

**CITY OF HENDERSON**  
Henderson, Texas

**ANNUAL FINANCIAL REPORT**  
**September 30, 2012**



**City of Henderson, Texas  
Annual Financial Report  
For the Year Ended September 30, 2012**

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# **FINANCIAL SECTION**

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## **Independent Auditor's Report**

April 9, 2013

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, 2012, 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, 2012, 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 April 9, 2013, 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.

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 50 and 51,

MEMBER

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, 2012

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, 2012. Please read it in conjunction with the City's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

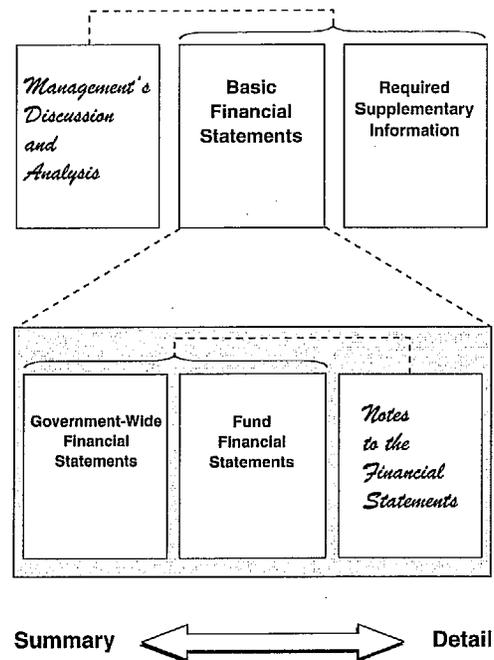
- The City's total combined net assets were \$43,896,175 at September 30, 2012.
- The total cost of the City's programs increased by 2.54% from the prior year.
- The general fund reported a fund balance this year of \$4,272,305, of which \$68,973 was nonspendable, 30,430 was restricted and \$4,172,902 was unassigned.
- The City issued no new debt during the year ended September 30, 2012.

**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, 2012

**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 fifteen (15) 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 50-51 to demonstrate compliance with the annual appropriated budget. Data from the other fourteen (14) 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, 2012

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 24-49 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 52-57 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, 2012. 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, 2012. 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 58.

#### **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 \$43,896,175 at the close of the most recent fiscal year.

By far, the largest portion of the City's Net Assets (75.1%) 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, 2012

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			
	2012	2011	2012	2011	2012	2011
<b>Current Assets:</b>						
Cash and Cash Equivalents	\$ 6,553,528	\$ 7,291,198	\$ 4,282,020	\$ 4,492,522	\$ 10,835,548	\$ 11,783,720
Investments	13,996	13,979	25,125	25,097	39,121	39,076
Taxes Receivable (Net)	1,258,144	1,192,896	-	-	1,258,144	1,192,896
Accounts Receivable (Net)	456,035	408,726	641,639	753,972	1,097,674	1,162,698
Other Receivables	75,145	129,689	5,870	49,440	81,015	179,129
Inventory	3,473	-	-	-	3,473	-
<b>Total Current Assets</b>	<b>\$ 8,360,321</b>	<b>\$ 9,036,488</b>	<b>\$ 4,954,654</b>	<b>\$ 5,321,031</b>	<b>\$ 13,314,975</b>	<b>\$ 14,357,519</b>
<b>Noncurrent Assets:</b>						
Capitalized Bond Issue Cost	\$ 60,644	\$ 66,781	\$ 72,248	\$ 86,681	\$ 132,892	\$ 153,462
Capital Assets	28,657,783	26,596,700	28,916,485	27,675,493	57,574,268	54,272,193
Accumulated Depreciation	(5,609,825)	(4,741,560)	(10,414,465)	(9,043,334)	(16,024,290)	(13,784,894)
<b>Total Noncurrent Assets</b>	<b>\$ 23,108,602</b>	<b>\$ 21,921,921</b>	<b>\$ 18,574,268</b>	<b>\$ 18,718,840</b>	<b>\$ 41,682,870</b>	<b>\$ 40,640,761</b>
<b>Total Assets</b>	<b>\$ 31,468,923</b>	<b>\$ 30,958,409</b>	<b>\$ 23,528,922</b>	<b>\$ 24,039,871</b>	<b>\$ 54,997,845</b>	<b>\$ 54,998,280</b>
<b>Current Liabilities:</b>						
Accounts Payable & Accrued Expenses	\$ 875,366	\$ 886,710	\$ 258,321	\$ 277,722	\$ 1,133,687	\$ 1,164,432
Due to Component Unit	206,231	190,512	-	-	206,231	190,512
Unearned Revenue	72,696	73,261	-	-	72,696	73,261
Customer Deposits	-	-	298,319	291,120	298,319	291,120
<b>Total Current Liabilities</b>	<b>\$ 1,154,293</b>	<b>\$ 1,150,483</b>	<b>\$ 556,640</b>	<b>\$ 568,842</b>	<b>\$ 1,710,933</b>	<b>\$ 1,719,325</b>
<b>Noncurrent Liabilities:</b>						
Due within one year	405,000	370,000	1,180,000	1,140,000	1,585,000	1,510,000
Due in more than one year	3,674,414	4,046,628	4,131,323	5,306,895	7,805,737	9,353,523
<b>Total Noncurrent Liabilities</b>	<b>\$ 4,079,414</b>	<b>\$ 4,416,628</b>	<b>\$ 5,311,323</b>	<b>\$ 6,446,895</b>	<b>\$ 9,390,737</b>	<b>\$ 10,863,523</b>
<b>Total Liabilities</b>	<b>\$ 5,233,707</b>	<b>\$ 5,567,111</b>	<b>\$ 5,867,963</b>	<b>\$ 7,015,737</b>	<b>\$ 11,101,670</b>	<b>\$ 12,582,848</b>
<b>Net Assets:</b>						
Invested in Capital Assets	\$ 19,328,602	\$ 18,752,689	\$ 13,658,226	\$ 12,674,022	\$ 32,986,828	\$ 31,426,711
Restricted	1,941,346	1,464,360	384,310	382,002	2,325,656	1,846,362
Unrestricted	4,965,268	5,174,249	3,618,423	3,968,111	8,583,691	9,142,360
<b>Total Net Assets</b>	<b>\$ 26,235,216</b>	<b>\$ 25,391,298</b>	<b>\$ 17,660,959</b>	<b>\$ 17,024,135</b>	<b>\$ 43,896,175</b>	<b>\$ 42,415,433</b>

\$474,556 of the City's net assets are restricted for debt service, \$30,430 are restricted for use in the Municipal Court, \$65,500 are restricted for a cemetery endowment, \$22,480 are restricted for law enforcement, \$341,023 are restricted for tourism, \$1,297,406 are restricted for Street & Drainage, \$94,200 are restricted for capital projects, and \$61 are restricted for grants. The \$8,583,691 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, 2012

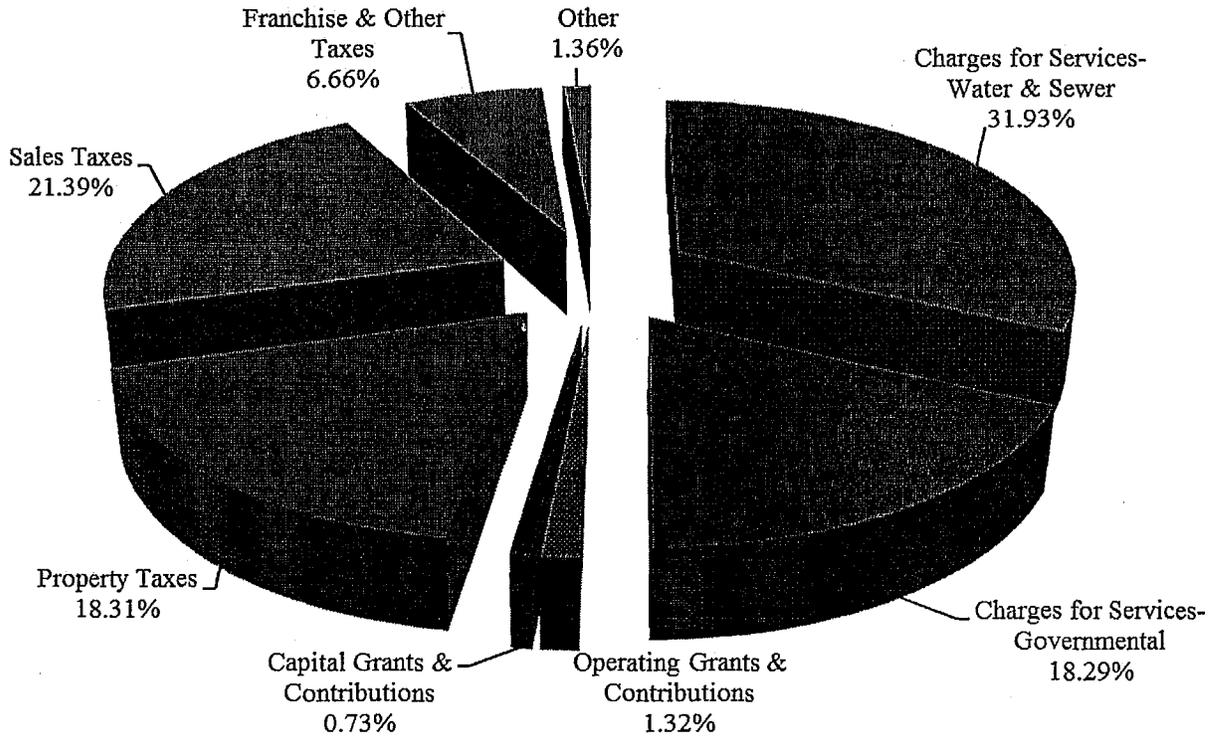
**Changes in Net Assets**

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

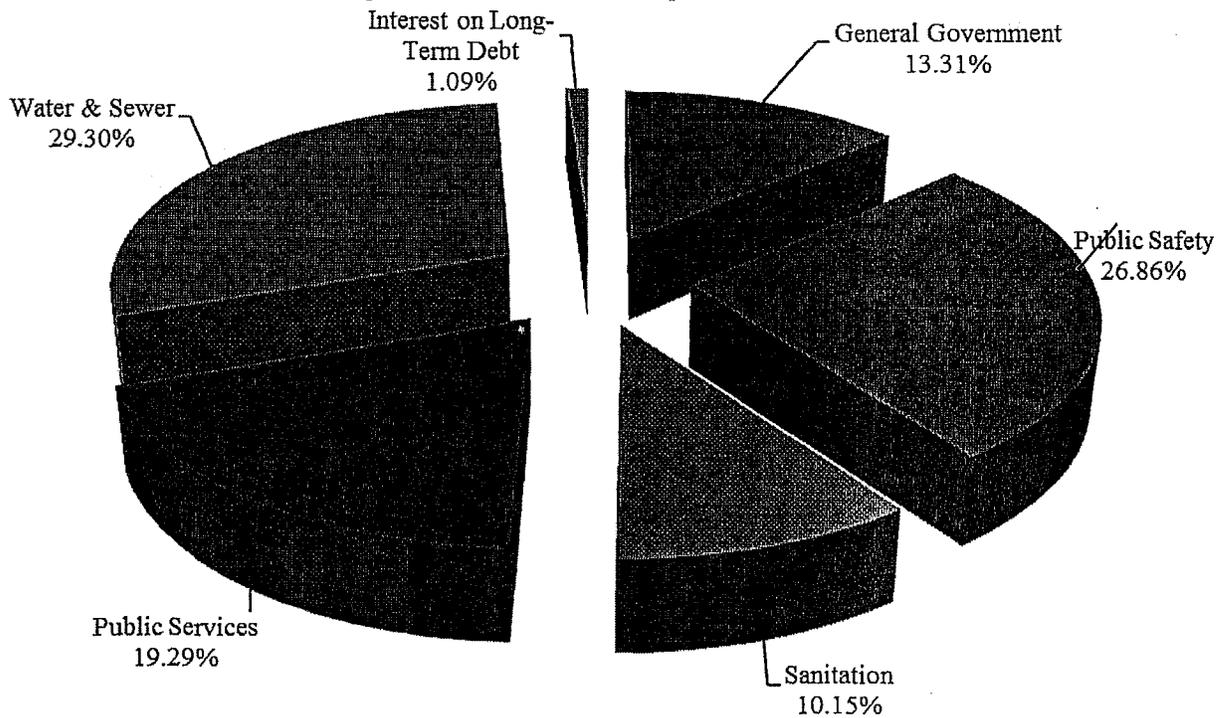
	Governmental		Business-Type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
<b>Program Revenues:</b>						
Charges for Services	\$ 3,000,269	\$ 2,796,516	\$ 5,237,221	\$ 5,714,943	\$ 8,237,490	\$ 8,511,459
Operating Grants & Contributions	215,802	241,817	-	-	215,802	241,817
Capital Grants & Contributions	119,849	512,433	-	-	119,849	512,433
<b>General Revenues:</b>						
Property Taxes	3,003,553	2,988,986	-	-	3,003,553	2,988,986
Sales Taxes	3,508,884	3,177,382	-	-	3,508,884	3,177,382
Franchise and Other Taxes	1,093,112	1,096,426	-	-	1,093,112	1,096,426
Other	159,133	679,778	63,469	156,424	222,602	836,202
<b>Total Revenues</b>	<b>\$ 11,100,602</b>	<b>\$ 11,493,338</b>	<b>\$ 5,300,690</b>	<b>\$ 5,871,367</b>	<b>\$ 16,401,292</b>	<b>\$ 17,364,705</b>
<b>Functions/Programs:</b>						
General Government	\$ 1,999,371	\$ 1,991,016	\$ -	\$ -	\$ 1,999,371	\$ 1,991,016
Public Safety	4,033,198	3,824,440	-	-	4,033,198	3,824,440
Sanitation	1,523,898	1,502,171	-	-	1,523,898	1,502,171
Public Services	2,896,350	2,722,528	-	-	2,896,350	2,722,528
Interest on Long-Term Debt	163,954	148,605	-	-	163,954	148,605
Water & Sewer	-	-	4,400,909	4,456,962	4,400,909	4,456,962
<b>Total Expenses</b>	<b>\$ 10,616,771</b>	<b>\$ 10,188,760</b>	<b>\$ 4,400,909</b>	<b>\$ 4,456,962</b>	<b>\$ 15,017,680</b>	<b>\$ 14,645,722</b>
<b>Increase in Net Assets</b>						
Before Transfers	\$ 483,831	\$ 1,304,578	\$ 899,781	\$ 1,414,405	\$ 1,383,612	\$ 2,718,983
Transfers	360,087	225,553	(360,087)	(225,553)	-	-
<b>Increase in Net Assets</b>	<b>\$ 843,918</b>	<b>\$ 1,530,131</b>	<b>\$ 539,694</b>	<b>\$ 1,188,852</b>	<b>\$ 1,383,612</b>	<b>\$ 2,718,983</b>
Net Assets, Beginning	25,391,298	23,861,167	17,024,134	15,835,282	42,415,432	39,696,449
Restatement - See Note IV.C.	-	-	97,131	-	97,131	-
<b>Net Assets, Ending</b>	<b>\$ 26,235,216</b>	<b>\$ 25,391,298</b>	<b>\$ 17,660,959</b>	<b>\$ 17,024,134</b>	<b>\$ 43,896,175</b>	<b>\$ 42,415,432</b>

**City of Henderson, Texas**  
 Management's Discussion and Analysis  
 September 30, 2012

**Chart A-1**  
 City of Henderson, Texas  
 Revenues for the Year Ended September 30, 2012



**Chart A-2**  
 City of Henderson, Texas  
 Expenses for the Year Ended September 30, 2012



**City of Henderson, Texas**  
Management's Discussion and Analysis  
September 30, 2012

**Governmental Activities**

Governmental activities increased the City's net assets by \$843,918, thereby accounting for 61% of the total growth in the net assets of the City. Key elements in this increase are as follows:

- Property tax revenue remained constant, increasing only \$14,567.
- Sales tax revenue increased \$331,502, or 10.43%. This increase was a result of a general upturn in the national, state and local economy.
- Capital grants and contributions revenue decreased \$392,584, resulting primarily from the receipt of contributions and grants in the prior year from the Texas Department of State Health Services.
- Expenses for Governmental Activities increased only 4.2% for the year as expenses were maintained close to 2011 levels.

**Business-Type Activities**

Business-type activities increased the City's net assets by \$539,694, thereby accounting for 39% of the total growth in the net assets of the City. Key elements in this increase are as follows:

- Water and sewer sales were down by 8.36%, due to the severe drought in the summer of the prior year of 2011. Operating expenses were relatively constant.

**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 \$6,576,339, a decrease of \$662,591 in comparison with the prior year. The decrease in combined fund balances was primarily the result of increased capital outlay expenditures.

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 \$4,172,902, while total Fund Balance was \$4,272,305. 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 45.91% of total General Fund expenditures, while total Fund Balance represents 47.00% 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 decreased by \$198,379 during the current fiscal year. Key factors in this decrease are:

- ◆ *Overall revenues increased from 2011, approximately 1.47%, the most significant increases were in sales tax revenues as a result of the economic factors mentioned above.*
- ◆ *Expenditures were consistent with 2011 amounts, decreasing 0.23% as the City maintained spending near 2011 amounts.*
- ◆ *Transfers to other funds increased in order to fund capital projects.*

**City of Henderson, Texas**  
**Management's Discussion and Analysis**  
September 30, 2012

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

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Nonspendable:		
Cemetery Endowment	\$ 65,500	\$ 65,500
Inventories	3,473	-
Restricted:		
Municipal Court	30,430	20,114
Debt Service	90,246	3,245
Law Enforcement	22,480	9,746
Tourism	341,023	352,743
Street & Drainage	1,297,406	1,012,961
Bond Fund	94,200	980,768
Grants	61	51
Committed:		
Main Street	15,120	15,802
Cemetery	29,916	57,659
Animal Shelter	66,636	51,334
General Construction	251,788	181,379
Civic Center	55,317	62,611
Parks	39,841	39,947
Unassigned	4,172,902	4,385,070
Total Fund Balances	<u>\$ 6,576,339</u>	<u>\$ 7,238,930</u>

**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 \$3,618,423. The total growth in net assets for the fund was \$539,694. 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 \$154,299. The City's operating budgets maintained contributions to the fund at approximately the 2011 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 \$354,666. 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 \$86,619. 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, 2012

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets

At the end of 2012, the City's investment in capital assets for its governmental and business-type activities amounts to \$41,549,979 (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 2.6%. The overall increase was primarily due to the additional water and wastewater distribution system, the purchase of equipment, and infrastructure improvements. (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>	
		Restated		Restated		Restated
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 1,363,278	\$ 1,363,278	\$ 410,130	\$ 410,130	\$ 1,773,408	\$ 1,773,408
Buildings and Improvements	7,638,398	7,658,879	-	442,426	7,638,398	8,101,305
Machinery and Equipment	3,660,120	3,432,402	1,261,363	1,043,436	4,921,483	4,475,838
Improvements other than Buildings	3,166,855	2,550,744	-	-	3,166,855	2,550,744
Water and Wastewater Distribution	-	-	27,186,702	26,514,403	27,186,702	26,514,403
Infrastructure	12,297,699	11,489,817	-	-	12,297,699	11,489,817
Construction in Progress	531,433	145,237	58,290	39,085	589,723	184,322
<b>Total Capital Assets</b>	<b>\$28,657,783</b>	<b>\$26,640,357</b>	<b>\$28,916,485</b>	<b>\$28,449,480</b>	<b>\$57,574,268</b>	<b>\$55,089,837</b>
Less: Accumulated Depreciation	(5,609,824)	(4,785,217)	(10,414,465)	(9,720,190)	(16,024,289)	(14,505,407)
<b>Net Capital Assets</b>	<b>\$23,047,959</b>	<b>\$21,855,140</b>	<b>\$18,502,020</b>	<b>\$18,729,290</b>	<b>\$41,549,979</b>	<b>\$40,584,430</b>

Long-Term Debt

At year-end, the City had \$9,390,737 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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Bonds payable	\$ -	\$ -	\$ 5,277,909	\$ 6,409,171	\$ 5,277,909	\$ 6,409,171
Certificates of obligation payable	3,780,000	4,150,000	-	-	3,780,000	4,150,000
Tax Notes	-	-	-	-	-	-
Other Post-Employment Benefits (OPEB)	64,543	41,004	-	-	64,543	41,004
Compensated absences	234,871	225,624	33,414	37,724	268,285	263,348
<b>Total</b>	<b>\$ 4,079,414</b>	<b>\$ 4,416,628</b>	<b>\$ 5,311,323</b>	<b>\$ 6,446,895</b>	<b>\$ 9,390,737</b>	<b>\$10,863,523</b>

**City of Henderson, Texas**  
**Management's Discussion and Analysis**  
September 30, 2012

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets

At the end of 2012, the City's investment in capital assets for its governmental and business-type activities amounts to \$41,549,979 (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 2.6%. The overall increase was primarily due to the additional water and wastewater distribution system, the purchase of a equipment, and infrastructure improvements. (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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 1,363,278	\$ 1,363,278	\$ 410,130	\$ 410,130	\$ 1,773,408	\$ 1,773,408
Buildings and Improvements	7,638,398	7,658,879	-	442,426	7,638,398	8,101,305
Machinery and Equipment	3,660,120	3,419,143	1,261,363	1,043,436	4,921,483	4,462,579
Improvements other than Buildings	3,166,855	2,499,743	-	-	3,166,855	2,499,743
Water and Wastewater Distribution	-	-	27,186,702	25,740,416	27,186,702	25,740,416
Infrastructure	12,297,699	11,510,420	-	-	12,297,699	11,510,420
Construction in Progress	531,433	145,237	58,290	39,085	589,723	184,322
<b>Total Capital Assets</b>	<b>\$28,657,783</b>	<b>\$26,596,700</b>	<b>\$28,916,485</b>	<b>\$27,675,493</b>	<b>\$57,574,268</b>	<b>\$54,272,193</b>
Less: Accumulated Depreciation	(5,609,824)	(4,741,560)	(10,414,465)	(9,043,334)	(16,024,289)	(13,784,894)
<b>Net Capital Assets</b>	<b>\$23,047,959</b>	<b>\$21,855,140</b>	<b>\$18,502,020</b>	<b>\$18,632,159</b>	<b>\$41,549,979</b>	<b>\$40,487,299</b>

Long-Term Debt

At year-end, the City had \$9,390,737 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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Bonds payable	\$ -	\$ -	\$ 5,277,909	\$ 6,409,171	\$ 5,277,909	\$ 6,409,171
Certificates of obligation payable	3,780,000	4,150,000	-	-	3,780,000	4,150,000
Tax Notes	-	-	-	-	-	-
Other Post-Employment Benefits (OPEB)	64,543	41,004	-	-	64,543	41,004
Compensated absences	234,871	225,624	33,414	37,724	268,285	263,348
<b>Total</b>	<b>\$ 4,079,414</b>	<b>\$ 4,416,628</b>	<b>\$ 5,311,323</b>	<b>\$ 6,446,895</b>	<b>\$ 9,390,737</b>	<b>\$ 10,863,523</b>

**City of Henderson, Texas**  
**Management's Discussion and Analysis**  
September 30, 2012

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- Appraised value used for the 2013 budget preparation is \$601,954,190 with a tax rate of \$0.4296 per \$100 valuation for general operations and a debt service rate of \$0.0921 per \$100 valuation for a total tax rate of \$0.5217 per \$100 valuation.
- Sales tax revenues in the 2013 budget are projected to be slightly higher than the actual amounts in the 2012 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.
- Wastewater rates will remain the same as in the 2012 fiscal year.
- Water rates increased effective November 1, 2012:

	<u>From:</u>		<u>To:</u>
First 2,000 gallons	\$ 13.50	Flat rate	\$ 15.00
Next 10,000 gallons	2.80	Per 1,000	3.10
Next 12,000 gallons and above	3.15	Per 1,000	3.55

This increase should generate approximately \$300,000 of additional revenue.

**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.

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# **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, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	HEDCO
<b>Assets</b>				
Cash and cash equivalents	\$ 6,553,528	\$ 3,599,391	\$ 10,152,919	\$ 2,972,606
Investments	13,996	25,125	39,121	-
Receivables (net allowances for uncollectibles)				
Taxes	1,258,144	-	1,258,144	206,231
Accounts	456,035	641,639	1,097,674	-
Due from other governments	27,726	-	27,726	-
Notes	-	-	-	1,258,215
Special assessments	28,795	-	28,795	-
Other	20,116	4,378	24,494	-
Internal balances	(1,492)	1,492	-	-
Inventory	3,473	-	3,473	-
Restricted cash and investments				
Cash and cash equivalents	-	682,629	682,629	-
Bond issuance costs	60,644	72,248	132,892	-
Capital assets (Net of accumulated depreciation)				
Land	1,363,278	410,130	1,773,408	1,671,809
Buildings and improvements	6,526,705	-	6,526,705	-
Machinery and equipment	936,563	516,645	1,453,208	-
Improvements other than buildings	2,456,866	-	2,456,866	-
Water and wastewater distribution	-	17,516,955	17,516,955	-
Infrastructure	11,233,113	-	11,233,113	-
Construction in progress	531,433	58,290	589,723	-
<b>Total assets</b>	<b>\$ 31,468,923</b>	<b>\$ 23,528,922</b>	<b>\$ 54,997,845</b>	<b>\$ 6,108,861</b>
<b>Liabilities</b>				
Accounts payable	\$ 817,222	\$ 247,003	\$ 1,064,225	\$ 66,886
Accrued liabilities	40,113	-	40,113	-
Accrued interest payable	18,031	11,318	29,349	-
Due to component unit	206,231	-	206,231	-
Unearned revenue	72,696	-	72,696	-
Customer deposits	-	298,319	298,319	-
Noncurrent liabilities:				
Due within one year	405,000	1,180,000	1,585,000	136,421
Due in more than one year	3,674,414	4,131,323	7,805,737	775,214
<b>Total liabilities</b>	<b>\$ 5,233,707</b>	<b>\$ 5,867,963</b>	<b>\$ 11,101,670</b>	<b>\$ 978,521</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	\$ 19,328,602	\$ 13,658,226	\$ 32,986,828	\$ 1,671,809
Restricted	1,941,346	384,310	2,325,656	-
Unrestricted	4,965,268	3,618,423	8,583,691	3,458,531
<b>Total net assets</b>	<b>\$ 26,235,216</b>	<b>\$ 17,660,959</b>	<b>\$ 43,896,175</b>	<b>\$ 5,130,340</b>

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

City of Henderson, Texas  
Statement of Activities  
For the Year Ended September 30, 2012

Functions/Programs:	Programs Revenues				Net (Expenses) Revenue and Changes in Net Assets			Component Unit HEDCO
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental	Primary Government	Total	
					Activities	Business-type Activities		
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 1,999,371	\$ 502,213	\$ 17,845	\$ -	\$ (1,479,313)		\$ (1,479,313)	
Public safety	4,033,198	-	178,347	61,182	(3,793,669)		(3,793,669)	
Sanitation	1,523,898	2,167,839	6,125	-	650,066		650,066	
Public services	2,896,350	330,217	13,485	58,667	(2,493,981)		(2,493,981)	
Interest on long-term debt	163,954	-	-	-	(163,954)		(163,954)	
Total governmental activities	<u>\$ 10,616,771</u>	<u>\$ 3,000,269</u>	<u>\$ 215,802</u>	<u>\$ 119,849</u>	<u>\$ (7,280,851)</u>		<u>\$ (7,280,851)</u>	
Business-type activities:								
Water and sewer	\$ 4,400,909	\$ 5,237,221	\$ -	\$ -		\$ 836,312	\$ 836,312	
Total business-type activities	<u>\$ 4,400,909</u>	<u>\$ 5,237,221</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 836,312</u>	<u>\$ 836,312</u>	
Total primary government	<u>\$ 15,017,680</u>	<u>\$ 8,237,490</u>	<u>\$ 215,802</u>	<u>\$ 119,849</u>	<u>\$ (7,280,851)</u>	<u>\$ 836,312</u>	<u>\$ (6,444,539)</u>	
Component units:								
Economic development	<u>\$ 389,490</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>			<u>\$ (389,490)</u>	
General revenues:								
Taxes:								
Property taxes					\$ 3,003,553	\$ -	\$ 3,003,553	
Sales taxes					3,508,884	-	3,508,884	
Franchise taxes					835,860	-	835,860	
Other taxes					257,252	-	257,252	
Investment earnings					66,930	50,391	117,321	
Miscellaneous					92,203	13,078	105,281	
Transfers					360,087	(360,087)	-	
Total general revenues, extraordinary item, and transfers					<u>\$ 8,124,769</u>	<u>\$ (296,618)</u>	<u>\$ 7,828,151</u>	
Change in net assets					\$ 843,918	\$ 539,694	\$ 1,383,612	
Net assets, beginning					25,391,298	17,024,134	42,415,432	
Restatement - See Note IV.C.					-	97,131	97,131	
Net assets, ending					<u>\$ 26,235,216</u>	<u>\$ 17,660,959</u>	<u>\$ 43,896,175</u>	
							<u>\$ 5,130,340</u>	

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

# **FUND FINANCIAL STATEMENTS**

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City of Henderson, Texas  
Balance Sheet  
Governmental Funds  
September 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 3,940,601	\$ 2,439,095	\$ 6,379,696
Investments	1,981	11,445	13,426
Receivables (net allowances for uncollectibles)			
Taxes:			
Sales	824,924	-	824,924
Property	219,395	-	219,395
Franchise	125,453	62,917	188,370
Hotel/Motel	-	25,455	25,455
Accounts			
Warrants	245,231	-	245,231
Sanitation	67,789	-	67,789
Other	-	57,692	57,692
Special assessments	-	28,795	28,795
Due from other governments	27,726	-	27,726
Other	20,116	-	20,116
Inventory	3,473	-	3,473
Due from other funds	1,249	613	1,862
Total assets	<u>\$ 5,477,938</u>	<u>\$ 2,626,012</u>	<u>\$ 8,103,950</u>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities:</b>			
Accounts payable	\$ 494,650	\$ 217,146	\$ 711,796
Accrued liabilities	40,113	-	40,113
Due to component unit	206,231	-	206,231
Due to other funds	13	3,341	3,354
Unearned revenue	464,626	101,491	566,117
Total liabilities	<u>\$ 1,205,633</u>	<u>\$ 321,978</u>	<u>\$ 1,527,611</u>
<b>Fund balances:</b>			
Nonspendable	\$ 68,973	\$ -	\$ 68,973
Restricted	30,430	1,845,416	1,875,846
Committed	-	458,618	458,618
Unassigned	4,172,902	-	4,172,902
Total fund balances	<u>\$ 4,272,305</u>	<u>\$ 2,304,034</u>	<u>\$ 6,576,339</u>
<b>Total liabilities and fund balances</b>	<u><u>\$ 5,477,938</u></u>	<u><u>\$ 2,626,012</u></u>	<u><u>\$ 8,103,950</u></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, 2012

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

Total Fund Balances-Total Governmental Funds (Page 15)	\$ 6,576,339
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	23,047,956
Certain long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. (See Note II.A.)	493,423
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.	154,299
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (See Note II.A.)	(4,036,801)
Net Assets of Governmental Activities (page 13)	<u>\$ 26,235,216</u>

City of Henderson, Texas  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended September 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Taxes:			
Sales	\$ 3,508,884	\$ -	\$ 3,508,884
Property	2,379,134	620,483	2,999,617
Franchise	628,255	207,605	835,860
Hotel/Motel	-	257,252	257,252
Permits & fees	76,618	-	76,618
Charges for services	1,971,827	494,127	2,465,954
Fines & forfeitures	475,168	-	475,168
Intergovernmental	245,654	58,667	304,321
Interest	44,520	22,041	66,561
Miscellaneous	73,590	84,910	158,500
Total revenues	<u>\$ 9,403,650</u>	<u>\$ 1,745,085</u>	<u>\$ 11,148,735</u>
<b>Expenditures:</b>			
Current:			
General government:			
Administration	\$ 414,030	\$ -	\$ 414,030
Finance	269,727	-	269,727
Municipal court	280,116	-	280,116
Nondepartmental	973,500	3,879	977,379
Public safety			
Police	2,520,887	31,052	2,551,939
Fire	1,313,796	-	1,313,796
Sanitation	1,512,690	11,208	1,523,898
Public services:			
Tourism	-	228,250	228,250
Civic Center	-	143,701	143,701
Main Street	-	23,385	23,385
Streets	957,937	113,708	1,071,645
Parks	88,829	39,816	128,645
Activity center	14,709	-	14,709
Cemeteries	2,239	5,050	7,289
Community development	329,589	23,963	353,552
Animal shelter	127,806	-	127,806
Capital outlay	284,131	1,921,040	2,205,171
Debt service:			
Principal	-	370,000	370,000
Interest and fiscal charges	-	166,375	166,375
Total expenditures	<u>\$ 9,089,986</u>	<u>\$ 3,081,427</u>	<u>\$ 12,171,413</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ 313,664</u>	<u>\$ (1,336,342)</u>	<u>\$ (1,022,678)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	\$ 360,087	\$ 977,715	\$ 1,337,802
Transfers out	(872,130)	(105,585)	(977,715)
Total Other Financing Sources (Uses)	<u>\$ (512,043)</u>	<u>\$ 872,130</u>	<u>\$ 360,087</u>
Net Change in Fund Balances	\$ (198,379)	\$ (464,212)	\$ (662,591)
Fund Balances, Beginning	<u>4,470,684</u>	<u>2,768,246</u>	<u>7,238,930</u>
Fund Balances, Ending	<u>\$ 4,272,305</u>	<u>\$ 2,304,034</u>	<u>\$ 6,576,339</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, 2012

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

Net Change in Fund Balances-Total Governmental Funds (Page 17)	\$ (662,591)
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.)	1,192,818
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.)	(15,785)
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.)	337,214
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (See Note II.B.)	2,421
Internal Service Funds are used by management to charge the costs of health insurance to individual funds.	(10,159)
Changes in Net Assets of Governmental Activities (Page 14)	<u>\$ 843,918</u>

City of Henderson, Texas  
Statement of Net Assets  
Proprietary Funds  
September 30, 2012

	Business-type Activities- Enterprise Fund	Governmental Activities- Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$ 3,599,391	\$ 173,832
Investments	25,125	570
Restricted cash and investments:		
Cash and cash equivalents	682,629	-
Accounts receivable - net of allowances for uncollectibles	641,639	85,323
Accrued interest receivable	4,378	-
Other receivable	-	-
Due from other funds	1,914	-
<b>Total Current Assets</b>	<b>\$ 4,955,076</b>	<b>\$ 259,725</b>
Noncurrent assets:		
Bond issuance costs	\$ 72,248	\$ -
Capital assets:		
Land	410,130	-
Construction in progress	58,290	-
Motor vehicles	335,807	-
Equipment	925,556	-
Water and wastewater distribution	27,186,702	-
Less: accumulated depreciation	(10,414,465)	-
<b>Total capital assets</b>	<b>\$ 18,502,020</b>	<b>\$ -</b>
<b>Total noncurrent assets</b>	<b>\$ 18,574,268</b>	<b>\$ -</b>
<b>Total assets</b>	<b>\$ 23,529,344</b>	<b>\$ 259,725</b>
<b><u>Liabilities</u></b>		
Current Liabilities:		
Accounts payable	\$ 247,003	\$ 105,426
Customer deposits	298,319	-
Accrued interest	11,318	-
Due to other funds	422	-
Bonds payable	1,180,000	-
<b>Total current liabilities</b>	<b>\$ 1,737,062</b>	<b>\$ 105,426</b>
Long-term liabilities:		
Bonds payable	\$ 4,097,908	\$ -
Compensated absences payable	33,415	-
<b>Total long-term liabilities</b>	<b>\$ 4,131,323</b>	<b>\$ -</b>
<b>Total liabilities</b>	<b>\$ 5,868,385</b>	<b>\$ 105,426</b>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	\$ 13,658,226	\$ -
Restricted for debt service and bond reserve	384,310	-
Unrestricted	3,618,423	154,299
<b>Total net assets</b>	<b>\$ 17,660,959</b>	<b>\$ 154,299</b>

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, 2012

	Business-type Activities- Enterprise Fund	Governmental Activities- Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
<b>Operating Revenues:</b>		
Charges for services	\$ 5,237,221	\$ 1,355,790
Total operating revenues	<u>\$ 5,237,221</u>	<u>\$ 1,355,790</u>
<b>Operating Expenses</b>		
Cost of sales and services	\$ 2,906,205	\$ -
Administration	525,554	280,031
Claims	-	1,086,286
Depreciation and amortization	762,061	-
Total operating expenses	<u>\$ 4,193,820</u>	<u>\$ 1,366,317</u>
Operating income (loss)	<u>\$ 1,043,401</u>	<u>\$ (10,527)</u>
<b>Nonoperating Revenues (Expenses):</b>		
Investment earnings	\$ 50,391	\$ 368
Miscellaneous revenue	13,078	-
Interest and fiscal charges on debt	(207,089)	-
Total nonoperating revenues (expenses)	<u>\$ (143,620)</u>	<u>\$ 368</u>
<b>Income (loss) Before Contributions and Transfers</b>	<u>\$ 899,781</u>	<u>\$ (10,159)</u>
<b>Transfers</b>		
Transfers in	\$ -	\$ -
Transfers out	(360,087)	-
Total transfers	<u>\$ (360,087)</u>	<u>\$ -</u>
<b>Change in Net Assets</b>	<u>\$ 539,694</u>	<u>\$ (10,159)</u>
<b>Total Net Assets, Beginning</b>	17,024,134	164,458
<b>Restatement ( See Note IV.C.)</b>	97,131	-
<b>Total Net Assets, Ending</b>	<u>\$ 17,660,959</u>	<u>\$ 154,299</u>

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

City of Henderson, Texas  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended September 30, 2012

	Business-type Activities- Enterprise Fund	Governmental Activities- Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 5,391,053	\$ -
Cash received from interfund services provided	-	1,362,617
Cash payments to suppliers and employees	(3,446,663)	(1,401,260)
Cash provided (used) by operating activities	<u>\$ 1,944,390</u>	<u>\$ (38,643)</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
(Increase)/decrease in due to/due from other funds	\$ 397	\$ -
Increase/(decrease) in customer deposits	7,199	-
Transfers (to)/from other funds	(360,087)	-
Cash provided (used) by noncapital financing activities	<u>\$ (352,491)</u>	<u>\$ -</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition of capital assets	\$ (520,386)	\$ -
Nonoperating miscellaneous revenue	13,078	-
Principal repayments on long-term debt	(1,135,572)	-
Interest and fiscal charges on debt	(211,586)	-
Cash provided (used) by capital and related financing activities	<u>\$ (1,854,466)</u>	<u>\$ -</u>
<b>Cash Flows from Investing Activities</b>		
(Purchases)/Sales of investments	\$ (28)	\$ (1)
Earnings on investments	52,093	368
Cash provided (used) by investing activities	<u>\$ 52,065</u>	<u>\$ 367</u>
<b>Net Increase in Cash and Cash Equivalents</b>	<u>\$ (210,502)</u>	<u>\$ (38,276)</u>
<b>Cash and Cash Equivalents, Beginning</b>	<u>4,492,522</u>	<u>212,108</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 4,282,020</u>	<u>\$ 173,832</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used)</b>		
<b>by Operating Activities</b>		
Operating income (loss)	\$ 1,043,401	\$ (10,527)
Adjustments to reconcile operating income to Net Cash provided (used) by operating activities:		
Depreciation	762,061	-
Amortization	-	-
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	153,832	6,827
Increase (decrease) in accounts payable	(14,904)	(34,943)
Total adjustments	<u>\$ 900,989</u>	<u>\$ (28,116)</u>
Net cash provided (used) by operating activities	<u>\$ 1,944,390</u>	<u>\$ (38,643)</u>

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

City of Henderson, Texas  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
September 30, 2012

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	<u>Firemen Retirement Pension Trust</u>
<b><u>Assets</u></b>	
Cash and cash equivalents	\$ 1,741
Investments	<u>449</u>
Total Assets	<u><u>2,190</u></u>
<b><u>Liabilities</u></b>	
	<u>-</u>
<b><u>Net Assets</u></b>	
Held in trust for pension benefits and other purposes	<u><u>\$ 2,190</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, 2012

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	<u>Firemen Retirement Pension Trust</u>
<b>Additions</b>	
Contributions:	
Employer	\$ 1,500
Investment earnings	8
Total additions	<u>\$ 1,508</u>
<b>Deductions</b>	
Benefits	\$ 2,800
Total deductions	<u>\$ 2,800</u>
<b>Change in Net Assets</b>	\$ (1,292)
<b>Net Assets, Beginning</b>	<u>3,482</u>
<b>Net Assets, Ending</b>	<u><u>\$ 2,190</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, 2012

## I. Summary of Significant Accounting Policies

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

### A. Reporting Entity

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

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

#### Discretely Presented Component Unit

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

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

#### Blended Component Unit

Henderson Main Street Advisory Board, Inc. (Main Street) is a nonprofit corporation organized to create a program to revitalize the downtown business 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 \$493,423 difference are as follows:

Delinquent Property Taxes Receivable	\$ 219,395
Outstanding Warrants Receivable	245,233
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>\$ 493,423</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 \$4,036,801 difference are as follows:

Certificates of Obligation Payable	\$ (3,780,000)
Accrued Compensated Absences	(234,871)
Unamortized Bond Issue Costs	60,644
Other Post-Employment Benefits (OPEB) Liability	(64,543)
Accrued Interest Payable	<u>(18,031)</u>
Net Adjustment to <i>Decrease</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Assets-Governmental Activities	<u>\$ (4,036,801)</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 \$1,192,818 difference are as follows:

Capital Outlay Expenditures	\$ 2,205,171
Depreciation Expense	(979,637)
Sale of Capital Assets	<u>(32,716)</u>
Net Adjustment to <i>Increase</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Assets-Governmental Activities	<u>\$ 1,192,818</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 \$15,785 difference are as follows:

Current Year Increase/(Decrease) in Net Property Taxes Receivable	\$ 3,936
Current Year Increase/(Decrease) in Net Outstanding Warrants Receivable	<u>(19,721)</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>\$ (15,785)</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 \$337,214 difference are as follows:

Principal Payments on Certificates of Obligation	\$ 370,000
Increase in OPEB Liability	(23,539)
(Increase)/Decrease in Accrued Compensated Absences	<u>(9,247)</u>
Net Adjustment to <i>Increase</i> Net Changes in Fund Balances-Total Governmental Funds to Arrive at Changes in Net Assets-Governmental Activities	<u>\$ 337,214</u>

Another element of the reconciliation states that “Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this \$2,421 difference are as follows:

(Increase)/Decrease in Accrued Interest Payable	\$ 8,558
Amortization of Bond Issue Costs	<u>(6,137)</u>
Net Adjustment to <i>Increase</i> Net Changes in Fund Balances-Total Governmental Funds to Arrive at Changes in Net Assets-Governmental Activities	<u>\$ 2,421</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, Drug Seizure Fund, Task Force Fund, TCDP Street Grant Fund, Cemetery Fund, Civic Center Fund, Parks Fund, and 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, 2012, 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, 2012, expenditures exceeded appropriations in the Administration Department, Municipal Court, Nondepartmental, Sanitation Department, Streets Department, Activity Center Department, and Cemeteries 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, 2012, the carrying amount of the City's deposits with financial institutions, including time deposits and certificates of deposits, was \$10,837,289 and the bank balance was \$11,098,770. 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, 2012, 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, 2012, is shown below.

<u>Investment or Investment Type</u>	<u>Weighted Avg Maturity</u>	<u>Fair Value</u>
TexSTAR	45 Days	\$ 39,570
Total Investments		<u>\$ 39,570</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, 2012, 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:

Investment  
TexSTAR

S&P Rating  
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:

	General	Water & Sewer Enterprise	Other Funds Aggregate	Total
Receivables:				
Taxes	\$ 1,208,489	\$ -	\$ 88,372	\$ 1,296,861
Accounts	498,982	645,255	143,015	1,287,252
Other Governments	27,726	-	-	27,726
Special Assessments	-	-	28,795	28,795
Other	20,116	4,378	-	24,494
Gross receivables	1,755,313	649,633	260,182	2,665,128
Less: allowance for uncollectibles	(224,679)	(3,616)	-	(228,295)
Net total receivables	\$ 1,530,634	\$ 646,017	\$ 260,182	\$ 2,436,833

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	\$ 219,395	\$ -	\$ 219,395
Warrants	245,231	-	245,231
Other governmental funds:			
Seizures	-	40,438	40,438
Deposits	-	32,258	32,258
Special Assessments	28,795	-	28,795
Total governmental funds	<u>\$ 493,421</u>	<u>\$ 72,696</u>	<u>\$ 566,117</u>

### C. Capital Assets

Capital asset activity for the year ended September 30, 2012, was as follows:

During the year ended September 30, 2012, the City performed a comprehensive inventory of capital assets. During the inventory, certain assets were noted that had not been recorded, or recorded at an incorrect amount since the implementation of GASB Statement No. 34. Below is a detail of the restatement.

	<u>Beginning Beginning Balance</u>	<u>Restatement</u>	<u>Beginning Balance (As restated)</u>
<b>Primary Government</b>			
<b>Governmental activities:</b>			
Capital assets not being depreciated:			
Land	\$ 1,363,279	\$ -	\$ 1,363,279
Construction in progress	145,237	-	145,237
Total capital assets not being depreciated	<u>1,508,516</u>	<u>-</u>	<u>1,508,516</u>
Capital assets being depreciated:			
Buildings	7,658,879	-	7,658,879
Improvements other than buildings	2,499,744	51,000	2,550,744
Equipment	3,419,142	13,260	3,432,402
Infrastructure	11,510,420	(20,603)	11,489,817
Total capital assets being depreciated	<u>25,088,185</u>	<u>43,657</u>	<u>25,131,842</u>
Less accumulated depreciation:			
Buildings	937,083	-	937,083
Improvements other than buildings	469,638	51,000	520,638
Equipment	2,464,924	13,260	2,478,184
Infrastructure	869,915	(20,603)	849,312
Total accumulated depreciation	<u>4,741,560</u>	<u>43,657</u>	<u>4,785,217</u>
Total capital assets being depreciated, net	<u>20,346,625</u>	<u>-</u>	<u>20,346,625</u>
Governmental activities capital assets, net	<u>\$ 21,855,141</u>	<u>\$ -</u>	<u>\$ 21,855,141</u>

<b>Primary Government</b> <b>Business-type activities:</b>	Beginning Beginning Balance	Restatement	Beginning Balance (As restated)
Capital assets not being depreciated:			
Land	\$ 410,130	\$ -	\$ 410,130
Construction in progress	39,086	-	39,086
Total capital assets not being depreciated	<u>449,216</u>	<u>-</u>	<u>449,216</u>
Capital assets being depreciated:			
Buildings	442,426	-	442,426
Water and Wastewater Distribution	25,740,416	773,987	26,514,403
Equipment	1,043,436	-	1,043,436
Total capital assets being depreciated	<u>27,226,278</u>	<u>773,987</u>	<u>28,000,265</u>
Less accumulated depreciation:			
Buildings	109,303	-	109,303
Water and Wastewater Distribution	8,271,677	676,856	8,948,533
Equipment	662,354	-	662,354
Total accumulated depreciation	<u>9,043,334</u>	<u>676,856</u>	<u>9,720,190</u>
Total capital assets being depreciated, net	<u>18,182,944</u>	<u>97,131</u>	<u>18,280,075</u>
Business-type activities capital assets, net	<u>\$ 18,632,160</u>	<u>\$ 97,131</u>	<u>\$ 18,729,291</u>

<b>Primary Government</b> <b>Governmental activities:</b>	Beginning Balance (As restated)	Increases	Category Reclassifications	Decreases	Ending Balance
Capital assets not being depreciated:					
Land	\$ 1,363,279	\$ -	\$ -	\$ -	\$ 1,363,279
Construction in progress	145,237	1,425,368	-	1,039,172	531,433
Total capital assets not being depreciated	<u>1,508,516</u>	<u>1,425,368</u>	<u>-</u>	<u>1,039,172</u>	<u>1,894,712</u>
Capital assets being depreciated:					
Buildings	7,658,879	-	-	20,481	7,638,398
Improvements other than buildings	2,550,744	613,373	15,189	12,450	3,166,856
Equipment	3,432,402	277,999	104,534	154,816	3,660,119
Infrastructure	11,489,817	927,604	(119,723)	-	12,297,698
Total capital assets being depreciated	<u>25,131,842</u>	<u>1,818,976</u>	<u>-</u>	<u>187,747</u>	<u>26,763,071</u>
Less accumulated depreciation:					
Buildings	937,083	185,711	-	11,100	1,111,694
Improvements other than buildings	520,638	236,456	(41,814)	5,291	709,989
Equipment	2,478,184	342,198	-	138,639	2,681,743
Infrastructure	849,312	215,272	41,814	-	1,106,398
Total accumulated depreciation	<u>4,785,217</u>	<u>979,637</u>	<u>-</u>	<u>155,030</u>	<u>5,609,824</u>
Total capital assets being depreciated, net	<u>20,346,625</u>	<u>839,339</u>	<u>-</u>	<u>32,717</u>	<u>21,153,247</u>
Governmental activities capital assets, net	<u>\$ 21,855,141</u>	<u>\$ 2,264,707</u>	<u>\$ -</u>	<u>\$ 1,071,889</u>	<u>\$ 23,047,959</u>

<b>Primary Government Business-type Activities</b>	<b>Beginning Balance (As restated)</b>	<b>Increases</b>	<b>Category Reclassifications</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets not being depreciated:					
Land	\$ 410,130	\$ -		\$ -	\$ 410,130
Construction in progress	39,086	195,739		176,534	58,291
Total capital assets not being depreciated	<u>449,216</u>	<u>195,739</u>	<u>-</u>	<u>176,534</u>	<u>468,421</u>
Capital assets being depreciated:					
Buildings	442,426	-	(427,113)	15,313	-
Water and Wastewater Distribution	26,514,403	251,475	451,208	30,384	27,186,702
Equipment	1,043,436	250,000	(24,095)	7,978	1,261,363
Total capital assets being depreciated	<u>28,000,265</u>	<u>501,475</u>	<u>-</u>	<u>53,675</u>	<u>28,448,065</u>
Less accumulated depreciation:					
Buildings	109,303	382	(94,372)	15,313	-
Water and Wastewater Distribution	8,948,533	625,334	126,264	30,384	9,669,747
Equipment	662,354	122,234	(31,892)	7,978	744,718
Total accumulated depreciation	<u>9,720,190</u>	<u>747,950</u>	<u>-</u>	<u>53,675</u>	<u>10,414,465</u>
Total capital assets being depreciated, net	<u>18,280,075</u>	<u>(246,475)</u>	<u>-</u>	<u>-</u>	<u>18,033,600</u>
Business-type activities capital assets, net	<u>\$ 18,729,291</u>	<u>\$ (50,736)</u>	<u>\$ -</u>	<u>\$ 176,534</u>	<u>\$ 18,502,021</u>

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

Governmental activities:	
General government	\$ 32,432
Public safety	156,177
Public services	791,028
Total depreciation expense - governmental activities	<u>\$ 979,637</u>
Business-type activities:	
Water and sewer	<u>\$ 747,950</u>
Total depreciation expense - business-type activities	<u>\$ 747,950</u>

#### D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of September 30, 2012, is as follows:

##### Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water & Sewer	\$ 422
Water and Sewer	Tourism	1,914
Main Street	General	12
Street Grant	Street & Drainage	600
General	General Construction	200
General	Main Street	48
General	Tourism	580
Total		<u>\$ 3,776</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	Street & Drainage	General Construction	TCDP Street	Street Grant	Main Street	
Transfers out:							
General	\$ -	\$ 227,630	\$ 624,000	\$ -	\$ -	\$ 20,500	\$ 872,130
Street & Drainage	-	-	-	42,077	61,608	-	103,685
Tourism	-	-	-	-	-	1,900	1,900
Water and sewer	360,087	-	-	-	-	-	360,087
Total transfers	<u>\$ 360,087</u>	<u>\$ 227,630</u>	<u>\$ 624,000</u>	<u>\$ 42,077</u>	<u>\$ 61,608</u>	<u>\$ 22,400</u>	<u>\$ 1,337,802</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 Revenue Bonds**

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 \$14,585,000 and none were 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:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>			<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	465,000	79,725	544,725	370,000	92,220	462,220
2018-2022	1,235,000	159,025	1,394,025	1,950,000	279,590	2,229,590
2023-2026	340,000	34,200	374,200	375,000	35,250	410,250
Total	<u>\$ 3,780,000</u>	<u>\$ 756,650</u>	<u>\$ 4,536,650</u>	<u>\$ 5,365,000</u>	<u>\$ 920,066</u>	<u>\$ 6,285,066</u>

### Debt Refunding

GASB Statement No. 7 "Advance Refundings Resulting in Defeasance of Debt," provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of September 30, 2012, 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, 2012</u>
City of Henderson 2001 Waterworks and Sewer System Revenue Bonds	\$ 2,375,000
City of Henderson 2009 Tax Notes	550,000

## Changes in Long-Term Debt

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Certificates of Obligation	\$ 4,150,000	\$ -	\$ 370,000	\$ 3,780,000	\$ 405,000
OPEB Liability	41,004	23,539	-	64,543	-
Compensated absences	225,624	9,247	-	234,871	-
Governmental activity Long-term liabilities	<u>\$ 4,416,628</u>	<u>\$ 32,786</u>	<u>\$ 370,000</u>	<u>\$ 4,079,414</u>	<u>\$ 405,000</u>
<b>Business-type activities</b>					
General obligation bonds	\$ 5,180,000	\$ -	\$ 1,065,000	\$ 4,115,000	\$ 1,105,000
Add: Premium on issue	3,525	-	321	3,204	-
Less: Deferred amount on refunding	(99,354)	-	(9,059)	(90,295)	-
Revenue bonds	1,325,000	-	75,000	1,250,000	75,000
Total bonds payable	<u>6,409,171</u>	<u>-</u>	<u>1,131,262</u>	<u>5,277,909</u>	<u>1,180,000</u>
Compensated absences	\$ 37,724	\$ -	\$ 4,310	\$ 33,414	\$ -
Business-type activities Long-term liabilities	<u>\$ 6,446,895</u>	<u>\$ -</u>	<u>\$ 1,135,572</u>	<u>\$ 5,311,323</u>	<u>\$ 1,180,000</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, 2012, as follows:

<u>Year Ending September 30,</u>	
2013	\$ 10,445
2014	8,180
2015	6,376
2016	801
Total Minimum Rentals	<u>\$ 25,802</u>
Rental Expenditures in 2012	<u>\$ 10,445</u>

## G. Fund Balances

Components of nonspendable fund balance and specific purposes for restricted and committed fund balances as of September 30, 2012 are as follows:

City of Henderson, Texas  
Fund Balances - Governmental Funds

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Nonspendable:	
Cemetery Endowment	\$ 65,500
Inventories	3,473
Restricted:	
Municipal Court	30,430
Debt Service	90,246
Law Enforcement	22,480
Tourism	341,023
Street & Drainage	1,297,406
Bond Fund	94,200
Grants	61
Committed:	
Main Street	15,120
Cemetery	29,916
Animal Shelter	66,636
General Construction	251,788
Civic Center	55,317
Parks	39,841
Unassigned	4,172,902
Total Fund Balances	\$ 6,576,339

**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, 2012. 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, 2012, 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 3<sup>rd</sup> 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, 2012 through December 31, 2012 for claims incurred September 30, 2012 and prior, a liability was recorded for \$81,112 estimated incurred, but not reported claims. All of these 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, 2012	\$ 140,369	\$ 1,086,286	\$ 1,145,543	\$ 81,112
September 30, 2011	104,121	882,593	846,345	140,369
September 30, 2010	118,193	891,654	905,726	104,121

## 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, 2012. 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 \$125,166.

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, 2012.

## 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

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, 2012, 2011, and 2010 were \$2,674,\$2,784, \$2,459, respectively.

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

Plan/Fiscal <u>Year</u>	Annual Required Contribution <u>(Rate)</u>	Actual Contribution Made <u>(b)</u>	Percentage of ARC <u>Contributed</u>
2010	0.05%	0.05%	100.00%
2011	0.05%	0.05%	100.00%
2012	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.

**F. Subsequent Event**

In December of 2012, the City issued \$3,800,000 of Tax and Waterworks and Sewer System Revenue Certificates of Obligation, Series 2012. The purpose of the debt issued is to fund the construction of a water tower, construct a new police station, and various other minor City projects.

**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

available on TMRS' website at [www.TMRS.org](http://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 2011</u>	<u>Plan Year 2012</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, 2010 valuation is effective for rates beginning January 2012).

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

**Actuarial Assumptions**

Actuarial Valuation Date	12/31/2009	12/31/2010	12/31/2011
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	28 Years - Closed Period	27.1 Years - Closed Period	26.1 Years - Closed Period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return	7.5%	7.0%	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	12/31/09	12/31/10	12/31/11
Actuarial value of assets	\$ 9,018,917	\$ 15,646,812	\$ 16,992,515
Actuarial accrued liability	\$ 14,822,552	\$ 20,592,912	\$ 21,845,062
Unfunded (overfunded) actuarial accrued liability (UAAL)	\$ 5,803,635	\$ 4,946,100	\$ 4,852,547
Percent funded	60.8%	76.0%	77.8%
Annual covered payroll	\$ 4,878,743	\$ 4,882,553	\$ 5,013,340
UAAL as a percentage of covered payroll	119.0%	101.3%	96.8%
Net pension obligation (NPO) at the beginning of period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual required contribution (ARC)	\$ 836,787	\$ 895,130	\$ 835,509
Contributions made	836,787	895,130	835,509
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, 2011 the retiree premiums are as follows:

Premiums Effective 11/1/11 - 10/31/12

<u>Plan Type</u>	<u>Employee</u>	<u>Employee &amp; Spouse</u>
Medical	\$ 610	\$ 1,251
Dental	28	49

Funding Policy and Annual OPEB Cost

The City's annual other post employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameter of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The City's annual OPEB cost for the fiscal year ending September 30, 2012, is as follows:

Annual Required Contribution	\$ 24,382
Interest on OPEB Obligation	1,845
Adjustment to ARC	(1,710)
End of Year Annual OPEB Cost (Expense)	<u>24,517</u>
Net Estimated Employer Contributions	<u>(978)</u>
Increase in Net OPEB Obligation	23,539
Beginning of Year Net OPEB Obligation (Asset)	<u>41,004</u>
End of Year Net OPEB Obligation (Asset)	<u>\$ 64,543</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ending September 30, 2012 and the preceding two fiscal years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Amount Contributed</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
9/30/2010	\$ 27,987	\$ 7,519	26.87%	\$ 20,468
9/30/2011	28,055	7,519	26.80%	41,004
9/30/2012	24,517	978	3.99%	64,543

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, 2011 is as follows:

Actuarial Valuation Date as of December 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)
2011	-	\$ 212,891	\$ 212,891	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 \$212,891 at December 31, 2011.

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 8.5% declining to an ultimate rate of 4.50% after 8 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, 2012, 2011, and 2009 were \$2,674,\$2,784, \$2,459, respectively.

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

Plan/Fiscal Year	Annual Required Contribution (Rate)	Actual Contribution Made (b)	Percentage of ARC Contributed
2010	0.05%	0.05%	100.00%
2011	0.05%	0.05%	100.00%
2012	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.

**F. Subsequent Event**

In December of 2012, the City issued \$3,800,000 of Tax and Waterworks and Sewer System Revenue Certificates of Obligation, Series 2012. The purpose of the debt issued is to fund the construction of a water tower, construct a new police station, and various other minor City projects.

**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, 2012, 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, 2012, the carrying amount of HEDCO's deposits (cash, certificates of deposit, and interest-bearing money-market accounts) was \$2,972,606 and the bank balance was \$2,975,085. HEDCO's cash deposits at September 30, 2012 and during the period ended September 30, 2012 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, 2012, 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, 2012 are as follows:

Sales Taxes (from City of Henderson)	\$ 206,231
Notes Receivable	<u>1,258,215</u>
Total	<u>\$ 1,464,446</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, 2012 was \$58,215. 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 note payments for 2011. Interest was accrued for the 5 years of payment deferrals and added to principal. The entity resumed making payments in August of 2012.

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, 2012, the final \$9,000 was forgiven by HEDCO.

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 (37<sup>th</sup>) month after the execution of the agreement, which will be December 1, 2012. The loan is interest free.

### C. Capital Assets

Capital asset activity for the year ended September 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b><u>Governmental Activities:</u></b>				
Capital assets, not being depreciated:				
Land and Investment Property	\$1,671,809	\$ -	\$ -	\$ 1,671,809
Discretely Presented Component Unit capital assets, net	<u>\$1,671,809</u>	<u>\$ -</u>	<u>\$ -</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. Monthly payments on the note are \$13,837.84, including interest at 3.49%.

1. Long-term liability activity for the year ended September 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Notes payable	\$ 1,042,796	\$ -	\$ 131,161	\$ 911,635	\$ 136,421
Governmental activities					
Long-term liabilities	<u>\$ 1,042,796</u>	<u>\$ -</u>	<u>\$ 131,161</u>	<u>\$ 911,635</u>	<u>\$ 136,421</u>

2. Debt Service Requirements

Annual debt service requirements on the notes payable at September 30, 2012 are as follows:

Year Ending September 30	Principal	Interest	Total
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	156,827	9,221	166,048
2018-2019	179,404	3,128	182,532
Total	<u>\$ 911,635</u>	<u>\$ 101,137</u>	<u>\$ 1,012,772</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 \$469,063 in cash payments 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, 2012 was \$128,226. Employer contributions to the plan for the year ended September 30, 2012 were \$8,976.

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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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive/ (Negative)
	Original	Final		
<b>Revenues and Other Sources:</b>				
Taxes:				
Sales	\$ 4,627,050	\$ 4,672,050	\$ 4,832,504	\$ 160,454
Property	2,478,000	2,485,000	2,379,134	(105,866)
Franchise	641,500	648,500	628,255	(20,245)
Permits & fees	109,280	105,280	76,618	(28,662)
Charges for services	1,914,250	1,924,250	1,971,827	47,577
Fines & Forfeitures	332,300	416,800	475,168	58,368
Intergovernmental	64,021	147,187	207,654	60,467
Miscellaneous	219,000	131,000	114,290	(16,710)
Transfers in	473,000	373,000	320,000	(53,000)
Total revenues	<u>\$ 10,858,401</u>	<u>\$ 10,903,067</u>	<u>\$ 11,005,450</u>	<u>\$ 102,383</u>
<b>Expenditures and Other Uses:</b>				
General government:				
Administration	\$ 407,270	\$ 394,970	\$ 414,030	\$ (19,060)
Finance	275,440	285,181	269,727	15,454
Municipal court	259,272	257,072	280,116	(23,044)
Nondepartmental	2,640,741	2,917,239	2,941,620	(24,381)
Public safety				
Police	2,667,649	2,624,487	2,545,667	78,820
Fire	1,372,241	1,380,438	1,352,100	28,338
Sanitation	1,436,000	1,506,000	1,512,690	(6,690)
Public services:				
Streets	1,200,467	1,223,567	1,228,216	(4,649)
Parks	84,198	110,365	93,364	17,001
Activity center	13,100	13,100	14,709	(1,609)
Cemeteries	6,000	6,000	7,689	(1,689)
Community development	346,994	354,119	338,714	15,405
Animal control	149,029	140,529	127,806	12,723
Total expenditures	<u>\$ 10,858,401</u>	<u>\$ 11,213,067</u>	<u>\$ 11,126,448</u>	<u>\$ 86,619</u>
Net Change in Fund Balances	\$ -	\$ (310,000)	\$ (120,998)	\$ 189,002
Fund Balances, Beginning	<u>4,470,684</u>	<u>4,470,684</u>	<u>4,470,684</u>	<u>-</u>
Fund Balances, Ending	<u>\$ 4,470,684</u>	<u>\$ 4,160,684</u>	<u>\$ 4,349,686</u>	<u>\$ 189,002</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, 2012

Total revenues and other sources - Exhibit A-1	\$ 11,005,450
HEDCO sales tax	(1,207,775)
Sales tax rebate agreement	(115,845)
Interest earned - Equipment Replacement Fund	3,820
Rusk County Emergency Services District Grant - Equipment Replacement Fund	38,000
Interfund transfer from Water & Sewer Fund - General Fund	<u>(320,000)</u>
Total revenues - General Fund - Exhibit 4 (Page 17)	<u>\$ 9,403,650</u>
Total expenditures and other uses - Exhibit A-1	\$ 11,126,448
HEDCO sales tax	(1,207,775)
Sales tax rebate agreement	(115,845)
Capital expenditures - Equipment Replacement Fund	249,439
Interfund transfer - Street & Drainage Fund	(270,279)
Interfund transfer - Equipment Replacement Fund	(47,502)
Interfund transfer - General Construction Fund	(624,000)
Interfund transfer - Main Street Fund	<u>(20,500)</u>
Total expenditures - General Fund - Exhibit 4 (Page 17)	<u>\$ 9,089,986</u>
Net change in fund balances - Exhibit A-1	\$ (120,998)
Revenues and other sources - Equipment Replacement Fund	172,058
Expenditures and other uses - Equipment Replacement Fund	<u>(249,439)</u>
Net change in fund balances - General Fund - Exhibit 4 (Page 17)	<u>\$ (198,379)</u>

**COMBINING AND INDIVIDUAL  
FUND FINANCIAL STATEMENTS**

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City of Henderson, Texas  
Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2012

	Special Revenue	Debt Service	Capital Projects	Total
<b><u>Assets</u></b>				
Cash and Cash Equivalents	\$ 537,217	\$ 87,027	\$ 1,814,851	\$ 2,439,095
Investments	5,981	3,219	2,245	11,445
Receivables (net of allowance for uncollectibles):				
Taxes:				
Franchise	-	-	62,917	62,917
Hotel/Motel	25,455	-	-	25,455
Accounts	-	-	57,692	57,692
Special assessments	-	-	28,795	28,795
Due from Other Funds	13	-	600	613
<b>Total Assets</b>	<b>\$ 568,666</b>	<b>\$ 90,246</b>	<b>\$ 1,967,100</b>	<b>\$ 2,626,012</b>
<b><u>Liabilities</u></b>				
Accounts Payable	\$ 18,254	\$ -	\$ 198,892	\$ 217,146
Due to Other Funds	2,541	-	800	3,341
Unearned Revenue	72,696	-	28,795	101,491
<b>Total Liabilities</b>	<b>\$ 93,491</b>	<b>\$ -</b>	<b>\$ 228,487</b>	<b>\$ 321,978</b>
<b><u>Fund Balances</u></b>				
Restricted	\$ 363,503	\$ 90,246	\$ 1,391,667	\$ 1,845,416
Committed	111,672	-	346,946	458,618
<b>Total Fund Balances</b>	<b>\$ 475,175</b>	<b>\$ 90,246</b>	<b>\$ 1,738,613</b>	<b>\$ 2,304,034</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 568,666</b>	<b>\$ 90,246</b>	<b>\$ 1,967,100</b>	<b>\$ 2,626,012</b>

City of Henderson, Texas  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2012

	Special Revenue	Debt Service	Capital Projects	Total
<b>Revenues:</b>				
Taxes:				
Property	\$ -	\$ 620,483	\$ -	\$ 620,483
Franchise	-	-	207,605	207,605
Hotel/Motel	257,252	-	-	257,252
Charges for services	102,913	-	391,214	494,127
Intergovernmental	-	-	58,667	58,667
Interest	4,366	2,893	14,782	22,041
Miscellaneous	80,727	-	4,183	84,910
<b>Total revenues</b>	<b>\$ 445,258</b>	<b>\$ 623,376</b>	<b>\$ 676,451</b>	<b>\$ 1,745,085</b>
<b>Expenditures:</b>				
Current:				
General Government:				
Nondepartmental	\$ -	\$ -	\$ 3,879	\$ 3,879
Public Safety:				
Police	31,052	-	-	31,052
Sanitation	-	-	11,208	11,208
Public Services:				
Tourism	228,250	-	-	228,250
Civic Center	136,106	-	7,595	143,701
Main Street	23,385	-	-	23,385
Streets	-	-	113,708	113,708
Parks	-	-	39,816	39,816
Cemeteries	5,050	-	-	5,050
Community Development	-	-	23,963	23,963
Capital outlay	54,024	-	1,867,016	1,921,040
Debt service:				
Principal	-	370,000	-	370,000
Interest and fees	-	166,375	-	166,375
<b>Total expenditures</b>	<b>\$ 477,867</b>	<b>\$ 536,375</b>	<b>\$ 2,067,185</b>	<b>\$ 3,081,427</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (32,609)	\$ 87,001	\$ (1,390,734)	\$ (1,336,342)
<b>Other Financing Sources (Uses):</b>				
Transfers in	\$ 22,400	\$ -	\$ 955,315	\$ 977,715
Transfers out	(1,900)	-	(103,685)	(105,585)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 20,500</b>	<b>\$ -</b>	<b>\$ 851,630</b>	<b>\$ 872,130</b>
<b>Net Change in Fund Balances</b>	<b>\$ (12,109)</b>	<b>\$ 87,001</b>	<b>\$ (539,104)</b>	<b>\$ (464,212)</b>
Fund Balances, Beginning	487,284	3,245	2,277,717	2,768,246
<b>Fund Balances, Ending</b>	<b>\$ 475,175</b>	<b>\$ 90,246</b>	<b>\$ 1,738,613</b>	<b>\$ 2,304,034</b>

City of Henderson, Texas  
Combining Balance Sheet  
Nonmajor Special Revenue Funds  
September 30, 2012

	Drug Seizure	Task Force	Tourism	Main Street	Cemetery	Animal Shelter	Total
<b>Assets</b>							
Cash and Cash Equivalents	\$ 31,554	\$ 30,896	\$ 361,569	\$ 16,138	\$ 30,825	\$ 66,235	\$ 537,217
Investments	468	-	701	-	4,411	401	5,981
Receivables (net of allowance for uncollectibles):							
Hotel/Motel Taxes	-	-	25,455	-	-	-	25,455
Due from Other Funds	-	-	-	13	-	-	13
<b>Total Assets</b>	<b>\$ 32,022</b>	<b>\$ 30,896</b>	<b>\$ 387,725</b>	<b>\$ 16,151</b>	<b>\$ 35,236</b>	<b>\$ 66,636</b>	<b>\$ 568,666</b>
<b>Liabilities</b>							
Accounts Payable	\$ -	\$ -	\$ 11,950	\$ 984	\$ 5,320	\$ -	\$ 18,254
Due to Other Funds	-	-	2,494	47	-	-	2,541
Unearned Revenue	14,235	26,203	32,258	-	-	-	72,696
<b>Total Liabilities</b>	<b>\$ 14,235</b>	<b>\$ 26,203</b>	<b>\$ 46,702</b>	<b>\$ 1,031</b>	<b>\$ 5,320</b>	<b>\$ -</b>	<b>\$ 93,491</b>
<b>Fund Balances</b>							
Restricted	\$ 17,787	\$ 4,693	\$ 341,023	\$ -	\$ -	\$ -	\$ 363,503
Committed	-	-	-	15,120	29,916	66,636	111,672
<b>Total Fund Balances</b>	<b>\$ 17,787</b>	<b>\$ 4,693</b>	<b>\$ 341,023</b>	<b>\$ 15,120</b>	<b>\$ 29,916</b>	<b>\$ 66,636</b>	<b>\$ 475,175</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 32,022</b>	<b>\$ 30,896</b>	<b>\$ 387,725</b>	<b>\$ 16,151</b>	<b>\$ 35,236</b>	<b>\$ 66,636</b>	<b>\$ 568,666</b>

City of Henderson, Texas  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Special Revenue Funds  
For the Year Ended September 30, 2012

	Drug Seizure	Task Force	Tourism	Main Street	Cemetery	Animal Shelter	Total
<b>Revenues:</b>							
Hotel/Motel Occupancy Tax	\$ -	\$ -	\$ 257,252	\$ -	\$ -	\$ -	\$ 257,252
Charges for services	-	-	98,033	3,380	-	1,500	102,913
Interest	176	-	3,390	76	407	317	4,366
Miscellaneous	43,610	-	2,316	3,471	17,845	13,485	80,727
<b>Total revenues</b>	<b>\$ 43,786</b>	<b>\$ -</b>	<b>\$ 360,991</b>	<b>\$ 6,927</b>	<b>\$ 18,252</b>	<b>\$ 15,302</b>	<b>\$ 445,258</b>
<b>Expenditures:</b>							
Current:							
Public Safety:							
Police	\$ 31,052	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,052
Public Services:							
Tourism	-	-	228,250	-	-	-	228,250
Civic Center	-	-	136,106	-	-	-	136,106
Main Street	-	-	-	23,385	-	-	23,385
Cemeteries	-	-	-	-	5,050	-	5,050
Capital Outlay	-	-	6,455	6,624	40,945	-	54,024
<b>Total expenditures</b>	<b>\$ 31,052</b>	<b>\$ -</b>	<b>\$ 370,811</b>	<b>\$ 30,009</b>	<b>\$ 45,995</b>	<b>\$ -</b>	<b>\$ 477,867</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ 12,734	\$ -	\$ (9,820)	\$ (23,082)	\$ (27,743)	\$ 15,302	\$ (32,609)
<b>Other Financing Sources (Uses):</b>							
Transfers in	\$ -	\$ -	\$ -	\$ 22,400	\$ -	\$ -	\$ 22,400
Transfers out	-	-	(1,900)	-	-	-	(1,900)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,900)</b>	<b>\$ 22,400</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20,500</b>
<b>Net Change in Fund Balances</b>	<b>\$ 12,734</b>	<b>\$ -</b>	<b>\$ (11,720)</b>	<b>\$ (682)</b>	<b>\$ (27,743)</b>	<b>\$ 15,302</b>	<b>\$ (12,109)</b>
Fund Balances, Beginning	5,053	4,693	352,743	15,802	57,659	51,334	487,284
<b>Fund Balances, Ending</b>	<b>\$ 17,787</b>	<b>\$ 4,693</b>	<b>\$ 341,023</b>	<b>\$ 15,120</b>	<b>\$ 29,916</b>	<b>\$ 66,636</b>	<b>\$ 475,175</b>

City of Henderson, Texas  
Combining Balance Sheet  
Nonmajor Capital Projects Funds  
September 30, 2012

	Street and Drainage	General Construction	Street Renovation	Civic Center	Parks	TCDP Street Grant	Street Grant	Total
<b>Assets</b>								
Cash and Cash Equivalents	\$ 1,239,080	\$ 350,372	\$ 130,999	\$ 54,498	\$ 39,841	\$ 2	\$ 59	\$ 1,814,851
Investments	743	683	-	819	-	-	-	2,245
Receivables (net of allowance for uncollectibles):								
Franchise Taxes	62,917	-	-	-	-	-	-	62,917
Accounts	-	57,692	-	-	-	-	-	57,692
Special assessments	28,795	-	-	-	-	-	-	28,795
Due from Other Funds	-	-	-	-	-	-	600	600
<b>Total Assets</b>	<b>\$ 1,331,535</b>	<b>\$ 408,747</b>	<b>\$ 130,999</b>	<b>\$ 55,317</b>	<b>\$ 39,841</b>	<b>\$ 2</b>	<b>\$ 659</b>	<b>\$ 1,967,100</b>
<b>Liabilities</b>								
Accounts Payable	\$ 4,734	\$ 156,759	\$ 36,799	\$ -	\$ -	\$ -	\$ 600	\$ 198,892
Due to Other Funds	600	200	-	-	-	-	-	800
Unearned Revenue	28,795	-	-	-	-	-	-	28,795
<b>Total Liabilities</b>	<b>\$ 34,129</b>	<b>\$ 156,959</b>	<b>\$ 36,799</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 600</b>	<b>\$ 228,487</b>
<b>Fund Balances</b>								
Restricted	\$ 1,297,406	\$ -	\$ 94,200	\$ -	\$ -	\$ 2	\$ 59	\$ 1,391,667
Committed	-	251,788	-	55,317	39,841	-	-	346,946
<b>Total Fund Balances</b>	<b>\$ 1,297,406</b>	<b>\$ 251,788</b>	<b>\$ 94,200</b>	<b>\$ 55,317</b>	<b>\$ 39,841</b>	<b>\$ 2</b>	<b>\$ 59</b>	<b>\$ 1,738,613</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,331,535</b>	<b>\$ 408,747</b>	<b>\$ 130,999</b>	<b>\$ 55,317</b>	<b>\$ 39,841</b>	<b>\$ 2</b>	<b>\$ 659</b>	<b>\$ 1,967,100</b>

City of Henderson, Texas  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Capital Projects Funds  
For the Year Ended September 30, 2012

	Street and Drainage	General Construction	Street Renovation	Civic Center	Parks	TCDP Street Grant	Street Grant	Total
<b>Revenues:</b>								
Franchise Taxes	\$ 207,605	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 207,605
Charges for services	83,564	307,650	-	-	-	-	-	391,214
Intergovernmental	-	41,667	-	-	-	17,000	-	58,667
Interest	9,939	921	3,491	301	120	2	8	14,782
Miscellaneous	65	4,118	-	-	-	-	-	4,183
<b>Total revenues</b>	<b>\$ 301,173</b>	<b>\$ 354,356</b>	<b>\$ 3,491</b>	<b>\$ 301</b>	<b>\$ 120</b>	<b>\$ 17,002</b>	<b>\$ 8</b>	<b>\$ 676,451</b>
<b>Expenditures:</b>								
<b>Current:</b>								
<b>General Government:</b>								
Nondepartmental	\$ -	\$ 3,879	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,879
Sanitation	-	11,208	-	-	-	-	-	11,208
<b>Public Services:</b>								
Civic Center	-	-	-	7,595	-	-	-	7,595
Streets	113,708	-	-	-	-	-	-	113,708
Parks	-	39,790	-	-	26	-	-	39,816
Community Development	-	23,963	-	-	-	-	-	23,963
Capital outlay	26,965	829,107	890,059	-	200	59,077	61,608	1,867,016
<b>Total expenditures</b>	<b>\$ 140,673</b>	<b>\$ 907,947</b>	<b>\$ 890,059</b>	<b>\$ 7,595</b>	<b>\$ 226</b>	<b>\$ 59,077</b>	<b>\$ 61,608</b>	<b>\$ 2,067,185</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ 160,500</b>	<b>\$ (553,591)</b>	<b>\$ (886,568)</b>	<b>\$ (7,294)</b>	<b>\$ (106)</b>	<b>\$ (42,075)</b>	<b>\$ (61,600)</b>	<b>\$ (1,390,734)</b>
<b>Other Financing Sources (Uses):</b>								
Transfers in	\$ 227,630	\$ 624,000	\$ -	\$ -	\$ -	\$ 42,077	\$ 61,608	\$ 955,315
Transfers out	(103,685)	-	-	-	-	-	-	(103,685)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 123,945</b>	<b>\$ 624,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 42,077</b>	<b>\$ 61,608</b>	<b>\$ 851,630</b>
<b>Net Change in Fund Balances</b>	<b>\$ 284,445</b>	<b>\$ 70,409</b>	<b>\$ (886,568)</b>	<b>\$ (7,294)</b>	<b>\$ (106)</b>	<b>\$ 2</b>	<b>\$ 8</b>	<b>\$ (539,104)</b>
<b>Fund Balances, Beginning</b>	<b>1,012,961</b>	<b>181,379</b>	<b>980,768</b>	<b>62,611</b>	<b>39,947</b>	<b>-</b>	<b>51</b>	<b>2,277,717</b>
<b>Fund Balances, Ending</b>	<b>\$ 1,297,406</b>	<b>\$ 251,788</b>	<b>\$ 94,200</b>	<b>\$ 55,317</b>	<b>\$ 39,841</b>	<b>\$ 2</b>	<b>\$ 59</b>	<b>\$ 1,738,613</b>

**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*

April 9, 2013

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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 9, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

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

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

### Compliance and Other Matters

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

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

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

Respectfully submitted,

  
Richard P. Loughlin  
Certified Public Accountant

City of Henderson, Texas  
 Summary of Auditor's Results and  
 Schedule of Findings and Responses  
 For the Year Ended September 30, 2012

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?  Yes  No

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

Noncompliance material to financial statements noted?  Yes  No

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

Internal control over major programs:

Material weaknesses identified?  Yes  No

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

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  Yes  No

Identification of major programs:

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

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

Auditee qualified as low-risk auditee?  Yes  No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

N/A

City of Henderson, Texas  
Summary Schedule of Prior Audit Findings  
For the Year Ended September 30, 2012

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Prior Year Finding

Current Status

Not applicable for the year ended September 30, 2012.

City of Henderson, Texas  
Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2012

<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 Agriculture: Community Development Block Grant	14.228	711249	\$ 17,000
Total U.S. Department of Housing and Urban Development			\$ 17,000
<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:			
Homeland Security Grant Program - SHSP	97.073	10-GA-33212-02	\$ 20,682
Homeland Security Grant Program - SHSP-LETPA	97.073	10-SR-33212-01	2,500
Disaster Assistance	97.039	DR-1999	32,986
Total U.S. Department of Homeland Security			\$ 56,168
<u>U.S. Department of Health and Human Services</u>			
Passed through Texas Department of Aging Special Programs for the Aging - Title III, Part B	93.044	None	\$ 41,667
Total U.S. Department of Health and Human Services			\$ 41,667
Total Federal Financial Assistance			\$ 114,835

**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, 2012

<u>Grantor/Program Title</u>	<u>Grantor's Number</u>	<u>State Expenditures</u>
<u>Texas Commission on Environmental Quality</u>		
Passed through East Texas Council of Governments		
Solid Waste Management Planning Grant	12-06-G05	\$ 6,125
Total Texas Forest Service		<u>\$ 6,125</u>
<u>Texas Forest Service</u>		
Direct Program		
State of Texas Emergency Grant Program	Case #22	\$ 10,595
Wildland PPE	Case #22	8,307
Total Texas Forest Service		<u>\$ 18,902</u>
Total State Financial Assistance		<u>\$ 25,027</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.