

CITY OF HENDERSON, TEXAS

**BASIC FINANCIAL STATEMENTS and
REQUIRED SUPPLEMENTARY and OTHER
INFORMATION**

FISCAL YEAR ENDED SEPTEMBER 30, 2018

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CITY OF HENDERSON, TEXAS

TABLE OF CONTENTS

SEPTEMBER 30, 2018

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
FINANCIAL SECTION		
Independent Auditors' Report		1-3
Management's Discussion and Analysis		4-10
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Position	1	11
Statement of Activities	2	12
Fund Financial Statements:		
Balance Sheet – Governmental Funds	3	13-14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	4	15-16
Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities	5	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	6	18
Statement of Net Position – Proprietary Funds	7	19-20
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	8	21
Statement of Cash Flows – Proprietary Funds	9	22-23
Statement of Fiduciary Net Position – Fiduciary Funds	10	24
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	11	25
Notes to the Financial Statements		26-61
Required Supplemental Information:		
Schedule of Changes in Net Pension Liability and Related Ratios	1	62
Required Schedule of Contributions	2	63
Schedule of Changes in OPEB Liability and Related Ratios - Supplemental Death Benefits Plan	3	64
Schedule of Changes in OPEB Liability and Related Ratios – Health Plan	4	65

CITY OF HENDERSON, TEXAS

TABLE OF CONTENTS

SEPTEMBER 30, 2018

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
Additional Supplemental Information:		
Combining Statements:		
Combining Financial Statements – Nonmajor Governmental Funds		
Combining Balance Sheet	5	66
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	6	67
Combining Financial Statements – Special Revenue Funds		
Combining Balance Sheet	7	68
Combining Statement of Revenues, Expenses and Changes in Fund Balances	8	69
Combining Financial Statements – Capital Projects Funds		
Combining Balance Sheet	9	70
Combining Statement of Revenues, Expenses and Changes in Fund Balances	10	71
Budget and Actual Schedules:		
Detailed Schedule of Revenues – Budget and Actual (Non-GAAP Budget Basis) – Water and Sewer Fund	11	72
Detailed Schedule of Expenditures – Budget and Actual (Non-GAAP Budget Basis) – Water and Sewer Fund	12	73
Other Reports:		
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		74-75

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
City of Henderson, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Henderson, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise City of Henderson, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

City of Henderson, Texas' 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Henderson Economic Development Corporation, which represent 22.95 percent, 30.40 percent, 11.64 percent, respectively, of the assets, net position, and revenue of the governmental activities. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amount included for the Henderson Economic Development Corporation, is based solely on the report of the other auditors. 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 entity'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 entity'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, based on our audit and the report of other auditors, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Henderson, Texas , as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-10 and the schedules related to pension and OPEB activity on pages 62-65 will 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 and other auditors 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 City of Henderson, Texas' basic financial statements. The combining and individual nonmajor fund financial statements and the Water & Sewer Fund budget and actual schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplemental information is the responsibility of management and was derived from and relates 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of other auditors, the additional supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The additional supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2019 on our consideration of City of Henderson, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 City of Henderson, Texas' internal control over financial reporting and compliance.



Certified Public Accountants

Tyler, Texas
March 15, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of the City of Henderson, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2018.

FINANCIAL HIGHLIGHTS

- As of the end of the current fiscal year, the assets of the City exceeded its liabilities by \$43,886,143 (net position). Of this amount, \$3,551,726 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The total cost of the City's programs decreased 2.13% from the prior year, primarily due to the decrease in water and sewer expenses.
- The general fund reported a fund balance this year of \$5,513,709, of which \$65,500 was nonspendable, \$96,417 was restricted, and \$5,351,792 was unassigned.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The financial statements are prepared using Governmental Accounting Statements No. 34 *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*.

The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Henderson's finances, in a manner similar to a 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. However, other nonfinancial factors must also be considered.

The *statement of activities* presents information showing how the City's net position changed during the 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 all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of the City of Henderson that are principally supported by taxes and other governmental revenue (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 include water and sewer services.

The government-wide financial statements include not only the City itself (known as the primary government) but also the 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 fund financial statements are presented using fund designations. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. These funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains fourteen individual governmental funds. Information is presented separately in the government fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. A budgetary comparison schedule has been provided for the general fund on page 18 to demonstrate compliance with the annual appropriated budget. Data from the other eleven governmental funds are combined into a single, aggregates presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the additional supplemental information section.

The basic governmental fund financial statements can be found on pages 13-18 of the report.

Proprietary funds. Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like 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 proprietary fund financial statements provide separate information for the water and sewer.

The basic proprietary fund financial statements can be found on pages 19-23 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 basic fiduciary fund financial statements can be found on pages 24-25 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 at pages 26-61 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents combining and individual fund financial statements for the non-major governmental funds. The combining and individual fund financial statements may be found on pages 66-71 of this report.

The report also presents the detailed budget and actual amounts for the Water and Sewer Fund at pages 72-73.

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 \$43,886,143 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (90.85%) reflects its investment in capital assets (e.g., land, buildings, equipment, infrastructure, and its water and wastewater distribution system), less the related debt to acquire those assets that is still outstanding. This amount increased \$133,198 during the current year primarily due to street improvements and the issuance of new debt to pay for these improvements. 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 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. The amount of net position that is unrestricted, \$3,551,726, decreased by \$137,522 during the year.

City of Henderson's Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 10,162,960	\$ 9,524,780	\$ 7,815,806	\$ 2,901,712	\$ 17,978,766	\$ 12,426,492
Capital assets	29,587,255	28,939,805	18,070,721	17,624,205	47,657,976	46,564,010
Total Assets	<u>39,750,215</u>	<u>38,464,585</u>	<u>25,886,527</u>	<u>20,525,917</u>	<u>65,636,742</u>	<u>58,990,502</u>
Deferred outflows of resources	1,275,456	1,578,917	410,376	498,413	1,685,832	2,077,330
Total Deferred Outflows of Resources	<u>1,275,456</u>	<u>1,578,917</u>	<u>410,376</u>	<u>498,413</u>	<u>1,685,832</u>	<u>2,077,330</u>
Current liabilities	1,645,340	1,242,064	747,657	838,910	2,392,997	2,080,974
Non current liabilities	7,799,375	9,484,372	11,132,958	5,274,845	18,932,333	14,759,217
Total Liabilities	<u>9,444,715</u>	<u>10,726,436</u>	<u>11,880,615</u>	<u>6,113,755</u>	<u>21,325,330</u>	<u>16,840,191</u>
Deferred outflows of resources	1,681,041	19,348	430,060	7,978	2,111,101	27,326
Total Deferred Outflows of Resources	<u>1,681,041</u>	<u>19,348</u>	<u>430,060</u>	<u>7,978</u>	<u>2,111,101</u>	<u>27,326</u>
Net invested in capital assets	26,543,662	25,712,203	13,327,966	14,026,227	39,871,628	39,738,430
Restricted	454,724	534,534	8,065	238,103	462,789	772,637
Unrestricted	2,901,529	3,050,981	650,197	638,267	3,551,726	3,689,248
Total Net Position	<u>\$ 29,899,915</u>	<u>\$ 29,297,718</u>	<u>\$ 13,986,228</u>	<u>\$ 14,902,597</u>	<u>\$ 43,886,143</u>	<u>\$ 44,200,315</u>

The \$3,551,726 of unrestricted net position represents resources available to fund the programs of the City next year.

The City had a \$916,369 decrease in net position for its business-type activities during the year. The decrease is primarily due to an increase in transfers to governmental funds and the implementation of GASB Statement No 75, which is detailed in the "OPEB" section.

City of Henderson's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Charges for services	\$ 3,310,971	\$ 3,490,558	\$ 5,064,511	\$ 4,579,065	\$ 8,375,482	\$ 8,069,623
Operating grants and contributions	-	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-	-
General revenue:						
Property taxes	3,475,156	3,539,171	-	-	3,475,156	3,539,171
Sales taxes	4,323,045	3,905,695	-	-	4,323,045	3,905,695
Franchise and other taxes	880,941	935,508	-	-	880,941	935,508
Interest income	98,910	27,084	54,204	8,772	153,114	35,856
Other	231,322	204,852	-	12,266	231,322	217,118
Total revenues	12,320,345	12,102,868	5,118,715	4,600,103	17,439,060	16,702,971
Expenses:						
General government	2,369,101	2,393,532	-	-	2,369,101	2,393,532
Public safety	5,349,843	5,474,003	-	-	5,349,843	5,474,003
Sanitation	1,560,836	1,751,533	-	-	1,560,836	1,751,533
Public services	2,770,890	2,588,031	-	-	2,770,890	2,588,031
Interest	112,182	102,308	-	-	112,182	102,308
Water and sewer operations	-	-	5,120,038	5,341,840	5,120,038	5,341,840
Total expenses	12,162,852	12,309,407	5,120,038	5,341,840	17,282,890	17,651,247
Transfers	819,763	498,130	(819,763)	(498,130)	-	-
Change in net position	977,256	291,591	(821,086)	(1,239,867)	156,170	(948,276)
Net position beginning of year, as previously stated	29,297,718	29,006,127	14,902,597	16,142,464	44,200,315	45,148,591
Prior period adjustment	(375,059)	-	(95,283)	-	(470,342)	-
Net position beginning of year, as restated	28,922,659	29,006,127	14,807,314	16,142,464	43,729,973	45,148,591
Net position end of year	\$ 29,899,915	\$ 29,297,718	\$ 13,986,228	\$ 14,902,597	\$ 43,886,143	\$ 44,200,315

FINANCIAL ANALYSIS OF THE GOVERNMENT'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 balances may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,886,876, an increase of \$243,774 in comparison with the prior year. A significant reason for the increase was decreased expenses when compared to FY 2017, primarily in the public safety and sanitation departments.

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 \$5,351,792, while total fund balance was \$5,513,709. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 48.52% of total general fund expenditures, while total fund balance represents 49.99% of that same amount.

	Governmental Activities	
	2018	2017
Nonspendable:		
Cemetary endowment	\$ 65,500	\$ 65,500
Restricted:		
Municipal court	51,877	42,565
Debt service	75,054	157,211
Fire department	44,540	17,203
Law enforcement	42,697	42,565
Tourism	240,477	274,990
Civic center	79	-
Committed:		
Main street	20,429	29,088
Cemetary	38,511	22,257
Street and drainage	185,358	197,193
Animal shelter	40,749	58,901
General construction	1,647,891	847,257
2012 Series Certificates of Obligation	81,922	81,922
Unassigned:		
General fund	5,351,792	5,806,450
Total Fund Balances	<u>\$ 7,886,876</u>	<u>\$ 7,643,102</u>

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail.

Unrestricted net position of the water & sewer enterprise fund at the end of the year amounted to \$650,197. Overall, net position for the fund decreased \$916,369. 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 (\$25,456).

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.

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 \$686,266. The significant increases to the overall budgeted expenditures are as follows:

- \$499,091 for the purchase of a new Fire Truck
- \$74,515 HEDCO director salary expenditures
- \$49,500 increase in electrical expenditures across various departments
- \$25,000 purchase of police vehicle

Differences between the final amended budget and actual general fund expenditures were a net positive variance of \$374,968.

Overall, the City budgeted for a net decrease to fund balance of \$1,074,844, and its actual decrease on a budgetary basis came to be \$193,074.

Capital Assets and Debt Administration

Capital Assets. The City of Henderson's investment in capital assets for the governmental and business-type activities as of September 30, 2018, amounts to \$47,657,976 net of accumulated depreciation and related debt. This investment in capital assets includes land, buildings, improvements, machinery and equipment, water and wastewater distribution system, infrastructure, and construction in progress. The biggest changes during the current year was the City's purchases for equipment for the police and fire departments and the completion of various construction projects. The total net increase in the City's investments in fixed assets for the current year was \$1,093,966.

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 1,401,293	\$ 1,404,885	\$ 410,131	\$ 410,131	\$ 1,811,424	\$ 1,815,016
Buildings and improvements	7,792,197	8,050,323	-	-	7,792,197	8,050,323
Machinery and equipment	1,443,947	1,152,646	534,369	589,800	1,978,316	1,742,446
Improvements other than buildings	1,910,642	1,840,922	-	-	1,910,642	1,840,922
Water and wastewater distribution	-	-	16,714,767	16,624,274	16,714,767	16,624,274
Infrastructure	16,255,479	16,148,894	-	-	16,255,479	16,148,894
Construction in progress	783,697	342,135	411,454	-	1,195,151	342,135
Total	\$ 29,587,255	\$ 28,939,805	\$ 18,070,721	\$ 17,624,205	\$ 47,657,976	\$ 46,564,010

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-Term Debt. At year-end, the City had \$18,932,333 in bonds, certificates of obligation, and other long-term liabilities outstanding after principal payments of \$1,244,954 were made against debt during the year.

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 435,000	\$ 855,000	\$ 1,795,000	\$ 2,205,000	\$ 2,230,000	\$ 3,060,000
Certificates of obligation payable	1,715,535	1,939,800	8,024,465	1,370,200	9,740,000	3,310,000
Capital lease	864,983	405,846	-	-	864,983	405,846
Add: Premium on issue	28,075	32,535	41,391	16,969	69,466	49,504
Net OPEB liability	580,361	173,915	152,068	48,800	732,429	222,715
Compensated absences	371,334	260,325	41,331	41,331	412,665	301,656
Net pension liability	3,804,087	5,826,990	1,078,703	1,592,535	4,882,790	7,419,525
Total	\$ 7,799,375	\$ 9,494,411	\$ 11,132,958	\$ 5,274,835	\$ 18,932,333	\$ 14,769,246

Additional information on the City's long-term debt can be found in the footnotes to this financial report.

Other Postemployment Benefits (OPEB)

The City adopted the provisions of Governmental Accounting Standards Board Statement, GASB 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension." This Statement address the accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. The City currently has two OPEB plans: the Health Plan (previously reported under GASB No. 45) and the Supplemental Death Benefits Plan under the Texas Municipal Retirement System (newly reported under GASB No.75).

The City recorded a prior period adjustment of \$470,342 to account for the beginning balances of the Net OPEB Liability. At year-end, the City had a total of \$732,429 recorded as Net OPEB liability. \$402,679 of this balance is attributable to the Health Plan, while the remaining \$329,750 is for the Supplement Death Benefits Plan.

Additional information on OPEB can be found in the footnotes to this financial report. In addition to the footnotes, the City reported OPEB as well as Pension schedules as Required Supplemental Information at pages 62-65.

Economic Factors and Next Year's Budgets and Rates

After the budget was prepared for 2019, the following tax rate was approved:

- \$.05217 per \$100 valuation Total Tax Rate

The City budgeted a significant increase in various grant revenues for police and fire equipment as well as FEMA funds.

Water and wastewater rates will remain the same for FY 2019, since the City recently raised water rates by 10% in April of 2018.

Other than the items listed above, the overall revenues and expenses of the City were budgeted to remain at prior year levels.

Request for Information

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

CITY OF HENDERSON, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	HEDCO
ASSETS				
Cash and cash equivalents	\$ 4,330,321	\$ 1,186,642	\$ 5,516,963	\$ -
Investments	3,526,014	4,790,545	8,316,559	-
Receivables (net of allowance for doubtful accounts)				
Taxes	1,570,149	-	1,570,149	251,029
Accounts	397,929	696,185	1,094,114	-
Special assessments	28,006	-	28,006	-
Other	82,477	-	82,477	-
Internal balances	79,971	(79,971)	-	-
Note receivable	137,077	-	137,077	853,333
Restricted Assets:				
Temporarily restricted				
Cash and cash equivalents	11,016	1,222,405	1,233,421	6,310,522
Capital Assets (net of accumulated depreciation):				
Land	1,401,293	410,131	1,811,424	1,708,441
Buildings and improvements	7,792,197	-	7,792,197	-
Machinery and equipment	1,443,947	534,369	1,978,316	-
Improvements other than buildings	1,910,642	-	1,910,642	-
Water and sewer system	-	16,714,767	16,714,767	-
Infrastructure	16,255,479	-	16,255,479	-
Construction in progress	783,697	411,454	1,195,151	-
Total Assets	<u>39,750,215</u>	<u>25,886,527</u>	<u>65,636,742</u>	<u>9,123,325</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding (net of amortization)	8,908	53,007	61,915	-
Deferred outflows on OPEB	18,705	4,752	23,457	-
Deferred charge on TMRS pension	1,247,843	352,617	1,600,460	-
Total Deferred Outflows of Resources	<u>1,275,456</u>	<u>410,376</u>	<u>1,685,832</u>	<u>-</u>
LIABILITIES				
Accounts payable	1,265,875	246,140	1,512,015	33,638
Accrued liabilities	-	88,464	88,464	-
Accrued interest	24,206	37,926	62,132	-
Due to component unit	251,029	-	251,029	-
Due to other governments	23,112	-	23,112	-
Unearned revenue	81,118	-	81,118	-
Customer deposits	-	375,127	375,127	-
Non-current liabilities:				
Due within one year	772,954	572,503	1,345,457	-
Due in more than one year	2,641,973	9,329,684	11,971,657	-
Net OPEB liability	580,361	152,068	732,429	-
Net pension liability	3,804,087	1,078,703	4,882,790	-
Total Liabilities	<u>9,444,715</u>	<u>11,880,615</u>	<u>21,325,330</u>	<u>33,638</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred charge on TMRS pension	1,681,041	430,060	2,111,101	-
Total Deferred Inflows of Resources	<u>1,681,041</u>	<u>430,060</u>	<u>2,111,101</u>	<u>-</u>
NET POSITION				
Investment in capital assets, net of related debt	26,543,662	13,327,966	39,871,628	1,708,441
Restricted for:				
Debt service	75,054	8,065	83,119	-
Construction	379,670	-	379,670	-
Unrestricted	2,901,529	650,197	3,551,726	7,381,246
Total Net Position	<u>\$ 29,899,915</u>	<u>\$ 13,986,228</u>	<u>\$ 43,886,143</u>	<u>\$ 9,089,687</u>

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

**CITY OF HENDERSON, TEXAS
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2018**

PROGRAM ACTIVITIES	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION			COMPONENT UNIT HEDCO
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		TOTAL	
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES		
PRIMARY GOVERNMENT:								
Governmental activities:								
General government	\$ 2,369,101	\$ 671,870	\$ -	\$ -	\$ (1,697,231)	\$ -	\$ (1,697,231)	
Public safety	5,349,843	334,781	-	-	(5,015,062)	-	(5,015,062)	
Sanitation	1,560,836	2,202,003	-	-	641,167	-	641,167	
Public services	2,770,890	102,317	-	-	(2,668,573)	-	(2,668,573)	
Interest on debt	112,182	-	-	-	(112,182)	-	(112,182)	
Total governmental activities	<u>12,162,852</u>	<u>3,310,971</u>	<u>-</u>	<u>-</u>	<u>(8,851,881)</u>	<u>-</u>	<u>(8,851,881)</u>	
Business-type activities:								
Water and sewer	5,120,038	5,064,511	-	-	-	(55,527)	(55,527)	
Total business-type activities	<u>5,120,038</u>	<u>5,064,511</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(55,527)</u>	<u>(55,527)</u>	
Total primary government	<u>\$ 17,282,890</u>	<u>\$ 8,375,482</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(8,851,881)</u>	<u>(55,527)</u>	<u>(8,907,408)</u>	
Component units:								
Economic development	<u>\$ 359,645</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (359,645)</u>
General revenues:								
Taxes:								
Property taxes					3,475,156	-	3,475,156	-
Franchise taxes					695,870	-	695,870	-
Sales and use taxes					4,323,045	-	4,323,045	1,437,449
Other taxes					185,071	-	185,071	-
Investment earnings					98,910	54,204	153,114	92,563
Gain (loss) on sale of assets					(34,395)	-	(34,395)	-
Miscellaneous					265,717	-	265,717	53
Transfers					819,763	(819,763)	-	-
Total general revenues and transfers					<u>9,829,137</u>	<u>(765,559)</u>	<u>9,063,578</u>	<u>1,530,065</u>
Change in net position					<u>977,256</u>	<u>(821,086)</u>	<u>156,170</u>	<u>1,170,420</u>
Net position - beginning of year (as originally stated)					29,297,718	14,902,597	44,200,315	7,919,267
Prior period adjustment					(375,059)	(95,283)	(470,342)	-
Net position - beginning of year (as restated)					28,922,659	14,807,314	43,729,973	7,919,267
Net position - end of year					<u>\$ 29,899,915</u>	<u>\$ 13,986,228</u>	<u>\$ 43,886,143</u>	<u>\$ 9,089,687</u>

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

CITY OF HENDERSON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

	GENERAL	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and cash equivalents	\$ 2,611,167	\$ 1,719,154	\$ 4,330,321
Investments	3,014,899	511,115	3,526,014
Receivables:			
Taxes:			
Sales	1,004,116	-	1,004,116
Property	344,814	-	344,814
Franchise	138,995	64,977	203,972
Hotel/Motel	-	17,247	17,247
Accounts:			
Warrants	199,149	-	199,149
Sanitation	76,004	-	76,004
Other	-	122,776	122,776
Special Assessments	-	28,006	28,006
Other	82,478	-	82,478
Due from other funds	-	81,922	81,922
Total Assets	<u>7,471,622</u>	<u>2,545,197</u>	<u>10,016,819</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES:			
Accounts payable and accrued expenses	1,138,882	90,521	1,229,403
Due to component unit	251,029	-	251,029
Due to other funds	1,561	391	1,952
Due to other governments	23,112	-	23,112
Unearned revenue	-	81,118	81,118
Total Liabilities	<u>1,414,584</u>	<u>172,030</u>	<u>1,586,614</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	344,180		344,180
Unavailable revenue - fines	199,149	-	199,149
Total Deferred Inflows of Resources	<u>543,329</u>	<u>-</u>	<u>543,329</u>
Fund Balances:			
Nonspendable	65,500	-	65,500
Restricted	96,417	358,307	454,724
Committed	-	2,014,860	2,014,860
Unassigned	5,351,792	-	5,351,792
Total Fund Balances	<u>5,513,709</u>	<u>2,373,167</u>	<u>7,886,876</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 7,471,622</u>	<u>\$ 2,545,197</u>	<u>\$ 10,016,819</u>

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

CITY OF HENDERSON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position (Exhibit 1)

	TOTAL GOVERNMENTAL FUNDS
Total fund balances governmental funds (Exhibit 3 page 1)	\$ 7,886,876
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	29,587,255
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	680,406
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.	(25,456)
Long term liabilities, including bonds payable and net pension liability, are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.	(3,430,225)
Recognition of the City's net pension and OPEB liability and related deferred resource inflows and outflows occurs in the Statement of Net Position but is not reported in the funds.	(4,798,941)
Net position of governmental activities	\$ 29,899,915

CITY OF HENDERSON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

	GENERAL	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Taxes:			
Sales	\$ 4,323,045	\$ -	\$ 4,323,045
Property	2,829,586	623,351	3,452,937
Franchise	488,023	207,847	695,870
Hotel/Motel	-	185,071	185,071
Permits and fees	77,515	-	77,515
Charges for services	2,274,690	521,290	2,795,980
Fines and forfeitures	338,541	-	338,541
Intergovernmental	102,695	-	102,695
Interest	68,187	30,574	98,761
Miscellaneous	177,183	88,534	265,717
	<u>10,679,465</u>	<u>1,656,667</u>	<u>12,336,132</u>
Total Revenues			
EXPENDITURES			
Current:			
General government:			
Administration	609,394	-	609,394
Finance	306,953	-	306,953
Municipal court	304,301	-	304,301
Nondepartmental	1,062,211	-	1,062,211
Public safety:			
Police	2,983,505	445	2,983,950
Fire	1,617,361	-	1,617,361
Sanitation	1,544,360	16,476	1,560,836
Public services:			
Tourism	-	183,989	183,989
Civic center	-	173,837	173,837
Main street	-	35,149	35,149
Streets	1,364,466	96,639	1,461,105
Parks	55,575	8,548	64,123
Activity center	11,118	-	11,118
Cemeteries	6,254	29,941	36,195
Community development	318,643	21,050	339,693
Animal Shelter	187,445	28,730	216,175
Capital outlay	605,645	1,105,168	1,710,813
Debt service:			
Bond principal	-	634,265	634,265
Capital lease principal	39,954	-	39,954
Interest and fees	12,175	77,020	89,195
	<u>11,029,360</u>	<u>2,411,257</u>	<u>13,440,617</u>
Total Expenditures			
Revenues Over (Under) Expenditures	<u>\$ (349,895)</u>	<u>\$ (754,590)</u>	<u>\$ (1,104,485)</u>

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

CITY OF HENDERSON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

	<u>GENERAL</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	614,664	1,648,941	2,263,605
Transfers out	(1,211,187)	(232,655)	(1,443,842)
Loan proceeds	499,091	-	499,091
Proceeds from sale of asset	29,405	-	29,405
	<u>(68,027)</u>	<u>1,416,286</u>	<u>1,348,259</u>
Total Other Financing Sources (Uses)			
Net Change in Fund Balances	(417,922)	661,696	243,774
Fund Balance, October 1, 2017	<u>5,931,631</u>	<u>1,711,471</u>	<u>7,643,102</u>
Fund Balance, September 30, 2018	<u>\$ 5,513,709</u>	<u>\$ 2,373,167</u>	<u>\$ 7,886,876</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
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2018**

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds	\$	243,774
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		647,450
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the government wide statements.		18,459
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued; whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		152,141
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		(84,367)
Internal Service Funds are used by management to charge the costs of health insurance to individual funds.		(201)
		977,256
Change in net position of governmental activities	\$	977,256

CITY OF HENDERSON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
(NON-GAAP BUDGET BASIS)
GENERAL FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2018

				VARIANCE WITH FINAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	BUDGET POSITIVE/(NEGATIVE)
REVENUES				
Taxes:				
Sales	\$ 5,312,700	\$ 5,312,700	\$ 5,648,045	\$ 335,345
Property	2,833,000	2,833,000	2,829,586	(3,414)
Franchise	622,000	622,000	670,576	48,576
Licenses and permits	80,000	80,000	77,515	(2,485)
Charges for services	2,127,835	2,127,835	2,274,690	146,855
Fines and forfeitures	447,800	447,800	338,541	(109,259)
Intergovernmental	111,321	117,321	102,695	(14,626)
Interest income	70,350	70,350	68,187	(2,163)
Miscellaneous income	74,500	185,615	206,589	20,974
Total Revenues	11,679,506	11,796,621	12,216,424	419,803
EXPENDITURES				
General administration	524,015	598,611	586,021	12,590
Treasury and financial	324,079	324,079	301,797	22,282
Municipal court	357,828	358,828	297,742	61,086
Nondepartmental	1,067,150	1,067,569	1,062,211	5,358
Police	2,969,843	3,035,603	2,983,264	52,339
Fire	1,677,249	1,677,249	1,566,834	110,415
Sanitation	1,700,000	1,700,000	1,726,913	(26,913)
Streets	1,344,868	1,384,868	1,334,188	50,680
Parks	71,000	71,000	55,575	15,425
Activity center	11,300	12,800	11,118	1,682
Cemeteries	7,000	7,000	6,254	746
Community development	310,951	310,951	308,469	2,482
Animal control	180,076	183,976	182,559	1,417
Equipment replacement	140,523	639,614	574,235	65,379
Total Expenditures	10,685,882	11,372,148	10,997,180	374,968
Revenues Over (Under) Expenditures	993,624	424,473	1,219,244	794,771
OTHER FINANCING SOURCES (USES)				
Transfers in	614,664	614,664	614,664	-
Transfers out	(459,642)	(1,235,942)	(1,148,943)	86,999
Sales tax payments to HEDCO	(1,325,000)	(1,325,000)	(1,325,000)	-
Capital lease	(52,130)	(52,130)	(52,130)	-
Loan proceeds	-	499,091	499,091	-
Total Other Financing Sources (Uses)	(1,222,108)	(1,499,317)	(1,412,318)	86,999
Revenues and Other Sources Over (Under)				
Expenditures and Other Uses - Budget Basis	(228,484)	(1,074,844)	(193,074)	881,770
Budget Basis to GAAP Basis Adjustment (Note A)	-	-	(224,848)	(224,848)
Revenues and Other Sources Over (Under)				
Expenditures and Other Uses - GAAP Basis	(228,484)	(1,074,844)	(417,922)	656,922
Fund Balance, October 1, 2017	3,943,702	5,931,631	5,931,631	-
Fund Balance, September 30, 2018	<u>\$ 3,715,218</u>	<u>\$ 4,856,787</u>	<u>\$ 5,513,709</u>	<u>\$ 656,922</u>

Note A - Explanation of Differences Between Budget Basis Presentation and GAAP

Basis Presentation:

Uses/Outflows of Resources:

Differences - Budget to GAAP

Record accrual of department salaries at year end

Net Change in Budget Basis Presentation and GAAP Basis Presentation

(224,848)

\$ (224,848)

CITY OF HENDERSON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2018

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,186,642	\$ -
Investments	29,479	-
Accounts receivable (net)	696,185	-
Total Current Assets	1,912,306	-
Restricted Current Assets:		
Temporarily Restricted		
Cash and cash equivalents	1,222,405	11,016
Investments	4,761,066	-
Total Restricted Current Assets	5,983,471	11,016
Capital Assets:		
Land	410,131	-
Construction in progress	411,454	-
Motor vehicles	446,977	-
Machinery and equipment	1,378,900	-
Water and sewer system	30,668,148	-
Less: Accumulated depreciation	(15,244,889)	-
Total Capital Assets Net of Accumulated Depreciation	18,070,721	-
Total Assets	25,966,498	11,016
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding (net of amortization)	53,007	-
Deferred outflows on OPEB	4,752	-
Deferred outflows on TMRS pension	352,617	-
Total Deferred Outflows of Resources	410,376	-

(continued)

(continued)

CITY OF HENDERSON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2018

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
LIABILITIES		
Current Liabilities:		
Unrestricted current liabilities:		
Accounts payable	\$ 246,140	\$ -
Claims payable	-	36,472
Accrued expenses	88,464	-
Current portion of compensated absences payable	4,133	-
Due to other funds	79,971	-
Total Unrestricted Current Liabilities	418,708	36,472
Current Liabilities Payable from Restricted Assets:		
Accrued interest	37,926	-
Customer deposits	375,127	-
Bonds payable	568,370	-
Total Current Liabilities Payable from Restricted Assets:	981,423	-
Total Current Liabilities	1,400,131	36,472
Noncurrent Liabilities:		
Bonds payable	9,292,486	-
Net OPEB liability	152,068	-
Compensated absences payable	37,198	-
Net pension liability	1,078,703	-
Total Noncurrent Liabilities	10,560,455	-
Total Liabilities	11,960,586	36,472
DEFERRED INFLOWS OF RESOURCES		
Deferred charge on TMRS pension	430,060	-
Total Deferred Inflows of Resources	430,060	-
NET POSITION		
Invested in capital assets, net of related debt	13,327,966	-
Restricted for:		
Debt service	8,065	-
Unrestricted	650,197	(25,456)
Total Net Position	\$ 13,986,228	\$ (25,456)

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
FISCAL YEAR ENDED SEPTEMBER 30, 2018

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	<u>Water and Sewer Fund</u>	<u>Self-Insurance Fund</u>
OPERATING REVENUES		
Water sales	\$ 3,086,922	\$ -
Sewer charges	1,860,022	-
Charges for other services	117,567	-
	<hr/>	<hr/>
Total Operating Revenues	5,064,511	-
OPERATING EXPENSES		
Administration	528,294	350
Cost of sales and services	3,352,009	-
Depreciation and amortization	1,011,942	-
	<hr/>	<hr/>
Total Operating Expenses	4,892,245	350
Operating Income (Loss)	<hr/>	<hr/>
	172,266	(350)
NON-OPERATING REVENUES (EXPENSES)		
Interest and fiscal charge expense	(127,028)	-
Bond issue costs	(102,000)	-
Other income (expense)	1,235	-
Interest income	54,204	149
	<hr/>	<hr/>
Total Non-Operating Revenue (Expenses)	(173,589)	149
INCOME BEFORE TRANSFERS	(1,323)	(201)
Transfers in	62,244	-
Transfers out	(882,007)	-
	<hr/>	<hr/>
Total Transfers	(819,763)	-
Change in Net Position	<hr/>	<hr/>
	(821,086)	(201)
Net Position, October 1, 2017 (as originally stated)	14,902,597	(25,255)
Prior period adjustment	(95,283)	-
	<hr/>	<hr/>
Net Position, October 1, 2017 (as restated)	14,807,314	(25,255)
Net Position, September 30, 2018	<hr/>	<hr/>
	\$ 13,986,228	\$ (25,456)

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

CITY OF HENDERSON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2018

	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 and users	\$ 5,049,936	\$ -
Cash paid to suppliers for goods and services	(2,498,253)	(350)
Cash paid to employees for services	(1,534,588)	-
Net cash provided by operating activities	1,017,095	(350)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Amounts received on interfund loans	145	-
Transfers in	62,244	-
Transfers out	(882,007)	-
Net cash provided by non-capital financing activities	(819,618)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases or construction of capital assets	(1,434,270)	-
Purchases of investments	(3,663,427)	-
Interest paid	(93,666)	-
Bond proceeds on new issue	6,815,000	-
Bond premium on new issue	22,000	-
Bond issue costs	(102,000)	-
Principal paid on bonds	(570,735)	-
Net cash used in capital and related financing activities	972,902	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned on investments	54,204	149
Net cash provided by investing activities	54,204	149
Net increase in cash	1,224,583	(201)
Cash, beginning of period	1,184,464	11,217
Cash, end of period	\$ 2,409,047	\$ 11,016
Reconciliation to Exh 7		
Cash and cash equivalents - current asset	\$ 1,186,642	\$ -
Cash and cash equivalents - temporarily restricted	1,222,405	11,016
Total cash, end of period	\$ 2,409,047	\$ 11,016

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

CITY OF HENDERSON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2018

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	<u>Water and Sewer Fund</u>	<u>Self-Insurance Fund</u>
Reconciliation of Operating Income (Loss) To Net Cash Provided By (Used In) Operating Activities:		
Operating income (loss)	\$ 172,266	\$ (350)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	1,011,942	-
Pension expense	(10,741)	-
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	(21,393)	-
Increase (decrease) in accounts payable	(201,181)	-
Increase (decrease) in accrued expenses	56,151	-
Increase (decrease) in post employment benefits liabilities	3,233	-
Increase (decrease) in customer deposits	6,818	-
	<u>844,829</u>	<u>-</u>
Total adjustments	844,829	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,017,095</u>	<u>\$ (350)</u>

**CITY OF HENDERSON, TEXAS
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2018**

	FIREMEN RETIREMENT PENSION TRUST
ASSETS	
Cash and cash equivalents	\$ 1,588
Total Assets	1,588
LIABILITIES	
Accounts payable	-
Total Liabilities	-
NET POSITION	
Held in trust for pension benefits	1,588
Total Net Position	\$ 1,588

The notes to the financial statements 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, 2018**

	<u>FIREMEN RETIREMENT PENSION TRUST</u>
ADDITIONS	
Contributions:	
Employer	\$ 3,000
Investment income:	
Interest and dividend income	<u>26</u>
Total Additions	<u>3,026</u>
DEDUCTIONS	
Benefits	<u>2,600</u>
Total Deductions	<u>2,600</u>
Change in net position	426
Net Position - beginning of year	<u>1,162</u>
Net Position - end of year	<u><u>\$ 1,588</u></u>

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED SEPTEMBER 30, 2018

NOTE 1: — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

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.

The financial statements of the City of Henderson, Texas (“City”) have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with the subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of the government's accounting policies are described below.

B. Reporting Entity

These financial statements present all of the funds of the City.

The financial statements of the City of Henderson, Texas include all funds and account groups and other organizations for which the City is financially accountable. Financial accountability is determined on the basis of appointment of a voting majority of the respective governing board, imposition of will, financial benefit or burden and financial accountability as a result of fiscal dependency. In determining the financial reporting entity, the City complies with the provisions of Government Accounting Standards Board Statement No. 14, “The Financial Reporting Entity” and Government Accounting Standards Board Statement No. 39, “Determining Whether a Certain Organizations are Component Units – an amendment of GASB No. 14,” and includes all component units of which the City appointed a voting majority of the units’ board and the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

C. 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 X for more information.)

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

D. 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.”

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

E. 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 non-fiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, 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. Major individual government funds are reported as separate columns in the financial statements.

F. 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues 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. 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.

Property taxes, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The City reports the following major proprietary fund:

The Water and Sewer Fund is used to account for the operation of the City's water and sewer utility. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for bonds and certificates of obligation when due throughout the year. All costs are financed through user charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure the integrity of the Fund.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

F. Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

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 accounted for health insurance services provided to other departments of the City on a cost-reimbursement basis.

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

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

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided and (2) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating revenues and expenses.

Certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

G. 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. Accounting pronouncement GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, is applied to investments in external investment pools.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

G. Assets, Liabilities, and Net Position or Equity - Continued

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 non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balance between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectible. The City provides an allowance for doubtful accounts based upon the anticipated collectability of each specific account, as determined by experience.

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. Due from Other Funds

Current portions of long-term interfund loans receivable (reported in “Due from” asset accounts) are considered “available spendable resources”.

5. 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.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

G. Assets, Liabilities, and Net Position or Equity - Continued

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

6. Construction in Progress

Expenditures on incomplete capital projects have been capitalized as construction in progress. The assets resulting from these projects will be transferred from the construction in progress accounts to the appropriate asset account as the projects are completed.

7. Bond Premiums and Issue Costs

Bond premiums in the Enterprise Fund are amortized over the term of the bonds using the effective interest amortization method. The City has implemented GASB Statement No. 65. Under GASB Statement No. 65, bond issue costs are expensed when incurred.

8. 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 full-time 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.

9. 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.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

G. Assets, Liabilities, and Net Position or Equity - Continued

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.

10. 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 the following three items that qualify for reporting in this category: unamortized deferred amount on refunding, deferred outflows of resources related to pensions, and deferred outflows of resources related other postemployment benefits.

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 three items that qualify 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. In the statement of financial position the City reports deferred inflows of resources related to pensions/other postemployment benefits.

11. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

12. Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to other postemployment employment benefits, and OPEB expense, have been determined on the same basis as they are reported by TMRS under the Supplemental Death Benefits Fund. These items are also recorded for the City's Health Plan. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms.

13. Fund Balances Classification

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned. Fund balances of the governmental funds are classified as follows:

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

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

G. Assets, Liabilities, and Net Position or Equity - Continued

Committed - 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 - 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 - 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.

14. Net Position

The City has adopted GASB Statement No. 63, which redefines how net assets are presented in the financial statements. The Statement of Net Assets is now the Statement of Net Position. Net position represents the difference between assets and liabilities, and is divided into three components.

Net investment in capital assets - This component consists of the City's capital assets, net of accumulated depreciation, reduced by any outstanding debt used for the acquisition or construction of those assets and adjusted for any deferred outflows or inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt.

Restricted - This component consist of those amounts which have limitations imposed on their use either through legislation adopted by the City or through external restrictions imposed by creditors, grantors or other laws and regulations, reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted - This component consist of the net amount of the assets, deferred outflows and inflows of resources, and liabilities not included in net investment in capital assets or restricted components of net position.

15. Tax Abatements

During the current year, the City adopted GASB Statement No. 77, Tax Abatement Disclosures. The City has evaluated the total tax abatements issued for the year and has determined that the amount is not material to the financial statements.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

G. Assets, Liabilities, and Net Position or Equity - Continued

16. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

17. Future Implementation of New Standards

In March 2016, the GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73*, which will improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues. This statement is effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In this circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The City is evaluating the impact of this statement on the City’s financial statements.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. It will also enhance the decision-usefulness of the information provided to financial statements users by requiring disclosures related to those AROs. This statement is effective for reporting periods beginning after June 15, 2018. The City is evaluating the impact of this statement on the City’s financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which will increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this statement also will enhance consistency in financial reporting of prepaid insurance related to debt that has been extinguished. In addition, this statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This statement is effective for reporting periods beginning after June 15, 2017.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which will enhance consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. This statement is effective for reporting periods beginning after December 15, 2018. The City is evaluating the impact of this statement on the City’s financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*, which will increase the usefulness of governments’ financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance and purpose of a government’s leasing arrangements. This statement is effective for reporting periods beginning after December 15, 2019.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

NOTE 2 — 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 on page 13 is a reconciliation between Total Fund Balances-Total Governmental Funds and Net Position-Governmental Activities. One element of that reconciliation explains that “Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.” The details of this \$680,406 difference are as follows:

Delinquent Property Taxes Receivable	\$ 344,180
Outstanding Warrants Receivable	199,149
Note Receivable	<u>137,077</u>
Net Adjustment to <i>Increase</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Position-Governmental Activities	<u><u>\$ 680,406</u></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 \$(3,430,225) difference are as follows:

Certificates of Obligation Payable	\$ (1,715,535)
General Obligations Payable	(435,000)
Accrued Interest	(24,206)
Unamortized Premium on Issue	(28,075)
Unamortized Deferred Loss on Refunding	8,908
Capital Lease Payable	(864,983)
Accrued Compensated Absences	<u>(371,334)</u>
Net Adjustment to <i>Decrease</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Position-Governmental Activities	<u><u>\$ (3,430,225)</u></u>

The reconciliation states that “Recognition of the City’s net pension liability and OPEB liability and related deferred resource inflows and outflows occurs in the Statement of Net Position but is not reported in the funds.” The details of this \$(4,798,941) difference are as follows:

Net Pension Liability	\$ (3,804,087)
Net OPEB Liability	(580,361)
Deferred Resource Inflow	1,266,548
Deferred Resource Outflow	<u>(1,681,041)</u>
Net Adjustment to <i>Decrease</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Position-Governmental Activities	<u><u>\$ (4,798,941)</u></u>

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

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 5 on page 16 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 \$647,450 difference are as follows:

Capital Outlay Expenditures	\$ 1,710,813
Asset deletions, net of accumulated depreciation	(63,800)
Depreciation Expense	(999,563)
Net Adjustment to <i>Increase</i> Net Changes in Fund Balances-Total Governmental Funds to Arrive at Changes in Net Position-Governmental Activities	\$ 647,450

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 \$18,459 difference are as follows:

Current Year Increase/(Decrease) in Net Property Taxes Receivable	\$ 18,459
Current Year Increase/(Decrease) in Net Outstanding Warrants Receivable	-
Net Adjustment to <i>Increase</i> Net Changes in Fund Balances-Total Governmental Funds to Arrive at Changes in Net Position-Governmental Activities	\$ 18,459

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 \$152,141 difference are as follows:

Principal Payments on Certificates of Obligation	\$ 214,265
Principal Payments on General Obligations Payable	420,000
Principal Payments on Capital Leases	39,954
Proceeds from Capital Lease	(499,091)
Accrued Interest	(24,206)
Amortization of Bond Defeasance	(3,241)
Amortization of Bond Premium	4,460
Net Adjustment to <i>Increase</i> Net Changes in Fund Balances-Total Governmental Funds to Arrive at Changes in Net Position-Governmental Activities	\$ 152,141

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

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 - Continued

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 \$(84,367) difference are as follows:

Reclassify Note Receivable Payment	\$ (2,923)
Increase in Compensated Absences	(111,009)
Increase in Net OPEB Liability	(12,720)
Decrease in Net Pension Liability	42,285
Net Adjustment to <i>Decrease</i> Net Changes in Fund Balances-Total Governmental Funds to Arrive at Changes in Net Position-Governmental Activities	\$ (84,367)

NOTE 3 — 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, Task Force Fund, TCDP Street Grant Fund, and 2012 Bond 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, 2018, 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, 2018, actual expenditures were below budgeted amounts in every department except for the Sanitation department.

NOTE 4 — DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Cash and investments as of September 30, 2018 consist of and are classified in the accompanying financial statements as follows:

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

A. Deposits and Investments - Continued

Statement of net position:	
Primary Government	
Cash and cash equivalents	\$ 5,215,375
Restricted cash and cash equivalents	1,233,421
Investments	8,616,559
Fiduciary Funds	
Cash and cash equivalent	1,588
Restricted cash and cash equivalents	<u>-</u>
Total Cash and Investments	<u>\$ 15,066,943</u>
Cash on hand	\$ 3,310
Cash and cash equivalents held in investment account	300,000
External Investment pools	8,316,559
Savings and checking accounts	<u>6,447,074</u>
Total Cash and Investments	<u>\$ 15,066,943</u>

At September 30, 2018, the carrying amount of the City's deposits with financial institutions, including time deposits and certificates of deposits, was \$5,777,941 and the bank balance was \$6,517,869. 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.

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, 2018, 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, 2018, is shown below.

<u>External Investment Pool</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Credit Risk</u>
TexSTAR	\$8,316,559	1.99	AAAm

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

A. Deposits and Investments - Continued

GASB Statement No. 75, Fair Value Measurement and Application, establishes a fair value hierarchy for inputs used in the measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available, of how the market would price the asset or liability. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 – Unobservable inputs for the asset or liability (supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk.)

The asset's or liability's fair value measurement within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The Investment Pool noted above are measured at amortized costs and are exempt from fair value reporting.

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 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, 2018, 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:

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.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

A. Deposits and Investments - Continued

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.

Public Funds Investment Pools

Public funds investment pools in Texas (“Pools”) are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the “Act”), Chapter 2256 of the Texas Government Code.

In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: (1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; (2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and (3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The City’s investments in Pools are reported at an amount determined by the fair value per share of the pool’s underlying portfolio, unless the pool is a 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission (“SEC”) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC’s rule 2a7 of the Investment Company Act of 1940.

TexSTAR – The City invests in the Texas Short Term Asset Reserve Program (TexSTAR), which has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexSTAR is managed by a five-member board of directors (Board). In accordance with the Public Funds Investment Act, TexSTAR maintains an advisory board composed of participants in TexSTAR and other persons who do not have a business relationship with TexSTAR. Advisory board members are appointed and serve at the will of the Board of Directors. J.P. Morgan Investment Management, Inc. (JPMIM) and First Southwest Company (FSC) serve as co-administrators for TexSTAR under an agreement with the Board JPMIM provides investment management services, and FSC provides participant services and marketing. Custodial, fund accounting and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary J.P. Morgan Investor Services Co. Transfer Agency Services are provided by Boston Financial Data Services, Inc. The business affairs managed by the Board in accordance with its bylaws. The bylaws set forth procedures governing the selection procedures governing the selection of, and action taken by, the Board. Board oversight of TexSTAR is maintained through various reporting requirements. TexSTAR is rated AAAM by Standard and Poor’s and is not operated in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which generally approximates the market value of the securities. The stated objective of TexSTAR is to maintain a stable \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured.

B. Receivables

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

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

B. Receivables - Continued

	General Fund	Water & Sewer Enterprise	Other Governmental Funds	Total
Receivables:				
Accounts	\$ 587,349	\$ 724,884	\$ 122,776	\$ 1,435,009
Taxes	1,521,240	-	82,224	1,603,464
Assessments	-	-	28,006	28,006
Miscellaneous	82,478	3	-	82,481
Gross receivables	<u>2,191,067</u>	<u>724,887</u>	<u>233,006</u>	<u>3,148,960</u>
Less: Allowance for Uncollectables	<u>(345,511)</u>	<u>(28,703)</u>	<u>-</u>	<u>(374,214)</u>
Net Receivables	<u>\$ 1,845,556</u>	<u>\$ 696,184</u>	<u>\$ 233,006</u>	<u>\$ 2,774,746</u>

The only receivables not expected to be collected within one year are \$28,006 of Special Assessment receivables in the Street and Drainage Special Revenue Fund. During the year, the City had a note receivable in the amount of \$137,077 to Henderson Village, LTD, which will be collected in full in January 2034. The original amount of the receivable is \$140,000 with an interest rate of 3.00%.

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.

B. Capital Assets

Capital asset activity for the year ended September 30, 2018, was as follows:

PRIMARY GOVERNMENT	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,404,885	\$ -	\$ 3,592	\$ 1,401,293
Construction in progress	342,135	837,291	395,729	783,697
Total Capital Assets, Not Being Depreciated	<u>1,747,020</u>	<u>837,291</u>	<u>399,321</u>	<u>2,184,990</u>
Capital Assets, Being Depreciated				
Buildings	10,194,267	-	68,737	10,125,530
Improvements other than buildings	3,848,635	249,057	43,050	4,054,642
Motor Vehicles	1,245,191	93,654	23,125	1,315,720
Equipment	3,479,348	511,991	171,676	3,819,663
Infrastructure	18,431,422	414,549	-	18,845,971
Total Capital Assets, Being Depreciated	<u>37,198,863</u>	<u>1,269,251</u>	<u>306,588</u>	<u>38,161,526</u>
Less Accumulated Depreciation For:				
Buildings	2,143,944	248,492	59,103	2,333,333
Improvements other than buildings	2,007,713	148,023	11,736	2,144,000
Motor Vehicles	970,274	98,989	3,865	1,065,398
Equipment	2,601,619	196,095	171,676	2,626,038
Infrastructure	2,282,528	307,964	-	2,590,492
Total Accumulated Depreciation	<u>10,006,078</u>	<u>999,563</u>	<u>246,380</u>	<u>10,759,261</u>
Net Total Assets Being Depreciated	<u>27,192,785</u>	<u>269,688</u>	<u>60,208</u>	<u>27,402,265</u>
Governmental Activities Capital Assets, Net	<u>\$ 28,939,805</u>	<u>\$ 1,106,979</u>	<u>\$ 459,529</u>	<u>\$ 29,587,255</u>

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

C. Capital Assets - Continued

PRIMARY GOVERNMENT	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 410,131	\$ -	\$ -	\$ 410,131
Construction in Progress	-	1,257,691	846,237	411,454
Total Capital Assets, Not Being Depreciated	<u>410,131</u>	<u>1,257,691</u>	<u>846,237</u>	<u>821,585</u>
Capital Assets, Being Depreciated				
Water and Sewer System	29,692,744	975,404	-	30,668,148
Machinery and Equipment	1,820,193	62,244	56,560	1,825,877
Total Capital Assets, Being Depreciated	<u>31,512,937</u>	<u>1,037,648</u>	<u>56,560</u>	<u>32,494,025</u>
Less Accumulated Depreciation For:				
Water and Sewer System	13,068,470	884,911	-	13,953,381
Machinery and Equipment	1,230,393	117,675	56,560	1,291,508
Total Accumulated Depreciation	<u>14,298,863</u>	<u>1,002,586</u>	<u>56,560</u>	<u>15,244,889</u>
Net Total Assets Being Depreciated	<u>17,214,074</u>	<u>35,062</u>	<u>-</u>	<u>17,249,136</u>
Business-Type Activities Capital Assets, Net	<u>\$ 17,624,205</u>	<u>\$ 1,292,753</u>	<u>\$ 846,237</u>	<u>\$ 18,070,721</u>

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

Governmental Activities:	
General Government	\$ 92,533
Public Safety	670,172
Public Services	236,858
Total depreciation expense, governmental activities	<u>\$ 999,563</u>
Business-Type Activities:	
Water and Sewer Operations	<u>\$ 1,002,586</u>

As of September 30, 2018, the City has various active construction projects. The projects are for street and water and sewer construction. At year-end the City's commitment with contractors are as follows:

Project	Spent To-Date	Estimated Remaining Construction
Main Street Improvement #21	\$ 584,754	\$ 43,297
New Annex	185,063	991,437
Dog Park-Fair Park	13,880	61,120
East Side Sewer Main Phase II	312,730	5,156,033
Sabine Pump Station Rehab	98,724	1,400,000

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of September 30, 2018, is as follows:

Receivable Fund	Payable Fund	Amount
Water and Sewer	General Fund	\$ 3
Water and Sewer	Tourism Fund	1,914
2012 Bond Fund	Water and Sewer	81,923
Total		\$ 83,840

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.

The composition of interfund transfers as of September 30, 2018, is as follows:

	Transfers In					Total
	General	Water & Sewer	Street & Drainage	Main Street	General Construction	
Transfers Out:						
General	\$ -	\$ 62,244	\$ 455,641	\$ 17,000	\$ 676,300	\$ 1,211,185
General Construction	-	-	-	-	-	-
Water and Sewer	382,009	-	-	-	500,000	882,009
Total transfers out/in	\$ 382,009	\$ 62,244	\$ 455,641	\$ 17,000	\$ 1,176,300	\$ 2,093,194

E. Long-Term Debt

The following is a summary of bond and certificates of obligation transactions of the City for the year ended September 30, 2018:

	GENERAL OBLIGATION	REVENUE	TOTAL
Bonds payable - October 1, 2017	\$ 3,060,000	\$ 3,300,000	\$ 6,360,000
Additions	-	6,815,000	6,815,000
Retirements	(830,000)	(375,000)	(1,205,000)
Bonds payable - September 30, 2018	\$ 2,230,000	\$ 9,740,000	\$ 11,970,000

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

E. Long-Term Debt - Continued

Original issue amounts currently outstanding are as follows:

Purpose	Interest Rates	Original Issue Amount
Governmental Activities:		
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%	1,800,000
2014 General Obligation Refunding Bonds	2.00% - 2.50%	2,050,000
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
2014 General Obligation Refunding Bonds	2.00% - 2.50%	970,000
2018 Tax & Waterworks and Sewer System Limited Pledge Revenue Certificates of Obligation	3.125% - 4.0%	<u>6,815,000</u>
Total General Obligation Bonds and Certificates of Obligation		<u>\$ 18,762,600</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		BUSINESS-TYPE		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2019	\$ 651,630	\$ 60,494	\$ 568,370	\$ 324,281	\$ 1,604,775
2020	218,995	44,571	526,005	293,419	1,082,990
2021	226,360	38,852	518,640	279,596	1,063,448
2022	228,725	32,427	541,275	325,491	1,127,918
2023	238,455	25,641	371,545	250,410	886,051
2024-2028	586,370	31,283	2,048,630	1,069,763	3,736,046
2029-2033	-	-	2,415,000	713,169	3,128,169
2034-2038	-	-	2,830,000	297,631	3,127,631
Total	<u>\$ 2,150,535</u>	<u>\$ 233,268</u>	<u>\$ 9,819,465</u>	<u>\$ 3,553,760</u>	<u>\$ 15,757,028</u>

Defeased Bonds Outstanding

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, 2018, outstanding balances of debt issues 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. The balance of all defeased bonds outstanding as of September 30, 2018 are as follows:

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

E. Long-Term Debt - Continued

Debt Issue	Outstanding Balance as of September 30, 2018
City of Henderson 2001 Waterworks and Sewer System Revenue Bonds	\$ 1,100,000
City of Henderson 2004 Waterworks and Sewer Certificates of Obligation	450,000
City of Henderson 2004 Waterworks and Sewer System Limited Pledge Revenue	775,000
Certificates of Obligations	\$ 2,325,000

Changes in Long-Term Liabilities

Long term liability activity for the year ended September 30, 2018 was as follows:

	Beginning Balance 10/01/17	Additions	Reductions	Ending Balance 09/30/18	Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$ 855,000	\$ -	\$ 420,000	\$ 435,000	\$ 435,000
Certificates of Obligation	1,929,800	-	214,265	1,715,535	216,630
Add: Premium on Issue	32,535	-	4,460	28,075	-
Total Bonds Payable	2,817,335	-	638,725	2,178,610	651,630
Capital Lease	405,846	499,091	39,954	864,983	84,191
OPEB Liability	550,994	32,045	2,678	580,361	-
Compensated Absences	260,325	111,009	-	371,334	37,133
Net Pension Liability	5,826,990	-	2,022,903	3,804,087	-
Governmental Activity					
Long-Term Liabilities	\$ 9,861,490	\$ 642,145	\$ 2,704,260	\$ 7,799,375	\$ 772,954
Business-Type Activities:					
General Obligation Bonds	2,205,000	-	410,000	1,795,000	405,000
Add: Premium on Issue	16,969	-	2,414	14,555	-
Certificates of Obligation	1,370,200	6,815,000	160,735	8,024,465	163,370
Add: Premium on Issue	-	26,836	-	26,836	-
Total Bonds Payable	3,592,169	6,841,836	573,149	9,860,856	568,370
OPEB Liability	144,606	8,142	680	152,068	-
Compensated Absences	41,331	-	-	41,331	4,133
Net Pension Liability	1,592,535	-	513,832	1,078,703	-
Business-Type Activity					
Long-Term Liabilities	\$ 5,370,641	\$ 6,849,978	\$ 1,087,661	\$ 11,132,958	\$ 572,503

The liabilities listed above for compensated absences are liquidated by the General Fund or the Water & Sewer Enterprise Fund, depending upon which fund records the employee's salary.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

F. Leases

Operating Leases

Commitments under operating lease agreements for equipment provide for minimum future rental payments as of September 30, 2018, as follows:

Year Ending September 30		
2019	\$	13,890
2020		9,868
2021		5,141
2022		1,603
Total amount of minimum lease payments	\$	30,502
Rental Expenditures in 2018	\$	16,787

Capital Leases

The City has entered into various lease agreements as the lessee for financing the acquisition of multiple fire equipment. The lease agreements qualify as capital leases for accounting purposes, the assets acquired through the capital leases are as follows:

	Governmental Activities
Asset:	
Equipment	\$ 943,763
Less: accumulated depreciation	(154,721)
	\$ 789,042

The future minimum lease obligations as of September 30, 2018, were as follows:

Year Ending September 30		
2019	\$	111,376
2020		111,376
2021		111,376
2022		111,376
2023		111,376
2024 - 2028		451,090
Total amount of minimum lease payments	\$	1,007,970
Less: amount representing interest		(142,986)
Present value of minimum lease payments	\$	864,984

G. Leases of Lessors

Operating leases arise from the leasing of the City's buildings and improvements to various customers. Initial lease terms generally range from 12 months to 60 months.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

G. Leases of Lessors - Continued

Investments in operating leases are as follows at September 30:

	Cost	Accumulated Depreciation
Buildings and Improvements	\$ 53,224	\$ 15,982

Future minimum rental payments to be received on non-cancelable operating leases are contractually due as follows as of September 30, 2018:

Future minimum rental payments:	
Year Ending September 30	Amounts
2019	\$ 46,819
2020	46,819
2021	46,819
2022	46,819
2023	48,463
Thereafter	171,546
	\$ 407,285

NOTE 5 — DEFINED BENEFIT PENSION PLAN

A. Plan Description

The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in TMRS.

B. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

B. Benefits Provided - Continued

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 2016</u>	<u>Plan Year 2017</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (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

C. Employees Covered by Benefit Terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>12/31/2016</u>	<u>12/31/2017</u>
Inactive employees or beneficiaries currently receiving benefits	69	70
Inactive employees entitled to but not yet receiving benefits	55	57
Active employees	<u>123</u>	<u>121</u>
	247	248

D. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Henderson were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 15.79%, 15.31%, 15.52%, 15.94%, and 16.32% in calendar years 2014, 2015, 2016, 2017, and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$984,706 and were equal to the required contributions.

E. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

F. Actuarial Assumptions

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall Payroll Growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

F. Actuarial Assumptions - Continued

Salary increases were based on a service-related table. Mortality rate for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
Total	<u>100.00%</u>	

G. Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

H. Changes in Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2016	\$ 31,685,603	\$ 24,266,078	\$ 7,419,525
Changes for the year:			
Service Cost	934,893	-	934,893
Interest	2,123,017	-	2,123,017
Change in benefit terms	-	-	-
Difference between expected/actual experience	(886,715)	-	(886,715)
Changes in assumptions	-	-	-
Contributions - employer	-	943,858	(943,858)
Contributions - employee	-	418,430	(418,430)
Net investment income	-	3,363,955	(3,363,955)
Benefits payments, including refunds of employee contributions	(1,401,900)	(1,401,900)	-
Administrative expenses	-	(17,430)	17,430
Other charges	-	(883)	883
Net changes	<u>769,295</u>	<u>3,306,030</u>	<u>(2,536,735)</u>
Balance at 12/31/2017	<u>\$ 32,454,898</u>	<u>\$ 27,572,108</u>	<u>\$ 4,882,790</u>

I. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 10,210,389	\$ 4,882,790	\$ 613,912

J. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained at www.tmrs.com.

K. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2018, the city recognized pension expense in the amount of \$931,681.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

K. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 175,305	\$ 729,018
Changes in actuarial assumptions	27,600	-
Differences between projected and actual investment earnings	677,822	1,382,083
Contributions subsequent to the measurement date	719,733	-
Total	\$ 1,600,460	\$ 2,111,101

The City had \$719,733 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	
2018	\$ (87,081)
2019	(140,106)
2020	(459,232)
2021	(516,460)
2022	(27,495)
Thereafter	-
	\$ (1,230,374)

NOTE 6 — POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

1. Health Plan

A. Plan Description

In addition to the pension benefits previously described, the City makes available health care benefits to eligible employees, and their spouses and children, who retire from the City. The plan is a single-employer defined benefit healthcare plan that is self-funded by the City.

The plan does not issue a stand-alone report.

B. Benefits Provided

In addition to providing pension benefits, the City allows eligible retirees and dependents the option to continue participation in the same health plans available to active employees until they become eligible for Medicare coverage.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

B. Benefits Provided - Continued

To be eligible for retiree health benefits, employees must meet the following criteria:

- An employee must be eligible to retire under the standards of retirements as established by TMRS to qualify for benefits.
- An employee and their dependents covered under the City’s health plan at the effective date of the employee’s retirement and not eligible for Medicare.
- An employee must have completed 15 years of consecutive service prior to retirement with the City.

Dental and vision benefits may be continued with the retiree paying 100% of the full active employee cost.

C. Employees Covered by Benefit Terms

At the September 30, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>9/30/2018</u>
Inactive employees currently receiving benefits	120
Active employees	5
	125

D. Contributions

The City contributions consists of monthly premium contributions. Effective October 1, 2013, the City provides a monthly subsidy to retirees with 15 or more years of service with the City at retirement. The monthly subsidy ranges from \$150 with 15-19 years of City service at retirement to \$350 years with 35 or more years of City service.

Medical benefits are available with four coverage tiers depending on dependent status. The dental and vision benefits, and dependent coverage do not have a subsidy by the City, so are not included by the actuaries in the valuation.

<u>Medical</u>	<u>Employee</u>	<u>Emp/Child(ren)</u>	<u>Emp/Spouse</u>	<u>Emp/Family</u>
Total Premium	\$ 515.53	\$ 1,001.33	\$ 1,195.97	\$ 1,681.76
City Pays	515.53	794.57	906.37	1,185.40

The City’s contributions for the year ended September 30, 2018, were \$31,070 (includes \$16,200 in subsidy contributions made by the employer).

E. Total OPEB Liability

The City’s total OPEB liability was measured as of September 30, 2018 and was determined by an actuarial valuation as of that date.

F. Actuarial Assumptions

The total OPEB liability in the September 30, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.00%
Overall payroll growth	3.50%
Discount rate	4.06% (1.06% real rate of return plus 3.00% inflation)
Healthcare cost trend rates	Level 5.00%

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

F. Actuarial Assumptions - Continued

The actuarial cost method being used is known as the Entry Age Normal Method assuming Service Cost is determined as a level percent of pay that would fully fund the benefit promise by the time of retirement. Service cost is determined for each employee as the Actuarial Present Value of Benefits allocated to the valuation year. The benefit attributed to the valuation year is that incremental portion of the total projected benefit earned during the year in accordance with the plan's benefit formula. This allocation is based on each participant's service between date of hire and date of expected termination. Termination and retirement rates were developed from assumptions used in the 2017 actuarial valuation report for the Texas Municipal Retirement System ("TMRS").

Salary increases were based on a service-related table. Mortality rate for active members, retirees, and beneficiaries were based on the RPH-2014 Total Table with Projection MP-2018. The trend assumption is used to project the growth of the expected claims over the lifetime of the healthcare recipients.

The discount rate used to determine the plan liabilities for retiree healthcare benefits is based on the earnings rate of the plan assets if the projected assets are sufficient to cover the projected benefit payments. If the projected assets are not sufficient then a municipal bond index rate must be used for discounting benefits not covered by the projected assets. Since there are no plan assets held in trust, the Bond Buyer GO Bond 20 Index is used for determining the discount rate of 4.06%.

G. Changes in the Total OPEB Liability

	Total OPEB Liability
Balances as of September 30, 2017	\$ 406,037
Changes for the year:	
Service cost	11,395
Interest	16,317
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments	(31,070)
Employer contributions	-
Net investment income	-
Administrative expenses	-
Other	-
Net Changes	(3,358)
Balances as of September 30, 2018	\$ 402,679

H. Sensitivity of the Total OPEB Liability to Changes in the Discount and Healthcare Trend Rates

The following presents the total OPEB liability of the City, calculated using the discount rate of 4.06%, would be if it were calculated using a discount rate that is 1-percentage-point lower (3.06%) or 1-percentage-point higher (5.06%) than the current rate:

	1% Decrease in Discount Rate (3.06%)	Discount Rate (4.06%)	1% Increase in Discount Rate (5.06%)
Total OPEB Liability	\$ 447,207	\$ 402,679	\$ 363,774

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

H. Sensitivity of the Total OPEB Liability to Changes in the Discount and Healthcare Trend Rates - Continued

The following presents the total OPEB liability of the City, calculated using the assumed healthcare trend rate of 5.00%, would be if it were calculated using a trend rate that is 1-percentage-point lower (4.00%) or 1-percentage-point higher (6.00%) than the current rate:

	1% Decrease in Trend Rate (4.00%)	Current Trend Rate (5.00%)	1% Increase in Trend Rate (6.00%)
Total OPEB Liability	\$ 357,185	\$ 402,679	\$ 457,673

I. OPEB Expense and Deferred Outflow of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$27,712.

Components of OPEB Expense	
Service cost	\$ 11,395
Interest on total OPEB liability	16,317
Differences between expected and actual experience	-
Changes in assumptions	-
Projected earnings on OPEB plan investments	-
Differences between projected and actual earnings on plan investments	-
OPEB plan administrative expenses	-
Total OPEB expense	\$ 27,712

J. Deferred Outflows of Resources and Deferred Inflows of Resources to Be Recognized in OPEB Expense in Future Years

At the September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ -
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	-
Total	\$ -	\$ -

Due to no amounts being reported as deferred outflows or inflows of resources, no amounts will be amortized as OPEB expense in future years.

2. Supplemental Death Benefits Plan

A. Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits 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.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

A. Plan Description - Continued

TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

B. Benefits Provided

Payments from this fund are similar to group-term life insurance benefits and are paid to the designated beneficiaries upon the receipt of an approved application for payment. 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). The death benefit for retirees is considered an "other postemployment benefit" (OPEB) and is a fixed amount of \$7,500. The obligations of this plan are payable only from the SDBF and are not an obligation of, or claim against, the TMRS Pension Trust Fund.

C. Employees Covered by Benefit Terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>12/31/2017</u>
Inactive employees currently receiving benefits	52
Inactive employees entitled to but not yet receiving benefits	13
Active employees	121
	186

D. Contributions

The member cities contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. 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 prefund retiree life insurance during the employee's entire careers.

As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

For calendar year 2017, the total SDB contributions rate for the City was 0.15%, while the retiree portion of the SDB contribution was 0.06%. The City's contributions for the year ended September 30, 2018, were \$3,657 for the retiree portion, and \$9,584 for the total SDB rate. Due to the SDBF being considered an unfunded OPEB plan, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

E. Total OPEB Liability

The City's total OPEB liability was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

F. Actuarial Assumptions

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

**CITY OF HENDERSON, TEXAS
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FISCAL YEAR ENDED SEPTEMBER 30, 2018**

F. Actuarial Assumptions - Continued

Inflation	2.50%
Overall payroll growth	3.50% to 10.5% including inflation
Discount rate *	3.31%
Retiree's share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates - disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a three year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

The actuarial cost method being used is known as the Entry Age Normal Method. This method develops the annual cost of the Plan in two parts: that attributable to benefits accruing in the current year, known as the normal cost, and that due to service earned prior to the current year, known as the amortization of the unfunded actuarial accrued liability. The normal cost and the actuarial accrued liability are calculated individually for each member. The normal cost rate for an employee is the contribution rate which, if applied to a member's compensation through their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The normal cost is calculated using an entry age based on benefit service with the City. If a member has additional time-only vesting service through service with other TMRS cities or other public agencies, they retain this for determination of benefit eligibility and decrement rates. The salary-weighted average of these rates is the total normal cost rate. The unfunded actuarial accrued liability reflects the difference between the portion of projected benefits attributable to service credited prior to the valuation date and assets already accumulated.

These actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. The post-retirement mortality assumption for health annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2001 and dated December 31, 2013.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

G. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2016	\$ 289,563
Changes for the year:	
Service cost	8,369
Interest	11,036
Change of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions or other inputs	24,369
Benefit payments	(3,587)
Net changes	40,187
Balance at 12/31/2017	\$ 329,750

H. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.31%, would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
Total OPEB Liability	\$ 391,936	\$ 329,750	\$ 280,862

I. OPEB Expense and Deferred Outflow of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$22,968.

Components of OPEB Expense	
Service cost	\$ 8,369
Interest on total OPEB liability	11,036
Effect of plan changes	-
Employer administration costs	-
Recognition of deferred outflows/inflows of resources:	
Recognition of economic/demographic gains or losses	-
Recognition of assumption changes or inputs	3,563
Total OPEB expense	\$ 22,968

J. Deferred Outflows of Resources and Deferred Inflows of Resources to Be Recognized in OPEB Expense in Future Years

At the September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

J. Deferred Outflows of Resources and Deferred Inflows of Resources to Be Recognized in OPEB Expense in Future Years - Continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ -
Changes in actuarial assumptions	20,806	-
Contributions made subsequent to the measurement date	2,650	-
Total	\$ 23,456	\$ -

The City had \$2,650 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2019. Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31	
2018	\$ 3,563
2019	3,563
2020	3,563
2021	3,563
2022	3,563
Thereafter	2,991
	\$ 20,806

NOTE 7 — DEFICIT NET POSITION OR FUND BALANCE

At September 30, 2018, the City’s Internal Service Fund has a deficit net position in the amount of \$25,456.

NOTE 8 — CONTINGENCIES AND COMMITMENTS

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, 2026, 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.

On April 12, 2011, the City entered into an additional agreement with Angelina and Nacogdoches Water Control and Improvement District No. 1 (“District”) to acquire the option to purchase from the District an additional three million four hundred thousand gallons of water per day. In consideration for the option granted by the District, the City shall pay \$127,500 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, 2021, 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.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

On February 11, 1994, the City contracted with the Sabine River Authority ("Authority") to build and maintain a water collection facility. The Authority owns and operates all necessary equipment and devices of the water collection facility. The raw water collected from this facility is then sold and transported to the City. The City pay their proportionate part of the Annual Requirement to the Authority in monthly installments. In two years, the debt component will not be included in monthly installments. The water rights applicable to the City are not considered material as of 9/30/17.

No reportable litigation was pending against the City as of September 30, 2018.

NOTE 9 — 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.

A. 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, 2018, HEDCO revised its budget, as needed. Appropriations lapse at the end of the year.

B. 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, 2018, the carrying amount of HEDCO's deposits (cash, certificates of deposit, and interest-bearing money-market accounts) was \$6,310,522 and the bank balance was \$6,316,626. HEDCO's cash deposits at September 30, 2018 and during the period ended September 30, 2018 were entirely covered by FDIC insurance or by pledged collateral held by HEDCO's agent bank in HEDCO's name.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

B. Deposits and Investments - Continued

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, 2018, HEDCO had no investments. All HEDCO’s deposits were in a demand deposit accounts and 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.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

C. Receivables

Receivables at September 30, 2018 are as follows:

Sales Taxes (from City of Henderson)	\$ 251,029
Notes Receivable	<u>853,333</u>
Total	<u><u>\$1,104,362</u></u>

Notes Receivable:

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 is interest free and was originally scheduled to 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 was December 1, 2012. The monthly payment was originally \$6,667; however, the Rail District requested that their monthly payments be reduced to \$3,333 for 12 months. The Rail District resumed their regular monthly payments on October 1, 2015.

D. Capital Assets

Capital asset activity for the year ended September 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land and investment property	\$1,708,441	\$ -	\$ -	\$1,708,441
Discretely Presented Component Unit Capital Assets, net	\$1,708,441	\$ -	\$ -	\$1,708,441

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 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 7% 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, 2018 was \$69,532. Employer contributions to the plan for the year ended September 30, 2018 were \$5,139.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2018

NOTE 10 — 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, 2018. 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, 2018, 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.

NOTE 11 — PRIOR PERIOD ADJUSTMENT

As a result of implementing GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB), net position was restated at October 1, 2017. With the adoption of GASB No. 75, the City is reporting the difference between the net OPEB obligation calculation and the net OPEB liability calculation as a reduction/addition to the prior year net position.

Beginning net position	\$	44,200,315
Prior period adjustment implementation of GASB 75:		
Net OPEB Liability (measurement date as of September 30, 2017)		(470,342)
Beginning net position, as restated	\$	43,729,973

NOTE 12 — SUBSEQUENT EVENTS

Subsequent events were evaluated through March 15, 2019 the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF HENDERSON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FISCAL YEAR ENDED SEPTEMBER 30, 2018

	Measurement Year 2014	Measurement Year 2015	Measurement Year 2016	Measurement Year 2017
Total Pension Liability				
Service Cost	\$ 747,767	\$ 870,520	\$ 897,939	\$ 934,893
Interest (on the Total Pension Liability)	1,860,288	1,956,707	1,995,617	2,123,017
Changes in benefit terms	-	-	-	-
Difference between expected and actual results	(29,800)	(24,907)	291,787	(886,715)
Change of assumptions	-	76,020	-	-
Benefit payments, including refunds of employee contributions	(1,194,775)	(1,329,666)	(1,230,942)	(1,401,900)
Net Change in Total Pension Liability	1,383,480	1,548,674	1,954,401	769,295
Total Pension Liability - Beginning	26,799,048	28,182,528	29,731,202	31,685,603
Total Pension Liability - Ending (a)	<u>\$ 28,182,528</u>	<u>\$ 29,731,202</u>	<u>\$ 31,685,603</u>	<u>\$ 32,454,898</u>
Plan Fiduciary Net Position				
Contributions - Employer	\$ 834,375	\$ 881,591	\$ 883,082	\$ 943,858
Contributions - Employee	374,069	407,874	402,971	418,430
Net Investment Income	1,229,656	33,532	1,534,069	3,363,955
Benefit payments, including refunds of employee contributions	(1,194,775)	(1,329,666)	(1,230,942)	(1,401,900)
Administrative Expense	(12,837)	(20,423)	(17,322)	(17,430)
Other	(1,055)	(1,009)	(933)	(883)
Net Change in Plan Fiduciary Net Position	1,229,433	(28,101)	1,570,925	3,306,030
Plan Fiduciary Net Position - Beginning	21,493,821	22,723,254	22,695,153	24,266,078
Plan Fiduciary Net Position - Ending (b)	<u>\$ 22,723,254</u>	<u>\$ 22,695,153</u>	<u>\$ 24,266,078</u>	<u>\$ 27,572,108</u>
Net Pension Liability - Ending (a)-(b)	5,459,274	7,036,049	7,419,525	4,882,790
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	80.63%	76.33%	76.58%	84.96%
Covered Payroll	\$ 5,341,732	\$ 5,826,773	\$ 5,748,651	\$ 5,977,575
Net Pension Liability as a Percentage of Covered Employee Payroll	102.20%	120.75%	129.07%	81.69%

**CITY OF HENDERSON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
FISCAL YEAR ENDED SEPTEMBER 30, 2018**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarially Determined Contribution	\$ 851,005	\$ 876,745	\$ 933,672	\$ 984,706
Contributions in relation to the actuarially determined contributions	<u>(851,005)</u>	<u>(876,745)</u>	<u>(933,672)</u>	<u>(984,658)</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ 48
Covered payroll	\$ 5,518,780	\$ 5,670,442	\$ 5,960,397	\$ 6,095,122
Contributions as a percentage of covered payroll	15.42%	15.46%	15.66%	16.15%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date: Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information: There were no benefit changes during the year.

CITY OF HENDERSON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
SUPPLEMENTAL DEATH BENEFITS PLAN
FISCAL YEAR ENDED SEPTEMBER 30, 2018

	Measurement Year 2017
Total OPEB Liability	
Service Cost	\$ 8,369
Interest	11,036
Changes in benefit terms	-
Difference between expected and actual experience	-
Change of assumptions and other inputs	24,369
Benefit payments	<u>(3,587)</u>
Net Change in Total OPEB Liability	40,187
Total OPEB Liability - Beginning	<u>289,563</u>
Total OPEB Liability - Ending (a)	<u>\$ 329,750</u>
Covered Payroll	\$ 5,977,575
Total OPEB Liability as a Percentage of Covered Payroll	5.52%

NOTES TO SCHEDULE

Valuation Date:	Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.
Methods and Assumptions Used to Determine Rates:	
Actuarial Cost Method	Entry Age Normal
Supplemental Death Benefit	Contribution rate is equal to the expected benefit payments during the upcoming year divided by the annualized pay of current active members and is calculated separately for actives and retirees.
Retiree's share of benefit-related costs	\$0.00
Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Discount Rate	3.31%
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality Rates - Service Retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality Rates - Disabled Retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both male and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.
Other Information:	The Supplemental Death Benefits Fund is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

CITY OF HENDERSON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
HEALTH PLAN
FISCAL YEAR ENDED SEPTEMBER 30, 2018

	2018
Total OPEB Liability	
Service Cost	\$ 11,395
Interest	16,317
Changes in benefit terms	-
Difference between expected and actual experience	-
Change of assumptions and other inputs	-
Benefit payments	(31,070)
Net Change in Total OPEB Liability	(3,358)
Total OPEB Liability - Beginning	406,037
Total OPEB Liability - Ending (a)	\$ 402,679
Covered Payroll	\$ 5,175,802
Total OPEB Liability as a Percentage of Covered Payroll	7.78%

NOTES TO SCHEDULE

Valuation Date: September 30, 2018

Methods and Assumptions Used to Determine Rates:

Actuarial Cost Method	Individual Entry Age Normal - Level Percentage of Projected Salary
Inflation	3.00%
Salary Increases	3.50%
Discount Rate	4.06% (1.06% real rate of return plus 3.00% inflation)
Health Care Cost Trend	Level 5.00%
Eligibility	25 years of service without regard to age
Postretirement Contributions	The retiree pays the full active employee contribution rate. Effective October 1, 2013 the City provides a monthly subsidy to retirees with 15 or more years of service with the City at retirement. The monthly subsidy ranges from \$150 with 15-19 years of City service at retirement to \$350 years with 35 or more years of City service.
Mortality	RPH-2014 Total Table with Projection MP-2018
Turnover	Rates varying based on gender, age and select and ultimate at 9 years. Rates based on the TMRS actuarial assumptions from the 2017 retirement plan valuation report.
Disability	None assumed.
Retiree Contributions	Retiree pays 100% of the active employee contribution rates. Retirees with 15 or more years of active service with the City may receive a monthly subsidy based on years of service with the City.
Coverage	100% of all retirees who currently have healthcare coverage will continue with the same coverage. 25% of all actives who currently have healthcare coverage will continue coverage at eligible retirement.
Other Benefits	Dental and vision benefits may be continued with the retiree paying 100% of the full active employee cost.

Other Information: There are no plan asset held in trust.
There were no benefit changes during the year.

ADDITIONAL SUPPLEMENTAL INFORMATION

**CITY OF HENDERSON, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018**

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	CAPITAL PROJECTS FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	\$ 440,993	\$ 71,746	\$ 1,206,415	\$ 1,719,154
Investments	6,143	3,308	501,664	511,115
Receivables:				
Taxes:				
Franchise	-	-	64,977	64,977
Hotel/Motel	17,247	-	-	17,247
Accounts	-	-	122,776	122,776
Special assessments	-	-	28,006	28,006
Due from Other Funds	-	-	81,922	81,922
Total Assets	<u>\$ 464,383</u>	<u>\$ 75,054</u>	<u>\$ 2,005,760</u>	<u>\$ 2,545,197</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 28,807	\$ -	\$ 61,714	\$ 90,521
Unearned revenue	52,322	-	28,796	81,118
Due to other funds	391	-	-	391
Total Liabilities	<u>81,520</u>	<u>-</u>	<u>90,510</u>	<u>172,030</u>
Fund Balances:				
Restricted	283,174	75,054	79	358,307
Committed	99,689	-	1,915,171	2,014,860
Total Fund Balances	<u>382,863</u>	<u>75,054</u>	<u>1,915,250</u>	<u>2,373,167</u>
Total Liabilities and Fund Balances	<u>\$ 464,383</u>	<u>\$ 75,054</u>	<u>\$ 2,005,760</u>	<u>\$ 2,545,197</u>

CITY OF HENDERSON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2018

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	CAPITAL PROJECTS FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES				
Taxes:				
Property	\$ -	623,351	\$ -	\$ 623,351
Franchise	-	-	207,847	207,847
Hotel/Motel	185,071	-	-	185,071
Charges for services	107,474	-	413,816	521,290
Interest	4,920	5,777	19,877	30,574
Miscellaneous	64,674	-	23,860	88,534
Total Revenues	<u>362,139</u>	<u>629,128</u>	<u>665,400</u>	<u>1,656,667</u>
EXPENDITURES				
General government	-	-	-	-
Public safety	445	-	-	445
Sanitation	-	-	16,476	16,476
Public services:				
Tourism	183,989	-	-	183,989
Civic Center	145,823	-	28,014	173,837
Main Street	35,149	-	-	35,149
Streets	-	-	96,639	96,639
Parks	-	-	8,548	8,548
Cemeteries	29,941	-	-	29,941
Animal Shelter	28,730	-	-	28,730
Community Development	-	-	21,050	21,050
Capital outlay	-	-	1,105,168	1,105,168
Debt service:				
Principal	-	634,265	-	634,265
Interest and fees	-	77,020	-	77,020
Total Expenditures	<u>424,077</u>	<u>711,285</u>	<u>1,275,895</u>	<u>2,411,257</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(61,938)</u>	<u>(82,157)</u>	<u>(610,495)</u>	<u>(754,590)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	17,000	-	1,631,941	1,648,941
Transfers out	-	-	(232,655)	(232,655)
Total Other Financing Sources (Uses)	<u>17,000</u>	<u>-</u>	<u>1,399,286</u>	<u>1,416,286</u>
Net change in fund balances	(44,938)	(82,157)	788,791	661,696
Fund Balance - October 1, 2017	<u>427,801</u>	<u>157,211</u>	<u>1,126,459</u>	<u>1,711,471</u>
Fund Balance - September 30, 2018	<u>\$ 382,863</u>	<u>\$ 75,054</u>	<u>\$ 1,915,250</u>	<u>\$ 2,373,167</u>

**CITY OF HENDERSON, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
SEPTEMBER 30, 2018**

	DRUG SEIZURE	TASK FORCE	TOURISM	MAIN STREET	CEMETERY	ANIMAL SHELTER	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
ASSETS							
Cash and cash equivalents	\$ 46,595	\$ 12,126	\$ 268,767	\$ 33,041	\$ 37,878	\$ 42,586	\$ 440,993
Investments	480	-	719	-	4,534	410	6,143
Receivables:							
Hotel/Motel Taxes	-	-	17,247	-	-	-	17,247
Accounts	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-
Total Assets	<u>\$ 47,075</u>	<u>\$ 12,126</u>	<u>\$ 286,733</u>	<u>\$ 33,041</u>	<u>\$ 42,412</u>	<u>\$ 42,996</u>	<u>\$ 464,383</u>
LIABILITIES							
Accounts payable	-	-	10,047	12,612	3,901	2,247	28,807
Due to other funds	-	-	391	-	-	-	391
Unearned revenue	9,071	7,433	35,818	-	-	-	52,322
Total Liabilities	<u>9,071</u>	<u>7,433</u>	<u>46,256</u>	<u>12,612</u>	<u>3,901</u>	<u>2,247</u>	<u>81,520</u>
FUND BALANCES							
Restricted	38,004	4,693	240,477	-	-	-	283,174
Committed	-	-	-	20,429	38,511	40,749	99,689
Total Fund Balances	<u>38,004</u>	<u>4,693</u>	<u>240,477</u>	<u>20,429</u>	<u>38,511</u>	<u>40,749</u>	<u>382,863</u>
Total Liabilities and Fund Balances	<u>\$ 47,075</u>	<u>\$ 12,126</u>	<u>\$ 286,733</u>	<u>\$ 33,041</u>	<u>\$ 42,412</u>	<u>\$ 42,996</u>	<u>\$ 464,383</u>

**CITY OF HENDERSON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	DRUG SEIZURE	TASK FORCE	TOURISM	MAIN STREET	CEMETERY	ANIMAL SHELTER	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
REVENUES							
Hotel/Motel occupancy tax	\$ -	\$ -	\$ 185,071	\$ -	\$ -	\$ -	\$ 185,071
Charges for services	-	-	107,474	-	-	-	107,474
Interest	514	-	2,754	470	430	752	4,920
Miscellaneous	63	-	-	9,020	45,765	9,826	64,674
Total Revenues	<u>577</u>	<u>-</u>	<u>295,299</u>	<u>9,490</u>	<u>46,195</u>	<u>10,578</u>	<u>362,139</u>
EXPENDITURES							
Public Safety	445	-	-	-	-	-	445
Public Services:							
Tourism	-	-	183,989	-	-	-	183,989
Civic Center	-	-	145,823	-	-	-	145,823
Main Street	-	-	-	35,149	-	-	35,149
Cemeteries	-	-	-	-	29,941	-	29,941
Animal Shelter	-	-	-	-	-	28,730	28,730
Total Expenditures	<u>445</u>	<u>-</u>	<u>329,812</u>	<u>35,149</u>	<u>29,941</u>	<u>28,730</u>	<u>424,077</u>
Excess (deficiency) of revenues over (under) expenditures	<u>132</u>	<u>-</u>	<u>(34,513)</u>	<u>(25,659)</u>	<u>16,254</u>	<u>(18,152)</u>	<u>(61,938)</u>
OTHER FINANCING SOURCES/(USES):							
Transfers in	-	-	-	17,000	-	-	17,000
Transfers out	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,000</u>	<u>-</u>	<u>-</u>	<u>17,000</u>
Net change in fund balances	132	-	(34,513)	(8,659)	16,254	(18,152)	(44,938)
Fund Balance - October 1, 2017	<u>37,872</u>	<u>4,693</u>	<u>274,990</u>	<u>29,088</u>	<u>22,257</u>	<u>58,901</u>	<u>427,801</u>
Fund Balance - September 30, 2018	<u>\$ 38,004</u>	<u>\$ 4,693</u>	<u>\$ 240,477</u>	<u>\$ 20,429</u>	<u>\$ 38,511</u>	<u>\$ 40,749</u>	<u>\$ 382,863</u>

**CITY OF HENDERSON, TEXAS
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS
SEPTEMBER 30, 2018**

	GENERAL CONSTRUCTION	STREET AND DRAINAGE	2012 SERIES CERTIFICATE OF OBLIGATIONS	CIVIC CENTER	CDBG GRANT	TOTAL NONMAJOR CAPITAL PROJECT FUNDS
ASSETS						
Cash and cash equivalents	\$ 1,080,452	\$ 125,884	\$ -	\$ 79	\$ -	\$ 1,206,415
Investments	500,902	762	-	-	-	501,664
Receivables:						
Franchise taxes	-	64,977	-	-	-	64,977
Accounts	122,776	-	-	-	-	122,776
Special assessments	-	28,006	-	-	-	28,006
Due from Other Funds	-	-	81,922	-	-	81,922
Total Assets	<u>\$ 1,704,130</u>	<u>\$ 219,629</u>	<u>\$ 81,922</u>	<u>\$ 79</u>	<u>\$ -</u>	<u>\$ 2,005,760</u>
LIABILITIES						
Accounts payable	56,239	5,475	-	-	-	61,714
Due to other funds	-	-	-	-	-	-
Unearned revenue	-	28,796	-	-	-	28,796
Total Liabilities	<u>56,239</u>	<u>34,271</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,510</u>
FUND BALANCES						
Restricted	-	-	-	79	-	79
Committed	1,647,891	185,358	81,922	-	-	1,915,171
Unassigned	-	-	-	-	-	-
Total Fund Balances	<u>1,647,891</u>	<u>185,358</u>	<u>81,922</u>	<u>79</u>	<u>-</u>	<u>1,915,250</u>
Total Liabilities and Fund Balances	<u>\$ 1,704,130</u>	<u>\$ 219,629</u>	<u>\$ 81,922</u>	<u>\$ 79</u>	<u>\$ -</u>	<u>\$ 2,005,760</u>

CITY OF HENDERSON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	GENERAL CONSTRUCTION	STREET AND DRAINAGE	2012 SERIES CERTIFICATE OF OBLIGATIONS	CIVIC CENTER	CDBG GRANT	TOTAL NONMAJOR CAPITAL PROJECT FUNDS
REVENUES						
Franchise taxes	\$ -	\$ 207,847	\$ -	\$ -	\$ -	\$ 207,847
Charges for services	314,094	71,708	-	28,014	-	413,816
Intergovernmental	-	-	-	-	-	-
Interest	14,518	5,326	-	33	-	19,877
Miscellaneous	22,410	1,450	-	-	-	23,860
Total Revenues	351,022	286,331	-	28,047	-	665,400
EXPENDITURES						
General government	-	-	-	-	-	-
Sanitation	16,476	-	-	-	-	16,476
Public Services:						
Civic Center	-	-	-	28,014	-	28,014
Streets	-	96,639	-	-	-	96,639
Parks	8,548	-	-	-	-	8,548
Community Development	21,009	-	-	-	41	21,050
Capital Outlay	448,000	657,168	-	-	-	1,105,168
Total Expenditures	494,033	753,807	-	28,014	41	1,275,895
Excess (deficiency) of revenues over (under) expenditures	(143,011)	(467,476)	-	33	(41)	(610,495)
OTHER FINANCING SOURCES (USES):						
Transfers in	1,176,300	455,641	-	-	-	1,631,941
Transfers out	(232,655)	-	-	-	-	(232,655)
Total Other Financing Sources (Uses)	943,645	455,641	-	-	-	1,399,286
Net change in fund balances	800,634	(11,835)	-	33	(41)	788,791
Fund Balance - October 1, 2017	847,257	197,193	81,922	46	41	1,126,459
Fund Balance - September 30, 2018	<u>\$ 1,647,891</u>	<u>\$ 185,358</u>	<u>\$ 81,922</u>	<u>\$ 79</u>	<u>\$ -</u>	<u>\$ 1,915,250</u>

**CITY OF HENDERSON, TEXAS
 DETAILED SCHEDULE OF REVENUES - BUDGET AND ACTUAL -
 (NON-GAAP BUDGET BASIS)
 WATER AND SEWER FUND
 FISCAL YEAR ENDED SEPTEMBER 30, 2018**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL		TOTAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
			WATER	SEWER		
REVENUES						
Water charges	\$ 3,110,995	\$ 3,110,995	\$ 3,083,619	\$ -	\$ 3,083,619	\$ (27,376)
Sewer charges	2,221,757	2,221,757	-	1,858,572	1,858,572	(363,185)
Water connections	2,000	2,000	2,585	-	2,585	585
Sewer connections	2,000	2,000	-	1,450	1,450	(550)
Water service charges	2,000	2,000	718	-	718	(1,282)
Water Reconnect charges	8,000	8,000	8,895	-	8,895	895
Penalty	85,000	85,000	95,888	-	95,888	10,888
Miscellaneous income	14,300	14,300	14,021	-	14,021	(279)
Interest income	9,000	9,000	31,804	-	31,804	22,804
TOTAL REVENUES - BUDGET BASIS	\$ 5,455,052	\$ 5,455,052	\$ 3,237,530	\$ 1,860,022	5,097,552	\$ (357,500)
Financial Statement Adjustments:						
Transfers from other funds					62,244	
Interest income on bond funds recorded in W&S Construction Fund					22,400	
TOTAL REVENUES - GAAP BASIS					\$ 5,182,196	

**CITY OF HENDERSON, TEXAS
 DETAILED SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL -
 (NON-GAAP BUDGET BASIS)
 WATER AND SEWER FUND
 FISCAL YEAR ENDED SEPTEMBER 30, 2018**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<u>WATER & SEWER DEPARTMENT</u>				
Water & Sewer Operations:				
Personnel services - Water	\$ 1,174,999	\$ 1,174,999	\$ 1,139,413	\$ 35,586
Personnel services - Sewer	234,367	234,367	233,741	626
Personnel services - Admin	177,829	177,829	153,926	23,903
Supplies and materials	488,000	488,000	412,416	75,584
Contractual	937,385	1,001,385	1,011,948	(10,563)
Maintenance	411,700	411,700	397,347	14,353
Capital outlay	827,200	827,200	242,993	584,207
Other administrative costs	388,159	388,159	376,327	11,832
Services	60,000	60,000	80,692	(20,692)
Total Water & Sewer Operations	4,699,639	4,763,639	4,048,803	714,836
 Water & Sewer Construction	 30,000	 231,285	 10,748	 220,537
 Other Expenses:				
Operating transfers out	382,009	382,009	382,009	-
Bond principal	570,735	570,735	634,265	(63,530)
Bond interest and charges	95,669	95,669	93,859	1,810
Total Other Expenses	1,048,413	1,048,413	1,110,133	(61,720)
 Total Water & Sewer Department	 5,778,052	 6,043,337	 5,169,684	 873,653
 TOTAL EXPENSES-BUDGET BASIS	 \$ 5,778,052	 \$ 6,043,337	 5,169,684	 \$ 873,653
 Financial Statement Adjustments:				
Capital outlay capitalized			(227,891)	
Bond issue costs			102,000	
Transfers out recorded in Water & Construction Fund			500,000	
Reclassify principal paid on bonds			(634,265)	
Depreciation expense			1,002,586	
Amortization of bond premiums/refundings			9,356	
Increase in accrued interest			33,169	
Increase in accrued wages			56,151	
OPEB expense adjustment under GASB 75			3,233	
Pension expense adjustment under GASB 68			(10,741)	
 TOTAL EXPENSES-GAAP BASIS			 \$ 6,003,282	

OTHER REPORTS

**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***

Independent Auditors' Report

The Governing Body
City of Henderson, Texas

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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Henderson, Texas as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise City of Henderson, Texas' basic financial statements, and have issued our report thereon dated March 15, 2019. Our report includes a reference to other auditors who audited the financial statements of the Henderson Economic Development Corporation, as described in our report on the City of Henderson's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Henderson, Texas' 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 City of Henderson, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of City of Henderson, Texas' internal control.

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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control 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 City of Henderson, Texas' financial statements are free from material 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants

Tyler, Texas
March 15, 2019