

CITY OF HENDERSON

Henderson, Texas

ANNUAL FINANCIAL REPORT

September 30, 2011

**City of Henderson, Texas
Annual Financial Report
For the Year Ended September 30, 2011**

TABLE OF CONTENTS

FINANCIAL SECTION	<u>Exhibit</u>	<u>Page</u>
Independent Auditor's Report		1
Management's Discussion and Analysis		3
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Assets	1	13
Statement of Activities	2	14
Fund Financial Statements:		
Balance Sheet-Governmental Funds	3	15
Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets	3-A	16
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds	4	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds to the Statement of Activities	4-A	18
Statement of Net Assets-Proprietary Funds	5	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets-Proprietary Funds	6	20
Statement of Cash Flows-Proprietary Funds	7	21
Statement of Fiduciary Net Assets-Fiduciary Funds	8	22
Statement of Changes in Fiduciary Net Assets-Fiduciary Funds	9	23
Notes to the Financial Statements		24
Required Supplementary Information:		
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budgetary Basis) – General Fund	A-1	49
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	A-2	50
Combining Fund Financial Statements:		
Combining Balance Sheet-Nonmajor Governmental Funds	B-1	51
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Nonmajor Governmental Funds	B-2	52
Combining Balance Sheet-Special Revenue Funds	B-3	53
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Special Revenue Funds	B-4	54
Combining Balance Sheet-Capital Projects Funds	B-5	55
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Capital Projects Funds	B-6	56

INTERNAL CONTROL AND COMPLIANCE SECTION

Exhibit Page

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		57
Summary of Auditor's Results and Schedule of Findings and Responses		59
Summary Schedule of Prior Audit Findings		60
Schedule of Expenditures of Federal Awards	F-1	61
Schedule of Expenditures of State Awards	F-2	62

FINANCIAL SECTION

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Independent Auditor's Report

March 29, 2012

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, 2011, 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, 2011, 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 29, 2012, 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.

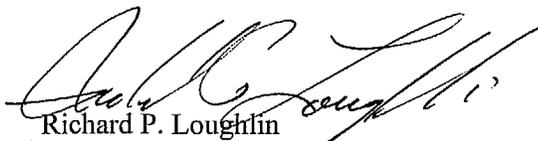
MEMBER

1

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 12 and pages 49 and 50, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Respectfully submitted,



Richard P. Loughlin
Certified Public Accountant

City of Henderson, Texas
Management's Discussion and Analysis
 September 30, 2011

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, 2011. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

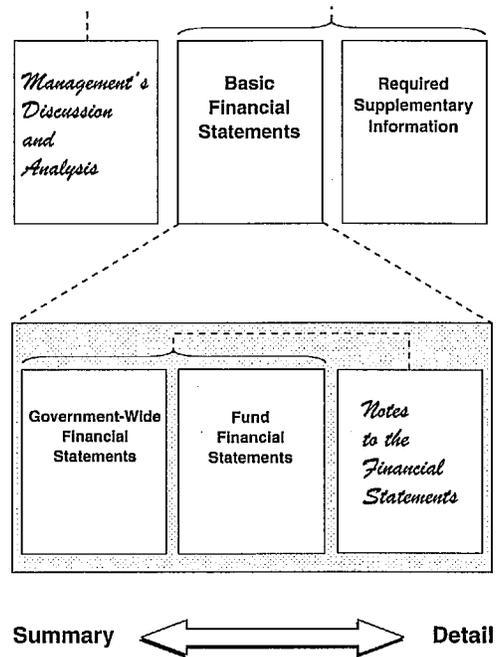
- The City's total combined net assets were \$42,415,432 at September 30, 2011.
- The total cost of the City's programs increased by 3.18% from the prior year. The most significant increases were in Water and Sewer due to the significant increase in usage due to the very dry summer of 2011.
- The general fund reported a fund balance this year of \$4,470,684, of which \$65,500 was nonspendable, \$20,114 was restricted and 4,385,070 was unassigned.
- During the year ended September 30, 2011, the City issued \$1,050,000 of certificates of obligation to finance a street improvement project and \$3,340,000 of certificates of obligation to advance refund the City's 2001 revenue bond issue and the City's 2009 tax notes. For further information, see Note IV. E. to the financial statements.

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, 2011

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 fourteen (14) 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 49-50 to demonstrate compliance with the annual appropriated budget. Data from the other thirteen (13) 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, 2011

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 24-48 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 51-56 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, 2011. 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, 2011. 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 57.

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 \$42,415,432 at the close of the most recent fiscal year.

By far, the largest portion of the City's Net Assets (74.1%) 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 debt, it

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2011

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			
	2011	2010	2011	2010	2011	2010
Current Assets:						
Cash and Cash Equivalents	\$ 7,291,198	\$ 5,523,625	\$ 4,492,522	\$ 3,988,534	\$ 11,783,720	\$ 9,512,159
Investments	13,979	13,960	25,097	25,064	39,076	39,024
Taxes Receivable (Net)	1,192,896	1,196,215	-	-	1,192,896	1,196,215
Accounts Receivable (Net)	408,726	533,898	753,972	604,374	1,162,698	1,138,272
Other Receivables	129,689	234,760	49,440	5,485	179,129	240,245
Total Current Assets	\$ 9,036,488	\$ 7,502,458	\$ 5,321,031	\$ 4,623,457	\$ 14,357,519	\$ 12,125,915
Noncurrent Assets:						
Capitalized Bond Issue Cost	\$ 66,781	\$ 31,161	\$ 86,681	\$ 118,524	\$ 153,462	\$ 149,685
Capital Assets	26,596,700	24,954,991	27,675,493	27,413,781	54,272,193	52,368,772
Accumulated Depreciation	(4,741,560)	(4,051,812)	(9,043,334)	(8,390,983)	(13,784,894)	(12,442,795)
Total Noncurrent Assets	\$ 21,921,921	\$ 20,934,340	\$ 18,718,840	\$ 19,141,322	\$ 40,640,761	\$ 40,075,662
Total Assets	\$ 30,958,409	\$ 28,436,798	\$ 24,039,871	\$ 23,764,779	\$ 54,998,280	\$ 52,201,577
Current Liabilities:						
Accounts Payable & Accrued Expenses	\$ 886,710	\$ 653,900	\$ 277,722	\$ 160,003	\$ 1,164,432	\$ 813,903
Due to Component Unit	190,512	194,437	-	-	190,512	194,437
Unearned Revenue	73,261	67,542	-	-	73,261	67,542
Customer Deposits	-	-	291,120	293,884	291,120	293,884
Total Current Liabilities	\$ 1,150,483	\$ 915,879	\$ 568,842	\$ 453,887	\$ 1,719,325	\$ 1,369,766
Noncurrent Liabilities:						
Due within one year	370,000	325,000	1,140,000	1,070,000	\$ 1,510,000	\$ 1,395,000
Due in more than one year	4,046,628	3,334,752	5,306,895	6,405,610	9,353,523	9,740,362
Total Noncurrent Liabilities	\$ 4,416,628	\$ 3,659,752	\$ 6,446,895	\$ 7,475,610	\$ 10,863,523	\$ 11,135,362
Total Liabilities	\$ 5,567,111	\$ 4,575,631	\$ 7,015,737	\$ 7,929,497	\$ 12,582,848	\$ 12,505,128
Net Assets:						
Invested in Capital Assets	\$ 18,752,689	\$ 17,492,219	\$ 12,674,022	\$ 11,357,468	\$ 31,426,711	\$ 28,849,687
Restricted	1,464,360	1,116,246	382,002	383,491	1,846,362	1,499,737
Unrestricted	5,174,249	5,252,702	3,968,111	4,094,323	9,142,360	9,347,025
Total Net Assets	\$ 25,391,298	\$ 23,861,167	\$ 17,024,135	\$ 15,835,282	\$ 42,415,433	\$ 39,696,449

\$385,246 of the City's net assets are restricted for debt service, \$20,114 are restricted for use in the Municipal Court, \$65,500 are restricted for a cemetery endowment, \$9,746 are restricted for law enforcement, \$352,743 are restricted for tourism, \$1,012,961 are restricted for Street & Drainage, and \$51 are restricted for grants. The \$9,142,360 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, 2011

Changes in Net Assets

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Program Revenues:						
Charges for Services	\$ 2,796,516	\$ 2,729,411	\$ 5,714,943	\$ 4,836,759	\$ 8,511,459	\$ 7,566,170
Operating Grants & Contributions	241,817	252,514	-	-	241,817	252,514
Capital Grants & Contributions	512,433	718,490	-	-	512,433	718,490
General Revenues:						
Property Taxes	2,988,986	3,085,032	-	-	2,988,986	3,085,032
Sales Taxes	3,177,382	3,020,465	-	-	3,177,382	3,020,465
Franchise and Other Taxes	1,096,426	1,061,752	-	-	1,096,426	1,061,752
Other	679,778	373,197	156,424	151,641	836,202	524,838
Total Revenues	\$ 11,493,338	\$ 11,240,861	\$ 5,871,367	\$ 4,988,400	\$ 17,364,705	\$ 16,229,261
Functions/Programs:						
General Government	\$ 1,991,016	\$ 2,101,906	\$ -	\$ -	\$ 1,991,016	\$ 2,101,906
Public Safety	3,824,440	4,058,991	-	-	3,824,440	4,058,991
Sanitation	1,502,171	1,336,593	-	-	1,502,171	1,336,593
Public Services	2,722,528	2,385,389	-	-	2,722,528	2,385,389
Interest on Long-Term Debt	148,605	147,405	-	-	148,605	147,405
Water & Sewer	-	-	4,456,962	4,163,804	4,456,962	4,163,804
Total Expenses	\$ 10,188,760	\$ 10,030,284	\$ 4,456,962	\$ 4,163,804	\$ 14,645,722	\$ 14,194,088
Increase in Net Assets						
Before Transfers	\$ 1,304,578	\$ 1,210,577	\$ 1,414,405	\$ 824,596	\$ 2,718,983	\$ 2,035,173
Transfers	225,553	218,282	(225,553)	(218,282)	-	-
Increase in Net Assets	\$ 1,530,131	\$ 1,428,859	\$ 1,188,852	\$ 606,314	\$ 2,718,983	\$ 2,035,173
Net Assets, Beginning	\$ 23,861,167	\$ 22,432,308	\$ 15,835,282	\$ 15,228,968	\$ 39,696,449	\$ 37,661,276
Net Assets, Ending	\$ 25,391,298	\$ 23,861,167	\$ 17,024,134	\$ 15,835,282	\$ 42,415,432	\$ 39,696,449

City of Henderson, Texas
 Management's Discussion and Analysis
 September 30, 2011

Chart A-1
 City of Henderson, Texas
 Revenues for the Year Ended September 30, 2011

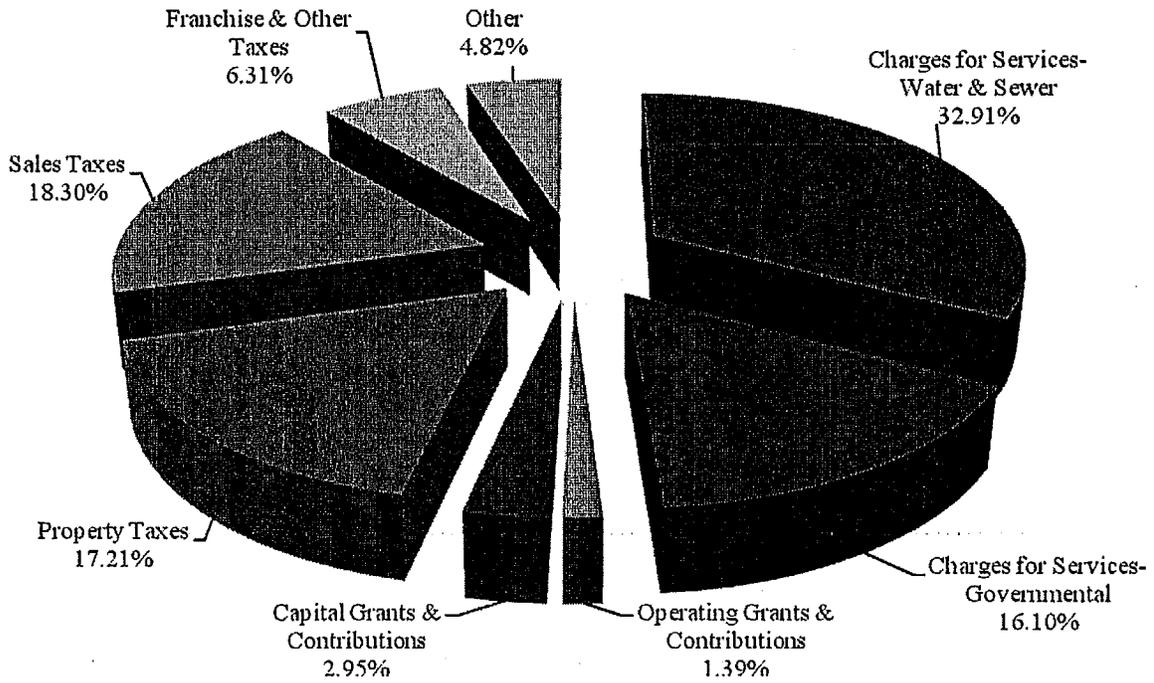
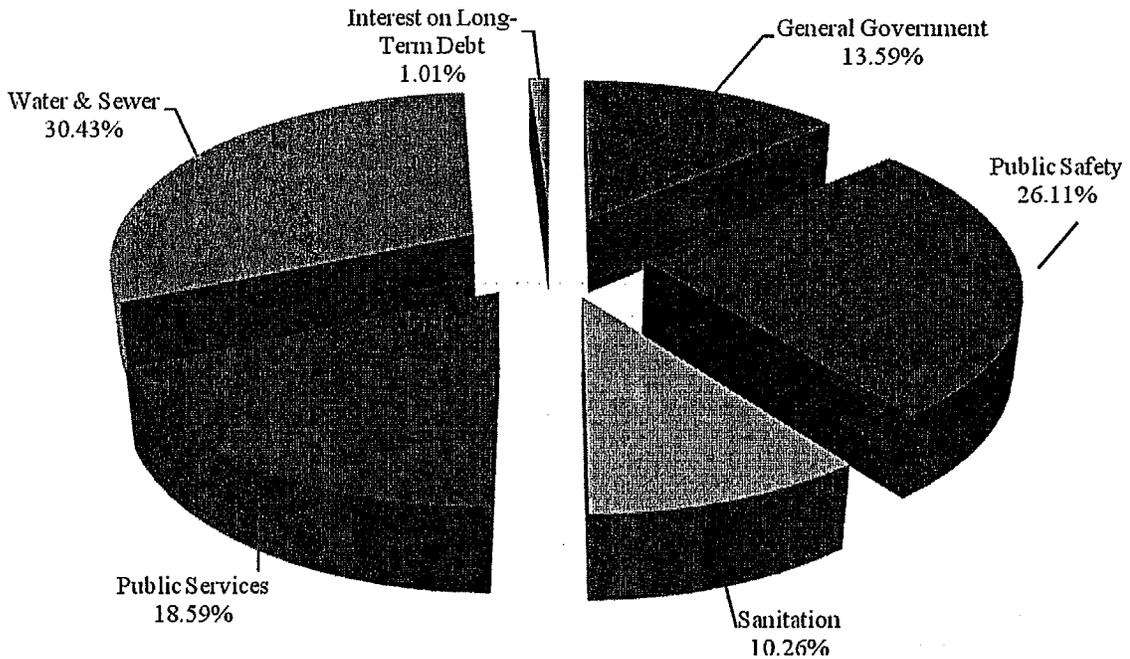


Chart A-2
 City of Henderson, Texas
 Expenses for the Year Ended September 30, 2011



City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2011

Governmental Activities

Governmental activities increased the City's net assets by \$1,530,131, thereby accounting for 56% of the total growth in the net assets of the City. Key elements in this increase are as follows:

- Property tax revenue decreased \$96,046 or 3.11% as a result of the decrease in the City's tax base.
- Sales tax revenue increased \$156,917, or 5.20%. This increase was a result of a general upturn in the national, state and local economy.
- Capital grants and contributions revenue decreased \$206,057, resulting primarily from the receipt of contributions and grants in the prior year from the Texas Forest Service for the purchase of a fire truck, a local foundation grant, and a local nonprofit organization for assistance in the construction of the civic center.
- Receipt of \$310,000 in settlement of a lawsuit filed by the City in a prior year.
- Expenses for Governmental Activities increased only 1.58% for the year, as the City responded to the economic downturn by maintain expenses close to 2010 levels.

The resulting increase was consistent with the prior year, when the increase was \$1,428,859.

Business-Type Activities

Business-type activities increased the City's net assets by \$1,188,852, thereby accounting for 44% 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 18.16%, due to the severe drought in the summer of 2011. Operating expenses were up by 7.04%, as a result of increased costs of treating and pumping water to citizens.

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 \$7,238,930, an increase of \$1,262,835 in comparison with the prior year. The increase in combined fund balances was as a direct result of the factors mentioned above (property taxes, sales taxes, grants, lawsuit proceeds). Additionally, fund balances increased due to the issuance of \$1,050,000 in certificates of obligation for street improvements. Expenditures in Governmental Funds decreased \$988,781 from 2010. The primary reason for the decrease was due to decreased capital outlay expenditures, resulting from the completion of the City's civic center project were in 2010.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, Unassigned Fund Balance of the General Fund was \$4,385,070, while total Fund Balance was \$4,470,684. As a measure of the General Fund's liquidity, it may be useful to compare both Unassigned Fund Balance and total Fund Balance to total fund expenditures. Unassigned Fund Balance represents 48.13% of total General Fund expenditures, while total Fund Balance represents 49.07% of that same amount. See Table A-3 below for a detail of all the City's fund balances.

The Fund Balance of the City's General Fund increased by \$106,607 during the current fiscal year. Key factors in this decrease are:

- ◆ *Overall revenues increased from 2010, approximately 1.42%, the most significant increases were in sales tax revenues as a result of the economic factors mentioned above, and charges for sanitation services.*
- ◆ *Expenditures decreased 0.88% as the City maintained spending near 2010 amounts.*

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2011

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

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Nonspendable:		
Cemetery Endowment	\$ 65,500	\$ 65,500
Restricted:		
Municipal Court	20,114	11,297
Debt Service	3,245	22,053
Law Enforcement	9,746	15,009
Tourism	352,743	350,356
Street & Drainage	1,012,961	652,031
Bond Fund	980,768	-
Grants	51	-
Committed:		
Main Street	15,802	9,351
Cemetery	57,659	81,867
Animal Shelter	51,334	38,210
General Construction	181,379	237,988
Civic Center	62,611	84,252
Parks	39,947	120,901
Unassigned	4,385,070	4,287,280
Total	\$ 7,238,930	\$ 5,976,095

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 \$3,968,111. The total growth in net assets for the fund was \$1,188,852. 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 \$164,458. The City's operating budgets maintained contributions to the fund at approximately the 2010 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 increase in appropriations of \$335,679. The most significant among the changes were in Nondepartmental.

Differences between the final amended budget and actual General Fund expenditures were a net positive variance of \$192,963. 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, 2011

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the City's investment in capital assets for its governmental and business-type activities amounts to \$40,487,299 (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 1.4%. The overall increase was primarily due to the additional water and wastewater distribution system, the purchase of a motor vehicles, 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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 1,363,278	\$ 1,320,523	\$ 410,130	\$ 410,130	\$ 1,773,408	\$ 1,730,653
Buildings and Improvements	7,658,879	7,348,318	442,426	442,426	8,101,305	7,790,744
Machinery and Equipment	3,419,143	3,345,728	1,043,436	1,021,985	4,462,579	4,367,713
Improvements other than Buildings	2,499,743	1,663,418	-	-	2,499,743	1,663,418
Water and Wastewater Distribution	-	-	25,740,416	25,539,240	25,740,416	25,539,240
Infrastructure	11,510,420	10,841,450	-	-	11,510,420	10,841,450
Construction in Progress	145,237	435,553	39,085	-	184,322	435,553
Total Capital Assets	\$26,596,700	\$24,954,990	\$27,675,493	\$27,413,781	\$54,272,193	\$52,368,771
Less: Accumulated Depreciation	(4,741,560)	(4,051,811)	(9,043,334)	(8,390,983)	(13,784,894)	(12,442,794)
Net Capital Assets	\$21,855,140	\$20,903,179	\$18,632,159	\$19,022,798	\$40,487,299	\$39,925,977

Long-Term Debt

At year-end, the City had \$10,863,523 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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Bonds payable	\$ -	\$ -	\$ 6,409,171	\$ 6,653,276	\$ 6,409,171	\$ 6,653,276
Certificates of obligation payable	4,150,000	3,425,000	-	-	4,150,000	3,425,000
Tax Notes	-	-	-	785,000	-	785,000
Other Post-Employment Benefits (OPEB)	41,004	20,468	-	-	41,004	20,468
Compensated absences	225,624	214,284	37,724	37,334	263,348	251,618
Total	\$ 4,416,628	\$ 3,659,752	\$ 6,446,895	\$ 7,475,610	\$ 10,863,523	\$ 11,135,362

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2011

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2012 budget preparation is \$594,487,790 with a tax rate of \$0.4154 per \$100 valuation for general operations and a debt service rate of \$0.1063 per \$100 valuation for a total tax rate of \$0.5217 per \$100 valuation.
- Sales tax revenues in the 2012 budget are projected to be slightly higher than the actual amounts in the 2011 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 and wastewater rates will remain the same as in the 2011 fiscal year.

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, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	HEDCO
Assets				
Cash and cash equivalents	\$ 7,291,198	\$ 3,819,400	\$ 11,110,598	\$ 2,185,561
Investments	13,979	25,097	39,076	-
Receivables (net allowances for uncollectibles)				
Taxes	1,192,896	-	1,192,896	190,512
Accounts	408,726	753,972	1,162,698	-
Due from other governments	10,633	-	10,633	-
Notes	-	-	-	1,260,046
Special assessments	28,795	-	28,795	-
Other	92,150	47,551	139,701	-
Internal balances	(1,889)	1,889	-	-
Restricted cash and investments				
Cash and cash equivalents	-	673,122	673,122	-
Bond issuance costs	66,781	86,681	153,462	-
Capital assets (Net of accumulated depreciation)				
Land	1,363,278	410,130	1,773,408	1,671,809
Buildings and improvements	6,721,797	333,124	7,054,921	-
Machinery and equipment	954,218	381,081	1,335,299	-
Improvements other than buildings	2,030,106	-	2,030,106	-
Water and wastewater distribution	-	17,468,739	17,468,739	-
Infrastructure	10,640,505	-	10,640,505	-
Construction in progress	145,236	39,085	184,321	-
Total assets	\$ 30,958,409	\$ 24,039,871	\$ 54,998,280	\$ 5,307,928
Liabilities				
Accounts payable	\$ 807,651	\$ 261,907	\$ 1,069,558	\$ 17,663
Accrued liabilities	52,470	-	52,470	-
Accrued interest payable	26,589	15,815	42,404	-
Due to component unit	190,512	-	190,512	-
Unearned revenue	73,261	-	73,261	-
Customer deposits	-	291,120	291,120	-
Noncurrent liabilities:				
Due within one year	370,000	1,140,000	1,510,000	131,749
Due in more than one year	4,046,628	5,306,895	9,353,523	911,047
Total liabilities	\$ 5,567,111	\$ 7,015,737	\$ 12,582,848	\$ 1,060,459
Net Assets				
Invested in capital assets, net of related debt	\$ 18,752,689	\$ 12,674,022	\$ 31,426,711	\$ 1,671,809
Restricted	1,464,360	382,001	1,846,361	-
Unrestricted	5,174,249	3,968,111	9,142,360	2,575,660
Total net assets	\$ 25,391,298	\$ 17,024,134	\$ 42,415,432	\$ 4,247,469

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

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City of Henderson, Texas
Statement of Activities
For the Year Ended September 30, 2011

Functions/Programs:	Expenses	Programs Revenues			Net (Expenses) Revenue and Changes in Net Assets			Component Unit HEDCO
		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	\$ 1,991,016	\$ 310,668	\$ 20,005	\$ -	\$ (1,660,343)		\$ (1,660,343)	
Public safety	3,824,440	-	160,441	91,495	(3,572,504)		(3,572,504)	
Sanitation	1,502,171	2,126,442	-	-	624,271		624,271	
Public services	2,722,528	359,406	61,371	420,938	(1,880,813)		(1,880,813)	
Interest on long-term debt	148,605	-	-	-	(148,605)		(148,605)	
Total governmental activities	<u>\$ 10,188,760</u>	<u>\$ 2,796,516</u>	<u>\$ 241,817</u>	<u>\$ 512,433</u>	<u>\$ (6,637,994)</u>		<u>\$ (6,637,994)</u>	
Business-type activities:								
Water and sewer	\$ 4,456,962	\$ 5,714,943	\$ -	\$ -		\$ 1,257,981	\$ 1,257,981	
Total business-type activities	<u>\$ 4,456,962</u>	<u>\$ 5,714,943</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 1,257,981</u>	<u>\$ 1,257,981</u>	
Total primary government	<u>\$ 14,645,722</u>	<u>\$ 8,511,459</u>	<u>\$ 241,817</u>	<u>\$ 512,433</u>	<u>\$ (6,637,994)</u>	<u>\$ 1,257,981</u>	<u>\$ (5,380,013)</u>	
Component units:								
Economic development	<u>\$ 320,254</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				<u>\$ (320,254)</u>
General revenues:								
Taxes:								
Property taxes					\$ 2,988,986	\$ -	\$ 2,988,986	\$ -
Sales taxes					3,177,382	-	3,177,382	1,097,959
Franchise taxes					854,390	-	854,390	-
Other taxes					242,036	-	242,036	-
Investment earnings					220,828	131,374	352,202	39,833
Miscellaneous					148,950	25,050	174,000	27
Extraordinary item					310,000	-	310,000	-
Transfers					225,553	(225,553)	-	-
Total general revenues, extraordinary item, and transfers					<u>\$ 8,168,125</u>	<u>\$ (69,129)</u>	<u>\$ 8,098,996</u>	<u>\$ 1,137,819</u>
Change in net assets					\$ 1,530,131	\$ 1,188,852	\$ 2,718,983	\$ 817,565
Net assets, beginning					23,861,167	15,835,282	39,696,449	3,429,904
Net assets, ending					<u>\$ 25,391,298</u>	<u>\$ 17,024,134</u>	<u>\$ 42,415,432</u>	<u>\$ 4,247,469</u>

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

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FUND FINANCIAL STATEMENTS

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City of Henderson, Texas
Balance Sheet
Governmental Funds
September 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 4,301,081	\$ 2,778,009	\$ 7,079,090
Investments	1,979	11,431	13,410
Receivables (net allowances for uncollectibles)			
Taxes:			
Sales	762,049	-	762,049
Property	215,459	-	215,459
Franchise	129,425	69,083	198,508
Hotel/Motel	-	16,880	16,880
Accounts			
Warrants	264,952	-	264,952
Sanitation	68,354	-	68,354
Other	25,996	49,424	75,420
Special assessments	-	28,795	28,795
Due from other governments	10,633	-	10,633
Due from other funds	35	-	35
Total assets	<u>\$ 5,779,963</u>	<u>\$ 2,953,622</u>	<u>\$ 8,733,585</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 587,454	\$ 79,828	\$ 667,282
Accrued liabilities	50,892	1,578	52,470
Due to component unit	190,512	-	190,512
Due to other funds	10	1,914	1,924
Unearned revenue	480,411	102,056	582,467
Total liabilities	<u>\$ 1,309,279</u>	<u>\$ 185,376</u>	<u>\$ 1,494,655</u>
Fund balances:			
Nonspendable	\$ 65,500	\$ -	\$ 65,500
Restricted	20,114	2,359,514	2,379,628
Committed	-	408,732	408,732
Unassigned	4,385,070	-	4,385,070
Total fund balances	<u>\$ 4,470,684</u>	<u>\$ 2,768,246</u>	<u>\$ 7,238,930</u>
Total liabilities and fund balances	<u>\$ 5,779,963</u>	<u>\$ 2,953,622</u>	<u>\$ 8,733,585</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, 2011

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

Total Fund Balances-Total Governmental Funds (Page 15)	\$ 7,238,930
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	21,855,140
Certain long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. (See Note II.A.)	509,206
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.	164,458
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (See Note II.A.)	(4,376,436)
Net Assets of Governmental Activities (page 13)	<u>\$ 25,391,298</u>

City of Henderson, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes:			
Sales	\$ 3,177,382	\$ -	\$ 3,177,382
Property	2,536,034	433,890	2,969,924
Franchise	637,403	216,987	854,390
Hotel/Motel	-	242,036	242,036
Permits & fees	79,988	-	79,988
Charges for services	1,914,093	574,415	2,488,508
Fines & forfeitures	418,585	-	418,585
Intergovernmental	251,936	365,275	617,211
Miscellaneous	252,066	216,279	468,345
Total revenues	<u>\$ 9,267,487</u>	<u>\$ 2,048,882</u>	<u>\$ 11,316,369</u>
Expenditures:			
Current:			
General government:			
Administration	\$ 412,918	\$ -	\$ 412,918
Finance	258,289	-	258,289
Municipal court	285,116	-	285,116
Nondepartmental	991,011	15,341	1,006,352
Public safety			
Police	2,471,519	52,737	2,524,256
Fire	1,282,604	-	1,282,604
Sanitation	1,490,421	11,750	1,502,171
Public services:			
Tourism	-	240,038	240,038
Civic Center	-	105,015	105,015
Main Street	-	30,808	30,808
Streets	915,181	203,529	1,118,710
Parks	71,962	52,667	124,629
Activity center	9,736	-	9,736
Cemeteries	8,719	1,853	10,572
Community development	306,298	35,723	342,021
Animal shelter	125,325	1,394	126,719
Capital outlay	481,804	1,277,572	1,759,376
Debt service:			
Principal	-	325,000	325,000
Interest and fiscal charges	-	174,757	174,757
Total expenditures	<u>\$ 9,110,903</u>	<u>\$ 2,528,184</u>	<u>\$ 11,639,087</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ 156,584</u>	<u>\$ (479,302)</u>	<u>\$ (322,718)</u>
Other Financing Sources (Uses):			
Bond proceeds	\$ -	\$ 1,050,000	\$ 1,050,000
Transfers in	296,097	388,274	684,371
Transfers out	(346,074)	(112,744)	(458,818)
Total Other Financing Sources (Uses)	<u>\$ (49,977)</u>	<u>\$ 1,325,530</u>	<u>\$ 1,275,553</u>
Extraordinary Item:			
Lawsuit proceeds	\$ -	\$ 310,000	\$ 310,000
Net Change in Fund Balances	\$ 106,607	\$ 1,156,228	\$ 1,262,835
Fund Balances, Beginning	<u>4,364,077</u>	<u>1,612,018</u>	<u>5,976,095</u>
Fund Balances, Ending	<u>\$ 4,470,684</u>	<u>\$ 2,768,246</u>	<u>\$ 7,238,930</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, 2011

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

Net Change in Fund Balances-Total Governmental Funds (Page 17)	\$ 1,262,835
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.)	951,960
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.)	(136,044)
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.)	(716,876)
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.)	(13,848)
Internal Service Funds are used by management to charge the costs of health insurance to individual funds.	182,103
Changes in Net Assets of Governmental Activities (Page 14)	\$ 1,530,130

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

City of Henderson, Texas
Statement of Net Assets
Proprietary Funds
September 30, 2011

	Business-type Activities-	Governmental Activities-
	Enterprise Fund	Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 3,819,400	\$ 212,108
Investments	25,097	569
Restricted cash and investments:		
Cash and cash equivalents	673,122	-
Accounts receivable - net of allowances for uncollectibles	753,972	92,150
Accrued interest receivable	6,052	-
Other receivable	41,499	-
Due from other funds	1,924	-
Total Current Assets	\$ 5,321,066	\$ 304,827
Noncurrent assets:		
Bond issuance costs	\$ 86,681	\$ -
Capital assets:		
Land	410,130	-
Construction in progress	39,085	-
Buildings and improvements	442,426	-
Motor vehicles	335,807	-
Equipment	707,629	-
Water and wastewater distribution	25,740,416	-
Less: accumulated depreciation	(9,043,334)	-
Total capital assets	\$ 18,632,159	\$ -
Total noncurrent assets	\$ 18,718,840	\$ -
Total assets	\$ 24,039,906	\$ 304,827
<u>Liabilities</u>		
Current Liabilities:		
Accounts payable	\$ 261,907	\$ 140,369
Customer deposits	291,120	-
Accrued interest	15,815	-
Due to other funds	35	-
Bonds payable	1,140,000	-
Total current liabilities	\$ 1,708,877	\$ 140,369
Long-term liabilities:		
Bonds payable	\$ 5,269,171	\$ -
Compensated absences payable	37,724	-
Total long-term liabilities	\$ 5,306,895	\$ -
Total liabilities	\$ 7,015,772	\$ 140,369
<u>Net Assets</u>		
Invested in capital assets, net of related debt	\$ 12,674,022	\$ -
Restricted for debt service and bond reserve	382,001	-
Unrestricted	3,968,111	164,458
Total net assets	\$ 17,024,134	\$ 164,458

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, 2011

	Business-type Activities- Enterprise Fund	Governmental Activities- Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
Operating Revenues:		
Charges for services	\$ 5,714,943	\$ 1,356,815
Total operating revenues	\$ 5,714,943	\$ 1,356,815
Operating Expenses		
Cost of sales and services	\$ 2,977,075	\$ -
Administration	503,079	295,130
Claims	-	882,593
Depreciation and amortization	676,688	-
Total operating expenses	\$ 4,156,842	\$ 1,177,723
Operating income (loss)	\$ 1,558,101	\$ 179,092
Nonoperating Revenues (Expenses):		
Investment earnings	\$ 131,374	\$ 3,011
Miscellaneous revenue	25,050	-
Interest and fiscal charges on debt	(300,120)	-
Total nonoperating revenues (expenses)	\$ (143,696)	\$ 3,011
Income (loss) Before Contributions and Transfers	\$ 1,414,405	\$ 182,103
Transfers		
Transfers in	\$ 70,544	\$ -
Transfers out	(296,097)	-
Total transfers	\$ (225,553)	\$ -
Change in Net Assets	\$ 1,188,852	\$ 182,103
Total Net Assets, Beginning	15,835,282	(17,645)
Total Net Assets, Ending	\$ 17,024,134	\$ 164,458

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, 2011

	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	\$ 5,565,345	\$ -
Cash received from interfund services provided	-	1,264,665
Cash payments to suppliers and employees	(3,349,655)	(1,141,476)
Cash provided (used) by operating activities	<u>\$ 2,215,690</u>	<u>\$ 123,189</u>
Cash Flows from Noncapital Financing Activities		
(Increase)/decrease in due to/due from other funds	\$ 25	\$ -
Increase/(decrease) in customer deposits	(2,764)	-
Transfers (to)/from other funds	(259,308)	-
Cash provided (used) by noncapital financing activities	<u>\$ (262,047)</u>	<u>\$ -</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	\$ (240,262)	\$ -
Nonoperating miscellaneous revenue	25,050	-
Principal repayments on bonds and debt (Net of refunding)	(1,050,403)	-
Interest and fiscal charges on debt	(312,900)	-
Cash provided (used) by capital and related financing activities	<u>\$ (1,578,515)</u>	<u>\$ -</u>
Cash Flows from Investing Activities		
(Purchases)/Sales of investments	\$ (33)	\$ -
Earnings on investments	128,893	3,011
Cash provided (used) by investing activities	<u>\$ 128,860</u>	<u>\$ 3,011</u>
Net Increase in Cash and Cash Equivalents	<u>\$ 503,988</u>	<u>\$ 126,200</u>
Cash and Cash Equivalents, Beginning	<u>3,988,534</u>	<u>85,908</u>
Cash and Cash Equivalents, Ending	<u>\$ 4,492,522</u>	<u>\$ 212,108</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating income (loss)	\$ 1,558,101	\$ 179,092
Adjustments to reconcile operating income to Net Cash provided (used) by operating activities:		
Depreciation	664,655	-
Amortization	12,033	-
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	(149,598)	(92,150)
Increase (decrease) in accounts payable	130,499	36,247
Total adjustments	<u>\$ 657,589</u>	<u>\$ (55,903)</u>
Net cash provided (used) by operating activities	<u>\$ 2,215,690</u>	<u>\$ 123,189</u>

Noncash Capital and Noncapital Financing Activities

Equipment was purchased by the Equipment Replacement fund for the Water & Sewer Fund for \$33,755.

City of Henderson, Texas
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2011

	<u>Firemen Retirement Pension Trust</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 3,034
Investments	<u>448</u>
Total Assets	<u><u>3,482</u></u>
<u>Liabilities</u>	
	<u>-</u>
<u>Net Assets</u>	
Held in trust for pension benefits and other purposes	<u><u>\$ 3,482</u></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, 2011

	<u>Firemen Retirement Pension Trust</u>
Additions	
Contributions:	
Employer	\$ 1,500
Retirees	96
Investment earnings	88
Total additions	<u>\$ 1,684</u>
Deductions	
Benefits	\$ 2,850
Total deductions	<u>\$ 2,850</u>
Change in Net Assets	\$ (1,166)
Net Assets, Beginning	<u>4,648</u>
Net Assets, Ending	<u><u>\$ 3,482</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, 2011

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. For the fiscal year ended September 30, 2011, the City implemented the new reporting requirements of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Definitions. 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 City 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 Balances – Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the City Council. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority. The City Council has authorized the City Manager or his/her designee to assign fund balance. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

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 \$509,206 difference are as follows:

Delinquent Property Taxes Receivable	\$ 215,459
Outstanding Warrants Receivable	264,952
Special Assessments Receivable	<u>28,795</u>
Net Adjustment to <i>Increase</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Assets-Governmental Activities	<u>\$ 509,206</u>

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 \$4,376,436 difference are as follows:

Certificates of Obligation Payable	\$ (4,150,000)
Accrued Compensated Absences	(225,624)
Unamortized Bond Issue Costs	66,781
Other Post-Employment Benefits (OPEB) Liability	(41,004)
Accrued Interest Payable	<u>(26,589)</u>
Net Adjustment to <i>Decrease</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Assets-Governmental Activities	<u>\$ (4,376,436)</u>

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 \$951,960 difference are as follows:

Capital Outlay Expenditures	\$ 1,759,376
Depreciation Expense	<u>(807,416)</u>
Net Adjustment to <i>Increase</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Assets-Governmental Activities	<u>\$ 951,960</u>

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 \$136,044 difference are as follows:

Current Year Increase/(Decrease) in Net Property Taxes Receivable	\$ 19,063
Current Year Increase/(Decrease) in Net Outstanding Warrants Receivable	<u>(155,107)</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>\$ (136,044)</u>

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 \$716,876 difference are as follows:

Issuance of Certificates of Obligation	\$ (1,050,000)
Principal Payments on Certificates of Obligation	325,000
Bond Issue Costs	40,000
Increase in OPEB Liability	(20,536)
(Increase)/Decrease in Accrued Compensated Absences	<u>(11,340)</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>\$ (716,876)</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 \$13,848 difference are as follows:

(Increase)/Decrease in Accrued Interest Payable	\$ (9,468)
Amortization of Bond Issue Costs	<u>(4,380)</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>\$ (13,848)</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. During the year ended September 30, 2011, the City revised its budget.

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, 2011, expenditures exceeded appropriations in the Administration Department, Municipal Court, Sanitation Department, and Parks Department. These over-expenditures were funded by greater than anticipated revenues and reduction in other departmental expenditures.

IV. Detailed Notes on all Funds

A. Deposits and Investments

Deposits

At September 30, 2011, the carrying amount of the City's deposits with financial institutions, including time deposits and certificates of deposits, was \$11,786,754 and the bank balance was \$12,097,995. 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, 2011, 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, 2011, is shown below.

<u>Investment or Investment Type</u>	<u>Weighted Avg Maturity</u>	<u>Fair Value</u>
TexSTAR	46 Days	\$ 39,524
Total Investments		<u>\$ 39,524</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, 2011, 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	\$ 1,144,955	\$ -	\$ 85,963	\$ 1,230,918
Accounts	516,446	757,195	49,424	1,323,065
Other Governments	10,633	-	-	10,633
Special Assessments	-	-	28,795	28,795
Other	-	47,551	-	47,551
Gross receivables	<u>1,672,034</u>	<u>804,746</u>	<u>164,182</u>	<u>2,640,962</u>
Less: allowance for uncollectibles	<u>(195,166)</u>	<u>(3,223)</u>	<u>-</u>	<u>(198,389)</u>
Net total receivables	<u>\$ 1,476,868</u>	<u>\$ 801,523</u>	<u>\$ 164,182</u>	<u>\$ 2,442,573</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	\$ 215,459	\$ -	\$ 215,459
Warrants	264,952	-	264,952
Other governmental funds:			
Seizures	-	45,586	45,586
Deposits	-	27,675	27,675
Special Assessments	28,795	-	28,795
Total governmental funds	<u>\$ 509,206</u>	<u>\$ 73,261</u>	<u>\$ 582,467</u>

C. Capital Assets

Capital asset activity for the year ended September 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Primary Government</u>				
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 1,320,523	\$ 42,755	\$ -	\$ 1,363,278
Construction in progress	435,553	843,150	1,133,466	145,237
Total capital assets not being depreciated	<u>1,756,076</u>	<u>885,905</u>	<u>1,133,466</u>	<u>1,508,515</u>
Capital assets being depreciated:				
Buildings	7,348,318	310,561	-	7,658,879
Improvements other than buildings	1,663,418	839,088	2,763	2,499,743
Equipment	3,345,728	188,319	114,904	3,419,143
Infrastructure	10,841,450	753,970	85,000	11,510,420
Total capital assets being depreciated	<u>23,198,914</u>	<u>2,091,938</u>	<u>202,667</u>	<u>25,088,185</u>
Less accumulated depreciation:				
Buildings	775,655	161,428	-	937,083
Improvements other than buildings	304,728	167,671	2,763	469,636
Equipment	2,288,354	291,475	114,904	2,464,925
Infrastructure	683,074	186,842	-	869,916
Total accumulated depreciation	<u>4,051,811</u>	<u>807,416</u>	<u>117,667</u>	<u>4,741,560</u>
Total capital assets being depreciated, net	<u>19,147,103</u>	<u>1,284,522</u>	<u>85,000</u>	<u>20,346,625</u>
Governmental activities capital assets, net	<u>\$ 20,903,179</u>	<u>\$ 2,170,427</u>	<u>\$ 1,218,466</u>	<u>\$ 21,855,140</u>

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 410,130	\$ -	\$ -	\$ 410,130
Construction in progress	-	39,085	-	39,085
Total capital assets not being depreciated	<u>410,130</u>	<u>39,085</u>	<u>-</u>	<u>449,215</u>
Capital assets being depreciated:				
Buildings	442,426	-	-	442,426
Water and Wastewater Distribution	25,539,240	201,176	-	25,740,416
Equipment	1,021,985	33,755	12,304	1,043,436
Total capital assets being depreciated	<u>27,003,651</u>	<u>234,931</u>	<u>12,304</u>	<u>27,226,278</u>
Less accumulated depreciation:				
Buildings	98,649	10,654	-	109,303
Water and Wastewater Distribution	7,679,576	592,101	-	8,271,677
Equipment	612,758	61,900	12,304	662,354
Total accumulated depreciation	<u>8,390,983</u>	<u>664,655</u>	<u>12,304</u>	<u>9,043,334</u>
Total capital assets being depreciated, net	<u>18,612,668</u>	<u>(429,724)</u>	<u>-</u>	<u>18,182,944</u>
Business-type activities capital assets, net	<u>\$ 19,022,798</u>	<u>\$ (390,639)</u>	<u>\$ -</u>	<u>\$ 18,632,159</u>

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

Governmental activities:		
General government		\$ 26,028
Public safety		129,353
Public services		<u>652,035</u>
Total depreciation expense - governmental activities		<u>\$ 807,416</u>
Business-type activities:		
Water and sewer		<u>\$ 664,655</u>
Total depreciation expense - business-type activities		<u>\$ 664,655</u>

D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of September 30, 2011, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water & Sewer	\$ 35
Water and Sewer	General	10
Water and Sewer	Tourism	<u>1,914</u>
Total		<u>\$ 1,959</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	\$ -	\$ 33,755	\$ 312,319	\$ 346,074
Other governmental	-	36,789	75,955	\$ 112,744
Water and sewer	296,097	-	-	296,097
Total transfers	<u>\$ 296,097</u>	<u>\$ 70,544</u>	<u>\$ 388,274</u>	<u>\$ 754,915</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 revenue bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and certificates of obligation have been issued for both governmental and business-type activities. Revenue bonds have been issued for 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 \$10,195,000 and \$4,390,000 was issued in the current year.

General obligation bonds and certificates of obligation 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
2011 Tax & Waterworks and Sewer System Limited Pledge Revenue Certificates of Obligation	2.25%-4.0%	1,050,000
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
2011 General Obligation Refunding Bonds	2.0%-3.0%	3,340,000
Total General Obligation Bonds and Certificates of Obligation		<u>\$ 14,585,000</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 \$1,675,000 and none was issued in the current year.

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

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

Year Ending September 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 370,000	\$ 166,663	\$ 536,663	\$ 1,140,000	\$ 200,405	\$ 1,340,405
2013	405,000	144,250	549,250	1,180,000	158,389	1,338,389
2014	435,000	129,300	564,300	485,000	130,813	615,813
2015	435,000	112,875	547,875	490,000	118,205	608,205
2016	465,000	97,275	562,275	515,000	105,599	620,599
2017-2021	1,625,000	222,925	1,847,925	1,935,000	340,935	2,275,935
2022-2026	415,000	50,025	465,025	760,000	66,125	826,125
Total	<u>\$ 4,150,000</u>	<u>\$ 923,313</u>	<u>\$ 5,073,313</u>	<u>\$ 6,505,000</u>	<u>\$ 1,120,471</u>	<u>\$ 7,625,471</u>

Debt Refunding

On April 28, 2011, the City issued \$3,340,000 in general obligation bonds with interest rates ranging from 2.0%-3.0% to advance refund \$2,550,000 of the City's outstanding Series 2001 Waterworks and Sewer System Revenue Bonds with interest rates ranging from 4.4%-5.25% and \$785,000 of the City's outstanding Series 2009 Tax Notes with an interest rate of 4.5%. The net proceeds of \$3,411,615 after underwriting fees and issuance totaling and including a contribution from the City were placed into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2001 revenue bonds and 2009 tax notes. As a result, those debt issues are considered to be defeased and the liability for those certificates has been removed from the City's Government-wide Statement of Net Assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$101,836. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022 on a straight-line basis. The City completed the advance refunding to reduce its total debt service payments by \$332,825 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$293,880.

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, 2011, outstanding balances of debt 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 September 30, 2011</u>
City of Henderson 2001 Waterworks and Sewer System Revenue Bonds	\$ 2,550,000
City of Henderson 2009 Tax Notes	670,000

Changes in Long-Term Debt

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Certificates of Obligation	\$ 3,425,000	\$ 1,050,000	\$ 325,000	\$ 4,150,000	\$ 370,000
OPEB Liability	20,468	20,536	-	41,004	-
Compensated absences	214,284	11,340	-	225,624	-
Governmental activity					
Long-term liabilities	<u>\$ 3,659,752</u>	<u>\$ 1,081,876</u>	<u>\$ 325,000</u>	<u>\$ 4,416,628</u>	<u>\$ 370,000</u>
Business-type activities					
General obligation bonds	\$ 2,545,000	\$ 3,340,000	\$ 705,000	\$ 5,180,000	\$ 1,065,000
Add: Premium on issue	-	3,613	88	3,525	-
Less: Deferred amount on refunding	(16,724)	(101,836)	(19,206)	(99,354)	-
Tax Notes	785,000	-	785,000	-	-
Revenue bonds	4,125,000	-	2,800,000	1,325,000	75,000
Total bonds payable	<u>7,438,276</u>	<u>3,241,777</u>	<u>4,270,882</u>	<u>6,409,171</u>	<u>1,140,000</u>
Compensated absences	<u>\$ 37,334</u>	<u>\$ 390</u>	<u>\$ -</u>	<u>\$ 37,724</u>	<u>\$ -</u>
Business-type activities					
Long-term liabilities	<u>\$ 7,475,610</u>	<u>\$ 3,242,167</u>	<u>\$ 4,270,882</u>	<u>\$ 6,446,895</u>	<u>\$ 1,140,000</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, 2011, as follows:

<u>Year Ending September 30,</u>	
2012	10,445
2013	10,445
2014	8,180
2015	6,376
2016	801
Total Minimum Rentals	<u>\$ 36,247</u>
Rental Expenditures in 2011	<u>\$ 9,644</u>

G. Fund Balances

Components of nonspendable fund balance and specific purposes for restricted and committed fund balances as of September 30, 2011 are as follows:

City of Henderson, Texas
Fund Balances - Governmental Funds

Nonspendable:	
Cemetery Endowment	\$ 65,500
Restricted:	
Municipal Court	20,114
Debt Service	3,245
Law Enforcement	9,746
Tourism	352,743
Street & Drainage	1,012,961
Bond Fund	980,768
Grants	51
Committed:	
Main Street	15,802
Cemetery	57,659
Animal Shelter	51,334
General Construction	181,379
Civic Center	62,611
Parks	39,947
Unassigned	4,385,070
Total Fund Balances	<u>\$ 7,238,930</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, 2011. 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, 2011, 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 \$501.44 per employee and \$1,378.95 per family.

<u>Service</u>	<u>Employee Rate</u>	<u>Family Rate</u>
Specific reinsurance premium	\$103.13	\$267.04
Aggregate reinsurance premium	6.61	

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, 2011 through December 31, 2011 for claims incurred September 30, 2011 and prior, a liability was recorded for \$140,369 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:

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Actual Claim Payments	End of Year Liability
September 30, 2011	\$ 104,121	\$ 882,593	\$ 846,345	\$ 140,369
September 30, 2010	118,193	891,654	905,726	104,121
September 30, 2009	6,780	870,313	758,900	118,193

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, 2011. 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 \$1,148,974.

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, 2011.

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 2010</u>	<u>Plan Year 2011</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, 2009 valuation is effective for rates beginning January 2011).

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Actuarial Assumptions

	12/31/2008	12/31/2009	12/31/2010
Actuarial Valuation Date	12/31/2008	12/31/2009	12/31/2010
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	29 Years - Closed Period	28 Years - Closed Period	27.1 Years - Closed Period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return	7.5%	7.5%	7.0%
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	12/31/08	12/31/09	12/31/10
Actuarial value of assets	\$ 8,531,849	\$ 9,018,917	\$ 15,646,812
Actuarial accrued liability	\$ 13,962,395	\$ 14,822,552	\$ 20,592,912
Unfunded (overfunded) actuarial accrued liability (UAAL)	\$ 5,430,546	\$ 5,803,635	\$ 4,946,100
Percent funded	61.1%	60.8%	76.0%
Annual covered payroll	\$ 4,763,628	\$ 4,878,743	\$ 4,882,553
UAAL as a percentage of covered payroll	114.0%	119.0%	101.3%
Net pension obligation (NPO) at the beginning of period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual required contribution (ARC)	\$ 721,061	\$ 836,787	\$ 895,130
Contributions made	721,061	836,787	895,130
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, 2010 the retiree premiums are as follows:

Premiums Effective 11/1/10 - 10/31/11

<u>Plan Type</u>	
Medical	\$ 596
Dental	28

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, 2011, is as follows:

Annual Required Contribution	\$ 27,987
Interest on OPEB Obligation	921
Adjustment to ARC	(853)
End of Year Annual OPEB Cost (Expense)	<u>28,055</u>
Net Estimated Employer Contributions	<u>(7,519)</u>
Increase in Net OPEB Obligation	20,536
Beginning of Year Net OPEB Obligation (Asset)	<u>20,468</u>
End of Year Net OPEB Obligation (Asset)	<u><u>\$ 41,004</u></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:

<u>Actuarial</u>	<u>Actuarial Value</u>	<u>Actuarial</u>	<u>Unfunded</u>	<u>Funded</u>
<u>Valuation Date as</u>	<u>of Assets</u>	<u>Accrued Liability</u>	<u>AAL</u>	<u>Ratio</u>
<u>of December 31</u>	<u>(a)</u>	<u>(AAL)</u>	<u>(UAAL)</u>	<u>(a/b)</u>
		<u>(b)</u>	<u>(b-a)</u>	
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, 2011, 2010, and 2009 were \$2,784, \$2,459, and \$2,417, 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>
2009	0.05%	0.05%	100.00%
2010	0.05%	0.05%	100.00%
2011	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, 2011, HEDCO did not revise 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, 2011, the carrying amount of HEDCO's deposits (cash, certificates of deposit, and interest-bearing money-market accounts) was \$2,185,561 and the bank balance was \$2,188,920. HEDCO's cash deposits at September 30, 2011 and during the period ended September 30, 2011 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, 2011, 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, 2011 are as follows:

Sales Taxes (from City of Henderson)	\$ 190,512
Notes Receivable	<u>1,260,046</u>
Total	<u>\$ 1,450,558</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 September 13, 2011, HEDCO approved an additional deferral of the not payments for 2011.

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, 2011, \$9,000 was forgiven by HEDCO, leaving the balance at \$9,000.

On November 13, 2009, 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, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land and Investment Property	<u>\$1,678,904</u>	<u>\$ -</u>	<u>\$ 7,095</u>	<u>\$ 1,671,809</u>
Discretely Presented Component Unit capital assets, net	<u>\$1,678,904</u>	<u>\$ -</u>	<u>\$ 7,095</u>	<u>\$ 1,671,809</u>

D. Long-Term Debt

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, 2011, the balance on the note was \$1,042,796.

1. Long-term liability activity for the year ended September 30, 2011, 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	<u>\$ 1,169,508</u>	<u>\$ -</u>	<u>\$ 126,712</u>	<u>\$ 1,042,796</u>	<u>\$ 131,749</u>
Governmental activities					
Long-term liabilities	<u>\$ 1,169,508</u>	<u>\$ -</u>	<u>\$ 126,712</u>	<u>\$ 1,042,796</u>	<u>\$ 131,749</u>

2. Debt Service Requirements

Annual debt service requirements on the notes payable at September 30, 2011 are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 131,749	\$ 34,299	\$ 166,048
2013	136,421	29,627	166,048
2014	141,259	24,789	166,048
2015	146,269	19,779	166,048
2016	151,455	14,593	166,048
2017-2019	<u>335,643</u>	<u>12,936</u>	<u>348,579</u>
Total	<u>\$ 1,042,796</u>	<u>\$ 136,023</u>	<u>\$ 1,178,819</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 \$104,000 in cash payments and up to \$9,000 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, 2011 was \$125,145. Employer contributions to the plan for the year ended September 30, 2011 were \$8,760.

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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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenues and Other Sources:				
Taxes:				
Sales	\$ 4,380,050	\$ 4,465,050	\$ 4,409,231	\$ (55,819)
Property	2,563,313	2,596,592	2,536,034	(60,558)
Franchise	627,000	636,000	637,403	1,403
Permits & fees	89,080	97,080	79,988	(17,092)
Charges for services	1,936,250	1,924,250	1,914,093	(10,157)
Fines & Forfeitures	348,200	348,200	418,585	70,385
Intergovernmental	76,021	79,421	160,441	81,020
Miscellaneous	222,500	216,500	240,850	24,350
Transfers in	293,039	313,039	296,097	(16,942)
Total revenues	<u>\$ 10,535,453</u>	<u>\$ 10,676,132</u>	<u>\$ 10,692,722</u>	<u>\$ 16,590</u>
Expenditures and Other Uses:				
General government:				
Administration	\$ 424,862	\$ 411,362	\$ 412,918	\$ (1,556)
Finance	267,255	272,507	258,289	14,218
Municipal court	242,089	255,089	285,116	(30,027)
Nondepartmental	2,211,233	2,579,410	2,511,279	68,131
Public safety				
Police	2,782,794	2,736,396	2,620,487	115,909
Fire	1,359,236	1,390,484	1,350,100	40,384
Sanitation	1,450,000	1,400,000	1,490,421	(90,421)
Public services:				
Streets	1,217,772	1,243,972	1,178,284	65,688
Parks	109,000	97,600	115,747	(18,147)
Activity center	13,300	13,300	9,736	3,564
Cemeteries	16,500	14,600	14,169	431
Community development	291,731	313,231	306,298	6,933
Animal control	149,681	143,181	125,325	17,856
Total expenditures	<u>\$ 10,535,453</u>	<u>\$ 10,871,132</u>	<u>\$ 10,678,169</u>	<u>\$ 192,963</u>
Net Change in Fund Balances	\$ -	\$ (195,000)	\$ 14,553	\$ 209,553
Fund Balances, Beginning	<u>4,364,077</u>	<u>4,364,077</u>	<u>4,364,077</u>	<u>-</u>
Fund Balances, Ending	<u>\$ 4,364,077</u>	<u>\$ 4,169,077</u>	<u>\$ 4,378,630</u>	<u>\$ 209,553</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, 2011

Total revenues and other sources - Exhibit A-1	\$ 10,692,722
HEDCO sales tax	(1,097,959)
Sales tax rebate agreement	(133,890)
Interest earned - Equipment Replacement Fund	11,216
Rusk County Emergency Services District Grant - Equipment Replacement Fund	91,495
Interfund transfer from Water & Sewer Fund - General Fund	(271,039)
Interfund transfer from Water & Sewer Fund - Equipment Replacement Fund	<u>(25,058)</u>
Total revenues - General Fund - Exhibit 4 (Page 17)	<u><u>\$ 9,267,487</u></u>
Total expenditures and other uses - Exhibit A-1	\$ 10,678,169
HEDCO sales tax	(1,097,959)
Sales tax rebate agreement	(133,890)
Capital expenditures - Equipment Replacement Fund	64,130
Interfund transfer - Street & Drainage Fund	(220,377)
Interfund transfer - Equipment Replacement Fund	(87,228)
Interfund transfer - Park Fund	(71,942)
Interfund transfer - Main Street Fund	<u>(20,000)</u>
Total expenditures - General Fund - Exhibit 4 (Page 17)	<u><u>\$ 9,110,903</u></u>
Net change in fund balances - Exhibit A-1	\$ 14,553
Revenues and other sources - Equipment Replacement Fund	189,939
Expenditures and other uses - Equipment Replacement Fund	<u>(97,885)</u>
Net change in fund balances - General Fund - Exhibit 4 (Page 17)	<u><u>\$ 106,607</u></u>

**COMBINING AND INDIVIDUAL
FUND FINANCIAL STATEMENTS**

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City of Henderson, Texas
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2011

	Special Revenue	Debt Service	Capital Projects	Total
<u>Assets</u>				
Cash and Cash Equivalents	\$ 561,932	\$ 1,607	\$ 2,214,470	\$ 2,778,009
Investments	5,973	3,216	2,242	11,431
Receivables (net of allowance for uncollectibles):				
Taxes:				
Franchise	-	-	69,083	69,083
Hotel/Motel	16,880	-	-	16,880
Accounts	-	-	49,424	49,424
Special assessments	-	-	28,795	28,795
Total Assets	\$ 584,785	\$ 4,823	\$ 2,364,014	\$ 2,953,622
<u>Liabilities</u>				
Accounts Payable	\$ 22,326	\$ -	\$ 57,502	\$ 79,828
Accrued Liabilities	-	1,578	-	1,578
Due to Other Funds	1,914	-	-	1,914
Unearned Revenue	73,261	-	28,795	102,056
Total Liabilities	\$ 97,501	\$ 1,578	\$ 86,297	\$ 185,376
<u>Fund Balances</u>				
Restricted	\$ 362,489	\$ 3,245	\$ 1,993,780	\$ 2,359,514
Committed	124,795	-	283,937	408,732
Total Fund Balances	\$ 487,284	\$ 3,245	\$ 2,277,717	\$ 2,768,246
Total Liabilities and Fund Balances	\$ 584,785	\$ 4,823	\$ 2,364,014	\$ 2,953,622

City of Henderson, Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2011

	Special Revenue	Debt Service	Capital Projects	Total
Revenues:				
Taxes:				
Property	\$ -	\$ 433,890	\$ -	\$ 433,890
Franchise	-	-	216,987	216,987
Hotel/Motel	242,036	-	-	242,036
Charges for services	94,944	-	479,471	574,415
Intergovernmental	-	-	365,275	365,275
Miscellaneous	104,955	7,059	104,265	216,279
Total revenues	\$ 441,935	\$ 440,949	\$ 1,165,998	\$ 2,048,882
Expenditures:				
Current:				
General Government:				
Nondepartmental	\$ -	\$ -	\$ 15,341	\$ 15,341
Public Safety:				
Police	52,737	-	-	52,737
Sanitation	-	-	11,750	11,750
Public Services:				
Tourism	240,038	-	-	240,038
Civic Center	97,724	-	7,291	105,015
Main Street	30,808	-	-	30,808
Streets	-	-	203,529	203,529
Parks	-	-	52,667	52,667
Cemeteries	1,853	-	-	1,853
Community Development	-	-	35,723	35,723
Animal Control	1,394	-	-	1,394
Capital outlay	44,890	-	1,232,682	1,277,572
Debt service:				
Principal	-	325,000	-	325,000
Interest and fees	-	134,757	40,000	174,757
Total expenditures	\$ 469,444	\$ 459,757	\$ 1,598,983	\$ 2,528,184
Excess (Deficiency) of Revenues Over Expenditures	\$ (27,509)	\$ (18,808)	\$ (432,985)	\$ (479,302)
Other Financing Sources (Uses):				
Bond Proceeds	\$ -	\$ -	\$ 1,050,000	\$ 1,050,000
Transfers in	20,000	-	368,274	388,274
Transfers out	-	-	(112,744)	(112,744)
Total Other Financing Sources (Uses)	\$ 20,000	\$ -	\$ 1,305,530	\$ 1,325,530
Extraordinary Item:				
Lawsuit proceeds	\$ -	\$ -	\$ 310,000	\$ 310,000
Net Change in Fund Balances	\$ (7,509)	\$ (18,808)	\$ 1,182,545	\$ 1,156,228
Fund Balances, Beginning	494,793	22,053	1,095,172	1,612,018
Fund Balances, Ending	\$ 487,284	\$ 3,245	\$ 2,277,717	\$ 2,768,246

City of Henderson, Texas
Combining Balance Sheet
Nonmajor Special Revenue Funds
September 30, 2011

	Drug Seizure	Task Force	Tourism	Main Street	Cemetery	Animal Shelter	Total
<u>Assets</u>							
Cash and Cash Equivalents	\$ 18,040	\$ 36,825	\$ 377,123	\$ 20,433	\$ 58,333	\$ 51,178	\$ 561,932
Investments	467	-	700	-	4,406	400	5,973
Receivables (net of allowance for uncollectibles):							
Hotel/Motel Taxes	-	-	16,880	-	-	-	16,880
Total Assets	\$ 18,507	\$ 36,825	\$ 394,703	\$ 20,433	\$ 62,739	\$ 51,578	\$ 584,785
<u>Liabilities</u>							
Accounts Payable	\$ -	\$ -	\$ 12,371	\$ 4,631	\$ 5,080	\$ 244	\$ 22,326
Due to Other Funds	-	-	1,914	-	-	-	1,914
Unearned Revenue	13,454	32,132	27,675	-	-	-	73,261
Total Liabilities	\$ 13,454	\$ 32,132	\$ 41,960	\$ 4,631	\$ 5,080	\$ 244	\$ 97,501
<u>Fund Balances</u>							
Restricted	\$ 5,053	\$ 4,693	\$ 352,743	\$ -	\$ -	\$ -	\$ 362,489
Committed	-	-	-	15,802	57,659	51,334	124,795
Total Fund Balances	\$ 5,053	\$ 4,693	\$ 352,743	\$ 15,802	\$ 57,659	\$ 51,334	\$ 487,284
Total Liabilities and Fund Balances	\$ 18,507	\$ 36,825	\$ 394,703	\$ 20,433	\$ 62,739	\$ 51,578	\$ 584,785

City of Henderson, Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended September 30, 2011

	Drug Seizure	Task Force	Tourism	Main Street	Cemetery	Animal Shelter	Total
Revenues:							
Hotel/Motel Occupancy Tax	\$ -	\$ -	\$ 242,036	\$ -	\$ -	\$ -	\$ 242,036
Charges for services	-	-	86,754	5,940	-	2,250	94,944
Miscellaneous	47,474	-	11,359	11,319	22,535	12,268	104,955
Total revenues	\$ 47,474	\$ -	\$ 340,149	\$ 17,259	\$ 22,535	\$ 14,518	\$ 441,935
Expenditures:							
Current:							
Public Safety:							
Police	\$ 52,737	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,737
Public Services:							
Tourism	-	-	240,038	-	-	-	240,038
Civic Center	-	-	97,724	-	-	-	97,724
Main Street	-	-	-	30,808	-	-	30,808
Cemeteries	-	-	-	-	1,853	-	1,853
Animal Control	-	-	-	-	-	1,394	1,394
Capital Outlay	-	-	-	-	44,890	-	44,890
Total expenditures	\$ 52,737	\$ -	\$ 337,762	\$ 30,808	\$ 46,743	\$ 1,394	\$ 469,444
Excess (Deficiency) of Revenues Over Expenditures	\$ (5,263)	\$ -	\$ 2,387	\$ (13,549)	\$ (24,208)	\$ 13,124	\$ (27,509)
Other Financing Sources (Uses):							
Transfers in	\$ -	\$ -	\$ -	\$ 20,000	\$ -	\$ -	\$ 20,000
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ 20,000	\$ -	\$ -	\$ 20,000
Net Change in Fund Balances	\$ (5,263)	\$ -	\$ 2,387	\$ 6,451	\$ (24,208)	\$ 13,124	\$ (7,509)
Fund Balances, Beginning	10,316	4,693	350,356	9,351	81,867	38,210	494,793
Fund Balances, Ending	\$ 5,053	\$ 4,693	\$ 352,743	\$ 15,802	\$ 57,659	\$ 51,334	\$ 487,284

City of Henderson, Texas
Combining Balance Sheet
Nonmajor Capital Projects Funds
September 30, 2011

	<u>Street and Drainage</u>	<u>General Construction</u>	<u>Street Renovation</u>	<u>Civic Center</u>	<u>Parks</u>	<u>Street Grant</u>	<u>Total</u>
<u>Assets</u>							
Cash and Cash Equivalents	\$ 959,223	\$ 164,818	\$ 980,968	\$ 61,793	\$ 41,547	\$ 6,121	\$ 2,214,470
Investments	742	682	-	818	-	-	2,242
Receivables (net of allowance for uncollectibles):							
Franchise Taxes	69,083	-	-	-	-	-	69,083
Accounts	-	49,424	-	-	-	-	49,424
Special assessments	28,795	-	-	-	-	-	28,795
Total Assets	<u>\$ 1,057,843</u>	<u>\$ 214,924</u>	<u>\$ 980,968</u>	<u>\$ 62,611</u>	<u>\$ 41,547</u>	<u>\$ 6,121</u>	<u>\$ 2,364,014</u>
<u>Liabilities</u>							
Accounts Payable	\$ 16,087	\$ 33,545	\$ 200	\$ -	\$ 1,600	\$ 6,070	\$ 57,502
Unearned Revenue	28,795	-	-	-	-	-	28,795
Total Liabilities	<u>\$ 44,882</u>	<u>\$ 33,545</u>	<u>\$ 200</u>	<u>\$ -</u>	<u>\$ 1,600</u>	<u>\$ 6,070</u>	<u>\$ 86,297</u>
<u>Fund Balances</u>							
Restricted	\$ 1,012,961	\$ -	\$ 980,768	\$ -	\$ -	\$ 51	\$ 1,993,780
Committed	-	181,379	-	62,611	39,947	-	283,937
Total Fund Balances	<u>\$ 1,012,961</u>	<u>\$ 181,379</u>	<u>\$ 980,768</u>	<u>\$ 62,611</u>	<u>\$ 39,947</u>	<u>\$ 51</u>	<u>\$ 2,277,717</u>
Total Liabilities and Fund Balances	<u>\$ 1,057,843</u>	<u>\$ 214,924</u>	<u>\$ 980,968</u>	<u>\$ 62,611</u>	<u>\$ 41,547</u>	<u>\$ 6,121</u>	<u>\$ 2,364,014</u>

City of Henderson, Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Capital Projects Funds
For the Year Ended September 30, 2011

	Street and Drainage	General Construction	Street Renovation	Civic Center	Parks	Street Grant	Total
Revenues:							
Franchise Taxes	\$ 216,987	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 216,987
Charges for services	143,892	335,579	-	-	-	-	479,471
Intergovernmental	-	-	-	61,775	286,000	17,500	365,275
Miscellaneous	24,397	12,203	8,333	2,220	57,061	51	104,265
Total revenues	\$ 385,276	\$ 347,782	\$ 8,333	\$ 63,995	\$ 343,061	\$ 17,551	\$ 1,165,998
Expenditures:							
Current:							
General Government:							
Nondepartmental	\$ -	\$ 15,341	\$ -	\$ -	\$ -	\$ -	\$ 15,341
Sanitation	-	11,750	-	-	-	-	11,750
Public Services:							
Civic Center	-	-	-	7,291	-	-	7,291
Streets	182,168	21,341	20	-	-	-	203,529
Parks	-	31,752	-	-	20,915	-	52,667
Community Development	-	35,723	-	-	-	-	35,723
Debt Service:							
Fees	-	-	40,000	-	-	-	40,000
Capital outlay	296,600	288,484	37,545	41,556	475,042	93,455	1,232,682
Total expenditures	\$ 478,768	\$ 404,391	\$ 77,565	\$ 48,847	\$ 495,957	\$ 93,455	\$ 1,598,983
Excess (Deficiency) of Revenues Over Expenditures	\$ (93,492)	\$ (56,609)	\$ (69,232)	\$ 15,148	\$ (152,896)	\$ (75,904)	\$ (432,985)
Other Financing Sources (Uses):							
Bond Proceeds	\$ -	\$ -	\$ 1,050,000	\$ -	\$ -	\$ -	\$ 1,050,000
Transfers in	220,377	-	-	-	71,942	75,955	368,274
Transfers out	(75,955)	-	-	(36,789)	-	-	(112,744)
Total Other Financing Sources (Uses)	\$ 144,422	\$ -	\$ 1,050,000	\$ (36,789)	\$ 71,942	\$ 75,955	\$ 1,305,530
Extraordinary Item:							
Lawsuit proceeds	\$ 310,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 310,000
Net Change in Fund Balances	\$ 360,930	\$ (56,609)	\$ 980,768	\$ (21,641)	\$ (80,954)	\$ 51	\$ 1,182,545
Fund Balances, Beginning	652,031	237,988	-	84,252	120,901	-	1,095,172
Fund Balances, Ending	\$ 1,012,961	\$ 181,379	\$ 980,768	\$ 62,611	\$ 39,947	\$ 51	\$ 2,277,717

**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 29, 2012

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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 29, 2012. 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,

MEMBER

57

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, 2011

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 NoSignificant deficiencies identified that are not considered to be material weaknesses? Yes None ReportedNoncompliance material to financial statements noted? Yes No2. Federal Awards *N/A - Single Audit not required*

Internal control over major programs:

Material weaknesses identified? Yes NoSignificant deficiencies identified that are not considered to be material weaknesses? Yes None ReportedType of auditor's report issued on compliance for major programs: N/AAny 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:

CFDA Number(s) Name of Federal Program or Cluster

N/A

Dollar threshold used to distinguish between type A and type B programs: N/AAuditee 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, 2011

Prior Year Finding

Current Status

Not applicable for the year ended September 30, 2011.

City of Henderson, Texas
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2011

<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 Housing and Urban Development</u>			
Passed through Department of Rural Community Affairs:			
Community Development Block Grant	14.228	DRS060033	\$ 36,789
Passed through Department of Agriculture:			
Community Development Block Grant	14.228	710272	<u>17,500</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 54,289</u>
<u>U.S. Department of Homeland Security</u>			
Federal Emergency Management Agency (FEMA)			
Passed through Texas Department of Public Safety's Division of Emergency Management:			
Disaster Assistance	97.039	1606-DR	<u>\$ 24,986</u>
Total U.S. Department of Homeland Security			<u>\$ 24,986</u>
Total Federal Financial Assistance			<u>\$ 79,275</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, 2011

<u>Grantor/Program Title</u>	<u>Grantor's Number</u>	<u>State Expenditures</u>
<u>Texas Department of State Health Services</u>		
Direct Program		
Obesity Prevention	2010-034875	\$ 286,000
Total Texas Forest Service		<u>\$ 286,000</u>
<u>Texas Forest Service</u>		
Direct Program		
Bunker Gear	None	\$ 8,400
Total Texas Forest Service		<u>\$ 8,400</u>
Total State Financial Assistance		<u>\$ 294,400</u>

Notes to Schedule of Expenditures of State Awards:

The Schedule of Expenditures of State Awards is a summary of the activity of the City's state award programs presented on the modified accrual basis of accounting in accordance with generally accepted accounting principles and in accordance with the State of Texas Single Audit Circular. Therefore, some amounts presented in this schedule may differ from amounts presented in the City's basic financial statements.