

**CITY OF HENDERSON, TEXAS**

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

**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**Gollob Morgan Peddy PC**  
CERTIFIED PUBLIC ACCOUNTANTS

1001 ESE Loop 323, Suite 300, Tyler, TX 75701  
Tel 903-534-0088 Fax 903-581-3915 [www.gmpcpa.com](http://www.gmpcpa.com)  
Members American Institute of Certified Public Accountants and Private Companies Practice Section

**CITY OF HENDERSON, TEXAS**

**TABLE OF CONTENTS**

**SEPTEMBER 30, 2017**

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
<b>FINANCIAL SECTION</b>		
Independent Auditors' Report		1-3
Management's Discussion and Analysis		4-10
<b>Basic Financial Statements:</b>		
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		26-55
<b>Required Supplemental Information:</b>		
Schedule of Changes in Net Pension Liability and Related Ratios	1	56-57
<b>Additional Supplemental Information:</b>		
Combining Statements:		
Combining Financial Statements – Nonmajor Governmental Funds		
Combining Balance Sheet	2	58
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	3	59
Combining Financial Statements – Special Revenue Funds		
Combining Balance Sheet	4	60
Combining Statement of Revenues, Expenses and Changes in Fund Balances	5	61

**CITY OF HENDERSON, TEXAS**

**TABLE OF CONTENTS**

**SEPTEMBER 30, 2017**

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
Combining Financial Statements – Capital Projects Funds		
Combining Balance Sheet	6	62
Combining Statement of Revenues, Expenses and Changes in Fund Balances	7	63
<b>Other Reports:</b>		
<b>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></b>		64-65

## 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, 2017, 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.

### ***Auditor's 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 13.43 percent, 17.92 percent, 8.02 percent, respectively, of the assets, net position, and revenue of the governmental activities. Those 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, 2017, 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 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 additional supplemental information is presented for purposes of additional analysis and is 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 9, 2018 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 9, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2017.

### FINANCIAL HIGHLIGHTS

- As of the end of the current fiscal year, the assets of the City exceeded its liabilities by \$44,200,315 (net position). Of this amount, \$3,689,248 (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 increased 3.57% from the prior year, primarily due to the increase in water and sewer expenses.
- The general fund reported a fund balance this year of \$5,931,631, of which \$65,500 was nonspendable, \$59,681 was restricted and \$5,806,450 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 17 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 26-55 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 58-63 of this report.



## 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 \$44,200,315 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (89.9%) 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 \$1,603,400 during the current year primarily due to street improvements and the payment of debt securing these assets. 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, \$3,689,248, decreased by \$2,768,364 during the year.

### City of Henderson's Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 9,524,780	\$ 10,939,236	\$ 2,901,712	\$ 3,921,656	\$ 12,426,492	\$ 14,860,892
Capital assets	28,939,805	27,605,109	17,624,205	17,943,997	46,564,010	45,549,106
Total Assets	38,464,585	38,544,345	20,525,917	21,865,653	58,990,502	60,409,998
Deferred outflows of resources	1,578,917	1,668,310	498,413	536,127	2,077,330	2,204,437
Total Deferred Outflows of Resources	1,578,917	1,668,310	498,413	536,127	2,077,330	2,204,437
Current liabilities	1,242,064	1,283,000	838,910	569,192	2,080,974	1,852,192
Non current liabilities	9,484,372	9,894,433	5,274,845	5,682,145	14,759,217	15,576,578
Total Liabilities	10,726,436	11,177,433	6,113,755	6,251,337	16,840,191	17,428,770
Deferred outflows of resources	19,348	29,094	7,978	7,978	27,326	37,072
Total Deferred Outflows of Resources	19,348	29,094	7,978	7,978	27,326	37,072
Net invested in capital assets	25,712,203	24,291,968	14,026,227	13,843,062	39,738,430	38,135,030
Restricted	534,534	491,433	238,103	64,516	772,637	555,949
Unrestricted	3,050,981	4,222,726	638,267	2,234,886	3,689,248	6,457,612
Total Net Position	\$ 29,297,718	\$ 29,006,127	\$ 14,902,597	\$ 16,142,464	\$ 44,200,315	\$ 45,148,591

The \$3,689,248 of unrestricted net position represents resources available to fund the programs of the City next year.

The City had a \$1,239,867 decrease in net position for its business-type activities during the year. The decrease is primarily due to the slight drop off in water and sewer sales in the current year and an increase in transfers to governmental funds.

## City of Henderson's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for services	\$ 3,490,558	\$ 2,859,044	\$ 4,579,065	\$ 5,326,985	\$ 8,069,623	\$ 8,186,029
Operating grants and contributions	-	450,905	-	-	-	450,905
Capital grants and contributions	-	18,452	-	-	-	18,452
<b>General revenue:</b>						
Property taxes	3,539,171	3,729,288	-	-	3,539,171	3,729,288
Sales taxes	3,905,695	4,243,447	-	-	3,905,695	4,243,447
Franchise and other taxes	935,508	997,726	-	-	935,508	997,726
Interest income	27,084	26,543	8,772	-	35,856	26,543
Other	204,852	395,443	12,266	47,807	217,118	443,250
<b>Total revenues</b>	<b>12,102,868</b>	<b>12,720,848</b>	<b>4,600,103</b>	<b>5,374,792</b>	<b>16,702,971</b>	<b>18,095,640</b>
<b>Expenses:</b>						
General government	2,393,532	2,410,398	-	-	2,393,532	2,410,398
Public safety	5,474,003	5,171,829	-	-	5,474,003	5,171,829
Sanitation	1,751,533	1,628,559	-	-	1,751,533	1,628,559
Public services	2,588,031	2,559,902	-	-	2,588,031	2,559,902
Interest	102,308	103,082	-	-	102,308	103,082
Water and sewer operations	-	-	5,341,840	6,300,375	5,341,840	6,300,375
<b>Total expenses</b>	<b>12,309,407</b>	<b>11,873,770</b>	<b>5,341,840</b>	<b>6,300,375</b>	<b>17,651,247</b>	<b>18,174,145</b>
Transfers	498,130	366,941	(498,130)	(366,941)	-	-
<b>Change in net position</b>	<b>291,591</b>	<b>1,214,019</b>	<b>(1,239,867)</b>	<b>(1,292,524)</b>	<b>(948,276)</b>	<b>(78,505)</b>
<b>Net position beginning of year</b>	<b>29,006,127</b>	<b>27,792,108</b>	<b>16,142,464</b>	<b>17,434,988</b>	<b>45,148,591</b>	<b>45,227,096</b>
<b>Net position end of year</b>	<b>\$ 29,297,718</b>	<b>\$ 29,006,127</b>	<b>\$ 14,902,597</b>	<b>\$ 16,142,464</b>	<b>\$ 44,200,315</b>	<b>\$ 45,148,591</b>

## 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 \$7,643,102, a decrease of \$1,526,575 in comparison with the prior year. A significant reason for the decrease was increased expenses when compared to FY 2016, primarily in the general government and in departmental capital outlay.

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 \$5,806,450, while total fund balance was \$5,931,631. 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 52.10% of total general fund expenditures, while total fund balance represents 53.23% of that same amount.

	Governmental Activities	
	2017	2016
Nonspendable:		
Cemetary endowment	\$ 65,500	\$ 65,500
Restricted:		
Municipal court	42,565	42,716
Debt service	157,211	51,903
Fire department	17,203	10,995
Law enforcement	42,565	44,642
Tourism	274,990	194,707
Committed:		
Main street	29,088	35,510
Cemetary	22,257	71,572
Street and drainage	197,193	887,424
Animal shelter	58,901	20,591
General construction	847,257	859,012
2012 Series Certificates of Obligation	81,922	80,925
Unassigned:		
General fund	5,806,450	6,818,521
Grants	-	45
Civic center	-	(14,382)
Total Fund Balances	<u>7,643,102</u>	<u>9,169,681</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 \$638,267. Overall, net position for the fund decreased \$1,239,867. 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 (\$25,255).

### 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 \$636,101. The significant increases to the overall budgeted expenditures are as follows:

- \$235,907 in contract sanitation services
- \$64,275 in zoning ordinance services for community development
- \$132,565 received/spent for the Texas Eastern 9-1-1 Network grant
- \$154,915 in capital and equipment purchases for the fire department

Differences between the final amended budget and actual general fund expenditures were a net negative variance of \$74,637.

Overall, the City budgeted for a net decrease to fund balance of \$400,773 and its actual decrease on a budgetary basis came to be \$779,041.

## 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, 2017, amounts to \$46,564,010 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 \$1,019,904.

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 1,404,885	\$ 1,382,278	\$ 410,131	\$ 410,131	\$ 1,815,016	\$ 1,792,409
Buildings and improvements	8,050,323	7,458,454	-	-	8,050,323	7,458,454
Machinery and equipment	1,152,646	656,445	589,800	568,500	1,742,446	1,224,945
Improvements other than buildings	1,840,922	1,657,378	-	-	1,840,922	1,657,378
Water and wastewater distribution	-	-	16,624,274	16,960,367	16,624,274	16,960,367
Infrastructure	16,148,894	15,374,674	-	-	16,148,894	15,374,674
Construction in progress	342,135	1,075,879	-	-	342,135	1,075,879
<b>Total</b>	<b>\$ 28,939,805</b>	<b>\$ 27,605,108</b>	<b>\$ 17,624,205</b>	<b>\$ 17,938,998</b>	<b>\$ 46,564,010</b>	<b>\$ 45,544,106</b>

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 \$13,087,390 in bonds, certificates of obligation, and other long-term liabilities outstanding after principal payments of \$1,173,826 were made against debt during the year.

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ -	\$ -	\$ 2,205,000	\$ 2,570,000	\$ 2,205,000	\$ 2,570,000
Certificates of obligation payable	2,784,800	3,394,065	1,370,200	1,530,935	4,155,000	4,925,000
Capital lease	405,846	444,672	-	-	405,846	444,672
Add: Premium on issue	32,535	36,995	16,969	19,406	49,504	56,401
Other post-employment benefits (OPEB)	173,915	210,071	48,800	-	222,715	210,071
Compensated absences	260,325	286,990	41,331	41,331	301,656	328,321
Net pension liability	5,826,990	5,521,882	1,592,535	1,514,167	7,419,525	7,036,049
<b>Total</b>	<b>\$ 9,484,411</b>	<b>\$ 9,894,675</b>	<b>\$ 5,274,835</b>	<b>\$ 5,675,839</b>	<b>\$ 14,759,246</b>	<b>\$ 15,570,514</b>

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

## Economic Factors and Next Year's Budgets and Rates

After the budget was prepared for 2018, the following tax rate was approved:

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

Other budget changes include a 2% raise for City employees and a budget amendment in December of 2017 for a shortfall on sanitation contract services.

Water and wastewater rates will remain the same as in the 2017 fiscal year.

**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, 2017**

	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	HEDCO
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,769,277	\$ 841,361	\$ 4,610,638	\$ -
Investments	3,568,230	1,127,118	4,695,348	-
Receivables (net of allowance for doubtful accounts)				
Taxes	1,474,763	-	1,474,763	223,587
Accounts	405,009	669,952	1,074,961	-
Special assessments	28,006	-	28,006	-
Other	48,453	4	48,457	-
Internal balances	79,826	(79,826)	-	-
Note receivable	140,000	-	140,000	933,333
Restricted Assets:				
Temporarily restricted				
Cash and cash equivalents	11,216	343,103	354,319	5,057,595
Capital Assets (net of accumulated depreciation):				
Land	1,404,885	410,131	1,815,016	1,708,441
Buildings and improvements	8,050,323	-	8,050,323	-
Machinery and equipment	1,152,646	589,800	1,742,446	-
Improvements other than buildings	1,840,922	-	1,840,922	-
Water and sewer system	-	16,624,274	16,624,274	-
Infrastructure	16,148,894	-	16,148,894	-
Construction in progress	342,135	-	342,135	-
<b>Total Assets</b>	<b>38,464,585</b>	<b>20,525,917</b>	<b>58,990,502</b>	<b>7,922,956</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred charge on refunding (net of amortization)	12,149	64,787	76,936	-
Deferred charge on TMRS pension	1,566,768	433,626	2,000,394	-
<b>Total Deferred Outflows of Resources</b>	<b>1,578,917</b>	<b>498,413</b>	<b>2,077,330</b>	<b>-</b>
<b>LIABILITIES</b>				
Accounts payable	906,006	432,489	1,338,495	3,689
Accrued liabilities	-	32,313	32,313	-
Accrued interest	-	5,799	5,799	-
Due to component unit	223,587	-	223,587	-
Due to other governments	26,177	-	26,177	-
Unearned revenue	86,294	-	86,294	-
Customer deposits	-	368,309	368,309	-
Non-current liabilities:				
Due within one year	700,252	574,868	1,275,120	-
Due in more than one year	2,957,130	3,107,442	6,064,572	-
Net pension liability	5,826,990	1,592,535	7,419,525	-
<b>Total Liabilities</b>	<b>10,726,436</b>	<b>6,113,755</b>	<b>16,840,191</b>	<b>3,689</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred charge on TMRS pension	19,348	7,978	27,326	-
<b>Total Deferred Inflows of Resources</b>	<b>19,348</b>	<b>7,978</b>	<b>27,326</b>	<b>-</b>
<b>NET POSITION</b>				
Investment in capital assets, net of related debt	25,712,203	14,026,227	39,738,430	1,708,441
Restricted for:				
Debt service	157,211	10,529	167,740	-
Construction	377,323	227,574	604,897	-
Unrestricted	3,050,981	638,267	3,689,248	6,210,826
<b>Total Net Position</b>	<b>\$ 29,297,718</b>	<b>\$ 14,902,597</b>	<b>\$ 44,200,315</b>	<b>\$ 7,919,267</b>

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, 2017

PROGRAM ACTIVITIES	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION			COMPONENT UNIT
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	HEDCO
<b>PRIMARY GOVERNMENT:</b>								
Governmental activities								
General government	\$ 2,393,532	\$ 809,637	\$ -	\$ -	\$ (1,583,895)	\$ -	\$ (1,583,895)	
Public safety	5,474,003	431,523	-	-	(5,042,480)	-	(5,042,480)	
Sanitation	1,751,533	2,147,081	-	-	395,548	-	395,548	
Public services	2,588,031	102,317	-	-	(2,485,714)	-	(2,485,714)	
Interest on debt	102,308	-	-	-	(102,308)	-	(102,308)	
Total governmental activities	<u>12,309,407</u>	<u>3,490,558</u>	<u>-</u>	<u>-</u>	<u>(8,818,849)</u>	<u>-</u>	<u>(8,818,849)</u>	
Business-type activities								
Water and sewer	5,341,840	4,579,065	-	-	-	(762,775)	(762,775)	
Total business-type activities	<u>5,341,840</u>	<u>4,579,065</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(762,775)</u>	<u>(762,775)</u>	
Total primary government	<u>\$ 17,651,247</u>	<u>\$ 8,069,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(8,818,849)</u>	<u>(762,775)</u>	<u>(9,581,624)</u>	
Component units								
Economic development	<u>\$ 418,637</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 280,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (138,637)</u>
General revenues								
Taxes								
Property taxes					3,539,171	-	3,539,171	-
Franchise taxes					661,565	-	661,565	-
Sales and use taxes					3,905,695	-	3,905,695	1,298,575
Other taxes					273,943	-	273,943	-
Investment earnings					27,084	8,772	35,856	46,277
Miscellaneous					204,852	12,266	217,118	2
Transfers					498,130	(498,130)	-	-
Total general revenues and transfers					<u>9,110,440</u>	<u>(477,092)</u>	<u>8,633,348</u>	<u>1,344,854</u>
Change in net position					291,591	(1,239,867)	(948,276)	1,206,217
Net position - beginning of year					29,006,127	16,142,464	45,148,591	6,713,050
Net position - end of year					<u>\$ 29,297,718</u>	<u>\$ 14,902,597</u>	<u>\$ 44,200,315</u>	<u>\$ 7,919,267</u>

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



CITY OF HENDERSON, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2017

	GENERAL	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,156,680	\$ 1,612,597	\$ 3,769,277
Investments	3,557,482	10,748	3,568,230
Receivables:			
Taxes:			
Sales	894,349	-	894,349
Property	322,595	-	322,595
Franchise	123,676	76,668	200,344
Hotel/Motel	-	57,475	57,475
Accounts:			
Warrants	202,909	-	202,909
Sanitation	84,604	-	84,604
Other	-	117,496	117,496
Special Assessments	-	28,006	28,006
Due from other governments	-	-	-
Other	48,454	-	48,454
Due from other funds	-	81,922	81,922
Total Assets	<u>7,390,749</u>	<u>1,984,912</u>	<u>9,375,661</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable and accrued expenses	684,301	185,233	869,534
Due to component unit	223,587	-	223,587
Due to other funds	183	1,914	2,097
Due to other governments	26,177	-	26,177
Unearned revenue	-	86,294	86,294
Total Liabilities	<u>934,248</u>	<u>273,441</u>	<u>1,207,689</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - property taxes	321,961		321,961
Unavailable revenue - fines	202,909	-	202,909
Total Deferred Inflows of Resources	<u>524,870</u>	<u>-</u>	<u>524,870</u>
<b>Fund Balances:</b>			
Nonspendable	65,500	-	65,500
Restricted	59,681	474,853	534,534
Committed	-	1,236,618	1,236,618
Unassigned	5,806,450	-	5,806,450
Total Fund Balances	<u>5,931,631</u>	<u>1,711,471</u>	<u>7,643,102</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 7,390,749</u>	<u>\$ 1,984,912</u>	<u>\$ 9,375,661</u>

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

CITY OF HENDERSON, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2017

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)	\$ 7,643,102
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	28,939,805
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	664,870
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.	(25,255)
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.	(3,645,233)
Recognition of the City's net pension liability and related deferred resource inflows and outflows occurs in the Statement of Net Position but is not reported in the funds.	(4,279,571)
Net position of governmental activities	<u>\$ 29,297,718</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, 2017**

	GENERAL	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>			
Taxes:			
Sales	\$ 3,905,695	\$ -	\$ 3,905,695
Property	2,698,351	804,339	3,502,690
Franchise	456,323	205,242	661,565
Hotel/Motel	-	273,943	273,943
Permits and fees	73,252	-	73,252
Charges for services	2,362,498	520,968	2,883,466
Fines and forfeitures	434,910	-	434,910
Intergovernmental	102,317	-	102,317
Interest	21,444	5,626	27,070
Miscellaneous	76,686	147,840	224,526
<b>Total Revenues</b>	<b>10,131,476</b>	<b>1,957,958</b>	<b>12,089,434</b>
<b>EXPENDITURES</b>			
Current:			
General government:			
Administration	537,858	-	537,858
Finance	291,857	-	291,857
Municipal court	313,249	-	313,249
Nondepartmental	1,045,545	-	1,045,545
Public safety:			
Police	2,907,480	1,893	2,909,373
Fire	1,595,802	-	1,595,802
Sanitation	1,735,065	16,468	1,751,533
Public services:			
Tourism	-	173,291	173,291
Civic center	-	138,987	138,987
Main street	-	33,008	33,008
Streets	1,260,390	82,617	1,343,007
Parks	63,900	20,916	84,816
Activity center	7,382	-	7,382
Cemeteries	521	12,157	12,678
Community development	358,551	19,015	377,566
Animal Shelter	176,601	-	176,601
Capital outlay	797,730	1,632,239	2,429,969
Debt service:			
Bond principal	-	609,265	609,265
Capital lease principal	38,825	-	38,825
Interest and fees	13,304	90,223	103,527
<b>Total Expenditures</b>	<b>11,144,060</b>	<b>2,830,079</b>	<b>13,974,139</b>
<b>Revenues Over (Under) Expenditures</b>	<b>\$ (1,012,584)</b>	<b>\$ (872,121)</b>	<b>\$ (1,884,705)</b>

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, 2017**

	<u>GENERAL</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	411,930	562,617	974,547
Transfers out	(411,417)	(65,000)	(476,417)
Loan payment	-	(140,000)	(140,000)
<b>Total Other Financing Sources (Uses)</b>	<u>513</u>	<u>357,617</u>	<u>358,130</u>
<b>Net Change in Fund Balances</b>	(1,012,071)	(514,504)	(1,526,575)
<b>Fund Balance, October 1, 2016</b>	<u>6,943,702</u>	<u>2,225,975</u>	<u>9,169,677</u>
<b>Fund Balance, September 30, 2017</b>	<u>\$ 5,931,631</u>	<u>\$ 1,711,471</u>	<u>\$ 7,643,102</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, 2017**

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

Net change in fund balances - total governmental funds	\$ (1,526,575)
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.	1,334,697
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the government wide statements.	33,094
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.	649,309
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	(198,368)
Internal Service Funds are used by management to charge the costs of health insurance to individual funds.	(566)
	<hr/>
Change in net position of governmental activities	<u>\$ 291,591</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 BALANCE - BUDGET AND ACTUAL**  
**(NON-GAAP BUDGET BASIS)**  
**GENERAL FUND**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE/(NEGATIVE)
<b>REVENUES</b>				
Taxes:				
Sales	\$ 5,774,736	\$ 5,774,736	\$ 5,345,079	\$ (429,657)
Property	2,798,000	2,798,000	2,698,351	(99,649)
Franchise	600,000	600,000	456,323	(143,677)
Licenses and permits	90,000	90,000	73,252	(16,748)
Charges for services	2,060,835	2,365,480	2,362,498	(2,982)
Fines and forfeitures	434,700	434,700	434,910	210
Intergovernmental	241,881	241,881	102,317	(139,564)
Interest income	15,400	15,400	21,444	6,044
Miscellaneous income	54,600	55,375	76,686	21,311
Total Revenues	<u>12,070,152</u>	<u>12,375,572</u>	<u>11,570,860</u>	<u>(804,712)</u>
<b>EXPENDITURES</b>				
General administration	529,850	558,850	537,858	20,992
Treasury and financial	319,259	319,259	291,857	27,402
Municipal court	349,286	349,286	313,249	36,037
Nondepartmental	1,037,121	1,049,096	1,045,545	3,551
Police	3,032,427	3,164,992	3,029,799	135,193
Fire	1,687,543	1,695,283	2,227,790	(532,507)
Sanitation	1,685,325	1,921,232	1,735,065	186,167
Streets	1,313,676	1,313,676	1,317,117	(3,441)
Parks	68,000	68,000	63,900	4,100
Activity center	12,300	12,300	7,382	4,918
Cemeteries	7,000	7,000	521	6,479
Community development	308,575	372,575	358,551	14,024
Animal control	180,169	180,168	176,601	3,567
Equipment replacement	207,000	361,915	343,034	18,881
Total Expenditures	<u>10,737,531</u>	<u>11,373,632</u>	<u>11,448,269</u>	<u>(74,637)</u>
Revenues Over (Under) Expenditures	1,332,621	1,001,940	122,591	(879,349)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	406,430	406,430	411,930	5,500
Transfers out	(317,629)	(317,629)	(280,025)	37,604
Sales tax payments to HEDCO	(1,439,384)	(1,439,384)	(1,439,384)	-
Capital lease	(52,130)	(52,130)	(38,825)	13,305
Loan proceeds	-	-	444,672	444,672
Total Other Financing Sources (Uses)	<u>(1,402,713)</u>	<u>(1,402,713)</u>	<u>(901,632)</u>	<u>501,081</u>
Revenues and Other Sources Over (Under)				
Expenditures and Other Uses - Budget Basis	(70,092)	(400,773)	(779,041)	(378,268)
Budget Basis to GAAP Basis Adjustment (Note A)	-	-	(233,030)	(233,030)
Revenues and Other Sources Over (Under)				
Expenditures and Other Uses - GAAP Basis	(70,092)	(400,773)	(1,012,071)	(611,298)
Fund Balance, October 1, 2016	<u>3,943,702</u>	<u>6,943,702</u>	<u>6,943,702</u>	<u>-</u>
Fund Balance, September 30, 2017	<u>\$ 3,873,610</u>	<u>\$ 6,542,929</u>	<u>\$ 5,931,631</u>	<u>\$ (611,298)</u>

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

**Basis Presentation:**

**Uses/Outflows of Resources:**

**Differences - Budget to GAAP**

Transfers on expenditures paid in other funds	(131,392)
Prepayment of capital lease proceeds not received until the current year	(444,672)
Capital expenditures recorded in other funds	343,034
<b>Net Change in Budget Basis Presentation and GAAP Basis Presentation</b>	<u>\$ (233,030)</u>

CITY OF HENDERSON, TEXAS  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2017

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 841,361	\$ -
Investments	1,127,118	-
Accounts receivable (net)	669,952	-
Accrued interest receivable	4	-
<b>Total Current Assets</b>	<b>2,638,435</b>	<b>-</b>
<b>Restricted Current Assets:</b>		
Temporarily Restricted		
Cash and cash equivalents	343,103	11,216
<b>Total Restricted Current Assets</b>	<b>343,103</b>	<b>11,216</b>
<b>Capital Assets:</b>		
Land	410,131	-
Construction in progress	-	-
Motor vehicles	446,977	-
Machinery and equipment	1,373,216	-
Water and sewer system	29,692,744	-
Less: Accumulated depreciation	(14,298,863)	-
<b>Total Capital Assets Net of Accumulated Depreciation</b>	<b>17,624,205</b>	<b>-</b>
<b>Total Assets</b>	<b>20,605,743</b>	<b>11,216</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred charge on refunding (net of amortization)	64,787	-
Deferred charge on TMRS pension	433,626	-
<b>Total Deferred Outflows of Resources</b>	<b>498,413</b>	<b>-</b>

(continued)

(continued)

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

CITY OF HENDERSON, TEXAS  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2017

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
<b>Unrestricted current liabilities:</b>		
Accounts payable	\$ 432,489	\$ -
Claims payable	-	36,471
Accrued expenses	32,313	-
Current portion of compensated absences payable	4,133	-
Due to other funds	79,826	-
<b>Total Unrestricted Current Liabilities</b>	<b>548,761</b>	<b>36,471</b>
<b>Current Liabilities Payable from Restricted Assets:</b>		
Accrued interest	5,799	-
Customer deposits	368,309	-
Bonds payable	570,735	-
<b>Total Current Liabilities Payable from Restricted Assets:</b>	<b>944,843</b>	<b>-</b>
<b>Total Current Liabilities</b>	<b>1,493,604</b>	<b>36,471</b>
<b>Noncurrent Liabilities:</b>		
Bonds payable	3,021,444	-
Other post employment benefits liabilities	48,800	-
Compensated absences payable	37,198	-
Net pension liability	1,592,535	-
<b>Total Noncurrent Liabilities</b>	<b>4,699,977</b>	<b>-</b>
<b>Total Liabilities</b>	<b>6,193,581</b>	<b>36,471</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred charge on TMRS pension	7,978	-
<b>Total Deferred Inflows of Resources</b>	<b>7,978</b>	<b>-</b>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	14,026,227	-
Restricted for:		
Debt service	10,529	-
Construction	227,574	-
Unrestricted	638,267	(25,255)
<b>Total Net Position</b>	<b>\$ 14,902,597</b>	<b>\$ (25,255)</b>

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



**CITY OF HENDERSON, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	<u>Water and Sewer Fund</u>	<u>Self-Insurance Fund</u>
<b>OPERATING REVENUES</b>		
Water sales	\$ 2,699,451	\$ -
Sewer charges	1,769,347	-
Charges for other services	110,267	-
<b>Total Operating Revenues</b>	<b>4,579,065</b>	<b>-</b>
<b>OPERATING EXPENSES</b>		
Administration	652,702	580
Cost of sales and services	3,673,164	-
Depreciation and amortization	909,437	-
<b>Total Operating Expenses</b>	<b>5,235,303</b>	<b>580</b>
<b>Operating Income (Loss)</b>	<b>(656,238)</b>	<b>(580)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest and fiscal charge expense	(105,939)	-
Other income (expense)	(598)	-
Interest income	8,772	14
Gain on sale of property	12,266	-
<b>Total Non-Operating Revenue (Expenses)</b>	<b>(85,499)</b>	<b>14</b>
<b>INCOME BEFORE TRANSFERS</b>	<b>(741,737)</b>	<b>(566)</b>
Transfers in	131,392	-
Transfers out	(629,522)	-
<b>Total Transfers</b>	<b>(498,130)</b>	<b>-</b>
<b>Change in Net Position</b>	<b>(1,239,867)</b>	<b>(566)</b>
Net Position, October 1, 2016	16,142,464	(24,689)
<b>Net Position, September 30, 2017</b>	<b>\$ 14,902,597</b>	<b>\$ (25,255)</b>

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, 2017**

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers and users	\$ 4,565,772	\$ -
Cash paid to suppliers for goods and services	(2,517,533)	(580)
Cash paid to employees for services	(1,398,849)	-
	649,390	(580)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Amounts received on interfund loans	395,053	-
Transfers in	131,392	-
Transfers out	(629,522)	-
	(103,077)	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchases or construction of capital assets	(580,289)	-
Purchases of investments	(1,101,867)	-
Proceeds from sale of investments	-	572
Proceeds from sale of capital assets	12,267	-
Interest paid	(107,371)	-
Principal paid on bonds	(525,735)	-
	(2,302,995)	572
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest earned on investments	8,772	14
	8,772	14
Net decrease in cash	(1,747,910)	6
Cash, beginning of period	2,932,374	11,210
Cash, end of period	\$ 1,184,464	\$ 11,216
<b>Reconciliation to Exh 7</b>		
Cash and cash equivalents - current asset	\$ 841,361	\$ -
Cash and cash equivalents - temporarily restricted	343,103	11,216
Total cash, end of period	\$ 1,184,464	\$ 11,216

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, 2017

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	<u>Water and Sewer Fund</u>	<u>Self-Insurance Fund</u>
<b>Reconciliation of Operating Income (Loss) To Net Cash Provided By (Used In) Operating Activities:</b>		
Operating income (loss)	\$ (656,238)	\$ (580)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	909,437	-
Pension expense	97,993	-
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	(21,152)	-
Increase (decrease) in accounts payable	230,378	-
Increase (decrease) in accrued expenses	32,313	-
Increase (decrease) in post employment benefits liabilities	48,800	-
Increase (decrease) in customer deposits	7,859	-
Total adjustments	<u>1,305,628</u>	<u>-</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 649,390</u>	<u>\$ (580)</u>

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

**CITY OF HENDERSON, TEXAS  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
SEPTEMBER 30, 2017**

	<u>FIREMEN RETIREMENT PENSION TRUST</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 1,162</u>
<b>Total Assets</b>	<u>1,162</u>
<b>LIABILITIES</b>	
Accounts payable	<u>-</u>
<b>Total Liabilities</b>	<u>-</u>
<b>NET POSITION</b>	
Held in trust for pension benefits	<u>1,162</u>
<b>Total Net Position</b>	<u><u>\$ 1,162</u></u>

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, 2017**

	<u>FIREMEN RETIREMENT PENSION TRUST</u>
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ 3,000
Investment income:	
Interest and dividend income	<u>4</u>
<b>Total Additions</b>	<u>3,004</u>
<b>DEDUCTIONS</b>	
Benefits	<u>2,300</u>
<b>Total Deductions</b>	<u>2,300</u>
<b>Change in net position</b>	704
<b>Net Position - beginning of year</b>	<u>458</u>
<b>Net Position - end of year</b>	<u><u>\$ 1,162</u></u>

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

**CITY OF HENDERSON, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**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 VIII 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, 2017**

**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, 2017**

**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.



**CITY OF HENDERSON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**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, 2017**

**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. 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.

**8. Long-term Obligations**

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

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

**CITY OF HENDERSON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

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

**9. 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 two items that qualify for reporting in this category: unamortized deferred amount on refunding and deferred outflows of resources related to pensions.

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 two 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.

**10. 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.

**11. 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.

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.

**CITY OF HENDERSON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

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

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.

**12. 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.

**13. 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.

**14. 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.

**CITY OF HENDERSON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**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 “Certain long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.” The details of this \$664,870 difference are as follows:

Delinquent Property Taxes Receivable	\$	321,961
Outstanding Warrants Receivable		202,909
Note Receivable		<u>140,000</u>
Net Adjustment to <i>Increase</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Position-Governmental Activities	\$	<u><u>664,870</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 \$(3,645,233) difference are as follows:

Certificates of Obligation Payable	\$	(2,784,800)
Unamortized Premium on Issue		(32,535)
Unamortized Deferred Loss on Refunding		12,188
Capital Lease Payable		(405,846)
Accrued Compensated Absences		(260,325)
Other Post-Employment Benefits (OPEB) Liability		<u>(173,915)</u>
Net Adjustment to <i>Decrease</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Position-Governmental Activities	\$	<u><u>(3,645,233)</u></u>

The reconciliation states that “Recognition of the City’s net pension 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 \$(4,279,571) difference are as follows:

Net Pension Liability	\$	(5,826,990)
Deferred Resource Inflow		1,576,513
Deferred Resource Outflow		<u>(29,094)</u>
Net Adjustment to <i>Decrease</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Position-Governmental Activities	\$	<u><u>(4,279,571)</u></u>

**CITY OF HENDERSON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**A. 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**

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 \$1,334,697 difference are as follows:

Capital Outlay Expenditures	\$ 2,348,426
Depreciation Expense	<u>(1,013,729)</u>
Net Adjustment to <i>Increase</i> Net Changes in Fund Balances-Total Governmental Funds to Arrive at Changes in Net Position-Governmental Activities	<u>\$ 1,334,697</u>

Another element of the reconciliation states that "Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds." The details of this \$33,094 difference are as follows:

Current Year Increase/(Decrease) in Net Property Taxes Receivable	\$ 36,480
Current Year Increase/(Decrease) in Net Outstanding Warrants Receivable	<u>(3,386)</u>
Net Adjustment to <i>Increase</i> Net Changes in Fund Balances-Total Governmental Funds to Arrive at Changes in Net Position-Governmental Activities	<u>\$ 33,094</u>

Another element of the reconciliation states that "The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position." The details of this \$649,309 difference are as follows:

Principal Payments on Certificates of Obligation	\$ 648,090
Amortization of Bond Defeasance	(3,241)
Amortization of Bond Premium	<u>4,460</u>
Net Adjustment to <i>Increase</i> Net Changes in Fund Balances-Total Governmental Funds to Arrive at Changes in Net Position-Governmental Activities	<u>\$ 649,309</u>

**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.

**CITY OF HENDERSON, TEXAS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**A. Budgetary Information - Continued**

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, 2017, 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, 2017, actual expenditures were below budgeted amounts in every department.

**NOTE 4 — DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

Cash and investments as of September 30, 2017 consist of and are classified in the accompanying financial statements as follows:

Statement of net position:	
Primary Government	
Cash and cash equivalents	\$ 4,610,638
Restricted cash and cash equivalents	<u>354,319</u>
Total Cash and cash equivalents	<u><u>4,964,957</u></u>
Cash on hand	\$ 2,560
Certificates of deposit	1,070,000
Savings and checking accounts	<u>3,892,397</u>
Total Cash and Investments	<u><u>\$ 4,964,957</u></u>

At September 30, 2017, the carrying amount of the City's deposits with financial institutions, including time deposits and certificates of deposits, was \$4,964,957 and the bank balance was \$5,012,537. 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.

**CITY OF HENDERSON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**A. Deposits and Investments - Continued**

During the year ended September 30, 2017, 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, 2017, is shown below.

<u>External Investment Pool</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Credit Risk</u>
TexSTAR	\$4,695,348	0.08	AAAm
	<u>\$4,695,348</u>		

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, 2017, 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.

**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.



**CITY OF HENDERSON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**A. Deposits and Investments - Continued**

**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 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.

**CITY OF HENDERSON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**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:

	General Fund	Water & Sewer Enterprise	Other Governmental Funds	Total
Receivables:				
Accounts	\$ 545,184	\$ 700,395	\$ 117,496	\$ 1,363,075
Taxes	1,370,355	-	134,143	1,504,498
Assessments	-	-	28,006	28,006
Miscellaneous	48,453	4	-	48,457
Gross receivables	<u>1,963,992</u>	<u>700,399</u>	<u>279,645</u>	<u>2,944,036</u>
Less: Allowance for Uncollectables	<u>(287,406)</u>	<u>(30,443)</u>	<u>-</u>	<u>(317,849)</u>
Net Receivables	<u>\$ 1,676,586</u>	<u>\$ 669,956</u>	<u>\$ 279,645</u>	<u>\$ 2,626,187</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 also issued a note receivable in the amount of \$140,000 which will be collected in full in January 2034.

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.

**C. Capital Assets**

Capital asset activity for the year ended September 30, 2017, was as follows:

PRIMARY GOVERNMENT	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
<b>Governmental Activities:</b>				
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$ 1,382,278	\$ 22,607	\$ -	\$ 1,404,885
Construction in progress	1,075,879	1,514,639	2,248,383	342,135
Total Capital Assets, Not Being Depreciated	<u>2,458,157</u>	<u>1,537,246</u>	<u>2,248,383</u>	<u>1,747,020</u>
<b>Capital Assets, Being Depreciated</b>				
Buildings	9,373,091	821,176	-	10,194,267
Improvements other than buildings	3,472,062	376,573	-	3,848,635
Motor Vehicles	1,200,413	179,046	134,268	1,245,191
Equipment	2,873,439	618,684	12,775	3,479,348
Infrastructure	17,367,338	1,064,084	-	18,431,422
Total Capital Assets, Being Depreciated	<u>34,286,343</u>	<u>3,059,563</u>	<u>147,043</u>	<u>37,198,863</u>
<b>Less Accumulated Depreciation For:</b>				
Buildings	1,914,639	229,305	-	2,143,944
Improvements other than buildings	1,814,684	193,029	-	2,007,713
Motor Vehicles	988,676	115,866	134,268	970,274
Equipment	2,428,730	185,664	12,775	2,601,619
Infrastructure	1,992,663	289,865	-	2,282,528
Total Accumulated Depreciation	<u>9,139,392</u>	<u>1,013,729</u>	<u>147,043</u>	<u>10,006,078</u>
Net Total Assets Being Depreciated	<u>25,146,951</u>	<u>2,045,834</u>	<u>-</u>	<u>27,192,785</u>
Governmental Activities Capital Assets, Net	<u>\$ 27,605,108</u>	<u>\$ 3,583,080</u>	<u>\$ 2,248,383</u>	<u>\$ 28,939,805</u>

**CITY OF HENDERSON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**C. Capital Assets - Continued**

<u>PRIMARY GOVERNMENT</u>	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
<b>Business-Type Activities:</b>				
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$ 410,131	\$ -	\$ -	\$ 410,131
Construction in Progress	-	-	-	-
Total Capital Assets, Not Being Depreciated	<u>410,131</u>	<u>-</u>	<u>-</u>	<u>410,131</u>
<b>Capital Assets, Being Depreciated</b>				
Water and Sewer System	29,243,847	448,897	-	29,692,744
Machinery and Equipment	1,725,482	131,392	36,681	1,820,193
Total Capital Assets, Being Depreciated	<u>30,969,329</u>	<u>580,289</u>	<u>36,681</u>	<u>31,512,937</u>
<b>Less Accumulated Depreciation For:</b>				
Water and Sewer System	12,283,481	784,989	-	13,068,470
Machinery and Equipment	1,151,982	115,092	36,681	1,230,393
Total Accumulated Depreciation	<u>13,435,463</u>	<u>900,081</u>	<u>36,681</u>	<u>14,298,863</u>
Net Total Assets Being Depreciated	<u>17,533,866</u>	<u>(319,792)</u>	<u>-</u>	<u>17,214,074</u>
Business-Type Activities Capital Assets, Net	<u>\$ 17,943,997</u>	<u>\$ (319,792)</u>	<u>\$ -</u>	<u>\$ 17,624,205</u>

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

<b>Governmental Activities:</b>	
General Government	\$ 97,610
Public Safety	696,837
Public Services	219,282
Total depreciation expense, governmental activities	<u>\$ 1,013,729</u>
<b>Business-Type Activities:</b>	
Water and Sewer Operations	<u>\$ 900,081</u>

As of September 30, 2017, the City has an active construction project. The project is for street construction. At year-end the City's commitment with contractors are as follows:

<u>Project</u>	<u>Spent To-Date</u>	<u>Estimated Remaining Construction</u>
Master Street Construction #20	\$ 342,135	\$ 113,428

**CITY OF HENDERSON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

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

The composition of interfund balances as of September 30, 2017, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water and Sewer	\$ 629
Water and Sewer	General Fund	812
Water and Sewer	Tourism Fund	1,914
2012 Bond Fund	Water and Sewer	<u>76,471</u>
Total		<u>\$ 79,826</u>

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

The composition of interfund transfers as of September 30, 2017, is as follows:

	<u>Transfers In</u>					<u>Total</u>
	<u>General</u>	<u>Water &amp; Sewer</u>	<u>Street &amp; Drainage</u>	<u>Main Street</u>	<u>Cemetery</u>	
<u>Transfers Out:</u>						
General	\$ -	\$ 131,392	\$ 263,025	\$ 17,000	\$ -	\$ 411,417
General Construction	-	-	-	-	65,000	65,000
Water and Sewer	<u>411,930</u>	<u>-</u>	<u>217,592</u>	<u>-</u>	<u>-</u>	<u>629,522</u>
Total transfers out/in	<u>\$ 411,930</u>	<u>\$ 131,392</u>	<u>\$ 480,617</u>	<u>\$ 17,000</u>	<u>\$ 65,000</u>	<u>\$1,105,939</u>

**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, 2017:

	<u>GENERAL OBLIGATION</u>	<u>REVENUE</u>	<u>TOTAL</u>
Bonds payable - October 1, 2016	\$ 3,825,000	\$ 3,670,000	\$ 7,495,000
Additions	-	-	-
Retirements	<u>(765,000)</u>	<u>(370,000)</u>	<u>(1,135,000)</u>
Bonds payable - September 30, 2017	<u>\$ 3,060,000</u>	<u>\$ 3,300,000</u>	<u>\$ 6,360,000</u>

**CITY OF HENDERSON, TEXAS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**E. Long-Term Debt - Continued**

Original issue amounts currently outstanding are as follows:

Purpose	Interest Rates	Original Issue Amount
<b>Governmental Activities:</b>		
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
2016 Henderson Federal Savings Bank Capital Lease	3.00%	444,672
<b>Business-Type Activities:</b>		
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%	<u>970,000</u>
<b>Total General Obligation Bonds and Certificates of Obligation</b>		<b><u>\$ 12,392,272</u></b>

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

Year Ending September 30	GOVERNMENTAL		BUSINESS-TYPE		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2018	\$ 674,219	\$ 87,823	\$ 570,735	\$ 91,036	\$ 1,423,813
2019	692,782	71,470	568,370	76,789	1,409,411
2020	261,382	54,313	526,005	63,787	905,487
2021	270,019	47,323	518,640	49,965	885,947
2022	273,693	39,588	541,275	35,860	890,416
2023-2026	<u>1,018,551</u>	<u>70,150</u>	<u>850,175</u>	<u>38,986</u>	<u>1,977,862</u>
<b>Total</b>	<b><u>\$ 3,190,646</u></b>	<b><u>\$ 370,667</u></b>	<b><u>\$ 3,575,200</u></b>	<b><u>\$ 356,423</u></b>	<b><u>\$ 7,492,936</u></b>

**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, 2017, 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, 2017 are as follows:

Debt Issue	Outstanding Balance as of September 30, 2017
City of Henderson 2001 Waterworks and Sewer System Revenue Bonds	\$ 1,320,000
City of Henderson 2004 Waterworks and Sewer Certificates of Obligation	875,000
City of Henderson 2004 Waterworks and Sewer System Limited Pledge Revenue	<u>875,000</u>
<b>Certificates of Obligations</b>	<b><u>\$ 3,070,000</u></b>

**CITY OF HENDERSON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**E. Long-Term Debt – Continued**

**Changes in Long-Term Liabilities**

Long term liability activity for the year ended September 30, 2017 was as follows:

	Beginning Balance 10/01/16	Additions	Reductions	Ending Balance 09/30/17	Due Within One Year
<b>Governmental Activities:</b>					
Certificates of Obligation	\$ 3,394,065	\$ -	\$ 609,265	\$ 2,784,800	\$ 634,265
Add: Premium on Issue	36,995	-	4,460	32,535	-
Capital Lease	444,672	-	38,826	405,846	39,954
OPEB Liability	210,071	-	36,156	173,915	-
Compensated Absences	286,990	-	26,665	260,325	26,033
Net Pension Liability	<u>5,521,882</u>	<u>305,108</u>	<u>-</u>	<u>5,826,990</u>	<u>-</u>
<b>Governmental Activity Long-Term Liabilities</b>	<b><u>\$ 9,894,675</u></b>	<b><u>\$ 305,108</u></b>	<b><u>\$ 715,372</u></b>	<b><u>\$ 9,484,411</u></b>	<b><u>\$ 700,252</u></b>
<b>Business-Type Activities:</b>					
General Obligation Bonds	2,570,000	-	365,000	2,205,000	410,000
Add: Premium on Issue	19,406	-	2,437	16,969	-
Certificates of Obligation	<u>1,530,935</u>	<u>-</u>	<u>160,735</u>	<u>1,370,200</u>	<u>160,735</u>
<b>Total Bonds Payable</b>	<b><u>4,120,341</u></b>	<b><u>-</u></b>	<b><u>528,172</u></b>	<b><u>3,592,169</u></b>	<b><u>570,735</u></b>
OPEB Liability	-	48,800	-	48,800	-
Compensated Absences	41,331	-	-	41,331	4,133
Net Pension Liability	<u>1,514,167</u>	<u>78,368</u>	<u>-</u>	<u>1,592,535</u>	<u>-</u>
<b>Business-Type Activity Long-Term Liabilities</b>	<b><u>\$ 5,675,839</u></b>	<b><u>\$ 127,168</u></b>	<b><u>\$ 528,172</u></b>	<b><u>\$ 5,274,835</u></b>	<b><u>\$ 574,868</u></b>

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.

**F. Commitments Under Noncapitalized Leases**

Commitments under operating lease agreements for equipment provide for minimum future rental payments as of September 30, 2017, as follows:

<u>Year Ending September 30</u>	
2018	\$ 16,787
2019	13,890
2020	9,868
2021	5,141
2022	<u>1,603</u>
<b>Total Minimum Rentals</b>	<b><u>\$ 47,289</u></b>
<b>Rental Expenditures in 2017</b>	<b><u>\$ 15,184</u></b>

**CITY OF HENDERSON, TEXAS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**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.

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, 2017:

Future minimum rental payments:	
Year Ending September 30	Amounts
2018	\$ 46,819
2019	46,819
2020	46,819
2021	46,819
2022	47,230
Thereafter	236,221
	\$ 470,727

**NOTE 5 — DEFINED BENEFIT PENSION PLAN**

**A. Plan Description**

The City participates as one of 860 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](http://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, 2017**

**B. Benefits Provided - Continued**

Plan provisions for the City were as follows:

	<u>Plan Year 2015</u>	<u>Plan Year 2016</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, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>
Inactive employees or beneficiaries currently receiving benefits	65	68	69
Inactive employees entitled to but not yet receiving benefits	53	59	55
Active employees	115	117	123
	233	244	247

**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%, and 15.94% in calendar years 2014, 2015, 2016, and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$933,672 and were equal to the required contributions.

**E. Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.



**CITY OF HENDERSON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**F. Actuarial Assumptions**

The Total Pension Liability in the December 31, 2016 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

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.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. 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 2017 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	100.00%	

**CITY OF HENDERSON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**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.

	Total Pension Liability	Increase (Decrease) Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2015	\$ 29,731,202	\$ 22,695,153	\$ 7,036,049
Changes for the year:			
Service Cost	897,939	-	897,939
Interest	1,995,617	-	1,995,617
Change in benefit terms	-	-	-
Difference between expected/actual experience	291,787	-	291,787
Changes in assumptions	-	-	-
Contributions - employer	-	883,082	(883,082)
Contributions - employee	-	402,971	(402,971)
Net investment income	-	1,534,069	(1,534,069)
Benefits payments, including refunds of employee contributions	(1,230,942)	(1,230,942)	-
Administrative expenses	-	(17,322)	17,322
Other charges	-	(933)	933
Net changes	1,954,401	1,570,925	383,476
Balance at 12/31/2016	<u>\$ 31,685,603</u>	<u>\$ 24,266,078</u>	<u>\$ 7,419,525</u>

**H. 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	\$ 12,570,605	\$ 7,419,525	\$ 3,290,355

**I. 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.tmr.com](http://www.tmr.com).

**CITY OF HENDERSON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

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

For the year ended September 30, 2017, the city recognized pension expense in the amount of \$1,405,808.

At September 30, 2017, 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	\$ 233,546	\$ 25,609
Changes in actuarial assumptions	43,740	-
Differences between projected and actual investment earnings	1,044,223	-
Amortization of prior period deferred outflows	-	1,717
Amortization of prior period deferred inflows	-	-
Contributions subsequent to the measurement date	678,885	-
Total	\$ 2,000,394	\$ 27,326

The City had \$678,885 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, 2017. 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	
2017	\$ 2,339,717
2018	(371,079)
2019	(635,667)
2020	640,097
2021	-
Thereafter	-
	\$ 1,973,068

**K. Other Post-Employment Benefits**

Normal Retirement Benefit Eligibility

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

- An employee must be eligible to retire under the standards of retirement 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 fifteen (15) years of consecutive service prior to retirement with the City.

Vested Termination Benefits

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

**CITY OF HENDERSON, TEXAS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**K. Other Post-Employment Benefits - Continued**

Death-in-Service Retirement Benefits

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

Disability Retirement Benefits (Non-Duty and Duty)

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

Dental/Vision Coverage

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

City Contributions to the Plan

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 following schedule outlines years of service with the resulting subsidy paid by the City.

<u>Years of Service with the City</u>	<u>Amount of Premium Paid by the City (Monthly)</u>
15 years	\$ 150
20 years	200
25 years	250
30 years	300
35 years	350

Annual OPEB Cost and Net OPEB Obligation

The City's annual other post-employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameter of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The City's annual OPEB cost for the fiscal year ending September 30, 2017, is as follows:

Annual Required Contribution	\$ 38,976
Interest on OPEB Obligation	9,453
Adjustment to ARC	<u>(8,760)</u>
End of Year Annual OPEB Cost (Expense)	39,669
Net Estimated Employer Contributions	<u>(27,025)</u>
Increase in Net OPEB Obligation	12,644
Beginning of Year Net OPEB Obligation (Asset)	<u>210,070</u>
End of Year Net OPEB Obligation (Asset)	<u><u>\$ 222,714</u></u>

**CITY OF HENDERSON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**K. Other Post-Employment Benefits - Continued**

Trend Information

The City's annual cost, the amount contributed by the employer, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ending September 30, 2017 and the preceding two fiscal years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Amount Contributed</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
9/30/2015	55,874	1,131	2.02%	197,466
9/30/2016	39,628	27,025	68.20%	210,070
9/30/2017	39,670	27,025	68.12%	222,715

Funding Status and Funding Progress

The funded status of the City's retiree health care plan, under GASB Statement No. 45 as of October 1, 2015 is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Funded Ratio (a) / (b)</u>	<u>Unfunded AAL (UAAL) (c) = (b) - (a)</u>	<u>Covered Payroll (d)</u>	<u>UAAL as a Percentage of Covered Payroll (e) = (c) / (d)</u>
10/1/2015	\$ -	\$ 454,833	0.00%	\$ 454,833	\$5,210,241	8.7%

Under the reporting parameters, the City's retiree health care plan is 0% funded with an estimated actuarial accrued liability exceeding actuarial assets by \$454,833 at October 1, 2015. As of the most recent valuation, the ratio of the unfunded actuarial liability to annual covered payroll is 8.7%.

The schedule of funding process, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

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

**CITY OF HENDERSON, TEXAS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**K. Other Post-Employment Benefits – Continued**

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

Actuarial Methods and Assumptions	
Inflation rate	3.00% per annum
Investment rate of return	4.50% net of expenses
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level as a percentage of employee payroll
Amortization period	30-year open amortization
Salary Growth	3.00% per annum
Healthcare cost trend rate	8.00% for FY2016 declining to 4.5% in FY2022 and later

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City’s retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

***TMRS Supplemental Death Benefit Fund***

Plan Description and Participants

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other postemployment benefit,” or OPEB.

Contributions and Funding Policy

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees’ entire careers.

The City’s contributions for retirees to the TMRS SDBF for the fiscal years ended September 30, 2017, 2016, 2015, and 2014 were \$3,576, \$3,402, \$2,759, and \$2,763, respectively, which equaled the required contributions each year.

**CITY OF HENDERSON, TEXAS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**K. Other Post-Employment Benefits – Continued**

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

<u>Plan/Fiscal Year</u>	<u>Annual Required Contribution Rate</u>	<u>Actual Contribution Made</u>	<u>Percentage of ARC Contributed</u>
2014	0.05%	0.05%	100.00%
2015	0.05%	0.05%	100.00%
2016	0.06%	0.06%	100.00%
2017	0.06%	0.06%	100.00%

**NOTE 6 — DEFICIT NET POSITION OR FUND BALANCE**

At September 30, 2017, the City’s Internal Service Fund has a deficit net position in the amount of \$25,255.

**NOTE 7 — 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.

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, 2017.

**CITY OF HENDERSON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 8 — 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, 2017, 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, 2017, the carrying amount of HEDCO’s deposits (cash, certificates of deposit, and interest-bearing money-market accounts) was \$5,057,595 and the bank balance was \$5,061,054. HEDCO’s cash deposits at September 30, 2017 and during the period ended September 30, 2017 were entirely covered by FDIC insurance or by pledged collateral held by HEDCO’s agent bank in HEDCO’s name.

2. Investments

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



**CITY OF HENDERSON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**B. Deposits and Investments - Continued**

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, 2017, 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, 2017**

**C. Receivables**

Receivables at September 30, 2017 are as follows:

Sales Taxes (from City of Henderson)	\$ 223,587
Notes Receivable	<u>933,333</u>
<b>Total</b>	<b><u>\$1,156,920</u></b>

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 (37<sup>th</sup>) 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, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land and investment property	<u>\$1,123,886</u>	<u>\$ 584,555</u>	<u>\$ -</u>	<u>\$1,708,441</u>
Discretely Presented Component Unit Capital Assets, net	<u>\$1,123,886</u>	<u>\$ 584,555</u>	<u>\$ -</u>	<u>\$1,708,441</u>

**E. Risk Management**

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

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

**F. Contingencies and Commitments**

HEDCO has entered into incentive agreements with various entities to encourage economic growth in the City of Henderson and the surrounding area. Generally, the agreements provide money and facilities to new and existing entities in the area for economic development and creating and maintaining jobs. In 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, 2017 was \$148,636. Employer contributions to the plan for the year ended September 30, 2017 were \$10,405.

**CITY OF HENDERSON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 9 — 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, 2017. 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, 2017, 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 10 — SUBSEQUENT EVENTS**

Subsequent events were evaluated through March 9, 2018 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, 2017**

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

CITY OF HENDERSON, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS  
FISCAL YEAR ENDED SEPTEMBER 30, 2017

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

**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	29 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.

**ADDITIONAL SUPPLEMENTAL INFORMATION**

CITY OF HENDERSON, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2017

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	CAPITAL PROJECTS FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
<b>ASSETS</b>				
Cash and cash equivalents	\$ 438,710	\$ 153,953	\$ 1,019,934	\$ 1,612,597
Investments	6,049	3,258	1,441	10,748
Receivables:				
Taxes:				
Franchise	-	-	76,668	76,668
Hotel/Motel	57,475	-	-	57,475
Accounts	-	-	117,496	117,496
Special assessments	-	-	28,006	28,006
Due from Other Funds	-	-	81,922	81,922
<b>Total Assets</b>	<b>\$ 502,234</b>	<b>\$ 157,211</b>	<b>\$ 1,325,467</b>	<b>\$ 1,984,912</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 15,020	\$ -	\$ 170,213	\$ 185,233
Unearned revenue	57,499	-	28,795	86,294
Due to other funds	1,914	-	-	1,914
<b>Total Liabilities</b>	<b>74,433</b>	<b>-</b>	<b>199,008</b>	<b>273,441</b>
Fund Balances:				
Restricted	317,555	157,211	87	474,853
Committed	110,246	-	1,126,372	1,236,618
<b>Total Fund Balances</b>	<b>427,801</b>	<b>157,211</b>	<b>1,126,459</b>	<b>1,711,471</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 502,234</b>	<b>\$ 157,211</b>	<b>\$ 1,325,467</b>	<b>\$ 1,984,912</b>



**CITY OF HENDERSON, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	CAPITAL PROJECTS FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
<b>REVENUES</b>				
Taxes:				
Property	\$ -	804,339	\$ -	\$ 804,339
Franchise	-	-	205,242	205,242
Hotel/Motel	273,943	-	-	273,943
Charges for services	114,543	-	406,425	520,968
Interest	425	457	4,744	5,626
Miscellaneous	147,840	-	-	147,840
<b>Total Revenues</b>	<b>536,751</b>	<b>804,796</b>	<b>616,411</b>	<b>1,957,958</b>
<b>EXPENDITURES</b>				
General government	-	-	-	-
Public safety	1,893	-	-	1,893
Sanitation	-	-	16,468	16,468
Public services:				
Tourism	173,291	-	-	173,291
Civic Center	138,987	-	-	138,987
Main Street	33,008	-	-	33,008
Streets	-	-	82,617	82,617
Parks	-	-	20,916	20,916
Cemeteries	12,157	-	-	12,157
Animal Shelter	-	-	-	-
Community Development	-	-	19,015	19,015
Capital outlay	62,666	-	1,569,573	1,632,239
Debt service:				
Principal	-	609,265	-	609,265
Interest and fees	-	90,223	-	90,223
<b>Total Expenditures</b>	<b>422,002</b>	<b>699,488</b>	<b>1,708,589</b>	<b>2,830,079</b>
Excess (deficiency) of revenues over (under) expenditures	114,749	105,308	(1,092,178)	(872,121)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	17,000	-	545,617	562,617
Transfers out	(65,000)	-	-	(65,000)
Loan payment	-	-	(140,000)	(140,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(48,000)</b>	<b>-</b>	<b>405,617</b>	<b>357,617</b>
Net change in fund balances	66,749	105,308	(686,561)	(514,504)
Fund Balance - October 1, 2016	361,052	51,903	1,813,020	2,225,975
Fund Balance - September 30, 2017	<u>\$ 427,801</u>	<u>\$ 157,211</u>	<u>\$ 1,126,459</u>	<u>\$ 1,711,471</u>

CITY OF HENDERSON, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 SEPTEMBER 30, 2017

	DRUG SEIZURE	TASK FORCE	TOURISM	MAIN STREET	CEMETERY	ANIMAL SHELTER	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
<b>ASSETS</b>							
Cash and cash equivalents	\$ 45,509	\$ 12,070	\$ 265,295	\$ 35,078	\$ 17,806	\$ 62,952	\$ 438,710
Investments	472	-	708	-	4,465	404	6,049
Receivables:							
Hotel/Motel Taxes	-	-	57,475	-	-	-	57,475
Accounts	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 45,981</b>	<b>\$ 12,070</b>	<b>\$ 323,478</b>	<b>\$ 35,078</b>	<b>\$ 22,271</b>	<b>\$ 63,356</b>	<b>\$ 502,234</b>
<b>LIABILITIES</b>							
Accounts payable	-	-	4,561	5,990	14	4,455	15,020
Due to other funds	-	-	1,914	-	-	-	1,914
Unearned revenue	8,109	7,377	42,013	-	-	-	57,499
<b>Total Liabilities</b>	<b>8,109</b>	<b>7,377</b>	<b>48,488</b>	<b>5,990</b>	<b>14</b>	<b>4,455</b>	<b>74,433</b>
<b>FUND BALANCES</b>							
Restricted	37,872	4,693	274,990	-	-	-	317,555
Committed	-	-	-	29,088	22,257	58,901	110,246
<b>Total Fund Balances</b>	<b>37,872</b>	<b>4,693</b>	<b>274,990</b>	<b>29,088</b>	<b>22,257</b>	<b>58,901</b>	<b>427,801</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 45,981</b>	<b>\$ 12,070</b>	<b>\$ 323,478</b>	<b>\$ 35,078</b>	<b>\$ 22,271</b>	<b>\$ 63,356</b>	<b>\$ 502,234</b>

**CITY OF HENDERSON, TEXAS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	DRUG SEIZURE	TASK FORCE	TOURISM	MAIN STREET	CEMETERY	ANIMAL SHELTER	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
<b>REVENUES</b>							
Hotel/Motel occupancy tax	\$ -	\$ -	\$ 273,943	\$ -	\$ -	\$ -	\$ 273,943
Charges for services	-	-	114,543	-	-	-	114,543
Interest	38	-	214	36	92	45	425
Miscellaneous	5,748	-	3,861.00	9,550	27,750	100,931	147,840
<b>Total Revenues</b>	<b>5,786</b>	<b>-</b>	<b>392,561</b>	<b>9,586</b>	<b>27,842</b>	<b>100,976</b>	<b>536,751</b>
<b>EXPENDITURES</b>							
Public Safety	1,893	-	-	-	-	-	1,893
Public Services:							
Tourism	-	-	173,291	-	-	-	173,291
Civic Center	-	-	138,987	-	-	-	138,987
Main Street	-	-	-	33,008	-	-	33,008
Cemeteries	-	-	-	-	12,157	-	12,157
Capital Outlay	-	-	-	-	-	62,666	62,666
<b>Total Expenditures</b>	<b>1,893</b>	<b>-</b>	<b>312,278</b>	<b>33,008</b>	<b>12,157</b>	<b>62,666</b>	<b>422,002</b>
Excess (deficiency) of revenues over (under) expenditures	3,893	-	80,283	(23,422)	15,685	38,310	114,749
<b>OTHER FINANCING SOURCES/(USES):</b>							
Transfers in	-	-	-	17,000	-	-	17,000
Transfers out	-	-	-	-	(65,000)	-	(65,000)
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,000</b>	<b>(65,000)</b>	<b>-</b>	<b>(48,000)</b>
Net change in fund balances	3,893	-	80,283	(6,422)	(49,315)	38,310	66,749
Fund Balance - October 1, 2016	33,979	4,693	194,707	35,510	71,572	20,591	361,052
Fund Balance - September 30, 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>

**CITY OF HENDERSON, TEXAS  
COMBINING BALANCE SHEET  
NONMAJOR CAPITAL PROJECT FUNDS  
SEPTEMBER 30, 2017**

	GENERAL CONSTRUCTION	STREET AND DRAINAGE	2012 SERIES CERTIFICATE OF OBLIGATIONS	CIVIC CENTER	CDBG GRANT	TOTAL NONMAJOR CAPITAL PROJECT FUNDS
<b>ASSETS</b>						
Cash and cash equivalents	\$ 747,223	\$ 272,624	\$ -	\$ 46	\$ 41	\$ 1,019,934
Investments	690	751	-	-	-	1,441
Receivables:						
Franchise taxes	-	76,668	-	-	-	76,668
Accounts	117,496	-	-	-	-	117,496
Special assessments	-	28,006	-	-	-	28,006
Due from Other Funds	-	-	81,922	-	-	81,922
<b>Total Assets</b>	<b>\$ 865,409</b>	<b>\$ 378,049</b>	<b>\$ 81,922</b>	<b>\$ 46</b>	<b>\$ 41</b>	<b>\$ 1,325,467</b>
<b>LIABILITIES</b>						
Accounts payable	18,152	152,061	-	-	-	170,213
Due to other funds	-	-	-	-	-	-
Unearned revenue	-	28,795	-	-	-	28,795
<b>Total Liabilities</b>	<b>18,152</b>	<b>180,856</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>199,008</b>
<b>FUND BALANCES</b>						
Restricted	-	-	-	46	41	87
Committed	847,257	197,193	81,922	-	-	1,126,372
Unassigned	-	-	-	-	-	-
<b>Total Fund Balances</b>	<b>847,257</b>	<b>197,193</b>	<b>81,922</b>	<b>46</b>	<b>41</b>	<b>1,126,459</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 865,409</b>	<b>\$ 378,049</b>	<b>\$ 81,922</b>	<b>\$ 46</b>	<b>\$ 41</b>	<b>\$ 1,325,467</b>

**CITY OF HENDERSON, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR CAPITAL PROJECT FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	GENERAL CONSTRUCTION	STREET AND DRAINAGE	2012 SERIES CERTIFICATE OF OBLIGATIONS	CIVIC CENTER	CDBG GRANT	TOTAL NONMAJOR CAPITAL PROJECT FUNDS
<b>REVENUES</b>						
Franchise taxes	\$ -	\$ 205,242	\$ -	\$ -	\$ -	\$ 205,242
Charges for services	306,888	71,708	-	27,829	-	406,425
Intergovernmental	-	-	-	-	-	-
Interest	2,107	1,638	997	2	-	4,744
Miscellaneous	-	-	-	-	-	-
<b>Total Revenues</b>	<b>308,995</b>	<b>278,588</b>	<b>997</b>	<b>27,831</b>	<b>-</b>	<b>616,411</b>
<b>EXPENDITURES</b>						
General government	-	-	-	-	-	-
Sanitation	16,468	-	-	-	-	16,468
Public Services:						
Civic Center	-	-	-	-	-	-
Streets	-	82,617	-	-	-	82,617
Parks	20,916	-	-	-	-	20,916
Community Development	19,015	-	-	-	-	19,015
Capital Outlay	189,351	1,366,819	-	13,403	-	1,569,573
<b>Total Expenditures</b>	<b>245,750</b>	<b>1,449,436</b>	<b>-</b>	<b>13,403</b>	<b>-</b>	<b>1,708,589</b>
Excess (deficiency) of revenues over (under) expenditures	63,245	(1,170,848)	997	14,428	-	(1,092,178)
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	65,000	480,617	-	-	-	545,617
Transfers out	-	-	-	-	-	-
Loan payment	(140,000)	-	-	-	-	(140,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(75,000)</b>	<b>480,617</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>405,617</b>
Net change in fund balances	(11,755)	(690,231)	997	14,428	-	(686,561)
Fund Balance - October 1, 2016	859,012	887,424	80,925	(14,382)	41	1,813,020
Fund Balance - September 30, 2017	<b>\$ 847,257</b>	<b>\$ 197,193</b>	<b>\$ 81,922</b>	<b>\$ 46</b>	<b>\$ 41</b>	<b>\$ 1,126,459</b>

## **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, 2017, 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 9, 2018. 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 9, 2018