

CITY OF HENDERSON
Henderson, Texas

ANNUAL FINANCIAL REPORT
September 30, 2013

**City of Henderson, Texas
Annual Financial Report
For the Year Ended September 30, 2013**

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

MEMBER

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-12 and 50-51 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.

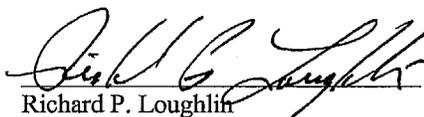
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Henderson, Texas', basic financial statements. The combining and individual fund financial statements 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 Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basis 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 the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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, combining and individual fund financial statements, the Schedule of Expenditures of Federal Awards, and the Schedule of Expenditures of State Awards are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2014, on our consideration of the City of Henderson, Texas, internal control over financial reporting and 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* in considering the City's internal control over financial reporting and compliance.



Richard P. Loughlin
Certified Public Accountant

Henderson, Texas
April 8, 2014

City of Henderson, Texas
Management's Discussion and Analysis
 September 30, 2013

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, 2013. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

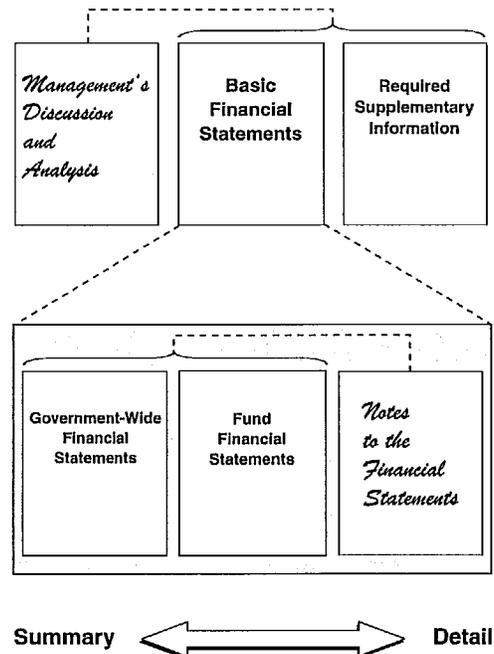
- The City's total combined net position was \$45,677,447 at September 30, 2013.
- The total cost of the City's programs increased by 5.54% from the prior year.
- The general fund reported a fund balance this year of \$4,182,363, of which \$70,528 was nonspendable, \$35,912 was restricted and \$4,075,923 was unassigned.
- During the year ended September 30, 2013, the City issued \$3,800,000 of Tax and Waterworks and Sewer System (Limited Pledge) Revenue CO, Series 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, 2013

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 Position presents information on all of the City's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported 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 sixteen (16) 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, Texas Capital Grant Fund, and 2012 Series Certificates of Obligation Fund which are considered to be major funds. 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 thirteen (13) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of Combining Statements elsewhere in this report.

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2013

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 position and a statement of changes in fiduciary net position. 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 expended in excess of \$500,000 in federal financial assistance during the year ended September 30, 2013. As a result, a single audit in accordance with Office of Management and Budget (OMB) Circular A-133 was required. The City did not expend in excess of \$500,000 in state financial assistance during the year ended September 30, 2013. 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 position may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$45,677,447 at the close of the most recent fiscal year.

By far, the largest portion of the City's Net position (73.7%) reflects its investment in capital assets (e.g., Land, Buildings, Machinery and Equipment, Infrastructure, and its Water and Wastewater Distribution System), less the related debt to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2013

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 Position

	Governmental		Business-Type		Total	
	Activities		Activities			
	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated
Current Assets:						
Cash and Cash Equivalents	\$ 8,637,496	\$ 6,553,528	\$ 3,521,892	\$ 4,282,020	\$ 12,159,388	\$ 10,835,548
Investments	14,008	13,996	25,150	25,125	39,158	39,121
Taxes Receivable (Net)	1,397,294	1,258,144	-	-	1,397,294	1,258,144
Accounts Receivable (Net)	1,018,845	456,035	861,492	641,639	1,880,337	1,097,674
Other Receivables	403,373	75,145	21,042	5,870	424,415	81,015
Internal Balances	(1,811,802)	-	1,811,802	-	-	-
Inventory	5,028	3,473	-	-	5,028	3,473
Total Current Assets	\$ 9,664,242	\$ 8,360,321	\$ 6,241,378	\$ 4,954,654	\$ 15,905,620	\$ 13,314,975
Noncurrent Assets:						
Capital Assets	\$ 31,831,023	\$ 28,657,783	\$ 29,798,757	\$ 28,916,485	\$ 61,629,780	\$ 57,574,268
Accumulated Depreciation	(6,458,989)	(5,609,825)	(11,189,887)	(10,414,465)	(17,648,876)	(16,024,290)
Total Noncurrent Assets	\$ 25,372,034	\$ 23,047,958	\$ 18,608,870	\$ 18,502,020	\$ 43,980,904	\$ 41,549,978
Total Assets	\$ 35,036,276	\$ 31,408,279	\$ 24,850,248	\$ 23,456,674	\$ 59,886,524	\$ 54,864,953
Deferred Outflows of Resources:						
Deferred Amount on Refunding	\$ -	\$ -	\$ 81,236	\$ -	\$ 81,236	\$ -
Current Liabilities:						
Accounts Payable & Accrued Expenses	\$ 1,668,673	\$ 875,366	\$ 289,856	\$ 258,321	\$ 1,958,529	\$ 1,133,687
Due to Component Unit	233,405	206,231	-	-	233,405	206,231
Unearned Revenue	67,826	72,696	-	-	67,826	72,696
Customer Deposits	-	-	303,054	298,319	303,054	298,319
Total Current Liabilities	\$ 1,969,904	\$ 1,154,293	\$ 592,910	\$ 556,640	\$ 2,562,814	\$ 1,710,933
Noncurrent Liabilities:						
Due within one year	574,535	405,000	640,465	1,180,000	1,215,000	1,585,000
Due in more than one year	4,920,206	3,674,414	5,592,291	4,131,323	10,512,497	7,805,737
Total Noncurrent Liabilities	\$ 5,494,741	\$ 4,079,414	\$ 6,232,756	\$ 5,311,323	\$ 11,727,497	\$ 9,390,737
Total Liabilities	\$ 7,464,645	\$ 5,233,707	\$ 6,825,666	\$ 5,867,963	\$ 14,290,311	\$ 11,101,670
Net Position						
Net Investment in Capital Assets	\$ 21,038,237	\$ 19,267,958	\$ 12,641,410	\$ 13,585,978	\$ 33,679,647	\$ 32,853,936
Restricted	1,844,621	1,941,346	386,418	384,310	2,231,039	2,325,656
Unrestricted	4,688,773	4,965,268	5,077,988	3,618,423	9,766,761	8,583,691
Total Net Position	\$ 27,571,631	\$ 26,174,572	\$ 18,105,816	\$ 17,588,711	\$ 45,677,447	\$ 43,763,283

\$65,771 of the City's net position are restricted for debt service, \$35,912 are restricted for use in the Municipal Court, \$65,500 are restricted for a cemetery endowment, \$8,794 are restricted for law enforcement, \$306,238 are restricted for

City of Henderson, Texas
Management's Discussion and Analysis
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tourism, \$374,121 are restricted for Street & Drainage, \$838,603 are restricted for bond funds, and \$149,682 restricted for grants. The \$9,766,761 of unrestricted net position represents resources available to fund the programs of the City next year.

Changes in Net position

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Program Revenues:						
Charges for Services	\$ 3,032,257	\$ 3,000,269	\$ 5,679,453	\$ 5,237,221	\$ 8,711,710	\$ 8,237,490
Operating Grants & Contributions	143,401	215,802	-	-	143,401	215,802
Capital Grants & Contributions	720,744	119,849	-	-	720,744	119,849
General Revenues:						
Property Taxes	3,051,357	3,003,553	-	-	3,051,357	3,003,553
Sales Taxes	3,800,968	3,508,884	-	-	3,800,968	3,508,884
Franchise and Other Taxes	1,046,951	1,093,112	-	-	1,046,951	1,093,112
Other	237,449	159,133	51,952	63,469	289,401	222,602
Total Revenues	\$ 12,033,127	\$ 11,100,602	\$ 5,731,405	\$ 5,300,690	\$ 17,764,532	\$ 16,401,292
Functions/Programs:						
General Government	\$ 2,288,712	\$ 1,999,371	\$ -	\$ -	\$ 2,288,712	\$ 1,999,371
Public Safety	3,999,495	4,033,198	-	-	3,999,495	4,033,198
Sanitation	1,432,035	1,523,898	-	-	1,432,035	1,523,898
Public Services	3,103,837	2,896,350	-	-	3,103,837	2,896,350
Interest on Long-Term Debt	192,074	163,954	-	-	192,074	163,954
Water & Sewer	-	-	4,834,215	4,400,909	4,834,215	4,400,909
Total Expenses	\$ 11,016,153	\$ 10,616,771	\$ 4,834,215	\$ 4,400,909	\$ 15,850,368	\$ 15,017,680
Increase in Net Position						
Before Transfers	\$ 1,016,974	\$ 483,831	\$ 897,190	\$ 899,781	\$ 1,914,164	\$ 1,383,612
Transfers	380,085	360,087	(380,085)	(360,087)	-	-
Increase in Net Position	\$ 1,397,059	\$ 843,918	\$ 517,105	\$ 539,694	\$ 1,914,164	\$ 1,383,612
Net Position, Beginning	26,235,216	25,391,298	17,660,959	17,024,134	43,896,175	42,415,432
Restatement - See Note IV.H.	(60,644)	-	(72,248)	97,131	(132,892)	97,131
Net Position, Ending	\$ 27,571,631	\$ 26,235,216	\$ 18,105,816	\$ 17,660,959	\$ 45,677,447	\$ 43,896,175

City of Henderson, Texas
Management's Discussion and Analysis
 September 30, 2013

Chart A-1
City of Henderson, Texas
Revenues for the Year Ended September 30, 2013

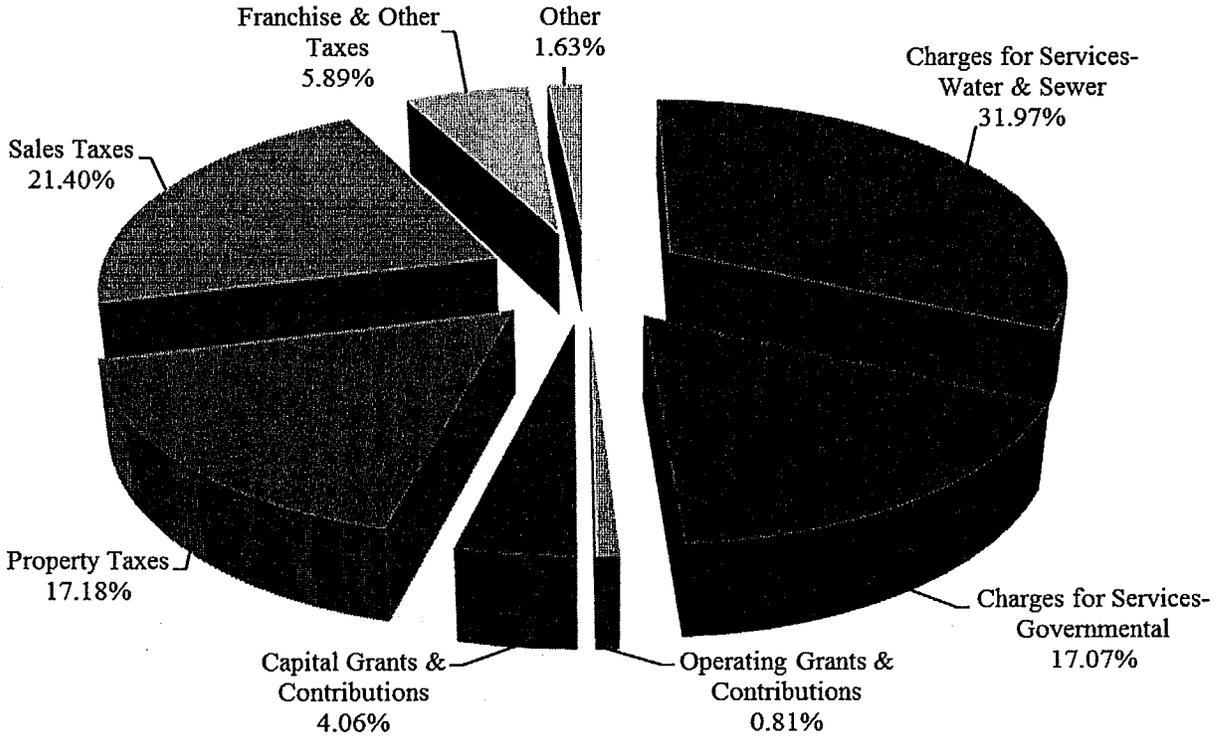
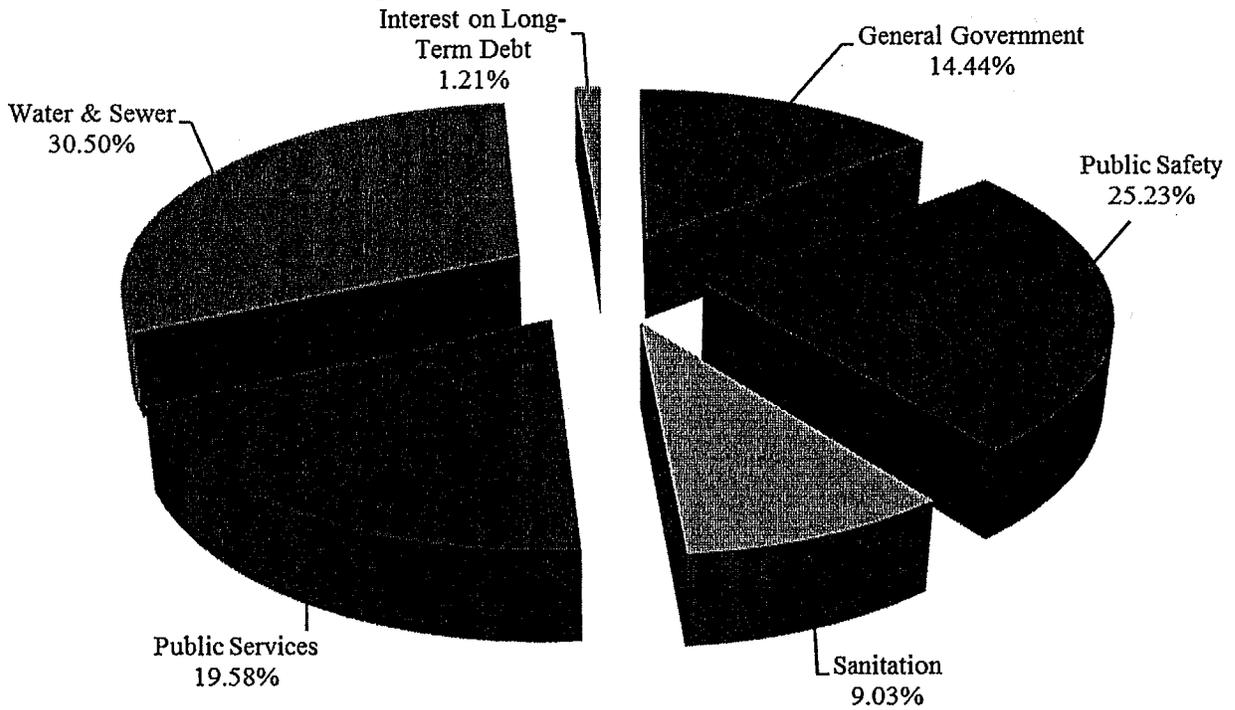


Chart A-2
City of Henderson, Texas
Expenses for the Year Ended September 30, 2013



City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2013

Governmental Activities

Governmental activities increased the City's net position by \$1,397,059, thereby accounting for 73% of the total growth in the net position of the City. Key elements in this increase are as follows:

- Property tax revenue remained relatively constant, increasing only \$47,804.
- Sales tax revenue increased \$292,084, or 8.3%. This increase was a result of a general upturn in the national, state and local economy.
- Capital grants and contributions revenue increased \$600,895, resulting primarily from the receipt of two street grants from the State of Texas
- Charges for services and operating grants and contributions were consistent with the prior year.
- Expenses for Governmental Activities increased only 3.7% for the year as expenses were maintained close to 2012 levels.

Business-Type Activities

Business-type activities increased the City's net position by \$517,105, thereby accounting for 27% of the total growth in the net position of the City. Key elements in this increase are as follows:

- Water and sewer sales were up by 8.44%, due primarily to a water rate increase. Operating expenses increased by 9%. As revenue and expenses both increased consistently, the increase in net position was consistent with the prior year.

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 \$6,787,500, an increase of \$211,161 in comparison with the prior year. A significant reason for the increase was the residual of funds remaining from the 2012 Series Certificates of Obligation. Additionally, revenues increased by 7%.

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 \$4,075,923, while total Fund Balance was \$4,182,363. 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 42.5% of total General Fund expenditures, while total Fund Balance represents 43.6% 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 \$89,942 during the current fiscal year. Key factors in this decrease are:

- ◆ *Overall revenues increased from 2012, approximately 8.40%, the most significant increases were in sales tax revenues as a result of the economic factors mentioned above.*
- ◆ *Departmental expenditures were generally consistent with 2012 amounts. However, as a result of greater utilization of the City's self-insured health insurance, overall expenditures increased 5.3%.*

The Fund Balance of the City's Texas Capital Grant Fund increased by \$149,619 generally due to interfund transfers to supplement the grant.

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2013

The Fund Balance of the 2012 Series Certificates of Obligation increased by \$838,603 as a result of remaining bond proceeds in the fund.

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

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Nonspendable:		
Cemetery Endowment	\$ 65,500	\$ 65,500
Inventories	5,028	3,473
Restricted:		
Municipal Court	35,912	30,430
Debt Service	65,771	90,246
Law Enforcement	8,794	22,480
Tourism	306,238	341,023
Street & Drainage	374,121	1,297,406
Street Renovation	-	94,200
Grants	149,682	61
2012 Series Certificates of Obligation	838,603	-
Committed:		
Main Street	25,177	15,120
Cemetery	43,734	29,916
Animal Shelter	90,664	66,636
General Construction	655,706	251,788
Civic Center	46,647	55,317
Parks	-	39,841
Unassigned	4,075,923	4,172,902
Total Fund Balances	<u>\$ 6,787,500</u>	<u>\$ 6,576,339</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 position of the Water & Sewer Enterprise Fund at the end of the year amounted to \$5,077,988. The total growth in net position for the fund was \$517,105. 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 position at the end of the current year amounted to \$325,218. The City's operating budgets maintained contributions to the fund at approximately the 2012 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 \$147,012. The most significant among the changes were in Nondepartmental related to a purchase of property.

Differences between the final amended budget and actual General Fund expenditures were a net negative variance of \$45,796. The only significant variance was in the area of Nondepartmental related to the prior year carryover.

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2013

Additionally, available general fund revenues approximated the estimated amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, the City's investment in capital assets for its governmental and business-type activities amounts to \$43,980,905 (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 5.8%. The overall increase was primarily due to construction projects in process at year end. (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>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 1,385,778	\$ 1,363,278	\$ 410,130	\$ 410,130	\$ 1,795,908	\$ 1,773,408
Buildings and Improvements	8,069,696	7,638,398	-	-	8,069,696	7,638,398
Machinery and Equipment	3,771,251	3,660,120	1,531,520	1,261,363	5,302,771	4,921,483
Improvements other than Buildings	3,266,508	3,166,855	-	-	3,266,508	3,166,855
Water and Wastewater Distribution	-	-	27,267,261	27,186,702	27,267,261	27,186,702
Infrastructure	12,799,046	12,297,699	-	-	12,799,046	12,297,699
Construction in Progress	2,538,744	531,433	589,846	58,290	3,128,590	589,723
Total Capital Assets	<u>\$31,831,023</u>	<u>\$28,657,783</u>	<u>\$29,798,757</u>	<u>\$28,916,485</u>	<u>\$61,629,780</u>	<u>\$57,574,268</u>
Less: Accumulated Depreciation	(6,458,988)	(5,609,824)	(11,189,887)	(10,414,465)	(17,648,875)	(16,024,289)
Net Capital Assets	<u>\$25,372,035</u>	<u>\$23,047,959</u>	<u>\$18,608,870</u>	<u>\$18,502,020</u>	<u>\$43,980,905</u>	<u>\$41,549,979</u>

Long-Term Debt

At year-end, the City had \$11,727,497 in bonds, certificates of obligation, 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>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Bonds payable	\$ -	\$ -	\$ 6,190,482	\$ 5,277,909	\$ 6,190,482	\$ 5,277,909
Certificates of obligation payable	5,172,400	3,780,000	-	-	5,172,400	3,780,000
Other Post-Employment Benefits (OPEB)	88,161	64,543	-	-	88,161	64,543
Compensated absences	234,180	234,871	42,274	33,414	276,454	268,285
Total	<u>\$ 5,494,741</u>	<u>\$ 4,079,414</u>	<u>\$ 6,232,756</u>	<u>\$ 5,311,323</u>	<u>\$ 11,727,497</u>	<u>\$ 9,390,737</u>

City of Henderson, Texas
Management's Discussion and Analysis
September 30, 2013

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2014 budget preparation is \$652,377,000 with a tax rate of \$0.3651 per \$100 valuation for general operations and a debt service rate of \$0.1566 per \$100 valuation for a total tax rate of \$0.5217 per \$100 valuation.
- Sales tax revenues in the 2014 budget are projected to be slightly lower than the actual amounts in the 2013 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 2013 fiscal year.
- Water rates will remain the same as in the 2013 fiscal year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT STAFF

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

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

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

BASIC FINANCIAL STATEMENTS

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**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

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City of Henderson, Texas
Statement of Net Position
September 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	HEDCO
Assets				
Cash and cash equivalents	\$ 8,637,496	\$ 2,832,420	\$ 11,469,916	\$ 3,471,828
Investments	14,008	25,150	39,158	-
Receivables (net allowances for uncollectibles)				
Taxes	1,397,294	-	1,397,294	233,406
Accounts	1,018,845	861,492	1,880,337	-
Due from other governments	319,682	-	319,682	-
Notes	-	-	-	1,210,726
Special assessments	28,795	-	28,795	-
Other	54,896	21,042	75,938	-
Internal balances	(1,811,802)	1,811,802	-	-
Inventory	5,028	-	5,028	-
Restricted cash and investments				
Cash and cash equivalents	-	689,472	689,472	-
Capital assets (Net of accumulated depreciation)				
Land	1,385,779	410,130	1,795,909	1,825,313
Buildings and improvements	6,782,313	-	6,782,313	-
Machinery and equipment	832,414	632,378	1,464,792	-
Improvements other than buildings	2,309,945	-	2,309,945	-
Water and wastewater distribution	-	16,976,516	16,976,516	-
Infrastructure	11,522,839	-	11,522,839	-
Construction in progress	2,538,744	589,846	3,128,590	-
Total assets	\$ 35,036,276	\$ 24,850,248	\$ 59,886,524	\$ 6,741,273
Deferred Outflows of Resources				
Unamortized deferred amount on refunding	\$ -	\$ 81,236	\$ 81,236	\$ -
Total deferred amount on refunding	\$ -	\$ 81,236	\$ 81,236	\$ -
Liabilities				
Accounts payable	\$ 1,612,876	\$ 281,436	\$ 1,894,312	\$ 86,462
Accrued liabilities	38,149	-	38,149	-
Accrued interest payable	17,648	8,420	26,068	-
Due to component unit	233,405	-	233,405	-
Unearned revenue	67,826	-	67,826	-
Customer deposits	-	303,054	303,054	-
Noncurrent liabilities:				
Due within one year	574,535	640,465	1,215,000	141,259
Due in more than one year	4,920,206	5,592,291	10,512,497	634,400
Total liabilities	\$ 7,464,645	\$ 6,825,666	\$ 14,290,311	\$ 862,121
Net Position				
Net investment in capital assets	\$ 21,038,237	\$ 12,641,410	\$ 33,679,647	\$ 1,825,313
Restricted	1,844,621	386,418	2,231,039	-
Unrestricted	4,688,773	5,077,988	9,766,761	4,053,839
Total net position	\$ 27,571,631	\$ 18,105,816	\$ 45,677,447	\$ 5,879,152

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, 2013

Functions/Programs:	Expenses	Programs Revenues			Net (Expenses) Revenue and Changes in Net Assets			Component Unit HEDCO
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 2,288,712	\$ 567,832	\$ -	\$ -	\$ (1,720,880)		\$ (1,720,880)	
Public safety	3,999,495	-	137,564	13,942	(3,847,989)		(3,847,989)	
Sanitation	1,432,035	2,108,936	5,837	-	682,738		682,738	
Public services	3,103,837	355,489	-	706,802	(2,041,546)		(2,041,546)	
Interest on long-term debt	192,074	-	-	-	(192,074)		(192,074)	
Total governmental activities	<u>\$ 11,016,153</u>	<u>\$ 3,032,257</u>	<u>\$ 143,401</u>	<u>\$ 720,744</u>	<u>\$ (7,119,751)</u>		<u>\$ (7,119,751)</u>	
Business-type activities:								
Water and sewer	\$ 4,834,215	\$ 5,679,453	\$ -	\$ -		\$ 845,238	\$ 845,238	
Total business-type activities	<u>\$ 4,834,215</u>	<u>\$ 5,679,453</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 845,238</u>	<u>\$ 845,238</u>	
Total primary government	<u>\$ 15,850,368</u>	<u>\$ 8,711,710</u>	<u>\$ 143,401</u>	<u>\$ 720,744</u>	<u>\$ (7,119,751)</u>	<u>\$ 845,238</u>	<u>\$ (6,274,513)</u>	
Component units:								
Economic development	<u>\$ 563,494</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				<u>\$ (563,494)</u>
General revenues:								
Taxes:								
Property taxes					\$ 3,051,357	\$ -	\$ 3,051,357	\$ -
Sales taxes					3,800,968	-	3,800,968	1,262,217
Franchise taxes					823,069	-	823,069	-
Other taxes					223,882	-	223,882	-
Investment earnings					87,664	34,125	121,789	50,061
Miscellaneous					149,785	17,827	167,612	28
Transfers					380,085	(380,085)	-	-
Total general revenues, extraordinary item, and transfers					<u>\$ 8,516,810</u>	<u>\$ (328,133)</u>	<u>\$ 8,188,677</u>	<u>\$ 1,312,306</u>
Change in net assets					\$ 1,397,059	\$ 517,105	\$ 1,914,164	\$ 748,812
Net position, beginning					26,235,216	17,660,959	43,896,175	5,130,340
Restatement - See Note IV.C.					(60,644)	(72,248)	(132,892)	-
Net position, ending					<u>\$ 27,571,631</u>	<u>\$ 18,105,816</u>	<u>\$ 45,677,447</u>	<u>\$ 5,879,152</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, 2013

	General Fund	Texas Capital Grant Fund	2012 Series Certificates of Obligation Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 3,854,659	\$ 189,542	\$ 2,833,326	\$ 1,723,319	\$ 8,600,846
Investments	1,983	-	-	11,455	13,438
Receivables (net allowances for uncollectibles)					
Taxes:					
Sales	933,620	-	-	-	933,620
Property	246,834	-	-	-	246,834
Franchise	124,208	-	-	62,634	186,842
Hotel/Motel	-	-	-	29,998	29,998
Accounts					
Warrants	324,271	-	-	-	324,271
Sanitation	67,547	-	-	-	67,547
Other	-	-	15,835	81,082	96,917
Special assessments	-	-	-	28,795	28,795
Due from other governments	12,697	306,985	-	-	319,682
Other	54,896	-	-	-	54,896
Inventory	5,028	-	-	-	5,028
Due from other funds	45	150,000	-	555	150,600
Total assets	<u>\$ 5,625,788</u>	<u>\$ 646,527</u>	<u>\$ 2,849,161</u>	<u>\$ 1,937,838</u>	<u>\$ 11,059,314</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities:					
Accounts payable	\$ 600,752	\$ 496,849	\$ 200,722	\$ 72,441	\$ 1,370,764
Accrued liabilities	38,149	-	-	-	38,149
Due to component unit	233,405	-	-	-	233,405
Due to other funds	646	-	1,809,836	151,920	1,962,402
Unearned revenue	-	-	-	96,621	96,621
Total liabilities	<u>\$ 872,952</u>	<u>\$ 496,849</u>	<u>\$ 2,010,558</u>	<u>\$ 320,982</u>	<u>\$ 3,701,341</u>
Deferred Inflows of Resources:					
Deferred revenue	\$ 570,473	\$ -	\$ -	\$ -	\$ 570,473
Total Deferred Inflows of Resources	<u>\$ 570,473</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 570,473</u>
Fund balances:					
Nonspendable	\$ 70,528	\$ -	\$ -	\$ -	\$ 70,528
Restricted	35,912	149,678	838,603	754,928	1,779,121
Committed	-	-	-	861,928	861,928
Unassigned	4,075,923	-	-	-	4,075,923
Total fund balances	<u>\$ 4,182,363</u>	<u>\$ 149,678</u>	<u>\$ 838,603</u>	<u>\$ 1,616,856</u>	<u>\$ 6,787,500</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 5,625,788</u>	<u>\$ 646,527</u>	<u>\$ 2,849,161</u>	<u>\$ 1,937,838</u>	<u>\$ 11,059,314</u>

City of Henderson, Texas
Reconciliation of the Balance Sheet-Governmental Funds
to the Statement of Net Position
September 30, 2013

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

Total Fund Balances-Total Governmental Funds (Page 15)	\$ 6,787,500
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	25,372,034
Certain long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. (See Note II.A.)	599,268
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 Position.	325,218
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (See Note II.A.)	<u>(5,512,389)</u>
Net Position of Governmental Activities (page 13)	<u>\$ 27,571,631</u>

City of Henderson, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2013

	General Fund	Texas Capital Grant Fund	2012 Series Certificates of Obligation Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes:					
Sales	\$ 3,800,968	\$ -	\$ -	\$ -	\$ 3,800,968
Property	2,474,537	-	-	550,013	3,024,550
Franchise	620,235	-	-	202,834	823,069
Hotel/Motel	-	-	-	223,882	223,882
Permits & fees	80,625	-	-	-	80,625
Charges for services	1,902,486	-	-	512,752	2,415,238
Fines & forfeitures	457,354	-	-	-	457,354
Intergovernmental	157,343	407,135	-	299,667	864,145
Interest	46,868	102	19,016	21,354	87,340
Miscellaneous	73,931	-	-	76,604	150,535
Total revenues	<u>\$ 9,614,347</u>	<u>\$ 407,237</u>	<u>\$ 19,016</u>	<u>\$ 1,887,106</u>	<u>\$ 11,927,706</u>
Expenditures:					
Current:					
General government:					
Administration	\$ 428,042	\$ -	\$ -	\$ -	\$ 428,042
Finance	249,155	-	-	-	249,155
Municipal court	281,215	-	-	-	281,215
Nondepartmental	1,293,507	-	-	-	1,293,507
Public safety					
Police	2,590,340	-	-	28,374	2,618,714
Fire	1,338,433	-	-	-	1,338,433
Sanitation	1,460,007	-	-	10,424	1,470,431
Public services:					
Tourism	-	-	-	229,684	229,684
Civic Center	-	-	-	156,197	156,197
Main Street	-	-	-	41,007	41,007
Streets	1,033,243	-	-	166,915	1,200,158
Parks	82,450	-	-	69,300	151,750
Activity center	8,658	-	-	-	8,658
Cemeteries	2,851	-	-	10,150	13,001
Community development	349,344	-	-	29,269	378,613
Animal shelter	121,361	-	-	652	122,013
Capital outlay	336,809	1,222,493	958,173	798,519	3,315,994
Debt service:					
Principal	-	-	-	405,000	405,000
Interest and fiscal charges	-	-	19,640	172,817	192,457
Total expenditures	<u>\$ 9,575,415</u>	<u>\$ 1,222,493</u>	<u>\$ 977,813</u>	<u>\$ 2,118,308</u>	<u>\$ 13,894,029</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ 38,932</u>	<u>\$ (815,256)</u>	<u>\$ (958,797)</u>	<u>\$ (231,202)</u>	<u>\$ (1,966,323)</u>
Other Financing Sources (Uses):					
Bond proceeds	\$ -	\$ -	\$ 1,797,400	\$ -	\$ 1,797,400
Transfers in	480,085	964,875	-	827,608	2,272,568
Transfers out	(608,959)	-	-	(1,283,525)	(1,892,484)
Total Other Financing Sources (Uses)	<u>\$ (128,874)</u>	<u>\$ 964,875</u>	<u>\$ 1,797,400</u>	<u>\$ (455,917)</u>	<u>\$ 2,177,484</u>
Net Change in Fund Balances	\$ (89,942)	\$ 149,619	\$ 838,603	\$ (687,119)	\$ 211,161
Fund Balances, Beginning	4,272,305	59	-	2,303,975	6,576,339
Fund Balances, Ending	<u>\$ 4,182,363</u>	<u>\$ 149,678</u>	<u>\$ 838,603</u>	<u>\$ 1,616,856</u>	<u>\$ 6,787,500</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, 2013

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

Net Change in Fund Balances-Total Governmental Funds (Page 17)	\$ 211,161
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (See Note II.B.)	2,324,075
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.)	105,847
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 position. (See Note II.B.)	(1,415,327)
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.)	383
Internal Service Funds are used by management to charge the costs of health insurance to individual funds.	<u>170,919</u>
Changes in Net Position of Governmental Activities (Page 14)	<u><u>\$ 1,397,058</u></u>

City of Henderson, Texas
Statement of Net Assets
Proprietary Funds
September 30, 2013

	Business-type Activities-	Governmental Activities-
	Enterprise Fund	Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 2,832,420	\$ 36,650
Investments	25,150	570
Restricted cash and investments:		
Cash and cash equivalents	689,472	-
Accounts receivable - net of allowances for uncollectibles	861,492	530,110
Accrued interest receivable	3,399	-
Other receivable	17,643	-
Due from other funds	1,811,840	-
Total Current Assets	\$ 6,241,416	\$ 567,330
Capital assets:		
Land	\$ 410,130	\$ -
Construction in progress	589,846	-
Motor vehicles	321,321	-
Equipment	1,210,199	-
Water and wastewater distribution	27,267,261	-
Less: accumulated depreciation	(11,189,887)	-
Total capital assets	\$ 18,608,870	\$ -
Total assets	\$ 24,850,286	\$ 567,330
<u>Deferred Outflows of Resources</u>		
Unamortized Deferred Amount on Refunding	\$ 81,236	\$ -
Total Deferred Outflows of Resources	\$ 81,236	\$ -
<u>Liabilities</u>		
Current Liabilities:		
Accounts payable	\$ 281,436	\$ 242,112
Customer deposits	303,054	-
Accrued interest	8,420	-
Due to other funds	39	-
Bonds payable	640,465	-
Total current liabilities	\$ 1,233,414	\$ 242,112
Long-term liabilities:		
Bonds payable	\$ 5,550,017	\$ -
Compensated absences payable	42,274	-
Total long-term liabilities	\$ 5,592,291	\$ -
Total liabilities	\$ 6,825,705	\$ 242,112
<u>Net Position</u>		
Net investment in capital assets	\$ 12,641,410	\$ -
Restricted for debt service and bond reserve	386,418	-
Unrestricted	5,077,988	325,218
Total net position	\$ 18,105,816	\$ 325,218

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 Position
Proprietary Funds
For the Year Ended September 30, 2013

	Business-type Activities- Enterprise Fund	Governmental Activities- Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
Operating Revenues:		
Charges for services	\$ 5,679,453	\$ 2,320,696
Total operating revenues	<u>\$ 5,679,453</u>	<u>\$ 2,320,696</u>
Operating Expenses		
Cost of sales and services	\$ 3,233,430	\$ -
Administration	591,060	375,869
Claims	-	1,774,232
Depreciation and amortization	791,142	-
Total operating expenses	<u>\$ 4,615,632</u>	<u>\$ 2,150,101</u>
Operating income (loss)	<u>\$ 1,063,821</u>	<u>\$ 170,595</u>
Nonoperating Revenues (Expenses):		
Investment earnings	\$ 34,125	\$ 324
Miscellaneous revenue	17,827	-
Interest and fiscal charges on debt	(218,583)	-
Total nonoperating revenues (expenses)	<u>\$ (166,631)</u>	<u>\$ 324</u>
Income (loss) Before Contributions and Transfers	<u>\$ 897,190</u>	<u>\$ 170,919</u>
Transfers		
Transfers in	\$ 100,000	\$ -
Transfers out	(480,085)	-
Total transfers	<u>\$ (380,085)</u>	<u>\$ -</u>
Change in Net Assets	<u>\$ 517,105</u>	<u>\$ 170,919</u>
Total Net Assets, Beginning	17,660,959	154,299
Restatement (See Note IV.H.)	<u>(72,248)</u>	<u>-</u>
Total Net Assets, Ending	<u>\$ 18,105,816</u>	<u>\$ 325,218</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, 2013

	Business-type Activities- Enterprise Fund	Governmental Activities- Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
Cash Flows from Operating Activities		
Cash received from customers	\$ 5,459,600	\$ -
Cash received from interfund services provided	-	1,875,909
Cash payments to suppliers and employees	(3,790,057)	(2,013,415)
Cash provided (used) by operating activities	<u>\$ 1,669,543</u>	<u>\$ (137,506)</u>
Cash Flows from Noncapital Financing Activities		
(Increase)/decrease in due to/due from other funds	\$ (1,810,309)	\$ -
Increase/(decrease) in customer deposits	4,735	-
Transfers (to)/from other funds	(380,085)	-
Cash provided (used) by noncapital financing activities	<u>\$ (2,185,659)</u>	<u>\$ -</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	\$ (897,993)	\$ -
Nonoperating miscellaneous revenue	17,827	-
Issuance of debt	2,002,600	-
Principal repayments on long-term debt	(1,162,403)	-
Interest and fiscal charges on debt	(239,122)	-
Cash provided (used) by capital and related financing activities	<u>\$ (279,091)</u>	<u>\$ -</u>
Cash Flows from Investing Activities		
(Purchases)/Sales of investments	\$ (25)	\$ -
Earnings on investments	35,104	324
Cash provided (used) by investing activities	<u>\$ 35,079</u>	<u>\$ 324</u>
Net Increase in Cash and Cash Equivalents	<u>\$ (760,128)</u>	<u>\$ (137,182)</u>
Cash and Cash Equivalents, Beginning	<u>4,282,020</u>	<u>173,832</u>
Cash and Cash Equivalents, Ending	<u>\$ 3,521,892</u>	<u>\$ 36,650</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating income (loss)	\$ 1,063,821	\$ 170,595
Adjustments to reconcile operating income to Net Cash provided (used) by operating activities:		
Depreciation	791,142	-
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	(219,853)	(444,787)
Increase (decrease) in accounts payable	34,433	136,686
Total adjustments	<u>\$ 605,722</u>	<u>\$ (308,101)</u>
Net cash provided (used) by operating activities	<u>\$ 1,669,543</u>	<u>\$ (137,506)</u>

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

City of Henderson, Texas
Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2013

	<u>Firemen Retirement Pension Trust</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 645
Investments	<u>449</u>
Total Assets	<u><u>1,094</u></u>
<u>Liabilities</u>	
	<u>-</u>
<u>Net Position</u>	
Held in trust for pension benefits and other purposes	<u><u>\$ 1,094</u></u>

The accompanying notes are an integral part of this statement.

City of Henderson, Texas
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended September 30, 2013

	<u>Firemen Retirement Pension Trust</u>
Additions	
Contributions:	
Employer	\$ 1,500
Investment earnings	4
Total additions	<u>\$ 1,504</u>
 Deductions	
Benefits	\$ 2,600
Total deductions	<u>\$ 2,600</u>
 Change in Net Position	 \$ (1,096)
 Net Position, Beginning	 <u>2,190</u>
 Net Position, Ending	 <u><u>\$ 1,094</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, 2013

I. Summary of Significant Accounting Policies

The financial statements of the City of Henderson, Texas ("City") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. For the fiscal year ended September 30, 2013, the City implemented the new reporting requirements of GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements, GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and early implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. 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 Position 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 *Texas Capital Grant Fund* is a capital projects fund used to account for the proceeds and expenditure of a grant from the Texas Department of Agriculture.

The *2012 Series Certificates of Obligation Fund* is a capital projects fund used to account for the proceeds and expenditure of the general government portion of the current year's bond issue.

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.

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 Position 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. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category. Unamortized deferred amount on refunding.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category. Unavailable Deferred Revenue related to unavailable property taxes and unavailable citations receivable are reported only in the governmental fund Balance Sheet. Additionally, the City also reflects as unearned revenue, resources that have been received, but not earned, such as deposits and law enforcement seizure funds.

6. *Net Position Flow Assumption*

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. *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.

8. *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 position. Bond premiums and discounts are 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 recorded as expenses in the year incurred.

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.

9. *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. The City Council is the highest level of decision-making authority for the City that can, by adoption of a resolution or ordinance prior to the end of the fiscal year, commit fund balance. 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.

10. 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 position

Exhibit 3-A on page 16 is a reconciliation between Total Fund Balances-Total Governmental Funds and Net Position-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 \$599,268 difference are as follows:

Delinquent Property Taxes Receivable	\$ 246,202
Outstanding Warrants Receivable	324,271
Special Assessments Receivable	<u>28,795</u>
Net Adjustment to <i>Increase</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Position-Governmental Activities	<u>\$ 599,268</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 \$5,512,389 difference are as follows:

Certificates of Obligation Payable	\$ (5,172,400)
Accrued Compensated Absences	(234,180)
Other Post-Employment Benefits (OPEB) Liability	(88,161)
Accrued Interest Payable	<u>(17,648)</u>
Net Adjustment to <i>Decrease</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Position-Governmental Activities	<u>\$ (5,512,389)</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 Position of Governmental Activities as reported in the Government-wide Statement of Activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$2,324,075 difference are as follows:

Capital Outlay Expenditures	\$ 3,315,994
Depreciation Expense	(978,617)
Sale of Capital Assets	<u>(13,302)</u>
Net Adjustment to <i>Increase</i> Net Changes in Fund Balances-Total Governmental Funds to Arrive at Changes in Net Position-Governmental Activities	<u>\$ 2,324,075</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 \$105,847 difference are as follows:

Current Year Increase/(Decrease) in Net Property Taxes Receivable	\$ 26,807
Current Year Increase/(Decrease) in Net Outstanding Warrants Receivable	<u>79,040</u>
Net Adjustment to <i>Decrease</i> Net Changes in Fund Balances-Total Governmental Funds to Arrive at Changes in Net Position-Governmental Activities	<u>\$ 105,847</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 position.” The details of this \$1,415,327 difference are as follows:

Principal Payments on Certificates of Obligation	\$ 405,000
Issuance of Certificates of Obligation	(1,797,400)
Increase in OPEB Liability	(23,618)
(Increase)/Decrease in Accrued Compensated Absences	<u>691</u>
Net Adjustment to <i>Decrease</i> Net Changes in Fund Balances-Total Governmental Funds to Arrive at Changes in Net Position-Governmental Activities	<u>\$ (1,415,327)</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 \$383 difference are as follows:

(Increase)/Decrease in Accrued Interest Payable	<u>\$ 383</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>\$ 383</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, 2013, 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, 2013, expenditures exceeded appropriations in the Administration Department and Nondepartmental. 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, 2013, the carrying amount of the City's deposits with financial institutions, including time deposits and certificates of deposits, was \$12,160,033 and the bank balance was \$12,489,301. 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, 2013, 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, 2013, is shown below.

<u>Investment or Investment Type</u>	<u>Weighted Avg Maturity</u>	<u>Fair Value</u>
TexSTAR	45 days	\$ 39,158
Total Investments		<u>\$ 39,158</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, 2013, the City's investments, other than those which are obligations of or guaranteed by the U.S. Government, are rated as to credit quality as follows:

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

- **Custodial Credit Risk**

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

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

- **Concentration of Credit Risk**

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's investment policy limits the concentration of its investments by investment type. The City was not exposed to concentration of credit risk.

- **Interest Rate Risk**

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

- **Foreign Currency Risk**

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

B. Receivables

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

	General	Water & Sewer Enterprise	Other Funds Aggregate	Total
Receivables:				
Taxes	\$ 1,348,222	\$ -	\$ 92,632	\$ 1,440,854
Accounts	575,469	864,465	627,027	2,066,961
Other Governments	12,697	-	306,985	319,682
Special Assessments	-	-	28,795	28,795
Other	54,896	21,042	-	75,938
Gross receivables	1,991,284	885,507	1,055,439	3,932,230
Less: allowance for uncollectibles	(227,211)	(2,973)	-	(230,184)
Net total receivables	<u>\$ 1,764,073</u>	<u>\$ 882,534</u>	<u>\$ 1,055,439</u>	<u>\$ 3,702,046</u>

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

Governmental funds report deferred revenue (deferred inflows of resources) in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds report unearned revenue 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:

	Unavailable	Unearned	Total
General fund:			
Delinquent property taxes receivable	\$ 246,202	\$ -	\$ 246,202
Warrants	324,271	-	324,271
Other governmental funds:			
Seizures	-	42,783	42,783
Deposits	-	25,043	25,043
Special Assessments	28,795	-	28,795
Total governmental funds	<u>\$ 599,268</u>	<u>\$ 67,826</u>	<u>\$ 667,094</u>

C. Capital Assets

Capital asset activity for the year ended September 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Primary Government</u>				
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 1,363,279	\$ 22,500		\$ 1,385,779
Construction in progress	531,433	2,953,173	945,862	2,538,744
Total capital assets not being depreciated	<u>1,894,712</u>	<u>2,975,673</u>	<u>945,862</u>	<u>3,924,523</u>
Capital assets being depreciated:				
Buildings	7,638,398	441,237	9,940	8,069,695
Improvements other than buildings	3,166,855	114,653	15,000	3,266,508
Equipment	3,660,120	216,393	105,263	3,771,250
Infrastructure	12,297,699	501,348	-	12,799,047
Total capital assets being depreciated	<u>26,763,072</u>	<u>1,273,631</u>	<u>130,203</u>	<u>27,906,500</u>
Less accumulated depreciation:				
Buildings	1,111,693	185,630	9,940	1,287,383
Improvements other than buildings	709,989	260,824	14,250	956,563
Equipment	2,723,557	320,542	105,263	2,938,836
Infrastructure	1,064,585	211,622	-	1,276,207
Total accumulated depreciation	<u>5,609,824</u>	<u>978,618</u>	<u>129,453</u>	<u>6,458,989</u>
Total capital assets being depreciated, net	<u>21,153,248</u>	<u>295,013</u>	<u>750</u>	<u>21,447,511</u>
Governmental activities capital assets, net	<u>\$ 23,047,960</u>	<u>\$ 3,270,686</u>	<u>\$ 946,612</u>	<u>\$ 25,372,034</u>
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Primary Government</u>				
<u>Business-type Activities</u>				
Capital assets not being depreciated:				
Land	\$ 410,130	\$ -	\$ -	\$ 410,130
Construction in progress	58,290	816,198	284,642	589,846
Total capital assets not being depreciated	<u>468,420</u>	<u>816,198</u>	<u>284,642</u>	<u>999,976</u>
Capital assets being depreciated:				
Water and Wastewater Distribution	27,186,702	81,794	1,235	27,267,261
Equipment	1,261,363	284,642	14,486	1,531,519
Total capital assets being depreciated	<u>28,448,065</u>	<u>366,436</u>	<u>15,721</u>	<u>28,798,780</u>
Less accumulated depreciation:				
Water and Wastewater Distribution	9,669,746	622,234	1,235	10,290,745
Equipment	744,718	168,909	14,486	899,141
Total accumulated depreciation	<u>10,414,464</u>	<u>791,143</u>	<u>15,721</u>	<u>11,189,886</u>
Total capital assets being depreciated, net	<u>18,033,601</u>	<u>(424,707)</u>	<u>-</u>	<u>17,608,894</u>
Business-type activities capital assets, net	<u>\$ 18,502,021</u>	<u>\$ 391,491</u>	<u>\$ 284,642</u>	<u>\$ 18,608,870</u>

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

Governmental activities:	
General government	\$ 32,398
Public safety	156,015
Public services	<u>790,205</u>
Total depreciation expense - governmental activities	<u><u>\$ 978,618</u></u>
Business-type activities:	
Water and sewer	<u>\$ 791,143</u>
Total depreciation expense - business-type activities	<u><u>\$ 791,143</u></u>

D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of September 30, 2013, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General	Water & Sewer	\$ 39
Water and Sewer	Tourism	1,914
Water and Sewer	2012 Bond Fund	1,809,836
Water and Sewer	General	91
Street Grant	Street & Drainage	150,000
Tourism	General	555
General	Tourism	<u>6</u>
Total		<u><u>\$ 1,962,441</u></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	Texas Capital	Water and Sewer	Main Street	
Transfers out:								
General	\$ -	\$ 247,009	\$ 223,000	\$ -	\$ -	\$ 100,000	\$ 38,950	\$ 608,959
Street & Drainage	-	-	-	184,263	964,875	-	-	1,149,138
Parks	-	-	39,934	-	-	-	-	39,934
Street Renovation	-	94,453	-	-	-	-	-	94,453
Water and sewer	480,085	-	-	-	-	-	-	480,085
Total transfers	<u>\$ 480,085</u>	<u>\$ 341,462</u>	<u>\$ 262,934</u>	<u>\$ 184,263</u>	<u>\$ 964,875</u>	<u>\$ 100,000</u>	<u>\$ 38,950</u>	<u>\$ 2,372,569</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 \$10,125,000 and \$3,800,000 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
2012 Tax & Waterworks and Sewer System Limited Pledge Revenue Certificates of Obligation	0.88%-3.16%	1,797,400
Business-type activities:		
2004 General Obligation Refunding Bonds	2.0%-4.8%	735,000
2011 General Obligation Refunding Bonds	2.0%-3.0%	3,340,000
2012 Tax & Waterworks and Sewer System Limited Pledge Revenue Certificates of Obligation	0.88%-3.16%	2,002,600
Total General Obligation Bonds and Certificates of Obligation		<u>\$ 13,925,000</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.

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

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

Year Ending September 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 574,535	\$ 164,524	\$ 739,059	\$ 640,465	\$ 170,058	\$ 810,523
2015	576,900	146,804	723,704	648,100	156,008	804,108
2016	606,900	129,757	736,657	673,100	141,789	814,889
2017	609,265	110,539	719,804	530,735	126,552	657,287
2018	639,265	90,598	729,863	575,735	113,694	689,429
2019-2023	1,579,165	209,915	1,789,080	2,505,835	326,455	2,832,290
2024-2026	586,370	31,283	617,653	613,630	29,083	642,713
Total	<u>\$ 5,172,400</u>	<u>\$ 883,420</u>	<u>\$ 6,055,820</u>	<u>\$ 6,187,600</u>	<u>\$ 1,063,639</u>	<u>\$ 7,251,239</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, 2013, 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:

Debt Issue	Outstanding Balance September 30, 2013
City of Henderson 2001 Waterworks and Sewer System Revenue Bonds	\$ 2,200,000
City of Henderson 2009 Tax Notes	430,000

Changes in Long-Term Debt

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Certificates of Obligation	\$ 3,780,000	\$ 1,797,400	\$ 405,000	\$ 5,172,400	\$ 574,335
OPEB Liability	64,543	23,618	-	88,161	-
Compensated absences	234,871	-	691	234,180	-
Governmental activity Long-term liabilities	<u>\$ 4,079,414</u>	<u>\$ 1,821,018</u>	<u>\$ 405,691</u>	<u>\$ 5,494,741</u>	<u>\$ 574,335</u>
Business-type activities					
General obligation bonds	\$ 4,115,000	\$ -	\$ 1,105,000	\$ 3,010,000	\$ 410,000
Add: Premium on issue	3,204	-	321	2,883	-
Certificates of Obligation	-	2,002,600	-	2,002,600	155,465
Revenue bonds	1,250,000	-	75,000	1,175,000	75,000
Total bonds payable	<u>5,368,204</u>	<u>2,002,600</u>	<u>1,180,321</u>	<u>6,190,483</u>	<u>640,465</u>
Compensated absences	\$ 33,414	\$ 8,859	\$ -	\$ 42,273	\$ -
Business-type activities Long-term liabilities	<u>\$ 5,401,618</u>	<u>\$ 2,011,459</u>	<u>\$ 1,180,321</u>	<u>\$ 6,232,756</u>	<u>\$ 640,465</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, 2013, as follows:

<u>Year Ending September 30,</u>	
2014	\$ 8,180
2015	6,376
2016	801
Total Minimum Rentals	<u>\$ 15,357</u>
Rental Expenditures in 2013	<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, 2013 are as follows:

City of Henderson, Texas	
<u>Fund Balances - Governmental Funds</u>	
Nonspendable:	
Cemetery Endowment	\$ 65,500
Inventories	5,028
Restricted:	
Municipal Court	35,912
Debt Service	65,771
Law Enforcement	8,794
Tourism	306,238
Street & Drainage	374,121
2012 Series Certificates of Obligation	838,603
Grants	149,682
Committed:	
Main Street	25,177
Cemetery	43,734
Animal Shelter	90,664
General Construction	655,706
Civic Center	46,647
Unassigned	<u>4,075,923</u>
Total Fund Balances	<u>\$ 6,787,500</u>

H. Restatement of Net Position

The City early implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. As a result of the implementation of the new standard, it was necessary to reduce Net Position as of September 30, 2012, by \$60,644 to \$26,174,572 for governmental activities and by \$72,248 to \$17,588,711 for business-type activities. The restatement was as a result of Unamortized Bond Issue. Bond Issue Costs are now to be recorded in the year incurred in the Statement of Activities.

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, 2013. 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, 2013, employees of the City were covered by a health insurance plan (the Plan). The City contributes 100% of the cost for employee coverage and 50% of the cost for dependent coverage to the Plan and, employees electing dependent coverage authorize payroll withholding to pay the balance of contributions for their dependents. All contributions were paid to an internal service fund maintained by the City for the purpose of self-insuring these health costs. A claims administration agreement (the Agreement) was executed with a 3rd party administrator to provide for the payment of health benefits to the employees of the City. Reinsurance coverage was obtained for a \$45,000 specific deductible and a \$1,000,000 aggregate deductible. The aggregate deductible is based on factors of \$529.51 per employee and \$1,509.35 per family.

<u>Service</u>	<u>Employee Rate</u>	<u>Family Rate</u>
Specific reinsurance premium	\$115.37	\$310.62
Aggregate reinsurance premium	8.28	

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, 2013 through December 31, 2013 for claims incurred September 30, 2013 and prior, a liability was recorded for \$242,112 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:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Actual Claim Payments</u>	<u>End of Year Liability</u>
September 30, 2013	\$ 81,112	\$ 1,774,232	\$ 1,613,232	\$ 242,112
September 30, 2012	140,369	1,086,286	1,145,543	81,112
September 30, 2011	104,121	882,593	846,345	140,369

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, 2013. The projects include street construction, general construction and water and wastewater facilities. At year-end, the City's remaining commitments with architects, engineers, and contractors totaled \$1,734,843.

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, 2013.

C. Pension Plan

Plan Description:

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

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<u>Plan Year 2012</u>	<u>Plan Year 2013</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, 2011 valuation is effective for rates beginning January 2013).

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Actuarial Assumptions

Actuarial Valuation Date	12/31/2010	12/31/2011	12/31/2012
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	27.1 Years - Closed Period	26.1 Years - Closed Period	25.1 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	7.0%	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	12/31/10	12/31/11	12/31/12
Actuarial value of assets	\$ 15,646,812	\$ 16,992,515	\$ 18,593,783
Actuarial accrued liability	\$ 20,592,912	\$ 21,845,062	\$ 23,237,738
Unfunded (overfunded) actuarial accrued liability (UAAL)	\$ 4,946,100	\$ 4,852,547	\$ 4,643,955
Percent funded	76.0%	77.8%	80.0%
Annual covered payroll	\$ 4,882,553	\$ 5,013,340	\$ 5,187,000
UAAL as a percentage of covered payroll	101.3%	96.8%	89.5%
Net pension obligation (NPO) at the beginning of period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual required contribution (ARC)	\$ 895,130	\$ 835,509	\$ 835,992
Contributions made	895,130	835,509	835,992
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, 2012 the retiree premiums are as follows:

Premiums Effective 11/1/12 - 10/31/13

<u>Plan Type</u>	<u>Employee</u>	<u>Employee & Spouse</u>
Medical	\$ 628	\$ 1,507
Dental	28	59

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, 2013, is as follows:

Annual Required Contribution	\$ 24,382
Interest on OPEB Obligation	2,904
Adjustment to ARC	<u>(2,691)</u>
End of Year Annual OPEB Cost (Expense)	24,596
Net Estimated Employer Contributions	<u>(978)</u>
Increase in Net OPEB Obligation	23,618
Beginning of Year Net OPEB Obligation (Asset)	<u>64,543</u>
End of Year Net OPEB Obligation (Asset)	<u>\$ 88,161</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, 2013 and the preceding two fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer		Net OPEB Obligation
		Amount Contributed	Percentage Contributed	
9/30/2011	\$ 28,055	\$ 7,519	26.80%	\$ 41,004
9/30/2012	24,517	978	3.99%	64,543
9/30/2013	24,596	978	3.98%	88,161

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		Funded Ratio (a/b)
		Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	
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, 2013, 2012, and 2011 were \$2,677, \$2,674, and \$2,784, 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
2011	0.05%	0.05%	100.00%
2012	0.05%	0.05%	100.00%
2013	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. Related Party Transaction

GASB Statement No. 56 requires the disclosure of certain transactions between related parties. On July 16, 2013, the former City Manager purchased a piece of property to ultimately be used by the City as a location for a water tower. After the former City Manager closed on the purchase, the City purchased the property from him. The price the City paid to the former City Manager was the same price that the former City Manager had paid for the property, \$155,000.

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, 2013, 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, 2013, the carrying amount of HEDCO's deposits (cash, certificates of deposit, and interest-bearing money-market accounts) was \$3,471,828 and the bank balance was \$3,478,357. HEDCO's cash deposits at September 30, 2013 and during the period ended September 30, 2013 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, 2013, 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, 2013 are as follows:

Sales Taxes (from City of Henderson)	\$ 233,406
Notes Receivable	<u>1,210,726</u>
Total	<u><u>\$ 1,444,132</u></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, 2013 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 November 13, 2009, HEDCO loaned the Rusk County Rural Rail District ("Rail District") the sum of \$1,200,000 to assist the Rail District in securing the Henderson-Overton Railroad. The loan will be repaid to HEDCO over a fifteen (15) year period, beginning on the first day after the thirty-seventh (37th) month after the execution of the agreement, which will be December 1, 2013. The loan is interest free.

C. Capital Assets

Capital asset activity for the year ended September 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>				
Capital assets, not being depreciated:				
Land and Investment Property	<u>\$1,671,809</u>	<u>\$ 153,504</u>	<u>\$ -</u>	<u>\$ 1,825,313</u>
Discretely Presented Component Unit capital assets, net	<u><u>\$1,671,809</u></u>	<u><u>\$ 153,504</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,825,313</u></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, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Notes payable	\$ 911,635	\$ -	\$ 135,976	\$ 775,659	\$ 141,259
Governmental activities Long-term liabilities	<u>\$ 911,635</u>	<u>\$ -</u>	<u>\$ 135,976</u>	<u>\$ 775,659</u>	<u>\$ 141,259</u>

2. Debt Service Requirements

Annual debt service requirements on the notes payable at September 30, 2013 are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>179,404</u>	<u>3,128</u>	<u>182,532</u>
Total	<u>\$ 775,214</u>	<u>\$ 71,510</u>	<u>\$ 846,724</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 \$226,231 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, 2013 was \$130,436. Employer contributions to the plan for the year ended September 30, 2013 were \$9,131

H. Subsequent Event

On December 20, 2013, an economic development incentive agreement with one entity expired. Land and facilities presently on HEDCO's balance sheet totaling \$1,065,411 was sold to that entity for \$1.

**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, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues and Other Sources:				
Taxes:				
Sales	\$ 4,875,050	\$ 4,955,050	\$ 5,036,011	\$ 80,961
Property	2,425,000	2,485,000	2,474,537	(10,463)
Franchise	656,500	626,500	620,235	(6,265)
Permits & fees	118,080	95,080	80,625	(14,455)
Charges for services	1,974,250	1,893,450	1,902,486	9,036
Fines & Forfeitures	447,600	416,100	457,354	41,254
Intergovernmental	63,021	100,933	157,343	56,410
Miscellaneous	128,500	132,900	117,712	(15,188)
Transfers in	340,000	470,000	440,000	(30,000)
Total revenues and other sources	<u>\$ 11,028,001</u>	<u>\$ 11,175,013</u>	<u>\$ 11,286,303</u>	<u>\$ 111,290</u>
Expenditures and Other Uses:				
General government:				
Administration	\$ 405,698	\$ 416,880	\$ 428,042	\$ (11,162)
Finance	273,165	316,665	286,579	30,086
Municipal court	279,117	283,767	281,215	2,552
Nondepartmental	2,598,505	2,749,400	2,917,496	(168,096)
Public safety:				
Police	2,751,486	2,722,056	2,673,690	48,366
Fire	1,362,919	1,389,297	1,374,592	14,705
Sanitation	1,548,000	1,474,000	1,460,007	13,993
Public services:				
Streets	1,344,640	1,359,340	1,342,814	16,526
Parks	79,676	84,476	82,450	2,026
Activity center	13,120	10,120	8,658	1,462
Cemeteries	2,000	3,000	2,851	149
Community development	360,509	364,046	352,344	11,702
Animal control	139,166	131,966	121,361	10,605
Total expenditures and other uses	<u>\$ 11,158,001</u>	<u>\$ 11,305,013</u>	<u>\$ 11,332,099</u>	<u>\$ (27,086)</u>
Net Change in Fund Balances	\$ (130,000)	\$ (130,000)	\$ (45,796)	\$ 84,204
Fund Balances, Beginning	<u>4,349,686</u>	<u>4,349,686</u>	<u>4,349,686</u>	<u>-</u>
Fund Balances, Ending	<u>\$ 4,219,686</u>	<u>\$ 4,219,686</u>	<u>\$ 4,303,890</u>	<u>\$ 84,204</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, 2013

<hr/>	
Total revenues and other sources - Exhibit A-1	\$ 11,286,303
HEDCO sales tax	(1,235,043)
Interest earned - Equipment Replacement Fund	3,087
Interfund transfer from Water & Sewer Fund - General Fund	<u>(440,000)</u>
Total revenues - General Fund - Exhibit 4 (Page 17)	<u>\$ 9,614,347</u>
Total expenditures and other uses - Exhibit A-1	\$ 11,332,099
HEDCO sales tax	(1,235,043)
Capital expenditures - Equipment Replacement Fund	99,360
Interfund transfer - Street & Drainage Fund	(247,009)
Interfund transfer - Equipment Replacement Fund	(112,042)
Interfund transfer - General Construction Fund	(223,000)
Interfund transfer - Main Street Fund	<u>(38,950)</u>
Total expenditures - General Fund - Exhibit 4 (Page 17)	<u>\$ 9,575,415</u>
Net change in fund balances - Exhibit A-1	\$ (45,796)
Revenues and other sources - Equipment Replacement Fund	155,214
Expenditures and other uses - Equipment Replacement Fund	<u>(199,360)</u>
Net change in fund balances - General Fund - Exhibit 4 (Page 17)	<u>\$ (89,942)</u>

**COMBINING AND INDIVIDUAL
FUND FINANCIAL STATEMENTS**

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City of Henderson, Texas
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2013

	Special Revenue	Debt Service	Capital Projects	Total
<u>Assets</u>				
Cash and Cash Equivalents	\$ 523,914	\$ 62,549	\$ 1,136,856	\$ 1,723,319
Investments	5,986	3,222	2,247	11,455
Receivables (net of allowance for uncollectibles):				
Taxes:				
Franchise	-	-	62,634	62,634
Hotel/Motel	29,998	-	-	29,998
Accounts	-	-	81,082	81,082
Special assessments	-	-	28,795	28,795
Due from Other Funds	555	-	-	555
Total Assets	\$ 560,453	\$ 65,771	\$ 1,311,614	\$ 1,937,838
<u>Liabilities</u>				
Accounts Payable	\$ 16,100	\$ -	\$ 56,341	\$ 72,441
Due to Other Funds	1,920	-	150,000	151,920
Unearned Revenue	67,826	-	28,795	96,621
Total Liabilities	\$ 85,846	\$ -	\$ 235,136	\$ 320,982
<u>Fund Balances</u>				
Restricted	\$ 315,032	\$ 65,771	\$ 374,125	\$ 754,928
Committed	159,575	-	702,353	861,928
Total Fund Balances	\$ 474,607	\$ 65,771	\$ 1,076,478	\$ 1,616,856
Total Liabilities and Fund Balances	\$ 560,453	\$ 65,771	\$ 1,311,614	\$ 1,937,838

City of Henderson, Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2013

	Special Revenue	Debt Service	Capital Projects	Total
Revenues:				
Taxes:				
Property	\$ -	\$ 550,013	\$ -	\$ 550,013
Franchise	-	-	202,834	202,834
Hotel/Motel	223,882	-	-	223,882
Charges for services	112,805	-	399,947	512,752
Intergovernmental	-	-	299,667	299,667
Interest	4,426	3,329	13,599	21,354
Miscellaneous	76,604	-	-	76,604
Total revenues	\$ 417,717	\$ 553,342	\$ 916,047	\$ 1,887,106
Expenditures:				
Current:				
General Government:				
Nondepartmental	\$ -	\$ -	\$ -	\$ -
Public Safety:				
Police	28,374	-	-	28,374
Sanitation	-	-	10,424	10,424
Public Services:				
Tourism	229,684	-	-	229,684
Civic Center	147,368	-	8,829	156,197
Main Street	41,007	-	-	41,007
Streets	-	-	166,915	166,915
Parks	-	-	69,300	69,300
Cemeteries	10,150	-	-	10,150
Animal Shelter	652	-	-	652
Community Development	-	-	29,269	29,269
Capital outlay	-	-	798,519	798,519
Debt service:				
Principal	-	405,000	-	405,000
Interest and fees	-	172,817	-	172,817
Total expenditures	\$ 457,235	\$ 577,817	\$ 1,083,256	\$ 2,118,308
Excess (Deficiency) of Revenues Over Expenditures	\$ (39,518)	\$ (24,475)	\$ (167,209)	\$ (231,202)
Other Financing Sources (Uses):				
Transfers in	\$ 38,950	\$ -	\$ 788,658	\$ 827,608
Transfers out	-	-	(1,283,525)	(1,283,525)
Total Other Financing Sources (Uses)	\$ 38,950	\$ -	\$ (494,867)	\$ (455,917)
Net Change in Fund Balances	\$ (568)	\$ (24,475)	\$ (662,076)	\$ (687,119)
Fund Balances, Beginning	475,175	90,246	1,738,554	2,303,975
Fund Balances, Ending	<u>\$ 474,607</u>	<u>\$ 65,771</u>	<u>\$ 1,076,478</u>	<u>\$ 1,616,856</u>

City of Henderson, Texas
Combining Balance Sheet
Nonmajor Special Revenue Funds
September 30, 2013

	Drug Seizure	Task Force	Tourism	Main Street	Cemetery	Animal Shelter	Total
Assets							
Cash and Cash Equivalents	\$ 20,202	\$ 30,907	\$ 314,562	\$ 26,032	\$ 41,948	\$ 90,263	\$ 523,914
Investments	468	-	701	-	4,416	401	5,986
Receivables (net of allowance for uncollectibles):							
Hotel/Motel Taxes	-	-	29,998	-	-	-	29,998
Due from Other Funds	-	-	555	-	-	-	555
Total Assets	\$ 20,670	\$ 30,907	\$ 345,816	\$ 26,032	\$ 46,364	\$ 90,664	\$ 560,453
Liabilities							
Accounts Payable	\$ -	\$ -	\$ 12,615	\$ 855	\$ 2,630	\$ -	\$ 16,100
Due to Other Funds	-	-	1,920	-	-	-	1,920
Unearned Revenue	16,569	26,214	25,043	-	-	-	67,826
Total Liabilities	\$ 16,569	\$ 26,214	\$ 39,578	\$ 855	\$ 2,630	\$ -	\$ 85,846
Fund Balances							
Restricted	\$ 4,101	\$ 4,693	\$ 306,238	\$ -	\$ -	\$ -	\$ 315,032
Committed	-	-	-	25,177	43,734	90,664	159,575
Total Fund Balances	\$ 4,101	\$ 4,693	\$ 306,238	\$ 25,177	\$ 43,734	\$ 90,664	\$ 474,607
Total Liabilities and Fund Balances	\$ 20,670	\$ 30,907	\$ 345,816	\$ 26,032	\$ 46,364	\$ 90,664	\$ 560,453

City of Henderson, Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended September 30, 2013.

	Drug Seizure	Task Force	Tourism	Main Street	Cemetery	Animal Shelter	Total
Revenues:							
Hotel/Motel Occupancy Tax	\$ -	\$ -	\$ 223,882	\$ -	\$ -	\$ -	\$ 223,882
Charges for services	-	-	112,805	-	-	-	112,805
Interest	86	-	3,464	114	118	644	4,426
Miscellaneous	14,602	-	2,116	12,000	23,850	24,036	76,604
Total revenues	\$ 14,688	\$ -	\$ 342,267	\$ 12,114	\$ 23,968	\$ 24,680	\$ 417,717
Expenditures:							
Current:							
Public Safety:							
Police	\$ 28,374	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,374
Public Services:							
Tourism	-	-	229,684	-	-	-	229,684
Civic Center	-	-	147,368	-	-	-	147,368
Main Street	-	-	-	41,007	-	-	41,007
Cemeteries	-	-	-	-	10,150	-	10,150
Animal Shelter	-	-	-	-	-	652	652
Total expenditures	\$ 28,374	\$ -	\$ 377,052	\$ 41,007	\$ 10,150	\$ 652	\$ 457,235
Excess (Deficiency) of Revenues Over Expenditures	\$ (13,686)	\$ -	\$ (34,785)	\$ (28,893)	\$ 13,818	\$ 24,028	\$ (39,518)
Other Financing Sources (Uses):							
Transfers in	\$ -	\$ -	\$ -	\$ 38,950	\$ -	\$ -	\$ 38,950
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ 38,950	\$ -	\$ -	\$ 38,950
Net Change in Fund Balances	\$ (13,686)	\$ -	\$ (34,785)	\$ 10,057	\$ 13,818	\$ 24,028	\$ (568)
Fund Balances, Beginning	17,787	4,693	341,023	15,120	29,916	66,636	475,175
Fund Balances, Ending	\$ 4,101	\$ 4,693	\$ 306,238	\$ 25,177	\$ 43,734	\$ 90,664	\$ 474,607

City of Henderson, Texas
Combining Balance Sheet
Nonmajor Capital Projects Funds
September 30, 2013

	Street and Drainage	General Construction	Street Renovation	Civic Center	Parks	CDBG Grant	Total
<u>Assets</u>							
Cash and Cash Equivalents	\$ 498,784	\$ 585,762	\$ -	\$ 52,306	\$ -	\$ 4	\$ 1,136,856
Investments	743	684	-	820	-	-	2,247
Receivables (net of allowance for uncollectibles):							
Franchise Taxes	62,634	-	-	-	-	-	62,634
Accounts	-	81,082	-	-	-	-	81,082
Special assessments	28,795	-	-	-	-	-	28,795
Total Assets	\$ 590,956	\$ 667,528	\$ -	\$ 53,126	\$ -	\$ 4	\$ 1,311,614
<u>Liabilities</u>							
Accounts Payable	\$ 38,040	\$ 11,822	\$ -	\$ 6,479	\$ -	\$ -	\$ 56,341
Due to Other Funds	150,000	-	-	-	-	-	150,000
Unearned Revenue	28,795	-	-	-	-	-	28,795
Total Liabilities	\$ 216,835	\$ 11,822	\$ -	\$ 6,479	\$ -	\$ -	\$ 235,136
<u>Fund Balances</u>							
Restricted	\$ 374,121	\$ -	\$ -	\$ -	\$ -	\$ 4	\$ 374,125
Committed	-	655,706	-	46,647	-	-	702,353
Total Fund Balances	\$ 374,121	\$ 655,706	\$ -	\$ 46,647	\$ -	\$ 4	\$ 1,076,478
Total Liabilities and Fund Balances	\$ 590,956	\$ 667,528	\$ -	\$ 53,126	\$ -	\$ 4	\$ 1,311,614

City of Henderson, Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Capital Projects Funds
For the Year Ended September 30, 2013

	Street and Drainage	General Construction	Street Renovation	Civic Center	Parks	CDBG Grant	Total
Revenues:							
Franchise Taxes	\$ 202,834	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 202,834
Charges for services	85,318	314,629	-	-	-	-	399,947
Intergovernmental	-	41,667	-	-	-	258,000	299,667
Interest	10,936	2,149	253	159	93	9	13,599
Miscellaneous	-	-	-	-	-	-	-
Total revenues	\$ 299,088	\$ 358,445	\$ 253	\$ 159	\$ 93	\$ 258,009	\$ 916,047
Expenditures:							
Current:							
General Government:							
Nondepartmental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sanitation	-	10,424	-	-	-	-	10,424
Public Services:							
Civic Center	-	-	-	8,829	-	-	8,829
Streets	166,915	-	-	-	-	-	166,915
Parks	-	69,300	-	-	-	-	69,300
Community Development	-	29,269	-	-	-	-	29,269
Capital outlay	247,781	108,468	-	-	-	442,270	798,519
Total expenditures	\$ 414,696	\$ 217,461	\$ -	\$ 8,829	\$ -	\$ 442,270	\$ 1,083,256
Excess (Deficiency) of Revenues Over Expenditures	\$ (115,608)	\$ 140,984	\$ 253	\$ (8,670)	\$ 93	\$ (184,261)	\$ (167,209)
Other Financing Sources (Uses):							
Transfers in	\$ 341,461	\$ 262,934	\$ -	\$ -	\$ -	\$ 184,263	\$ 788,658
Transfers out	(1,149,138)	-	(94,453)	-	(39,934)	-	(1,283,525)
Total Other Financing Sources (Uses)	\$ (807,677)	\$ 262,934	\$ (94,453)	\$ -	\$ (39,934)	\$ 184,263	\$ (494,867)
Net Change in Fund Balances	\$ (923,285)	\$ 403,918	\$ (94,200)	\$ (8,670)	\$ (39,841)	\$ 2	\$ (662,076)
Fund Balances, Beginning	1,297,406	251,788	94,200	55,317	39,841	2	1,738,554
Fund Balances, Ending	\$ 374,121	\$ 655,706	\$ -	\$ 46,647	\$ -	\$ 4	\$ 1,076,478

**COMPLIANCE
STATE AND FEDERAL FINANCIAL
ASSISTANCE SECTION**

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Henderson TX 75654

**INDEPENDENT AUDITOR'S 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***

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

We have audited, 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 1, 2014.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

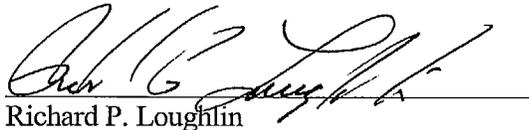
As part of obtaining reasonable assurance about whether the City's financial statements are free of material

MEMBER

misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Richard P. Loughlin
Certified Public Accountant

Henderson, Texas
April 8, 2014



Richard P Loughlin
Certified Public Accountant

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Henderson, Texas' ("City") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2013. The City of Henderson's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinion on CFDA 14.228, Community Development Block Grant

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding its Community Development Block Grant, Finding number F2003-1 for Special Conditions. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

MEMBER

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

Qualified Opinion on CFDA 14.228, Community Development Block Grant

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program (CFDA 14.228-Community Development Block Grant) for the year ended September 30, 2013.

Other Matters

The City's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Richard P. Loughlin
Certified Public Accountant

Henderson, Texas
April 8, 2014

City of Henderson, Texas
 Summary of Auditor's Results and
 Schedule of Findings and Questioned Costs
 For the Year Ended September 30, 2013

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

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: Qualified

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>
14.228	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

Finding Number F2003-1 - Special Conditions

Criteria: The Community Development Block Grant (CDBG) through the Texas Department of Agriculture's Texas Capital Fund Contract requires the City to ensure the creation of a specific amount of permanent jobs.

Condition: The City executed a Contractor/Company agreement with a local entity. A condition in the agreement was that the Company was to create 56 permanent jobs.

Cause: The Company only created 2 jobs.

Effect or Possible Effect: Noncompliance with the provisions of the Special Conditions of the Community Development Block Grant.

Questioned Costs: \$723,214. (\$13,392.86 times 54 jobs)

City of Henderson, Texas
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2013

Prior Year Finding

Current Status

Not applicable for the year ended September 30, 2013.

City of Henderson, Texas
Corrective Action Plan
For the Year Ended September 30, 2013

Finding Number F2003-1 - Special Conditions:

Should the City be required by the Texas Department of Agriculture to repay any portion of the grant funds, the City will pursue payment from the Company.

Contact person for Findings:

Tim Kelty

City Manager

903-657-6551

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City of Henderson, Texas
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2013

<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 Texas Department of Agriculture:			
Community Development Block Grant	14.228	710272	\$ 407,135
Community Development Block Grant	14.228	711249	258,000
Passed through Texas Department of Housing and Community Affairs			
HOME Investment Partnership Program	14.239	1001692	-
Total U.S. Department of Housing and Urban Development			<u>\$ 665,135</u>
<u>U.S. Department of Homeland Security</u>			
Federal Emergency Management Agency (FEMA)			
Passed through Texas Department of Public Safety's Division of Emergency Management:			
Homeland Security Grant Program - SHSP	97.067	11-GA-33212-02	\$ 13,942
Total U.S. Department of Homeland Security			<u>\$ 13,942</u>
<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			<u>\$ 41,667</u>
Total Federal Financial Assistance			<u>\$ 720,744</u>

Notes to Schedule of Expenditures of Federal Awards:

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

City of Henderson, Texas
Schedule of Expenditures of State Awards
For the Year Ended September 30, 2013

<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	13-06-G03	\$ 5,837
Total Texas Commission on Environmental Quality		<u>\$ 5,837</u>
<u>Texas Forest Service</u>		
Direct Program		
Cost Share for Structural PPE	Case #22	\$ 8,400
Cost Share for Texas Eastman Fire School	Case #22	\$ 440
Cost Share for Training	Case #22	275
Total Texas Forest Service		<u>\$ 9,115</u>
Total State Financial Assistance		<u>\$ 14,952</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.