14, 2004, a note in the amount of \$65,000 was executed between HEDCO and a local entity for the purchase of property. The note stipulates that a principal payment along with 5% interest is due each year for eight years. The balance on the note as of September 30, 2010 was \$51,046. On May 15, 2007, HEDCO approved a

deferral of the note payments for 2007 and 2008. On July 28, 2009, HEDCO approved an additional deferral of the note payments for 2009 and 2010.

On January 24, 2007, a note in the amount of \$45,000 was executed between HEDCO and a local business entity as an economic incentive. The agreement provides for five (5) \$9,000 annual payments beginning one year from the execution of the agreement. However, in the agreement, HEDCO has agreed to forgive the repayment of the loan if the entity hires and retains three (3) full-time employees for a period of not less than five (5) years. In the event, the entity fails to hire and retain three (3) full-time employees during any year of the agreement, HEDCO shall forgive only \$3,000 of that year's annual payment for each employee that was hired and retained. In no event will HEDCO forgive more than \$9,000 of the loan balance in any given year. During the year ended September 30, 2010, \$9,000 was forgiven by HEDCO, leaving the balance at \$18,000.

On November 13, 2010, HEDCO loaned the Rusk County Rural Rail District ("Rail District") the sum of \$1,200,000 to assist the Rail District in securing the Henderson-Overton Railroad. The loan will be repaid to HEDCO over a fifteen (15) year period, beginning on the first day after the thirty-seventh (37th) month after the execution of the agreement. There will be no payments for the first thirty-six (36) months. The loan is interest free.

C. Capital Assets

Capital asset activity for the year ended September 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>				
Capital assets, not being depreciated:				
Land and Investment Property	\$1,914,028	\$ -	\$ 235,124	\$ 1,678,904
Discretely Presented Component Unit capital assets, net	<u>\$1,914,028</u>	<u>\$ -</u>	<u>\$ 235,124</u>	<u>\$ 1,678,904</u>

D. Long-Term Debt

On February 26, 2008, HEDCO entered into a loan agreement to acquire certain real property as investment property to make available as an economic incentive to a potential business entity. The loan is secured by the real property. The note calls for 2 annual payments of \$162,556.50 on October 5, 2008 and October 5, 2009. Interest only accrues on matured, unpaid (late) amounts at 18%. The final payment on the note was made October 5, 2009.

In November 2008, HEDCO entered into a \$1,400,000 loan agreement to provide the necessary financing to satisfy its commitment to the civic center project. The loan is secured by a 100% pledge of the levy of the economic development sales tax. All advances under the loan shall be at the sole discretion of the City of Henderson, Texas. Interest is payable on all amounts advanced at 3.49% on the first day of the month, beginning on January 1, 2009 through and including October 19, 2019. HEDCO agrees to pay principal due on this note on the first day of the month, beginning on January 1, 2010. Monthly payments beginning on January 1, 2010 are to be \$13,837.34, including interest. However, HEDCO began paying principal and interest payments on January 1, 2009. At September 30, 2010, the balance on the note was \$1,169,508.

1. Long-term liability activity for the year ended September 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Notes payable	\$ 1,454,179	\$ -	\$ 284,671	\$ 1,169,508	\$ 127,255
Governmental activities Long-term liabilities	<u>\$ 1,454,179</u>	<u>\$ -</u>	<u>\$ 284,671</u>	<u>\$ 1,169,508</u>	<u>\$ 127,255</u>

2. Debt Service Requirements

Annual debt service requirements on the notes payable at September 30, 2010 are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	127,255	38,793	\$ 166,048
2012	131,768	34,280	166,048
2013	136,441	29,607	166,048
2014	141,279	24,769	166,048
2015	146,290	19,758	166,048
2016-2019	<u>486,475</u>	<u>27,456</u>	<u>513,931</u>
Total	<u>\$ 1,169,508</u>	<u>\$ 174,663</u>	<u>\$ 1,344,171</u>

E. Risk Management

HEDCO is exposed to various risks of loss related to torts, injury to persons on HEDCO property, errors and omissions and injuries to employees. HEDCO carries commercial insurance for injuries to employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

HEDCO is covered by the City of Henderson through its coverage with the Texas Municipal League (TML) Intergovernmental Risk Pool, a public entity risk pool, participating in general liability and errors and omissions liability.

F. Contingencies and Commitments

HEDCO has entered into incentive agreements with various entities to encourage economic growth in the City of Henderson and the surrounding area. Generally, the agreements provide money and facilities to new and existing entities in the area for economic development and creating and maintaining jobs. In future years, HEDCO is contingently liable for approximately \$86,880 in cash payments and up to \$18,000 in debt forgiveness (See Note VI.B.) to the various entities. In addition, at the expiration one of the agreements in 2013, HEDCO will deed to one of the entities land and facilities presently on HEDCO's balance sheet totaling \$1,065,411. In all of the agreements, the entities must maintain a certain level of employment in order to receive the incentives.

G. Retirement Plan

HEDCO has adopted a defined contribution pension plan administered by the Kansas City Life Insurance Company. Employees are eligible to participate at age 21 with one (1) year of eligible service. Benefits fully vest upon reaching one (1) year of service. HEDCO contributes 6% of each participant's eligible compensation. The payroll for employees covered by the plan and HEDCO's total payroll for the year ended September 30, 2010 was \$122,372. Employer contributions to the plan for the year ended September 30, 2010 were \$7,342.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

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City of Henderson, Texas
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budgetary Basis)
For the Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenues and Other Sources:				
Taxes:				
Sales	\$ 4,812,050	\$ 4,107,550	\$ 4,192,331	\$ 84,781
Franchise	619,000	615,800	620,405	4,605
Property	2,580,000	2,673,623	2,635,989	(37,634)
Permits & fees	60,100	128,100	126,484	(1,616)
Charges for services	1,672,250	1,695,850	1,719,798	23,948
Fines & Forfeitures	316,600	364,400	364,980	580
Intergovernmental	104,200	148,360	223,556	75,196
Miscellaneous	215,500	249,000	238,962	(10,038)
Transfers in	321,039	354,188	293,454	(60,734)
Total revenues	<u>\$ 10,700,739</u>	<u>\$ 10,336,871</u>	<u>\$ 10,415,959</u>	<u>\$ 79,088</u>
Expenditures and Other Uses:				
General government:				
Administration	\$ 540,319	\$ 626,838	\$ 626,816	\$ 22
Finance	269,835	297,899	254,102	43,797
Municipal court	240,062	246,876	233,662	13,214
Nondepartmental	2,313,783	2,246,215	2,295,020	(48,805)
Public safety				
Police	2,686,000	2,631,901	2,597,832	34,069
Fire	1,343,951	1,322,877	1,310,441	12,436
Sanitation	1,280,000	1,280,000	1,324,992	(44,992)
Public services:				
Streets	1,378,641	1,175,031	1,179,575	(4,544)
Parks	86,000	57,995	53,713	4,282
Community center	66,300	8,300	7,752	548
Cemeteries	29,600	8,865	7,875	990
Community development	319,964	288,701	285,967	2,734
Animal control	146,284	145,373	136,811	8,562
Total expenditures	<u>\$ 10,700,739</u>	<u>\$ 10,336,871</u>	<u>\$ 10,314,558</u>	<u>\$ 22,313</u>
Net Change in Fund Balances	\$ -	\$ -	\$ 101,401	\$ 101,401
Fund Balances, Beginning	<u>4,378,715</u>	<u>4,378,715</u>	<u>4,378,715</u>	-
Fund Balances, Ending	<u>\$ 4,378,715</u>	<u>\$ 4,378,715</u>	<u>\$ 4,480,116</u>	<u>\$ 101,401</u>

City of Henderson, Texas
Reconciliation of the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual-
(Budgetary Basis)-General Fund to the Statement of Revenues, Expenditures and Changes in Fund Balances-
Governmental Funds
For the Year Ended September 30, 2010

Total revenues and other sources - Exhibit A-1	\$ 10,415,959
HEDCO sales tax	(1,044,664)
Sales tax rebate agreement	(127,202)
Interest earned - Equipment Replacement Fund	13,226
Texas Forest Service Grant - Equipment Replacement Fund	173,000
Interfund transfer from Water & Sewer Fund - General Fund	(271,039)
Interfund transfer from Water & Sewer Fund - Equipment Replacement Fund	(22,415)
	(22,415)
Total revenues - General Fund - Exhibit 4 (Page 17)	\$ 9,136,865
Total expenditures and other uses - Exhibit A-1	\$ 10,314,558
HEDCO sales tax	(1,044,664)
Sales tax rebate agreement	(127,202)
Capital expenditures - Equipment Replacement Fund	419,050
Interfund transfer - Street & Drainage Fund	(204,737)
Interfund transfer - General Construction Fund	(10,814)
Interfund transfer - Equipment Replacement Fund	(81,875)
Interfund transfer - Park Fund	(30,000)
Interfund transfer - Civic Center Fund	(22,500)
Interfund transfer - Main Street Fund	(20,000)
	(20,000)
Total expenditures - General Fund - Exhibit 4 (Page 17)	\$ 9,191,816
Net change in fund balances - Exhibit A-1	\$ 101,401
Revenues and other sources - Equipment Replacement Fund	268,101
Expenditures and other uses - Equipment Replacement Fund	(494,222)
	(494,222)
Net change in fund balances - General Fund - Exhibit 4 (Page 17)	\$ (124,720)

**COMBINING AND INDIVIDUAL
FUND FINANCIAL STATEMENTS**

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City of Henderson, Texas
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2010

	Special Revenue	Debt Service	Capital Projects	Total
<u>Assets</u>				
Cash and Cash Equivalents	\$ 552,345	\$ 18,842	\$ 1,000,310	\$ 1,571,497
Investments	5,965	3,211	2,239	11,415
Receivables (net of allowance for uncollectibles):				
Taxes:				
Franchise	-	-	66,073	66,073
Hotel/Motel	19,969	-	-	19,969
Accounts	375	-	25,647	26,022
Special assessments	-	-	28,795	28,795
Due from Other Governments	-	-	25,000	25,000
Due from Other Funds	20	-	4,933	4,953
Total Assets	\$ 578,674	\$ 22,053	\$ 1,152,997	\$ 1,753,724
<u>Liabilities</u>				
Accounts Payable	\$ 15,967	\$ -	\$ 25,507	\$ 41,474
Due to Other Funds	1,934	-	3,523	5,457
Unearned Revenue	65,980	-	28,795	94,775
Total Liabilities	\$ 83,881	\$ -	\$ 57,825	\$ 141,706
<u>Fund Balances</u>				
Reserved for:				
Debt Service	\$ -	\$ 22,053	\$ -	\$ 22,053
Unreserved	494,793	-	1,095,172	1,589,965
Total Fund Balances	\$ 494,793	\$ 22,053	\$ 1,095,172	\$ 1,612,018
Total Liabilities and Fund Balances	\$ 578,674	\$ 22,053	\$ 1,152,997	\$ 1,753,724

City of Henderson, Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2010

	Special Revenue	Debt Service	Capital Projects	Total
Revenues:				
Taxes:				
Property	\$ -	\$ 440,181	\$ -	\$ 440,181
Franchise	-	-	209,576	209,576
Hotel/Motel	231,771	-	-	231,771
Charges for services	59,390	-	296,005	355,395
Intergovernmental	2,480	-	299,190	301,670
Miscellaneous	89,627	7,173	301,359	398,159
Total revenues	\$ 383,268	\$ 447,354	\$ 1,106,130	\$ 1,936,752
Expenditures:				
Current:				
Public Safety:				
Police	\$ 48,746	\$ -	\$ -	\$ 48,746
Sanitation	-	-	11,601	11,601
Public Services:				
Tourism	239,075	-	-	239,075
Civic Center	79,428	-	-	79,428
Main Street	34,060	-	-	34,060
Streets	-	-	136,145	136,145
Parks	-	-	12,955	12,955
Cemeteries	28,406	-	-	28,406
Community Development	-	-	42,680	42,680
Animal Control	3,048	-	-	3,048
Capital outlay	4,465	-	2,350,205	2,354,670
Debt service:				
Principal	-	300,000	-	300,000
Interest and fiscal charges	-	145,238	-	145,238
Total expenditures	\$ 437,228	\$ 445,238	\$ 2,553,586	\$ 3,436,052
Excess (Deficiency) of Revenues Over Expenditures	\$ (53,960)	\$ 2,116	\$ (1,447,456)	\$ (1,499,300)
Other Financing Sources (Uses):				
Transfers in	\$ 20,000	\$ -	\$ 268,051	\$ 288,051
Total Other Financing Sources (Uses)	\$ 20,000	\$ -	\$ 268,051	\$ 288,051
Net Change in Fund Balances	\$ (33,960)	\$ 2,116	\$ (1,179,405)	\$ (1,211,249)
Fund Balances, Beginning	528,753	19,937	2,274,577	2,823,267
Fund Balances, Ending	\$ 494,793	\$ 22,053	\$ 1,095,172	\$ 1,612,018

City of Henderson, Texas
Combining Balance Sheet
Nonmajor Special Revenue Funds
September 30, 2010

	<u>Drug Seizure</u>	<u>Task Force</u>	<u>Tourism</u>	<u>Main Street</u>	<u>Cemetery</u>	<u>Animal Shelter</u>	<u>Total</u>
<u>Assets</u>							
Cash and Cash Equivalents	\$ 26,601	\$ 43,072	\$ 349,411	\$ 12,226	\$ 82,917	\$ 38,118	\$ 552,345
Investments	466	-	699	-	4,400	400	5,965
Receivables (net of allowance for uncollectibles):							
Hotel/Motel Taxes	-	-	19,969	-	-	-	19,969
Other	-	-	375	-	-	-	375
Due from Other Funds	-	-	20	-	-	-	20
Total Assets	\$ 27,067	\$ 43,072	\$ 370,474	\$ 12,226	\$ 87,317	\$ 38,518	\$ 578,674
<u>Liabilities</u>							
Accounts Payable	\$ -	\$ -	\$ 7,354	\$ 2,855	\$ 5,450	\$ 308	\$ 15,967
Due to Other Funds	-	-	1,914	20	-	-	1,934
Unearned Revenue	16,751	38,379	10,850	-	-	-	65,980
Total Liabilities	\$ 16,751	\$ 38,379	\$ 20,118	\$ 2,875	\$ 5,450	\$ 308	\$ 83,881
<u>Fund Balances</u>							
Unreserved	\$ 10,316	\$ 4,693	\$ 350,356	\$ 9,351	\$ 81,867	\$ 38,210	\$ 494,793
Total Fund Balances	\$ 10,316	\$ 4,693	\$ 350,356	\$ 9,351	\$ 81,867	\$ 38,210	\$ 494,793
Total Liabilities and Fund Balances	\$ 27,067	\$ 43,072	\$ 370,474	\$ 12,226	\$ 87,317	\$ 38,518	\$ 578,674

City of Henderson, Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended September 30, 2010

	Drug Seizure	Task Force	Tourism	Main Street	Cemetery	Animal Shelter	Total
Revenues:							
Hotel/Motel Occupancy Tax	\$ -	\$ -	\$ 231,771	\$ -	\$ -	\$ -	\$ 231,771
Charges for services	-	-	52,392	4,748	-	2,250	59,390
Intergovernmental	-	-	2,480	-	-	-	2,480
Miscellaneous	29,703	-	10,826	9,757	26,052	13,289	89,627
Total revenues	\$ 29,703	\$ -	\$ 297,469	\$ 14,505	\$ 26,052	\$ 15,539	\$ 383,268
Expenditures:							
Current:							
Public Safety:							
Police	\$ 48,746	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,746
Public Services:							
Tourism	-	-	239,075	-	-	-	239,075
Civic Center	-	-	79,428	-	-	-	79,428
Main Street	-	-	-	34,060	-	-	34,060
Cemeteries	-	-	-	-	28,406	-	28,406
Animal Control	-	-	-	-	-	3,048	3,048
Capital Outlay	-	-	-	-	-	4,465	4,465
Total expenditures	\$ 48,746	\$ -	\$ 318,503	\$ 34,060	\$ 28,406	\$ 7,513	\$ 437,228
Excess (Deficiency) of Revenues Over Expenditures	\$ (19,043)	\$ -	\$ (21,034)	\$ (19,555)	\$ (2,354)	\$ 8,026	\$ (53,960)
Other Financing Sources (Uses):							
Transfers in	\$ -	\$ -	\$ -	\$ 20,000	\$ -	\$ -	\$ 20,000
Transfers out	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ 20,000	\$ -	\$ -	\$ 20,000
Net Change in Fund Balances	\$ (19,043)	\$ -	\$ (21,034)	\$ 445	\$ (2,354)	\$ 8,026	\$ (33,960)
Fund Balances, Beginning	29,359	4,693	371,390	8,906	84,221	30,184	528,753
Fund Balances, Ending	\$ 10,316	\$ 4,693	\$ 350,356	\$ 9,351	\$ 81,867	\$ 38,210	\$ 494,793

City of Henderson, Texas
Combining Balance Sheet
Nonmajor Capital Projects Funds
September 30, 2010

	Street and Drainage	General Construction	Civic Center	Parks	Total
<u>Assets</u>					
Cash and Cash Equivalents	\$ 590,798	\$ 235,109	\$ 83,435	\$ 90,968	\$ 1,000,310
Investments	741	681	817	-	2,239
Receivables (net of allowance for uncollectibles):					
Franchise Taxes	66,073	-	-	-	66,073
Accounts	-	25,647	-	-	25,647
Special assessments	28,795	-	-	-	28,795
Due from Other Governments	-	-	-	25,000	25,000
Due from Other Funds	-	-	-	4,933	4,933
Total Assets	\$ 686,407	\$ 261,437	\$ 84,252	\$ 120,901	\$ 1,152,997
<u>Liabilities</u>					
Accounts Payable	\$ 5,581	\$ 19,926	\$ -	\$ -	\$ 25,507
Due to Other Funds	-	3,523	-	-	3,523
Unearned Revenue	28,795	-	-	-	28,795
Total Liabilities	\$ 34,376	\$ 23,449	\$ -	\$ -	\$ 57,825
<u>Fund Balances</u>					
Unreserved	\$ 652,031	\$ 237,988	\$ 84,252	\$ 120,901	\$ 1,095,172
Total Fund Balances	\$ 652,031	\$ 237,988	\$ 84,252	\$ 120,901	\$ 1,095,172
Total Liabilities and Fund Balances	\$ 686,407	\$ 261,437	\$ 84,252	\$ 120,901	\$ 1,152,997

City of Henderson, Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Capital Projects Funds
For the Year Ended September 30, 2010

	Street and Drainage	General Construction	Civic Center	Parks	Total
Revenues:					
Franchise Taxes	\$ 209,576	\$ -	\$ -	\$ -	\$ 209,576
Charges for services	23,403	272,602	-	-	296,005
Intergovernmental	-	-	-	299,190	299,190
Miscellaneous	15,194	10,551	159,708	115,906	301,359
Total revenues	\$ 248,173	\$ 283,153	\$ 159,708	\$ 415,096	\$ 1,106,130
Expenditures:					
Current:					
Sanitation	\$ -	\$ 11,601	\$ -	\$ -	\$ 11,601
Public Services:					
Streets	136,145	-	-	-	136,145
Parks	-	12,955	-	-	12,955
Code Enforcement	-	42,680	-	-	42,680
Capital outlay	168,507	439,507	1,010,251	731,940	2,350,205
Total expenditures	\$ 304,652	\$ 506,743	\$ 1,010,251	\$ 731,940	\$ 2,553,586
Excess (Deficiency) of Revenues Over Expenditures	\$ (56,479)	\$ (223,590)	\$ (850,543)	\$ (316,844)	\$ (1,447,456)
Other Financing Sources (Uses):					
Transfers in	\$ 204,737	\$ 10,814	\$ 22,500	\$ 30,000	\$ 268,051
Total Other Financing Sources (Uses)	\$ 204,737	\$ 10,814	\$ 22,500	\$ 30,000	\$ 268,051
Net Change in Fund Balances	\$ 148,258	\$ (212,776)	\$ (828,043)	\$ (286,844)	\$ (1,179,405)
Fund Balances, Beginning	503,773	450,764	912,295	407,745	2,274,577
Fund Balances, Ending	\$ 652,031	\$ 237,988	\$ 84,252	\$ 120,901	\$ 1,095,172

**COMPLIANCE
STATE AND FEDERAL FINANCIAL
ASSISTANCE SECTION**

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Independent Auditor's Report

Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

March 17, 2011

Honorable City Council
City of Henderson
400 W. Main
Henderson, Texas 75652

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Henderson, Texas ("City") as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

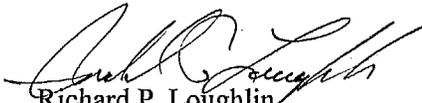
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts,

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and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the organization, the City Council, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,


Richard P. Loughlin
Certified Public Accountant

City of Henderson, Texas
 Summary of Auditor's Results and
 Schedule of Findings and Responses
 For the Year Ended September 30, 2010

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? Yes No

Significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted?

Yes No

2. Federal Awards *N/A - Single Audit not required*

Internal control over major programs:

Material weaknesses identified? Yes No

Significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Type of auditor's report issued on compliance for major programs:

N/A

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
N/A	

Dollar threshold used to distinguish between type A and type B programs:

N/A

Auditee qualified as low-risk auditee?

Yes No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

N/A

City of Henderson, Texas
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2010

Prior Year Finding

Current Status

2009-1 - Procurement

Corrected in 2010

Statement of Condition: The City did not use competitive bidding in the selection of its fuel provider.

Criteria: Chapter 252 of the Local Government Code requires that before a municipality may enter into a contract that requires an expenditure of more than \$50,000 from one or more municipal funds, the municipality must comply with the procedure prescribed by Subchapter B and C of Chapter 252 for competitive sealed bidding or competitive sealed proposals.

Effect if Condition: Violation of State law.

Cause of Condition: The City purchased fuel from it's fuel provider without first obtaining bids.

Recommendation: The City should utilize competitive bidding when making a purchase that costs or aggregates to a cost of \$50,000 or more.

City of Henderson, Texas
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2010

<u>Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Justice</u>			
Direct Programs:			
Bulletproof Vest Partnership	16.607	None	\$ 7,895
BJA-JAG Formula	16.738	2009-DJ-BX-0056	13,202
Passed through Office of the Governor -			
Criminal Justice Division			
Narcotics Investigation Technological Evidence Enhancement	16.560	2234601	13,861
Total U.S. Department of Justice			<u>\$ 34,958</u>
Total Federal Financial Assistance			<u>\$ 34,958</u>

Notes to Schedule of Expenditures of Federal Awards:

The Schedule of Expenditures of Federal Awards is a summary of the activity of the City's federal award programs presented on the modified accrual basis of accounting in accordance with generally accepted accounting principles and in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in the City's basic financial statements.

City of Henderson, Texas
Schedule of Expenditures of State Awards
For the Year Ended September 30, 2010

<u>Grantor/Program Title</u>	<u>Grantor's Number</u>	<u>State Expenditures</u>
<u>Texas Parks & Wildlife Department</u>		
Direct Program		
Texas Recreation and Parks Account Agreement - Henderson Fair Park III	50-000394	\$ 285,590
Total Texas Parks & Wildlife Department		<u>\$ 285,590</u>
<u>Texas Commission on Environmental Quality</u>		
Passed through East Texas Council of Governments		
Solid Waste Management Planning Grant	10-06-G10	\$ 15,100
Total Texas Commission on Environmental Quality		<u>\$ 15,100</u>
<u>Texas Department of State Health Services</u>		
Direct Program		
Obesity Prevention	2010-034875	\$ 13,600
Total Texas Forest Service		<u>\$ 13,600</u>
<u>Texas Department of Agriculture</u>		
Direct Program		
GO TEXAS Rural Communities Program- Bootstrap Bucks	None	\$ 2,480
Total Texas Department of Agriculture		<u>\$ 2,480</u>
<u>Texas Forest Service</u>		
Direct Program		
HB 2604 Grant Program	None	\$ 173,000
Total Texas Forest Service		<u>\$ 173,000</u>
Total State Financial Assistance		<u>\$ 489,770</u>