

CITY OF HENDERSON, TEXAS
BASIC FINANCIAL STATEMENTS and
REQUIRED SUPPLEMENTARY and OTHER
INFORMATION
FISCAL YEAR ENDED SEPTEMBER 30, 2020

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
Members American Institute of Certified Public Accountants and Private Companies Practice Section

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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, 2020, and the related notes to the financial statements, which collectively comprise City of Henderson, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Henderson Economic Development Corporation, which represent 13.97 percent, 22.65 percent, 8.80 percent, respectively, of the assets, net position, and revenue of the governmental activities. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amount included for the Henderson Economic Development Corporation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Henderson, Texas , as of September 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-10 and the schedules related to pension and OPEB activity on pages 64-67 will be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Henderson, Texas' basic financial statements. The combining and individual nonmajor fund financial statements and the Water & Sewer Fund budget and actual schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The additional supplementary 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 12, 2021 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.

Gollob Morgan Peddy PC

Certified Public Accountants

Tyler, Texas
March 12, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of the City of Henderson, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2020.

FINANCIAL HIGHLIGHTS

- As of the end of the current fiscal year, the assets of the City exceeded its liabilities by \$43,073,061 (net position). Of this amount, \$1,821,934 (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 7.88% from the prior year, primarily due to the increase in public safety costs and expenses related to OPEB and pension liabilities.
- The general fund reported a fund balance this year of \$4,799,665, of which \$65,500 was nonspendable, \$57,477 was restricted, and \$4,676,688 was unassigned.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Henderson's finances, in a manner similar to a private sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, other nonfinancial factors must also be considered.

The *statement of activities* presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of the City of Henderson that are principally supported by taxes and other governmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, sanitation, streets, culture and recreation, and debt service. The business-type activities include water and sewer services.

The government-wide financial statements include not only the City itself (known as the primary government) but also the legally separate economic development corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The fund financial statements are presented using fund designations. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

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

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

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

Proprietary funds. Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like government-wide statements, provide both long-term and short-term financial information.

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer utility. The City also maintains an Internal Service Fund, which is an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses the Internal Service Fund to account for its self-insured health insurance activities (the collection of payments by the City and its employees for health insurance premiums and the payment of health insurance claims of City employees). Because this service predominately benefits the governmental rather than business-type functions of the City, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer.

The basic proprietary fund financial statements can be found on pages 19-23 of this report.

Fiduciary funds. The City is the trustee, or fiduciary, for certain funds. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

The basic fiduciary fund financial statements can be found on pages 24-25 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found at pages 26-62 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 67-72 of this report.

The report also presents the detailed budget and actual amounts for the Water and Sewer Fund at pages 73-74.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$43,073,061 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (94.75%) 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 \$3,862,632 during the current year primarily due the new bond issuance for street improvements. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The amount of net position that is unrestricted, \$1,821,934, decreased by \$4,358,366 during the year.

City of Henderson's Net Position

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 10,694,787	\$ 14,594,872	\$ 5,023,961	\$ 7,166,339	\$ 15,718,748	\$ 21,761,211
Capital assets	34,263,021	31,059,254	19,794,848	18,077,760	54,057,869	49,137,014
Total Assets	44,957,808	45,654,126	24,818,809	25,244,099	69,776,617	70,898,225
Deferred outflows of resources	2,212,499	2,697,318	643,021	771,487	2,855,520	3,468,805
Total Deferred Outflows of Resources	2,212,499	2,697,318	643,021	771,487	2,855,520	3,468,805
Current liabilities	2,421,331	2,401,278	1,765,637	1,507,399	4,186,968	3,908,677
Non current liabilities	12,263,934	14,275,050	9,656,089	10,586,264	21,920,023	24,861,314
Total Liabilities	14,685,265	16,676,328	11,421,726	12,093,663	26,106,991	28,769,991
Deferred outflows of resources	2,761,381	1,637,643	690,704	418,692	3,452,085	2,056,335
Total Deferred Outflows of Resources	2,761,381	1,637,643	690,704	418,692	3,452,085	2,056,335
Net investment in capital assets	26,776,508	23,182,152	14,037,048	13,768,772	40,813,556	36,950,924
Restricted	420,956	394,431	16,615	15,049	437,571	409,480
Unrestricted	2,526,197	6,460,890	(704,263)	(280,590)	1,821,934	6,180,300
Total Net Position	\$ 29,723,661	\$ 30,037,473	\$ 13,349,400	\$ 13,503,231	\$ 43,073,061	\$ 43,540,704

The \$1,821,934 of unrestricted net position represents resources available to fund the programs of the City next year.

The City had a \$153,831 decrease in net position for its business-type activities during the current year. The decrease is actually \$329,166 less than the previous year as the City has placed an emphasis on increasing its rates for water and sewer usage.

City of Henderson's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program Revenues:						
Charges for services	\$ 3,219,149	\$ 3,460,572	\$ 5,353,169	\$ 4,907,019	\$ 8,572,318	\$ 8,367,591
General revenue:						
Property taxes	3,979,662	3,668,307	-	-	3,979,662	3,668,307
Sales taxes	4,875,789	4,336,546	-	-	4,875,789	4,336,546
Operating grants	400,354	-	-	-	400,354	-
Capital grants	266,452				266,452	-
Franchise and other taxes	702,447	978,699	-	-	702,447	978,699
Interest income	137,476	223,366	72,459	152,793	209,935	376,159
Other	478,960	411,472	31,686	320,294	510,646	731,766
Total revenues	14,060,289	13,078,962	5,457,314	5,380,106	19,517,603	18,459,068
Expenses:						
General government	2,731,102	2,657,760	-	-	2,731,102	2,657,760
Public safety	6,376,576	5,900,288	-	-	6,376,576	5,900,288
Sanitation	2,180,776	1,735,176	-	-	2,180,776	1,735,176
Public services	2,825,695	2,771,562	-	-	2,825,695	2,771,562
Debt issuance costs	-	73,791	-	-	-	73,791
Interest	301,596	134,471	297,160	322,703	598,756	457,174
Water and sewer operations	-	-	5,272,341	5,208,756	5,272,341	5,208,756
Total expenses	14,415,745	13,273,048	5,569,501	5,531,459	19,985,246	18,804,507
Transfers	41,644	331,644	(41,644)	(331,644)	-	-
Change in net position	(313,812)	137,558	(153,831)	(482,997)	(467,643)	(345,439)
Net position beginning of year	30,037,473	29,899,915	13,503,231	13,986,228	43,540,704	43,886,143
Net position end of year	\$ 29,723,661	\$ 30,037,473	\$ 13,349,400	\$ 13,503,231	\$ 43,073,061	\$ 43,540,704

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 \$8,182,413, a decrease of \$3,805,182 in comparison with the prior year. A significant reason for the decrease was street improvements made from bond proceeds issued in the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,676,688, while total fund balance was \$4,799,665. 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 41.53% of total general fund expenditures, while total fund balance represents 47.88% of that same amount.

	Governmental Activities	
	2020	2019
Nonspendable:		
Cemetary endowment	\$ 65,500	\$ 65,500
Restricted:		
Municipal court	31,332	56,172
Debt service	158,404	43,923
Fire department	16,953	15,853
Police department	22,920	5,664
Law enforcement	42,224	42,224
Tourism	149,041	230,514
Civic center	82	81
Committed:		
Main street	20,672	24,814
Cemetary	38,486	42,044
Street and drainage	16,455	468,267
Street renovation	2,091,099	5,001,070
Animal shelter	21,750	17,372
General construction	748,885	643,365
2012 Series Certificates of Obligation	81,922	81,922
Unassigned:		
General fund	4,676,688	5,248,810
Total Fund Balances	<u>\$ 8,182,413</u>	<u>\$ 11,987,595</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 (\$704,263). Overall, net position for the fund decreased \$153,831. 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 (\$25,155).

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 budgeted revenues of \$239,200 and appropriations of \$590,762. The significant increases to the overall budgeted expenditures are as follows:

- \$481,186 in the police department for vehicles and additional supplies
- \$105,234 in the fire department for additional equipment

Differences between the final amended budget and actual general fund expenditures were a net positive variance of \$211,419.

Overall, the City budgeted for a net decrease to fund balance of \$462,025, and its actual decrease on a budgetary basis came to be \$580,183.

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, 2020, amounts to \$54,057,869 net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements, machinery and equipment, water and wastewater distribution system, infrastructure, and construction in progress. The biggest changes during the current year came from funds spent on water system projects and the master street program . The total net increase in the City's investments in fixed assets for the current year was \$4,920,855.

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 1,401,293	\$ 1,401,293	\$ 410,131	\$ 410,131	\$ 1,811,424	\$ 1,811,424
Buildings and improvements	8,607,211	7,629,105	-	-	8,607,211	7,629,105
Machinery and equipment	1,442,050	1,437,086	300,827	419,459	1,742,877	1,856,545
Improvements other than buildings	1,997,326	2,068,469	-	-	1,997,326	2,068,469
Water and wastewater distribution	-	-	15,577,715	16,353,972	15,577,715	16,353,972
Infrastructure	16,263,440	16,589,750	-	-	16,263,440	16,589,750
Construction in progress	4,551,701	1,933,551	3,506,175	894,198	8,057,876	2,827,749
Total	\$ 34,263,021	\$ 31,059,254	\$ 19,794,848	\$ 18,077,760	\$ 54,057,869	\$ 49,137,014

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 \$22,977,948 in bonds, certificates of obligation, and other long-term liabilities outstanding after principal payments of \$901,824 were made against debt during the year. The significant change in long-term debt during the year came from a decrease in the City's net pension liability.

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
General obligation bonds	\$ -	\$ -	\$ 1,030,000	\$ 1,390,000	\$ 1,030,000	\$ 1,390,000
Certificates of obligation payable	6,584,910	6,873,905	7,695,090	7,861,095	14,280,000	14,735,000
Capital lease	693,967	780,791	-	-	693,967	780,791
Add: Premium on issue	207,636	222,406	34,620	38,020	242,256	260,426
Net OPEB liability	729,767	627,197	189,155	164,324	918,922	791,521
Compensated absences	492,531	297,247	41,331	41,331	533,862	338,578
Net pension liability	4,090,275	5,879,048	1,188,666	1,621,632	5,278,941	7,500,680
Total	\$ 12,799,086	\$ 14,680,594	\$ 10,178,862	\$ 11,116,402	\$ 22,977,948	\$ 25,796,996

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 2021, the following tax rate was approved:

- \$.05517 per \$100 valuation Total Tax Rate

The City budgeted an increase in expenditures related to the continuation of street construction projects related to the 2019 bond issue. The city also budgeted for increased water and sewer revenues based on a new rate structure that went into effect in January 2021.

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, 2020

	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS				
Cash and cash equivalents	\$ 4,676,581	\$ 764,866	\$ 5,441,447	\$ -
Investments	3,325,849	645,427	3,971,276	-
Receivables (net of allowance for doubtful accounts)				
Taxes	1,602,960	-	1,602,960	261,204
Accounts	445,865	800,866	1,246,731	-
Special assessments	28,006	-	28,006	-
Other	133,363	-	133,363	-
Internal balances	339,884	(339,884)	-	-
Note receivable	130,962	-	130,962	795,333
Restricted Assets:				
Temporarily restricted				
Cash and cash equivalents	11,317	1,998,283	2,009,600	7,275,632
Investments	-	1,154,403	1,154,403	-
Capital Assets (net of accumulated depreciation):				
Land	1,401,293	410,131	1,811,424	2,456,116
Buildings and improvements	8,607,211	-	8,607,211	-
Machinery and equipment	1,442,050	300,827	1,742,877	-
Improvements other than buildings	1,997,326	-	1,997,326	-
Water and sewer system	-	15,577,715	15,577,715	-
Infrastructure	16,263,440	-	16,263,440	-
Construction in progress	4,551,701	3,506,175	8,057,876	-
Total Assets	44,957,808	24,818,809	69,776,617	10,788,285
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding (net of amortization)	2,426	29,448	31,874	-
Deferred outflows on OPEB	222,013	54,701	276,714	-
Deferred charge on TMRS pension	1,988,060	558,872	2,546,932	-
Total Deferred Outflows of Resources	2,212,499	643,021	2,855,520	-
LIABILITIES				
Accounts payable and accrued liabilities	1,506,694	805,587	2,312,281	49,121
Accrued interest	43,332	32,321	75,653	-
Due to component unit	261,204	-	261,204	-
Due to other governments	11,407	-	11,407	-
Unearned revenue	63,542	-	63,542	-
Customer deposits	-	404,956	404,956	-
Non-current liabilities:				
Due within one year	535,152	522,773	1,057,925	-
Due in more than one year	7,443,892	8,278,268	15,722,160	-
Net OPEB liability	729,767	189,155	918,922	-
Net pension liability	4,090,275	1,188,666	5,278,941	-
Total Liabilities	14,685,265	11,421,726	26,106,991	49,121
DEFERRED INFLOWS OF RESOURCES				
Deferred charge on OPEB	94,448	23,160	117,608	-
Deferred charge on TMRS pension	2,666,933	667,544	3,334,477	-
Total Deferred Inflows of Resources	2,761,381	690,704	3,452,085	-
NET POSITION				
Net investment in capital assets	26,776,508	14,037,048	40,813,556	2,456,116
Restricted for:				
Debt service	158,404	16,615	175,019	-
Construction	262,552	-	262,552	-
Unrestricted	2,526,197	(704,263)	1,821,934	8,283,048
Total Net Position	\$ 29,723,661	\$ 13,349,400	\$ 43,073,061	\$ 10,739,164

CITY OF HENDERSON, TEXAS
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2020

PROGRAM ACTIVITIES	EXPENSES	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION				COMPONENT UNIT			
		PRIMARY GOVERNMENT		COMPONENT UNIT									
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	HEDCO					
PRIMARY GOVERNMENT:													
Governmental activities:													
General government	\$ 2,731,102	\$ 830,903	\$ -	\$ -	\$ (1,900,199)	\$ -	\$ (1,900,199)						
Public safety	6,376,576	170,458	286,356	-	(5,919,762)	-	(5,919,762)						
Sanitation	2,180,776	2,217,788	-	-	37,012	-	37,012						
Public services	2,825,695	-	113,998	266,452	(2,445,245)	-	(2,445,245)						
Interest on debt	301,596	-	-	-	(301,596)	-	(301,596)						
Total governmental activities	<u>14,415,745</u>	<u>3,219,149</u>	<u>400,354</u>	<u>266,452</u>	<u>(10,529,790)</u>	<u>-</u>	<u>(10,529,790)</u>						
Business-type activities:													
Water and sewer	5,272,341	5,353,169	-	-	-	80,828	80,828						
Interest on debt	297,160	-	-	-	-	(297,160)	(297,160)						
Total business-type activities	<u>5,569,501</u>	<u>5,353,169</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(216,332)</u>	<u>(216,332)</u>						
Total primary government	<u>19,985,246</u>	<u>8,572,318</u>	<u>400,354</u>	<u>266,452</u>	<u>(10,529,790)</u>	<u>(216,332)</u>	<u>(10,746,122)</u>						
Component units:													
Economic development	<u>\$ 847,462</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (833,752)</u>			
General revenues:													
Taxes:													
Property taxes					3,979,662	-	3,979,662						
Franchise taxes					702,447	-	702,447						
Sales and use taxes					4,687,794	-	4,687,794		1,559,087				
Other taxes					187,995	-	187,995						
Investment earnings					137,476	72,459	209,935		153,525				
Miscellaneous					478,960	31,686	510,646		1				
Transfers					41,644	(41,644)	-						
Total general revenues and transfers					<u>10,215,978</u>	<u>62,501</u>	<u>10,278,479</u>		<u>1,712,613</u>				
Change in net position					<u>(313,812)</u>	<u>(153,831)</u>	<u>(467,643)</u>		<u>878,861</u>				
Net position - beginning of year					30,037,473	13,503,231	43,540,704		9,860,303				
Net position - end of year					<u>\$ 29,723,661</u>	<u>\$ 13,349,400</u>	<u>\$ 43,073,061</u>		<u>\$ 10,739,164</u>				

CITY OF HENDERSON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2020

	GENERAL	STREET RENOVATION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	\$ 2,774,932	\$ 1,013,798	\$ 887,851	\$ 4,676,581
Investments	1,633,847	1,365,756	326,246	3,325,849
Receivables:				
Taxes:				
Sales	1,044,815	-	-	1,044,815
Property	345,059	-	-	345,059
Franchise	133,172	-	64,977	198,149
Hotel/Motel	-	-	14,937	14,937
Accounts:				
Warrants	207,961	-	-	207,961
Sanitation	79,277	-	-	79,277
Other	-	-	133,363	133,363
Special Assessments	-	-	28,006	28,006
Other	158,627	-	-	158,627
Due from other funds	260,092	-	81,922	342,014
Total Assets	6,637,782	2,379,554	1,537,302	10,554,638
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES:				
Accounts payable and accrued expenses	1,013,120	288,455	179,980	1,481,555
Due to component unit	261,204	-	-	261,204
Due to other funds	-	-	2,131	2,131
Due to other governments	11,407	-	-	11,407
Unearned revenue	-	-	63,542	63,542
Total Liabilities	1,285,731	288,455	245,653	1,819,839
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	344,425	-	-	344,425
Unavailable revenue - fines	207,961	-	-	207,961
Total Deferred Inflows of Resources	552,386	-	-	552,386
Fund Balances:				
Nonspendable	65,500	-	-	65,500
Restricted	57,477	-	363,479	420,956
Committed	-	2,091,099	928,170	3,019,269
Unassigned	4,676,688	-	-	4,676,688
Total Fund Balances	4,799,665	2,091,099	1,291,649	8,182,413
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 6,637,782	\$ 2,379,554	\$ 1,537,302	\$ 10,554,638

CITY OF HENDERSON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2020

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)	\$ 8,182,413
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	34,263,021
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	683,348
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.	(25,155)
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.	(8,008,616)
Recognition of the City's net pension and OPEB liability and related deferred resource inflows and outflows occurs in the Statement of Net Position but is not reported in the funds.	(5,371,350)
Net position of governmental activities	<u><u>\$ 29,723,661</u></u>

CITY OF HENDERSON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2020

	GENERAL	STREET RENOVATION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes:				
Sales	\$ 4,687,794	\$ -	\$ -	\$ 4,687,794
Property	3,253,393	-	726,411	3,979,804
Franchise	510,534	-	191,913	702,447
Hotel/Motel	-	-	187,995	187,995
Permits and fees	104,034	-	-	104,034
Charges for services	2,428,795	-	515,862	2,944,657
Fines and forfeitures	191,074	-	-	191,074
Intergovernmental revenues	457,043	-	209,763	666,806
Interest	59,984	52,967	24,373	137,324
Miscellaneous	427,278	-	51,682	478,960
Total Revenues	<u>12,119,929</u>	<u>52,967</u>	<u>1,907,999</u>	<u>14,080,895</u>
EXPENDITURES				
Current:				
General government:				
Administration	696,999	-	-	696,999
Finance	304,561	-	-	304,561
Municipal court	284,173	-	-	284,173
Nondepartmental	1,325,705	-	-	1,325,705
Public safety:				
Police	3,784,223	-	4,395	3,788,618
Fire	1,681,058	-	-	1,681,058
Sanitation	2,162,154	-	18,622	2,180,776
Public services:				
Tourism	-	-	184,162	184,162
Civic center	-	-	172,260	172,260
Main street	-	-	23,222	23,222
Streets	1,363,667	-	135,966	1,499,633
Parks	51,661	-	15,009	66,670
Activity center	8,060	-	-	8,060
Cemeteries	1,886	-	14,998	16,884
Community development	326,329	-	14,211	340,540
Animal Shelter	240,839	-	582	241,421
Capital outlay	309,895	2,962,938	1,112,841	4,385,674
Debt service:				
Bond principal	-	-	288,995	288,995
Capital lease principal	86,824	-	-	86,824
Interest and fees	24,552	-	326,934	351,486
Total Expenditures	<u>12,652,586</u>	<u>2,962,938</u>	<u>2,312,197</u>	<u>17,927,721</u>
Revenues Over (Under) Expenditures	<u>(532,657)</u>	<u>(2,909,971)</u>	<u>(404,198)</u>	<u>(3,846,826)</u>

CITY OF HENDERSON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2020

	GENERAL	STREET RENOVATION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 196,900	\$ -	\$ 160,177	\$ 357,077
Transfers out	<u>(256,577)</u>	<u>-</u>	<u>(58,856)</u>	<u>(315,433)</u>
Total Other Financing Sources (Uses)	<u>(59,677)</u>	<u>-</u>	<u>101,321</u>	<u>41,644</u>
Net Change in Fund Balances	(592,334)	(2,909,971)	(302,877)	(3,805,182)
Fund Balance, October 1, 2019	<u>5,391,999</u>	<u>5,001,070</u>	<u>1,594,526</u>	<u>11,987,595</u>
Fund Balance, September 30, 2020	<u>\$ 4,799,665</u>	<u>\$ 2,091,099</u>	<u>\$ 1,291,649</u>	<u>\$ 8,182,413</u>

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, 2020

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

Net change in fund balances - total governmental funds	\$	(3,805,182)
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 capital outlay exceeded depreciation in the current period.		3,203,767
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the government wide statements.		(20,758)
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.		425,709
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		(117,500)
Internal Service Funds are used by management to charge the costs of health insurance to individual funds.		152
Change in net position of governmental activities	\$	(313,812)

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, 2020

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
REVENUES				
Taxes:				
Sales	\$ 6,010,000	\$ 6,160,000	\$ 6,187,794	\$ 27,794
Property	3,420,000	3,420,000	3,253,393	(166,607)
Franchise	740,000	740,000	703,250	(36,750)
Licenses and permits	80,000	80,000	104,034	24,034
Charges for services	2,381,265	2,411,265	2,428,795	17,530
Fines and forfeitures	308,600	308,600	191,074	(117,526)
Intergovernmental	213,800	205,000	457,043	252,043
Interest income	95,000	90,000	59,984	(30,016)
Miscellaneous income	313,383	386,383	415,795	29,412
Total Revenues	13,562,048	13,801,248	13,801,162	(86)
EXPENDITURES				
General administration	704,057	702,894	703,808	(914)
Treasury and financial	331,932	331,632	304,032	27,600
Municipal court	313,393	319,398	283,438	35,960
Nondepartmental	1,324,720	1,324,420	1,325,705	(1,285)
Police	3,366,652	3,847,838	3,759,408	88,430
Fire	1,708,084	1,813,318	1,752,002	61,316
Sanitation	2,303,798	2,318,798	2,354,870	(36,072)
Streets	1,418,821	1,418,821	1,388,177	30,644
Parks	79,000	79,000	51,661	27,339
Activity center	12,800	12,800	8,060	4,740
Cemeteries	14,000	14,000	11,997	2,003
Community development	348,607	348,607	327,608	20,999
Animal control	262,041	247,141	239,999	7,142
Equipment replacement	143,044	143,044	199,527	(56,483)
Total Expenditures	12,330,949	12,921,711	12,710,292	211,419
Revenues Over (Under) Expenditures	1,231,099	879,537	1,090,870	211,333
OTHER FINANCING SOURCES (USES)				
Transfers in	163,595	533,218	196,900	(336,318)
Transfers out	(113,400)	(263,400)	(256,577)	6,823
Sales tax payments to HEDCO	(1,500,000)	(1,500,000)	(1,500,000)	-
Capital lease	(111,380)	(111,380)	(111,376)	4
Total Other Financing Sources (Uses)	(1,561,185)	(1,341,562)	(1,671,053)	(329,491)
Revenues and Other Sources Over (Under)				
Expenditures and Other Uses - Budget Basis	(330,086)	(462,025)	(580,183)	(118,158)
Budget Basis to GAAP Basis Adjustment (Note A)	-	-	(12,151)	(12,151)
Revenues and Other Sources Over (Under)				
Expenditures and Other Uses - GAAP Basis	(330,086)	(462,025)	(592,334)	(130,309)
Fund Balance, October 1, 2019	330,086	462,025	5,391,999	4,929,974
Fund Balance, September 30, 2020	\$ -	\$ -	\$ 4,799,665	\$ 4,799,665
Note A - Explanation of Differences Between Budget Basis Presentation and GAAP				
Basis Presentation:				
Uses/Outflows of Resources:				
Differences - Budget to GAAP				
Adjust interfund accounts at year end				11,483
Adjust accrual of department salaries at year end				(23,634)
Net Change in Budget Basis Presentation and GAAP Basis Presentation				\$ (12,151)

CITY OF HENDERSON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2020

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	<u>Water and Sewer Fund</u>	<u>Self-Insurance Fund</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 764,866	\$ -
Investments	645,427	-
Accounts receivable (net)	<u>800,866</u>	<u>-</u>
Total Current Assets	<u>2,211,159</u>	<u>-</u>
Restricted Current Assets:		
Temporarily Restricted		
Cash and cash equivalents	1,998,283	11,317
Investments	<u>1,154,403</u>	<u>-</u>
Total Restricted Current Assets	<u>3,152,686</u>	<u>11,317</u>
Capital Assets:		
Land	410,131	-
Construction in progress	3,506,175	-
Motor vehicles	446,977	-
Machinery and equipment	1,289,473	-
Water and sewer system	31,212,388	-
Less: Accumulated depreciation	<u>(17,070,296)</u>	<u>-</u>
Total Capital Assets Net of Accumulated Depreciation	<u>19,794,848</u>	<u>-</u>
Total Assets	<u>25,158,693</u>	<u>11,317</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding (net of amortization)	29,448	-
Deferred outflows on OPEB	54,701	-
Deferred outflows on TMRS pension	<u>558,872</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>643,021</u>	<u>-</u>

(continued)

(continued)

CITY OF HENDERSON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2020

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	<u>Water and Sewer Fund</u>	<u>Self-Insurance Fund</u>
LIABILITIES		
Current Liabilities:		
Unrestricted current liabilities:		
Accounts payable	\$ 750,957	\$ -
Claims payable	- -	36,472
Accrued expenses	54,630	-
Current portion of compensated absences payable	4,133	-
Due to other funds	<u>339,884</u>	<u>-</u>
Total Unrestricted Current Liabilities	<u>1,149,604</u>	<u>36,472</u>
Current Liabilities Payable from Restricted Assets:		
Accrued interest	32,321	-
Customer deposits	404,956	-
Bonds payable	<u>518,640</u>	<u>-</u>
Total Current Liabilities Payable from Restricted Assets:	<u>955,917</u>	<u>-</u>
Total Current Liabilities	<u>2,105,521</u>	<u>36,472</u>
Noncurrent Liabilities:		
Bonds payable	8,241,070	-
Net OPEB liability	189,155	-
Compensated absences payable	37,198	-
Net pension liability	<u>1,188,666</u>	<u>-</u>
Total Noncurrent Liabilities	<u>9,656,089</u>	<u>-</u>
Total Liabilities	<u>11,761,610</u>	<u>36,472</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred charge on OPEB	23,160	-
Deferred charge on TMRS pension	<u>667,544</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>690,704</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	14,037,048	-
Restricted for:		
Debt service	16,615	-
Unrestricted	<u>(704,263)</u>	<u>(25,155)</u>
Total Net Position	<u>\$ 13,349,400</u>	<u>\$ (25,155)</u>

EXHIBIT 8

CITY OF HENDERSON, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2020

	Business-type Activities -		Governmental Activities -	
	Enterprise Fund		Internal Service Fund	
	Water and Sewer Fund	Self-Insurance Fund	Water and Sewer Fund	Self-Insurance Fund
OPERATING REVENUES				
Water sales	\$ 3,244,065	\$ -	\$ -	\$ -
Sewer charges	2,033,799	-	-	-
Charges for other services	<u>75,305</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Revenues	5,353,169	-	-	-
OPERATING EXPENSES				
Administration	576,946	-	-	-
Cost of sales and services	3,717,685	-	-	-
Depreciation and amortization	<u>977,710</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	5,272,341	-	-	-
Operating Income (Loss)	<u>80,828</u>	<u>-</u>	<u>-</u>	<u>-</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest and fiscal charge expense	(297,160)	-	-	-
Other income (expense)	31,686	-	-	-
Interest income	<u>72,459</u>	<u>152</u>	<u>-</u>	<u>-</u>
Total Non-Operating Revenue (Expenses)	(193,015)	152	-	-
INCOME BEFORE TRANSFERS				
Transfers in	-	-	-	-
Transfers out	<u>(41,644)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Transfers	<u>(41,644)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>(153,831)</u>	<u>152</u>	<u>-</u>	<u>-</u>
Net Position, October 1, 2019	<u>13,503,231</u>	<u>(25,307)</u>	<u>-</u>	<u>-</u>
Net Position, September 30, 2020	<u>\$ 13,349,400</u>	<u>\$ (25,155)</u>	<u>-</u>	<u>-</u>

CITY OF HENDERSON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2020

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$ 5,311,855	\$ -
Cash paid to suppliers for goods and services	(3,043,425)	-
Cash paid to employees for services	<u>(1,608,114)</u>	<u>-</u>
Net cash provided by operating activities	<u>660,316</u>	<u>-</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Amounts paid on interfund loans	(235,392)	-
Transfers out	<u>(41,644)</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>(277,036)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases or construction of capital assets	(2,104,410)	-
Use of investments	3,711,830	-
Interest paid	(266,241)	-
Principal paid on bonds	<u>(526,005)</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>815,174</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned on investments	<u>72,459</u>	<u>152</u>
Net cash provided by investing activities	<u>72,459</u>	<u>152</u>
Net (decrease) increase in cash	1,270,913	152
Cash, beginning of period	<u>1,492,236</u>	<u>11,165</u>
Cash, end of period	<u>\$ 2,763,149</u>	<u>\$ 11,317</u>
Reconciliation to Exh 7		
Cash and cash equivalents - current asset	\$ 764,866	\$ -
Cash and cash equivalents - temporarily restricted	1,998,283	11,317
Total cash, end of period	<u>\$ 2,763,149</u>	<u>\$ 11,317</u>

CITY OF HENDERSON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2020

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	<u>Water and Sewer Fund</u>	<u>Self-Insurance Fund</u>
Reconciliation of Operating Income (Loss) To Net Cash Provided By (Used In) Operating Activities:		
Operating income (loss)		
Operating income (loss)	\$ 80,828	\$ -
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	977,710	-
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	(63,147)	-
Decrease (increase) in deferred outflows of resources	116,686	-
Increase (decrease) in accounts payable	(337,471)	-
Increase (decrease) in net pension liabilities	(432,966)	-
Increase (decrease) in postemployment benefits liabilities	24,831	-
Increase (decrease) in customer deposits	21,833	-
Increase (decrease) in deferred inflows of resources	<u>272,012</u>	<u>-</u>
Total adjustments	<u>579,488</u>	<u>-</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 660,316</u>	<u>\$ -</u>

CITY OF HENDERSON, TEXAS
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2020

	FIREMEN RETIREMENT PENSION TRUST
ASSETS	
Cash and cash equivalents	<u>\$ 3,048</u>
Total Assets	<u>3,048</u>
LIABILITIES	
Accounts payable	<u>-</u>
Total Liabilities	<u>-</u>
NET POSITION	
Held in trust for pension benefits	<u>3,048</u>
Total Net Position	<u>\$ 3,048</u>

CITY OF HENDERSON, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	FIREMEN RETIREMENT PENSION TRUST
ADDITIONS	
Contributions:	
Employer	\$ 3,000
Investment income:	
Interest and dividend income	<u>32</u>
Total Additions	<u>3,032</u>
DEDUCTIONS	
Benefits	<u>2,192</u>
Total Deductions	<u>2,192</u>
Change in net position	840
Net Position - beginning of year	<u>2,208</u>
Net Position - end of year	<u>\$ 3,048</u>

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

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 9 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, 2020

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. For the most part, the effects of the interfund activity have been removed from these statements. 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. Nonmajor governmental funds are reported in a single column in the basic financial statements. A combining statement is presented after the notes with detail information for each fund.

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 Street Renovation Fund accounts for the street and infrastructure improvements using the proceeds from the 2019 Series Bond.

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of operating income, change in net position, financial position, and cash flow. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources are included in the statement of net position.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund types:

Special Revenue Funds are used to account for revenue sources that are restricted to expenditures for specific purposes.

The Debt Service Fund is used to account for the accumulation of resources for and the payment of general long-term debt principal, interest, and related costs.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The Internal Service Fund 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.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

G. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

Cash includes currency on hand and demand deposits with banks or other financial institutions. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. State statutes and the City's investment policy authorize the City to invest in U.S. Government obligations, certificates of deposit, money market mutual funds, and public funds investment pools. Accounting pronouncement GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, is applied to investments in external investment pools.

In accordance with GASB Statement No. 72, Fair Value Measurement and Application, investments are recorded at fair value. Consistent with GASB Statement No. 72, the City categories its fair value measurements within the fair value hierarchy. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. A detail of the fair value hierarchy of investments held by the City is disclosed in Note 4 to the financial statements.

2. Restricted Assets

Proceeds from bonds and other financing arrangements, as well as resources set aside for bond repayment, are classified as restricted assets on the statement of net position when their use is limited by applicable covenants. Other restricted assets include funds restricted for construction from bond proceeds, contractual obligation debt service funds, and customer deposits. Assets restricted for a specific purpose are utilized before the use of unrestricted assets to pay related obligations when authorized to do so.

3. 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.

4. 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.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

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

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.

5. Due from Other Funds

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

6. 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. Major outlays for capital asset additions and improvements are capitalized as projects are constructed.

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

7. 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.

8. Bond Premiums and Issue Costs

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

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

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

9. 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.

10. 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.

11. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following three items that qualify for reporting in this category: unamortized deferred amount on refunding, deferred outflows of resources related to pensions, and deferred outflows of resources related other postemployment benefits.

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

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

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

12. 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.

13. Postemployment Benefits Other than Pensions (OPEB)

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

14. 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.

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.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

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

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.

15. 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.

16. Tax Abatements

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.

17. 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.

18. Future Implementation of New Standards

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

In June 2017, the GASB issued Statement No. 87, Leases, which will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance and purpose of a government's leasing arrangements. This statement is effective for reporting periods beginning after July 15, 2021.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

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

In April 2018, the GASB issued Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements which will improve the information that is disclosed in notes to the financial statements related to debt, including direct borrowing and direct placements, by requiring additional essential information related to debt be disclosed, including unused lines of credit; assets pledged as collateral for debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant acceleration clauses. This statement is effective for reporting periods beginning after June 15, 2018. The City has adopted the provisions of this new standard and applied them where necessary.

In June 2018 GASB issued Statement No. 89 Accounting for Interest Cost Incurred before the End of a Construction Period which will (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This statement establishes accounting requirements for interest cost incurred before the end of a construction period by requiring that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the cost of a capital asset reported in a business-type activity or enterprise fund. . This statement is effective for reporting periods beginning after December 15, 2019. The City has adopted the provisions of this new standard and applied them where necessary.

In August 2018 GASB issued Statement No. 90 Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61 which will improve the consistency and comparability of reporting the government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The City has adopted the provisions of this new standard and applied them where necessary.

In May 2019 GASB issued Statement No. 91 Conduit Debt Obligations which has the objectives of providing a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The City is evaluating the impact of this statement on its financial statements.

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 14 is a reconciliation between Total Fund Balances-Total Governmental Funds and Net Position-Governmental Activities. One element of that reconciliation explains that “Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.” The details of this \$683,348 difference are as follows:

Delinquent Property Taxes Receivable	\$ 344,425
Outstanding Warrants Receivable	207,961
Note Receivable	<u>130,962</u>
Net Adjustment to <i>Increase</i> Total Fund Balances-Total Governmental Funds	
to Arrive at Net Position-Governmental Activities	<u>\$ 683,348</u>

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position – Continued

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 \$(8,008,616) difference are as follows:

Certificates of Obligation Payable	\$ (6,584,910)
Accrued Interest	(31,998)
Unamortized Premium on Issue	(207,636)
Unamortized Deferred Loss on Refunding	2,426
Capital Lease Payable	(693,967)
Accrued Compensated Absences	<u>(492,531)</u>
Net Adjustment to <i>Decrease</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Position-Governmental Activities	<u>\$ (8,008,616)</u>

The reconciliation states that “Recognition of the City’s net pension liability and OPEB liability and related deferred resource inflows and outflows occurs in the Statement of Net Position but is not reported in the funds.” The details of this \$(5,371,350) difference are as follows:

Net Pension Liability	\$ (4,090,275)
Net OPEB Liability	(729,767)
Deferred Resource Inflow	2,210,073
Deferred Resource Outflow	<u>(2,761,381)</u>
Net Adjustment to <i>Decrease</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Position-Governmental Activities	<u>\$ (5,371,350)</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

Exhibit 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 \$3,203,767 difference are as follows:

Capital Outlay Expenditures	\$ 4,385,674
Depreciation Expense	<u>(1,181,907)</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>\$ 3,203,767</u>

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities – Continued

Another element of the reconciliation states that “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 \$(20,758) difference are as follows:

Current Year Increase/(Decrease) in Net Property Taxes Receivable	\$ 452
Current Year Increase/(Decrease) in Net Outstanding Warrants Receivable	<u>(21,210)</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><u>\$ (20,758)</u></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 \$425,709 difference are as follows:

Principal Payments on Certificates of Obligation	\$ 288,995
Principal Payments on Capital Leases	86,824
Current Year (Increase)/Decrease in Accrued Interest Payable	27,027
Amortization of Bond Defeasance	8,093
Amortization of Bond Premium	<u>14,770</u>
Net Adjustment to <i>Decrease</i> Net Changes in Fund Balances-Total Governmental Funds	
to Arrive at Changes in Net Position-Governmental Activities	<u><u>\$ 425,709</u></u>

Another element of the reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.” The details of this \$(117,500) difference are as follows:

Reclassify Note Receivable Payment	\$ (3,103)
Decrease in Compensated Absences	(195,284)
Net OPEB Liability Expenses	(22,449)
Net Pension Liability Expenses	<u>103,336</u>
Net Adjustment to <i>Decrease</i> Net Changes in Fund Balances-Total Governmental Funds	
to Arrive at Changes in Net Position-Governmental Activities	<u><u>\$ (117,500)</u></u>

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

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, Civic Center Fund, and 2012 Bond Fund. Additionally, the Water and Sewer Enterprise Fund is budgeted. Encumbrance accounting is employed in all funds. Encumbrances outstanding at year-end are cancelled. All annual appropriations lapse at fiscal year-end.

The City budgets on a departmental basis, without regard to whether expenditures are current, capital, debt service, or a transfer to another fund. Additionally, transfers from other funds and carryovers from prior years are budgeted as revenue. During the year ended September 30, 2020, 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, 2020, actual expenditures were below budgeted amounts in every department except for the Sanitation department and Nondepartmental expenditures.

NOTE 4 — DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Cash and investments as of September 30, 2020 consist of and are classified in the accompanying financial statements as follows:

Statement of net position:		
Primary Government		
Cash and cash equivalents	\$	5,441,447
Restricted cash and cash equivalents		2,009,600
Investments		3,971,276
Restricted investments		1,154,403
Fiduciary Funds		
Cash and cash equivalent		2,208
Restricted cash and cash equivalents		-
Total Cash and Investments	\$	<u>12,578,934</u>
Cash on hand	\$	3,310
Cash and cash equivalents held in investment account		805,000
External Investment pools		4,415,897
Savings and checking accounts		<u>7,354,727</u>
Total Cash and Investments	\$	<u>12,578,934</u>

At September 30, 2020, the carrying amount of the City's deposits with financial institutions, including time deposits and certificates of deposits, was \$8,159,727 and the bank balance was \$8,558,578. 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.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

A. Deposits and Investments – Continued

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

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

During the year ended September 30, 2020, 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, 2020, is shown below.

Investment Type	Fair Value	Weighted Average Maturity (Years)	Credit Risk
Certificates of Deposit	\$ 805,000	0.53	N/A
TexSTAR	4,415,897	0.1339	AAAm
	<hr/>		
	\$ 5,220,897		

GASB Statement No. 77, Fair Value Measurement and Application, establishes a fair value hierarchy for inputs used in the measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available, of how the market would price the asset or liability. The fair value hierarchy is categorized into three levels based on the inputs as follows:

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

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

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

The asset's or liability's fair value measurement within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

A. Deposits and Investments – Continued

A summary of the City's investments under the requirements of the fair value hierarchy as of September 30, 2020 are as follows:

	Assets at Fair Value as of September 30, 2020			
	Level 1	Level 2	Level 3	Total
Primary Government:				
Certificates of Deposit	\$ -	\$ 805,000	\$ -	\$ 805,000
Texas Government Investment Pool	- -	4,415,897	- -	4,415,897
Total Primary Government	\$ -	\$ 5,220,897	\$ -	\$ 5,220,897

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, 2020, 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.

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.

A. Deposits and Investments – Continued

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

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

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

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

B. Receivables

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

	General Fund	Water & Sewer Enterprise	Other Governmental Funds	Total
Receivables:				
Accounts	\$ 665,739	\$ 815,539	\$ 133,363	\$ 1,614,641
Taxes	1,569,959	-	79,914	1,649,873
Assessments	-	-	28,006	28,006
Miscellaneous	158,538	4	-	158,542
Gross receivables	<u>2,394,236</u>	<u>815,543</u>	<u>241,283</u>	<u>3,451,062</u>
Less: Allowance for Uncollectables	<u>(425,325)</u>	<u>(14,677)</u>	<u>-</u>	<u>(440,002)</u>
Net Receivables	<u><u>\$ 1,968,911</u></u>	<u><u>\$ 800,866</u></u>	<u><u>\$ 241,283</u></u>	<u><u>\$ 3,011,060</u></u>

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

B. Receivables – Continued

The only receivables not expected to be collected within one year are \$28,006 of Special Assessment receivables in the Street and Drainage Special Revenue Fund. During the year, the City had a note receivable in the amount of \$130,962 to Henderson Village, LTD, which will be collected in full in January 2034. The original amount of the receivable is \$140,000 with an interest rate of 3.00%.

Governmental funds report deferred revenue (deferred inflows of resources) in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned.

C. Capital Assets

Capital asset activity for the year ended September 30, 2020, was as follows:

PRIMARY GOVERNMENT	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,401,293	\$ -	\$ -	\$ 1,401,293
Construction in progress	<u>1,933,551</u>	<u>3,885,379</u>	<u>1,267,229</u>	<u>4,551,701</u>
Total Capital Assets, Not Being Depreciated	<u>3,334,844</u>	<u>3,885,379</u>	<u>1,267,229</u>	<u>5,952,994</u>
Capital Assets, Being Depreciated				
Buildings	10,140,925	1,205,271	838,646	10,507,550
Improvements other than buildings	4,368,582	136,646	-	4,505,228
Motor Vehicles	1,396,696	252,084	-	1,648,780
Equipment	3,933,008	173,523	-	4,106,531
Infrastructure	<u>19,506,552</u>	<u>-</u>	<u>-</u>	<u>19,506,552</u>
Total Capital Assets, Being Depreciated	<u>39,345,763</u>	<u>1,767,524</u>	<u>838,646</u>	<u>40,274,641</u>
Less Accumulated Depreciation For:				
Buildings	2,511,820	227,165	838,646	1,900,339
Improvements other than buildings	2,300,113	207,789	-	2,507,902
Motor Vehicles	1,009,884	138,605	-	1,148,489
Equipment	2,882,734	282,038	-	3,164,772
Infrastructure	<u>2,916,802</u>	<u>326,310</u>	<u>-</u>	<u>3,243,112</u>
Total Accumulated Depreciation	<u>11,621,353</u>	<u>1,181,907</u>	<u>838,646</u>	<u>11,964,614</u>
Net Total Assets Being Depreciated	<u>27,724,410</u>	<u>585,617</u>	<u>-</u>	<u>28,310,027</u>
Governmental Activities Capital Assets, Net	<u>\$ 31,059,254</u>	<u>\$ 4,470,996</u>	<u>\$ 1,267,229</u>	<u>\$ 34,263,021</u>

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

C. Capital Assets – Continued

PRIMARY GOVERNMENT	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 410,131	\$ -	\$ -	\$ 410,131
Construction in Progress	894,198	2,611,977	-	3,506,175
Total Capital Assets, Not Being Depreciated	<u>1,304,329</u>	<u>2,611,977</u>	<u>-</u>	<u>3,916,306</u>
Capital Assets, Being Depreciated				
Water and Sewer System	31,137,947	74,441	-	31,212,388
Machinery and Equipment	1,736,450	-	-	1,736,450
Total Capital Assets, Being Depreciated	<u>32,874,397</u>	<u>74,441</u>	<u>-</u>	<u>32,948,838</u>
Less Accumulated Depreciation For:				
Water and Sewer System	14,783,975	850,698	-	15,634,673
Machinery and Equipment	1,316,991	118,632	-	1,435,623
Total Accumulated Depreciation	<u>16,100,966</u>	<u>969,330</u>	<u>-</u>	<u>17,070,296</u>
Net Total Assets Being Depreciated	<u>16,773,431</u>	<u>(894,889)</u>	<u>-</u>	<u>15,878,542</u>
Business-Type Activities Capital Assets, Net	<u><u>\$ 18,077,760</u></u>	<u><u>\$ 1,717,088</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 19,794,848</u></u>

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

Governmental Activities:	
General Government	\$ 101,079
Public Safety	803,343
Public Services	277,485
Total depreciation expense, governmental activities	<u>\$ 1,181,907</u>
Business-Type Activities:	
Water and Sewer Operations	<u><u>\$ 969,330</u></u>

As of September 30, 2020, the City has various active construction projects. The projects are for street and water and sewer construction. At year-end the City's commitment with contractors are as follows:

Project	Spent To-Date	Estimated Remaining Construction
Mill Street Improvements	\$ 1,008,529	\$ 5,756
Master Street Program	3,543,172	2,039,254
East Side Sewer Main Phase II	2,108,392	2,417,763
Mill Street Water Extension	245,514	-
Sabine Pump Station Rehab	1,152,269	-

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of September 30, 2020, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Tourism Fund	\$ 1,467
General Fund	Water and Sewer	219,698
Water and Sewer	Tourism Fund	1,914
2012 Bond Fund	Water and Sewer	<u>81,923</u>
 Total		 <u>\$ 305,002</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, 2020, is as follows:

	Transfers In				
	General	Street & Drainage	Main Street	General Construction	Total
Transfers Out:					
General	\$ -	\$ 143,177	\$ 17,000	\$ 105,853	\$ 266,030
Main Street	\$ 4,773	-	-	-	4,773
General Construction	54,083	-	-	-	54,083
Water and Sewer	<u>41,664</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,664</u>
Total transfers out/in	<u><u>\$ 100,520</u></u>	<u><u>\$ 143,177</u></u>	<u><u>\$ 17,000</u></u>	<u><u>\$ 105,853</u></u>	<u><u>\$ 366,550</u></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, 2020:

	GENERAL OBLIGATION	REVENUE	TOTAL
Bonds payable - October 1, 2019	\$ 1,390,000	\$ 14,735,000	\$ 16,125,000
Additions	-	-	-
Retirements	(360,000)	(455,000)	(815,000)
Bonds payable - September 30, 2020	<u><u>\$ 1,030,000</u></u>	<u><u>\$ 14,280,000</u></u>	<u><u>\$ 15,310,000</u></u>

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

E. Long-Term Debt – Continued

Original issue amounts currently outstanding are as follows:

Purpose	Interest Rates	Original Issue Amount
Governmental Activities:		
2011 Tax & Waterworks and Sewer System Limited Pledge Revenue Certificates of Obligation	2.25% - 4.0%	\$ 490,000
2012 Tax & Waterworks and Sewer System Limited Pledge Revenue Certificates of Obligation	0.88% - 3.16%	789,910
2019 Tax & Waterworks and Sewer System Limited Pledge Revenue Certificates of Obligation	3.25% - 4.50%	5,305,000
Business-Type Activities:		
2011 General Obligation Refunding Bonds	2.0% - 3.0%	550,000
2012 Tax & Waterworks and Sewer System Limited Pledge Revenue Certificates of Obligation	0.88% - 3.16%	880,090
2014 General Obligation Refunding Bonds	2.00% - 2.50%	480,000
2018 Tax & Waterworks and Sewer System Limited Pledge Revenue Certificates of Obligation	3.125% - 4.0%	<u>6,815,000</u>
Total General Obligation Bonds and Certificates of Obligation		<u><u>\$ 15,310,000</u></u>

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

Year Ending September 30	GOVERNMENTAL		BUSINESS-TYPE		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2021	\$ 396,360	\$ 219,965	\$ 518,640	\$ 280,863	\$ 1,415,828
2022	408,725	205,890	541,275	326,554	1,482,444
2023	423,455	191,003	371,545	251,243	1,237,246
2024	440,820	175,105	384,180	239,699	1,239,804
2025	455,550	157,878	394,450	227,446	1,235,324
2026-2030	2,540,000	539,488	2,195,000	932,306	6,206,794
2031-2035	1,920,000	146,988	2,565,000	558,444	5,190,432
2036-2038	-	-	1,755,000	123,544	1,878,544
Total	<u><u>\$ 6,584,910</u></u>	<u><u>\$ 1,636,317</u></u>	<u><u>\$ 8,725,090</u></u>	<u><u>\$ 2,940,099</u></u>	<u><u>\$ 19,886,416</u></u>

Defeased Bonds Outstanding

GASB Statement No. 7 “Advance Refundings Resulting in Defeasance of Debt,” provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of September 30, 2020, 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, 2020 are as follows:

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

E. Long-Term Debt – Continued

Debt Issue	Outstanding Balance as of September 30, 2020
City of Henderson 2001 Waterworks and Sewer System Revenue Bonds	\$ 575,000
City of Henderson 2004 Waterworks and Sewer System Limited Pledge Revenue	<u>575,000</u>
Certificates of Obligations	<u>\$ 1,150,000</u>

Changes in Long-Term Liabilities

Long term liability activity for the year ended September 30, 2020 was as follows:

	Beginning Balance 10/01/19	Additions	Reductions	Ending Balance 09/30/20	Due Within One Year
Governmental Activities:					
Certificates of Obligation	6,873,905	-	288,995	6,584,910	396,360
Add: Premium on Issue	222,406	-	14,770	207,636	-
Total Bonds Payable	<u>7,096,311</u>	<u>-</u>	<u>303,765</u>	<u>6,792,546</u>	<u>396,360</u>
Capital Lease	780,791	-	86,824	693,967	89,539
OPEB Liability	627,197	117,911	15,341	729,767	-
Compensated Absenses	297,247	195,284	-	492,531	49,253
Net Pension Liability	5,879,048	-	1,788,773	4,090,275	-
Governmental Activity					
Long-Term Liabilities	<u>\$ 14,680,594</u>	<u>\$ 313,195</u>	<u>\$ 2,194,703</u>	<u>\$ 12,799,086</u>	<u>\$ 535,152</u>
Business-Type Activities:					
General Obligation Bonds	1,390,000	-	360,000	1,030,000	350,000
Add: Premium on Issue	12,132	-	2,424	9,708	-
Certificates of Obligation	7,861,095	-	166,005	7,695,090	168,640
Add: Premium on Issue	25,888	-	976	24,912	-
Total Bonds Payable	<u>9,289,115</u>	<u>-</u>	<u>529,405</u>	<u>8,759,710</u>	<u>518,640</u>
OPEB Liability	164,324	28,544	3,713	189,155	-
Compensated Absences	41,331	-	-	41,331	4,133
Net Pension Liability	1,621,632	-	432,966	1,188,666	-
Business-Type Activity					
Long-Term Liabilities	<u>\$ 11,116,402</u>	<u>\$ 28,544</u>	<u>\$ 966,084</u>	<u>\$ 10,178,862</u>	<u>\$ 522,773</u>

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

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

F. Leases

Operating Leases

The City has various copiers under annual cancelable operating leases. Commitments under operating lease agreements for equipment provide for minimum future rental payments as of September 30, 2020, as follows:

Year Ending September 30	
2021	11,909
2022	8,371
2023	5,382
2024	4,036
2025	376
 Total amount of minimum lease payments	 <u><u>\$ 30,073</u></u>
 Rental Expenditures in 2020	 <u><u>\$ 16,929</u></u>

Capital Leases

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

<u>Governmental</u> <u>Activities</u>	
Asset:	
Equipment	\$ 943,763
Less: accumulated depreciation	<u>(328,874)</u>
	<u><u>\$ 614,889</u></u>

The future minimum lease obligations as of September 30, 2020, were as follows:

Year Ending September 30	
2021	\$ 111,376
2022	111,376
2023	111,376
2024	111,376
2025	111,376
2026 - 2028	<u>228,339</u>
 Total amount of minimum lease payments	 <u>\$ 785,219</u>
 Less: amount representing interest	 <u>(91,252)</u>
 Present value of minimum lease payments	 <u><u>\$ 693,967</u></u>

G. Leases of Lessors

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

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

G. Leases of Lessors – Continued

Investments in operating leases are as follows at September 30, 2020:

Buildings and Improvements	Cost	Accumulated Depreciation
	\$ 53,224	\$ 28,345

Future minimum rental payments to be received on non-cancelable operating leases are contractually due as follows as of September 30, 2020:

Future minimum rental payments:		
Year Ending September 30	Amounts	
2021	\$ 46,819	
2022	46,819	
2023	47,230	
2024	48,463	
2025	50,242	
Thereafter	<u>84,703</u>	
	<u><u>\$ 324,276</u></u>	

NOTE 5 — DEFINED BENEFIT PENSION PLAN

A. Plan Description

The City participates as one of 887 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.tmrs.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.

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

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

B. Benefits Provided – Continued

	<u>Plan Year 2019</u>	<u>Plan Year 2018</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)	60/5,0/20	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, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>12/31/2019</u>	<u>12/31/2018</u>
Inactive employees or beneficiaries currently receiving benefits	77	70
Inactive employees entitled to but not yet receiving benefits	63	61
Active employees	<u>124</u>	<u>122</u>
	264	253

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 16.56% for calendar year 2019. The contribution rates for the 2020 calendar year was 16.27%. The City's contributions to TMRS for the year ended September 30, 2020, were \$1,073,635 and were equal to the required contributions.

E. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

F. Actuarial Assumptions

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall Payroll Growth	3.50% to 11.50% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

F. Actuarial Assumptions – Continued

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.00%	5.30%
Core Fixed Income	10.00%	1.25%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.00%
Absolute Return	10.00%	3.48%
Private Equity	10.00%	7.75%
Total	<hr/> 100.00%	

G. Discount Rate

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

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

H. Changes in Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2018	\$ 34,329,504	\$ 26,828,825	\$ 7,500,679
Changes for the year:			
Service Cost	1,063,363	-	1,063,363
Interest	2,291,080	-	2,291,080
Change in benefit terms	-	-	-
Difference between expected/actual experience	(73,290)	-	(73,290)
Changes in assumptions	132,130	-	132,130
Contributions - employer	-	1,059,111	(1,059,111)
Contributions - employee	-	452,088	(452,088)
Net investment income	-	4,147,962	(4,147,962)
Benefits payments, including refunds of employee contributions	(1,838,517)	(1,838,517)	-
Administrative expenses	-	(23,436)	23,436
Other charges	-	(704)	704
Net changes	<u>1,574,766</u>	<u>3,796,504</u>	<u>(2,221,738)</u>
Balance at 12/31/2019	<u><u>\$ 35,904,270</u></u>	<u><u>\$ 30,625,329</u></u>	<u><u>\$ 5,278,941</u></u>

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 11,049,872	\$ 5,278,941	\$ 641,418

J. Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2020, the city recognized pension expense in the amount of \$947,173.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

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

At September 30, 2020, 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	\$ 58,823	\$ 774,036
Changes in actuarial assumptions	105,966	-
Differences between projected and actual investment earnings	1,612,235	2,560,441
Contributions subsequent to the measurement date	769,907	-
Total	<u>\$ 2,546,931</u>	<u>\$ 3,334,477</u>

The City had \$769,907 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<hr/> Year Ended December 31 <hr/>		
2020	\$ (487,502)	
2021	(544,730)	
2022	(55,763)	
2023	(470,043)	
2024	585	
Thereafter	-	
	<hr/> <u>\$ (1,557,453)</u>	

NOTE 6 — POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

1. Health Plan

A. Plan Description

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

The plan does not issue a stand-alone report.

B. Benefits Provided

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

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

B. Benefits Provided – Continued

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

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

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

C. Employees Covered by Benefit Terms

At the September 30, 2019 measurement date (September 30, 2018 valuation), the following employees were covered by the benefit terms:

		<u>9/30/2020</u>
Inactive employees currently receiving benefits		7
Active employees		<u>115</u>
		122

D. Contributions

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

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

	<u>Employee</u>	<u>Emp/Child(ren)</u>	<u>Emp/Spouse</u>	<u>Emp/Family</u>
<u>Medical</u>				
Total Premium	\$ 547.91	\$ 1,064.23	\$ 1,271.09	\$ 1,787.40
City Pays	547.91	294.30	412.21	706.51

The City's contributions for the year ended September 30, 2020, were \$44,709 (includes \$21,600 in subsidy contributions made by the employer).

E. Total OPEB Liability

The City's total OPEB liability was measured as of September 30, 2020 and was determined by an actuarial valuation as of September 30, 2019.

F. Actuarial Assumptions

The total OPEB liability in the September 30, 2020 actuarial valuation was determined using the following actuarial assumptions:

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

F. Actuarial Assumptions – Continued

Inflation	2.50%
Overall payroll growth	3.50%
Discount rate	2.25% (-0.25% real rate of return plus 2.50% inflation)
Healthcare cost trend rates	Level 4.50%

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

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

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

G. Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balances as of September 30, 2019	\$ 397,395
Changes for the year:	
Service cost	11,859
Interest	15,708
Changes in benefit terms	-
Differences between expected and actual experience	31,563
Changes in assumptions	132,034
Benefit payments	(44,709)
Employer contributions	-
Net investment income	-
Administrative expenses	-
Other	-
Net Changes	<u>146,455</u>
Balances as of September 30, 2020	<u><u>\$ 543,850</u></u>

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 2.25%, would be if it were calculated using a discount rate that is 1-percentage-point lower (1.25%) or 1-percentage-point higher (3.25%) than the current rate:

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

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

	<u>1% Decrease in Discount Rate (1.25%)</u>	<u>Discount Rate (2.25%)</u>	<u>1% Increase in Discount Rate (3.25%)</u>
Total OPEB Liability	\$ 498,847	\$ 543,850	\$ 594,202

The following presents the total OPEB liability of the City, calculated using the assumed healthcare trend rate of 4.50%, would be if it were calculated using a trend rate that is 1-percentage-point lower (3.50%) or 1-percentage-point higher (5.5%) than the current rate:

	<u>1% Decrease in Trend Rate (3.50%)</u>	<u>Current Trend Rate (4.50%)</u>	<u>1% Increase in Trend Rate (5.50%)</u>
Total OPEB Liability	\$ 489,619	\$ 543,850	\$ 609,050

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

For the year ended September 30, 2020, the City recognized OPEB expense of \$47,616.

<u>Components of OPEB Expense</u>		
Service cost	\$ 11,859	
Interest on total OPEB liability	15,708	
Differences between expected and actual experience	3,868	
Changes in assumptions	16,181	
Projected earnings on OPEB plan investments	-	
Differences between projected and actual earnings on plan investments	-	
OPEB plan administrative expenses	-	
Total OPEB expense	\$ 47,616	

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

At the September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 27,695	\$ -
Changes in actuarial assumptions	<u>115,853</u>	<u>-</u>
Total	\$ 143,548	\$ -

At the September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

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

<u>Year Ended September 30</u>		
2021	\$	20,049
2022	20,049	
2023	20,049	
2024	20,049	
2025	20,049	
Thereafter	43,303	
	<u><u>\$</u></u>	<u><u>143,548</u></u>

2. Supplemental Death Benefits Plan

A. Plan Description

The City also participates in the single-employer defined benefit group-term life insurance plan. Texas Municipal Retirement System (TMRS) administers this defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). Like the Defined Benefit Pension Plan, the OPEB plan is under 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, appoint the Board, TMRS is not fiscally dependent on the State of Texas.

This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. 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.

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

B. Benefits Provided

Payments from this fund are similar to group-term life insurance benefits and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an "other postemployment benefit" (OPEB) and is a fixed amount of \$7,500.

C. Employees Covered by Benefit Terms

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>12/31/2019</u>
Inactive employees currently receiving benefits	53
Inactive employees entitled to but not yet receiving benefits	16
Active employees	<u>124</u>
	193

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

D. Contributions

The member cities contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to prefund retiree life insurance during the employee's entire careers.

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

For calendar year 2019, the total SDB contributions rate for the City was 0.16%, while the retiree portion of the SDB contribution was 0.06%. The City's contributions for the year ended September 30, 2020, were \$3,979 for the retiree portion, and \$10,610 for the total SDB rate. Due to the SDBF being considered an unfunded OPEB plan, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

E. Total OPEB Liability

The City's total OPEB liability was measured as of December 31, 2019 and was determined by an actuarial valuation as of that date.

F. Actuarial Assumptions

The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50%
Overall payroll growth	3.50% to 11.50% including inflation
Discount rate *	2.75%
Retiree's share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4-year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2018.

The actuarial cost method being used is known as the Entry Age Normal Method. This method develops the annual cost of the Plan in two parts: that attributable to benefits accruing in the current year, known as the normal cost, and that due

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

F. Actuarial Assumptions (continued)

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

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

G. Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at 12/31/2018	\$ 394,126
Changes for the year:	
Service cost	10,963
Interest	14,754
Change of benefit terms	-
Difference between expected and actual experience	(99,500)
Changes of assumptions or other inputs	58,599
Benefit payments	(3,869)
Net changes	(19,053)
Balance at 12/31/2019	<u><u>\$ 375,073</u></u>

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.37%, would be if it were calculated using a discount rate that is 1-percentage-point lower (2.71%) or 1-percentage-point higher (4.71%) than the current rate:

	1% Decrease in Discount Rate (1.75%)	Discount Rate (2.75%)	1% Increase in Discount Rate (3.75%)
Total OPEB Liability	\$ 454,061	\$ 375,073	\$ 314,094

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

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

For the year ended September 30, 2020, the City recognized OPEB expense of \$30,067.

Components of OPEB Expense
Service cost
Interest on total OPEB liability
Effect of plan changes
Employer administration costs
Recognition of deferred outflows/inflows of resources:
Recognition of economic/demographic gains or losses
Recognition of assumption changes or inputs
Total OPEB expense

At the September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 48,750	\$ 84,868
Changes in actuarial assumptions	63,661	15,834
Contributions made subsequent to the measurement date	<u>3,979</u>	-
Total	<u><u>\$ 116,390</u></u>	<u><u>\$ 100,702</u></u>

The City had \$3,979 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2020. Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Year Ended December 31
2020	\$ 4,350
2021	4,350
2022	4,350
2023	3,778
2024	(302)
Thereafter	<u>(4,817)</u>
	<u><u>\$ 11,709</u></u>

NOTE 7 — DEFICIT NET POSITION OR FUND BALANCE

At September 30, 2018, the City's Internal Service Fund has a deficit net position in the amount of \$25,155.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

NOTE 8 — CONTINGENCIES AND COMMITMENTS

On November 16, 2006, the City entered into an agreement with Angelina and Nacogdoches Counties Water Control and Improvement District No. 1 (“District”) to acquire the option to purchase from the District up to four (4) million gallons of water per day. In consideration for the option granted by the District, the City shall pay \$150,000 annually for each year of the option. The option is for a term commencing as of the date executed and terminating on the earlier of (1) the date the parties enter into a water supply agreement, or (2) September 30, 2026, unless extended pursuant to a written agreement executed by the parties. The annual payment is reported by the City’s Water and Sewer Fund as an operating expense.

On April 12, 2011, the City entered into an additional agreement with Angelina and Nacogdoches Water Control and Improvement District No. 1 (“District”) to acquire the option to purchase from the District an additional three million four hundred thousand gallons of water per day. In consideration for the option granted by the District, the City shall pay \$127,500 annually for each year of the option. The option is for a term commencing as of the date executed and terminating on the earlier of (1) the date the parties enter into a water supply agreement, or (2) September 30, 2021, unless extended pursuant to a written agreement executed by the parties. The annual payment is reported by the City’s Water and Sewer Fund as an operating expense.

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 one year, the debt component will not be included in monthly installments. The water rights applicable to the City are not considered material as of September 30, 2020.

In May of 2019, the City signed a Memorandum of Understanding with the City of Kilgore, Texas (“Kilgore”) for the rehabilitation of the pump station of the Authority. This agreement last for the duration of construction plus one year, as established by a Certificate of Final Completion. As part of this agreement, Henderson must fund 50% of the improvements, including engineering, construction, and any other contingencies associated with the improvements.

Effective September 9, 2003, the City signed a contract with Waste Connections for the collection and disposal of garbage within city limits. The service will be paid for in accordance with the rates set forth in the contract. As part of the contract, Waste Connections pays the City a monthly Street Rental Charge for the privilege of the use and occupancy of public streets and alleys of the City. Said Street Rental Charge shall be equal to 10% of the gross monthly revenues for refuse collection, hauling, and disposal collected under this contract. The most recent amendment of the contract was effective January 1, 2016. The term of the contract is for five years, ending December 31, 2020.

NOTE 9 — HENDERSON ECONOMIC DEVELOPMENT CORPORATION

Henderson Economic Development Corporation is a nonprofit corporation created and organized under the constitution and laws of the State of Texas, particularly the Development Corporation Act of 1979, Article 5190.6 (the “Act”), Vernon’s Annotated Texas Civil Statutes, as amended for the promotion and/or development of new and/or expanding employment rolls within the City of Henderson, and/or Rusk County, Texas, and/or adjacent areas that will provide economic benefits to the City, and/or creation of jobs within Rusk County and, in some instances, adjoining counties that will stimulate the need for housing, retail sales, entertainment, etc. with the City. HEDCO is governed by Section 4A of the Act and is a constituted authority and instrumentality of the City of Henderson, Texas (the “City”).

HEDCO was created in January 1992 with revenue generated from a ½ of 1% sales tax passed by vote of the citizens of the City of Henderson with the proceeds dedicated to economic development.

HEDCO is governed by a board of five directors. All directors are appointed by the City Council of the City for a term of three (3) years, except the director representing banking institutions, who is appointed for a term of one (1) year. The City Council must also approve HEDCO’s budget. HEDCO is exempt from federal income tax as an organization described in Section 501(c)(6) of the Internal Revenue Code.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

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, 2020, 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, 2020, the carrying amount of HEDCO's deposits (cash, certificates of deposit, and interest-bearing money-market accounts) was \$7,275,632 and the bank balance was \$7,311,859. HEDCO's cash deposits at September 30, 2020 and during the period ended September 30, 2020 were entirely covered by FDIC insurance or by pledged collateral held by HEDCO's agent bank in HEDCO's name.

2. Investments

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

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, HEDCO adhered to the requirements of the Act. Additionally, investment practices of HEDCO were in accordance with local policies.

The Act determines the types of investments which are allowable for HEDCO. These include, with certain restrictions, (1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

During the year ended September 30, 2020, 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:

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

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.

C. Receivables

Receivables at September 30, 2020 are as follows:

Sales Taxes (from City of Henderson)	\$ 261,204
Notes Receivable	<u>795,333</u>
Total	<u><u>\$ 1,056,537</u></u>

Notes Receivable:

On November 13, 2009, HEDCO loaned the Rusk County Rural Rail District ("Rail District") the sum of \$1,200,000 to assist the Rail District in securing the Henderson-Overton Railroad. The loan is interest free and was originally scheduled to be repaid to HEDCO over a fifteen (15) year period, beginning on the first day after the thirty-seventh (37th) month after the execution of the agreement, which was December 1, 2012. The monthly payment was originally \$6,667; however, the Rail District requested that their monthly payments be reduced to \$3,333 for 12 months. The Rail District resumed their regular monthly payments on October 1, 2015.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

D. Capital Assets

Capital asset activity for the year ended September 30, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land and investment property	\$ 1,428,441	\$ 1,113,654	\$ 85,979	\$ 2,456,116
Discretely Presented Component Unit Capital Assets, net	<u>\$ 1,428,441</u>	<u>\$ 1,113,654</u>	<u>\$ 85,979</u>	<u>\$ 2,456,116</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, 2020 was \$43,238. Employer contributions to the plan for the year ended September 30, 2020 were \$3,263.

NOTE 10 — RISK MANAGEMENT

The City of Henderson, Texas is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries commercial insurance. There have been no significant reductions in insurance coverages during the year ended September 30, 2020. 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, 2020, 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.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2020

NOTE 11 — SUBSEQUENT EVENTS

Subsequent to year-end, the City was gifted a one-third interest in a building located at 300 West Main, Henderson Texas. Also during 2020, The City passed Ordinance 2020-10-4, which increased water and sewer rates effective January 1. 2021. Subsequent events were evaluated through March 12, 2021, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HENDERSON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FISCAL YEAR ENDED SEPTEMBER 30, 2020

	Measurement Year 2019	Measurement Year 2018	Measurement Year 2017	Measurement Year 2016	Measurement Year 2015	Measurement Year 2014
Total Pension Liability						
Service Cost	\$ 1,063,363	\$ 1,011,452	\$ 934,893	\$ 897,939	\$ 870,520	\$ 747,767
Interest (on the Total Pension Liability)	2,291,080	2,217,636	2,123,017	1,995,617	1,956,707	1,860,288
Changes in benefit terms	-	577,038	-	-	-	-
Difference between expected and actual results	(73,290)	(563,934)	(886,715)	291,787	(24,907)	(29,800)
Change of assumptions	132,130	-	-	-	76,020	-
Benefit payments, including refunds of employee contributions	<u>(1,838,517)</u>	<u>(1,367,586)</u>	<u>(1,401,900)</u>	<u>(1,230,942)</u>	<u>(1,329,666)</u>	<u>(1,194,775)</u>
Net Change in Total Pension Liability	1,574,766	1,874,606	769,295	1,954,401	1,548,674	1,383,480
Total Pension Liability - Beginning	<u>34,329,504</u>	<u>32,454,898</u>	<u>31,685,603</u>	<u>29,731,202</u>	<u>28,182,528</u>	<u>26,799,048</u>
Total Pension Liability - Ending (a)	<u>\$ 35,904,270</u>	<u>\$ 34,329,504</u>	<u>\$ 32,454,898</u>	<u>\$ 31,685,603</u>	<u>\$ 29,731,202</u>	<u>\$ 28,182,528</u>
Plan Fiduciary Net Position						
Contributions - Employer	\$ 1,059,111	\$ 1,031,851	\$ 943,858	\$ 883,082	\$ 881,591	\$ 834,375
Contributions - Employee	452,088	435,188	418,430	402,971	407,874	374,069
Net Investment Income	4,147,962	(825,940)	3,363,955	1,534,069	33,532	1,229,656
Benefit payments, including refunds of employee contributions	(1,838,517)	(1,367,586)	(1,401,900)	(1,230,942)	(1,329,666)	(1,194,775)
Administrative Expense	(23,436)	(15,962)	(17,430)	(17,322)	(20,423)	(12,837)
Other	(704)	(834)	(883)	(933)	(1,009)	(1,055)
Net Change in Plan Fiduciary Net Position	3,796,504	(743,283)	3,306,030	1,570,925	(28,101)	1,229,433
Plan Fiduciary Net Position - Beginning	<u>26,828,825</u>	<u>27,572,108</u>	<u>24,266,078</u>	<u>22,695,153</u>	<u>22,723,254</u>	<u>21,493,821</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 30,625,329</u>	<u>\$ 26,828,825</u>	<u>\$ 27,572,108</u>	<u>\$ 24,266,078</u>	<u>\$ 22,695,153</u>	<u>\$ 22,723,254</u>
Net Pension Liability - Ending (a)-(b)	5,278,941	7,500,679	4,882,790	7,419,525	7,036,049	5,459,274
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	85.30%	78.15%	84.96%	76.58%	76.33%	80.63%
Covered Payroll	\$ 6,448,533	\$ 6,209,037	\$ 5,977,575	\$ 5,748,651	\$ 5,826,773	\$ 5,341,732
Net Pension Liability as a Percentage of Covered Payroll	81.86%	120.80%	81.69%	129.07%	120.75%	102.20%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF HENDERSON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
FISCAL YEAR ENDED SEPTEMBER 30, 2020

	2020	2019	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 1,073,635	\$ 1,065,616	\$ 984,706	\$ 933,672	\$ 876,745	\$ 851,005
Contributions in relation to the actuarially determined contributions	<u>(1,073,635)</u>	<u>(1,065,616)</u>	<u>(984,658)</u>	<u>(933,672)</u>	<u>(876,745)</u>	<u>(851,005)</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ 48	\$ -	\$ -	\$ -
Covered payroll	\$ 6,631,071	\$ 6,386,222	\$ 6,095,122	\$ 5,960,397	\$ 5,670,442	\$ 5,518,780
Contributions as a percentage of covered payroll		16.19%	16.69%	16.15%	15.66%	15.46%
						15.42%

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	26 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% 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 2019 valuation pursuant to an experience study for the period 2014 - 2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

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

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF HENDERSON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
SUPPLEMENTAL DEATH BENEFITS PLAN
FISCAL YEAR ENDED SEPTEMBER 30, 2020

	Measurement Year 2019	Measurement Year 2018	Measurement Year 2017
Total OPEB Liability			
Service Cost	\$ 10,963	\$ 10,555	\$ 8,369
Interest	14,754	11,028	11,036
Changes in benefit terms	-	-	-
Difference between expected and actual experience	(99,500)	68,894	-
Change of assumptions and other inputs	58,599	(22,376)	24,369
Benefit payments	<u>(3,869)</u>	<u>(3,725)</u>	<u>(3,587)</u>
Net Change in Total OPEB Liability	(19,053)	64,376	40,187
Total OPEB Liability - Beginning	<u>394,126</u>	<u>329,750</u>	<u>289,563</u>
Total OPEB Liability - Ending (a)	<u>\$ 375,073</u>	<u>\$ 394,126</u>	<u>\$ 329,750</u>
Covered Payroll	\$ 6,448,533	\$ 6,209,037	\$ 5,977,575
Total OPEB Liability as a Percentage of Covered Payroll	5.82%	6.35%	5.52%

NOTES TO SCHEDULE

Valuation Date:	Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.
Methods and Assumptions Used to Determine Rates:	
Actuarial Cost Method	Entry Age Normal
Supplemental Death Benefit	Contribution rate is equal to the expected benefit payments during the upcoming year divided by the annualized pay of current active members and is calculated separately for actives and retirees.
Retiree's share of benefit-related costs	\$0.00
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Discount Rate	2.75%
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality Rates - Service Retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality Rates - Disabled Retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.
Other Information:	The Supplemental Death Benefits Fund is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SCHEDULE 4

CITY OF HENDERSON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
HEALTH PLAN
FISCAL YEAR ENDED SEPTEMBER 30, 2020

	2020	2019	2018
Total OPEB Liability			
Service Cost	\$ 11,859	\$ 11,859	\$ 11,395
Interest	15,708	15,682	16,317
Changes in benefit terms	-	-	-
Difference between expected and actual experience	31,563	-	-
Change of assumptions and other inputs	132,034	-	-
Benefit payments	<u>(44,709)</u>	<u>(32,825)</u>	<u>(31,070)</u>
Net Change in Total OPEB Liability	146,455	(5,284)	(3,358)
Total OPEB Liability - Beginning	<u>397,395</u>	<u>402,679</u>	<u>406,037</u>
Total OPEB Liability - Ending (a)	<u>\$ 543,850</u>	<u>\$ 397,395</u>	<u>\$ 402,679</u>
Covered Payroll	\$ 5,400,705	\$ 5,137,898	\$ 5,175,802
Total OPEB Liability as a Percentage of Covered Payroll	10.07%	7.73%	7.78%

NOTES TO SCHEDULE

Valuation Date: September 30, 2018; Roll forward using a measurement date of September 30, 2019

Methods and Assumptions Used to Determine Rates:

Actuarial Cost Method	Individual Entry Age Normal - Level Percentage of Projected Salary
Inflation	3.00%
Salary Increases	3.50%
Discount Rate	4.06% (1.06% real rate of return plus 3.00% inflation)
Health Care Cost Trend	Level 5.00%
Eligibility	25 years of service without regard to age
Postretirement Contributions	The retiree pays the full active employee contribution rate. Effective October 1, 2013 the City provides a monthly subsidy to retirees with 15 or more years of service with the City at retirement. The monthly subsidy ranges from \$150 with 15-19 years of City service at retirement to \$350 years with 35 or more years of City service.
Mortality	RPH-2014 Total Table with Projection MP-2018
Turnover	Rates varying based on gender, age and select and ultimate at 9 years. Rates based on the TMRS actuarial assumptions from the 2017 retirement plan valuation report.
Disability	None assumed.
Retiree Contributions	Retiree pays 100% of the active employee contribution rates. Retirees with 15 or more years of active service with the City may receive a monthly subsidy based on years of service with the City.
Coverage	100% of all retirees who currently have healthcare coverage will continue with the same coverage. 25% of all actives who currently have healthcare coverage will continue coverage at eligible retirement.
Other Benefits	Dental and vision benefits may be continued with the retiree paying 100% of the full active employee cost.
Other Information:	There are no plan asset held in trust. There were no benefit changes during the year.

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

ADDITIONAL SUPPLEMENTARY INFORMATION

CITY OF HENDERSON, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2020

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	CAPITAL PROJECTS FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	\$ 310,077	\$ 154,989	\$ 422,785	\$ 887,851
Investments	6,341	3,415	316,490	326,246
Receivables:				
Taxes:				
Franchise	-	-	64,977	64,977
Hotel/Motel	14,937	-	-	14,937
Accounts	-	-	133,363	133,363
Special assessments	-	-	28,006	28,006
Due from Other Funds	-	-	81,922	81,922
Total Assets	<u><u>\$ 331,355</u></u>	<u><u>\$ 158,404</u></u>	<u><u>\$ 1,047,543</u></u>	<u><u>\$ 1,537,302</u></u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 8,577	\$ -	\$ 171,403	\$ 179,980
Unearned revenue	34,746	-	28,796	63,542
Due to other funds	<u><u>2,131</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>2,131</u></u>
Total Liabilities	<u><u>45,454</u></u>	<u><u>-</u></u>	<u><u>200,199</u></u>	<u><u>245,653</u></u>
Fund Balances:				
Restricted	204,993	158,404	82	363,479
Committed	<u><u>80,908</u></u>	<u><u>-</u></u>	<u><u>847,262</u></u>	<u><u>928,170</u></u>
Total Fund Balances	<u><u>285,901</u></u>	<u><u>158,404</u></u>	<u><u>847,344</u></u>	<u><u>1,291,649</u></u>
Total Liabilities and Fund Balances	<u><u>\$ 331,355</u></u>	<u><u>\$ 158,404</u></u>	<u><u>\$ 1,047,543</u></u>	<u><u>\$ 1,537,302</u></u>

SCHEDULE 6

CITY OF HENDERSON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2020

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	CAPITAL PROJECTS FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES				
Taxes:				
Property	\$ -	726,411	\$ -	\$ 726,411
Franchise	- -	- -	191,913	191,913
Hotel/Motel	187,995	- -	- -	187,995
Charges for services	79,523	- -	436,339	515,862
Intergovernmental revenues	- -	- -	209,763	209,763
Interest	4,860	3,999	15,514	24,373
Miscellaneous	43,947	- -	7,735	51,682
Total Revenues	<u>316,325</u>	<u>730,410</u>	<u>861,264</u>	<u>1,907,999</u>
EXPENDITURES				
General government	- -	- -	- -	- -
Public safety	4,395	- -	- -	4,395
Sanitation	- -	- -	18,622	18,622
Public services:				
Tourism	184,162	- -	- -	184,162
Civic Center	172,260	- -	- -	172,260
Main Street	23,222	- -	- -	23,222
Streets	- -	- -	135,966	135,966
Parks	- -	- -	15,009	15,009
Cemeteries	14,998	- -	- -	14,998
Animal Shelter	582	- -	- -	582
Community Development	- -	- -	14,211	14,211
Capital outlay	- -	- -	1,112,841	1,112,841
Debt service:				
Principal	- -	288,995	- -	288,995
Interest and fees	<u>- -</u>	<u>326,934</u>	<u>- -</u>	<u>326,934</u>
Total Expenditures	<u>399,619</u>	<u>615,929</u>	<u>1,296,649</u>	<u>2,312,197</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(83,294)</u>	<u>114,481</u>	<u>(435,385)</u>	<u>(404,198)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	17,000	- -	143,177	160,177
Transfers out	(4,773)	- -	(54,083)	(58,856)
Total Other Financing Sources (Uses)	<u>12,227</u>	<u>- -</u>	<u>89,094</u>	<u>101,321</u>
Net change in fund balances	(71,067)	114,481	(346,291)	(302,877)
Fund Balance - October 1, 2019	<u>356,968</u>	<u>43,923</u>	<u>1,193,635</u>	<u>1,594,526</u>
20Fund Balance - September 30, 2019	<u>\$ 285,901</u>	<u>\$ 158,404</u>	<u>\$ 847,344</u>	<u>\$ 1,291,649</u>

CITY OF HENDERSON, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
SEPTEMBER 30, 2020

	DRUG SEIZURE	TASK FORCE	TOURISM	MAIN STREET	CEMETERY	ANIMAL SHELTER	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
ASSETS							
Cash and cash equivalents	\$ 61,350	\$ 13,317	\$ 157,593	\$ 22,685	\$ 33,806	\$ 21,326	\$ 310,077
Investments	495	-	742	-	4,680	424	6,341
Receivables:							
Hotel/Motel Taxes	-	-	14,937	-	-	-	14,937
Accounts	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-
Total Assets	<u>\$ 61,845</u>	<u>\$ 13,317</u>	<u>\$ 173,272</u>	<u>\$ 22,685</u>	<u>\$ 38,486</u>	<u>\$ 21,750</u>	<u>\$ 331,355</u>
LIABILITIES							
Accounts payable	1,515	-	5,049	2,013	-	-	8,577
Due to other funds	-	-	2,131	-	-	-	2,131
Unearned revenue	9,071	8,624	17,051	-	-	-	34,746
Total Liabilities	<u>10,586</u>	<u>8,624</u>	<u>24,231</u>	<u>2,013</u>	<u>-</u>	<u>-</u>	<u>45,454</u>
FUND BALANCES							
Restricted	51,259	4,693	149,041	-	-	-	204,993
Committed	-	-	-	20,672	38,486	21,750	80,908
Total Fund Balances	<u>51,259</u>	<u>4,693</u>	<u>149,041</u>	<u>20,672</u>	<u>38,486</u>	<u>21,750</u>	<u>285,901</u>
Total Liabilities and Fund Balances	<u><u>\$ 61,845</u></u>	<u><u>\$ 13,317</u></u>	<u><u>\$ 173,272</u></u>	<u><u>\$ 22,685</u></u>	<u><u>\$ 38,486</u></u>	<u><u>\$ 21,750</u></u>	<u><u>\$ 331,355</u></u>

CITY OF HENDERSON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	DRUG SEIZURE	TASK FORCE	TOURISM	MAIN STREET	CEMETERY	ANIMAL SHELTER	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
REVENUES							
Hotel/Motel occupancy tax	\$ -	\$ -	\$ 187,995	\$ -	\$ -	\$ -	\$ 187,995
Charges for services	-	-	79,523	-	-	-	79,523
Interest	527	-	3,326	303	440	264	4,860
Miscellaneous	17,596	-	4,105	6,550	11,000	4,696	43,947
Total Revenues	18,123	-	274,949	6,853	11,440	4,960	316,325
EXPENDITURES							
Public Safety	4,395	-	-	-	-	-	4,395
Public Services:							
Tourism	-	-	184,162	-	-	-	184,162
Civic Center	-	-	172,260	-	-	-	172,260
Main Street	-	-	-	23,222	-	-	23,222
Cemeteries	-	-	-	-	14,998	-	14,998
Animal Shelter	-	-	-	-	-	582	582
Total Expenditures	4,395	-	356,422	23,222	14,998	582	399,619
Excess (deficiency) of revenues over (under) expenditures	13,728	-	(81,473)	(16,369)	(3,558)	4,378	(83,294)
OTHER FINANCING SOURCES/(USES):							
Transfers in	-	-	-	17,000	-	-	17,000
Transfers out	-	-	-	(4,773)	-	-	(4,773)
Total Other Financing Sources (Uses)	-	-	-	12,227	-	-	12,227
Net change in fund balances	13,728	-	(81,473)	(4,142)	(3,558)	4,378	(71,067)
Fund Balance - October 1, 2019	37,531	4,693	230,514	24,814	42,044	17,372	356,968
Fund Balance - September 30, 2020	\$ 51,259	\$ 4,693	\$ 149,041	\$ 20,672	\$ 38,486	\$ 21,750	\$ 285,901

SCHEDULE 9

CITY OF HENDERSON, TEXAS
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS
SEPTEMBER 30, 2020

	GENERAL CONSTRUCTION	STREET AND DRAINAGE	2012 SERIES CERTIFICATE OF OBLIGATIONS	CIVIC CENTER	TOTAL NONMAJOR CAPITAL PROJECT FUNDS
ASSETS					
Cash and cash equivalents	\$ 330,640	\$ 92,063	\$ -	\$ 82	\$ 422,785
Investments	315,704	786	-	-	316,490
Receivables:					
Franchise taxes	-	64,977	-	-	64,977
Accounts	131,063	2,300	-	-	133,363
Special assessments	-	28,006	-	-	28,006
Due from Other Funds	-	-	81,922	-	81,922
Total Assets	<u>\$ 777,407</u>	<u>\$ 188,132</u>	<u>\$ 81,922</u>	<u>\$ 82</u>	<u>\$ 1,047,543</u>
LIABILITIES					
Accounts payable	28,522	142,881	-	-	171,403
Unearned revenue	-	28,796	-	-	28,796
Total Liabilities	<u>28,522</u>	<u>171,677</u>	<u>-</u>	<u>-</u>	<u>200,199</u>
FUND BALANCES					
Restricted	-	-	-	82	82
Committed	748,885	16,455	81,922	-	847,262
Unassigned	-	-	-	-	-
Total Fund Balances	<u>748,885</u>	<u>16,455</u>	<u>81,922</u>	<u>82</u>	<u>847,344</u>
Total Liabilities and Fund Balances	<u>\$ 777,407</u>	<u>\$ 188,132</u>	<u>\$ 81,922</u>	<u>\$ 82</u>	<u>\$ 1,047,543</u>

SCHEDULE 10

CITY OF HENDERSON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	GENERAL CONSTRUCTION	STREET AND DRAINAGE	2012 SERIES CERTIFICATE OF OBLIGATIONS	CIVIC CENTER	TOTAL NONMAJOR CAPITAL PROJECT FUNDS
REVENUES					
Franchise taxes	\$ -	\$ 191,913	\$ -	\$ -	\$ 191,913
Charges for services	357,787	78,552	-	-	436,339
Intergovernmental revenues	-	209,763	-	-	209,763
Interest	10,808	4,705	-	1	15,514
Miscellaneous	7,735	-	-	-	7,735
Total Revenues	<u>376,330</u>	<u>484,933</u>	<u>-</u>	<u>1</u>	<u>861,264</u>
EXPENDITURES					
General government	-	-	-	-	-
Sanitation	18,622	-	-	-	18,622
Public Services:					
Civic Center	-	-	-	-	-
Streets	-	135,966	-	-	135,966
Parks	15,009	-	-	-	15,009
Community Development	14,211	-	-	-	14,211
Capital Outlay	<u>168,885</u>	<u>943,956</u>	<u>-</u>	<u>-</u>	<u>1,112,841</u>
Total Expenditures	<u>216,727</u>	<u>1,079,922</u>	<u>-</u>	<u>-</u>	<u>1,296,649</u>
Excess (deficiency) of revenues over (under) expenditures	<u>159,603</u>	<u>(594,989)</u>	<u>-</u>	<u>1</u>	<u>(435,385)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	-	143,177	-	-	143,177
Transfers out	<u>(54,083)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(54,083)</u>
Total Other Financing Sources (Uses)	<u>(54,083)</u>	<u>143,177</u>	<u>-</u>	<u>-</u>	<u>89,094</u>
Net change in fund balances	105,520	(451,812)	-	1	(346,291)
Fund Balance - October 1, 2019	<u>643,365</u>	<u>468,267</u>	<u>81,922</u>	<u>81</u>	<u>1,193,635</u>
Fund Balance - September 30, 2020	<u>\$ 748,885</u>	<u>\$ 16,455</u>	<u>\$ 81,922</u>	<u>\$ 82</u>	<u>\$ 847,344</u>

CITY OF HENDERSON, TEXAS
DETAILED SCHEDULE OF REVENUES - BUDGET AND ACTUAL -
(NON-GAAP BUDGET BASIS)
WATER AND SEWER FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2020

	ORIGINAL BUDGET	FINAL BUDGET	WATER	SEWER	TOTAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES						
Water charges	\$ 3,275,000	\$ 3,275,000	\$ 3,403,594	\$ -	\$ 3,403,594	\$ 128,594
Sewer charges	2,020,000	2,020,000	-	2,167,653	2,167,653	147,653
Water connections	3,000	3,000	3,670	-	3,670	670
Sewer connections	2,000	2,000	-	950	950	(1,050)
Water service charges	2,000	2,000	493	-	493	(1,507)
Water Reconnect charges	25,000	25,000	16,030	-	16,030	(8,970)
Penalty	90,000	90,000	49,871	-	49,871	(40,129)
Miscellaneous income	1,000	1,000	31,686	-	31,686	30,686
Sale of city property	5,000	5,000	-	-	-	(5,000)
Other operating revenues	15,000	15,000	9,404	-	9,404	(5,596)
Interest income	26,000	26,000	20,707	-	20,707	(5,293)
TOTAL REVENUES - BUDGET BASIS	\$ 5,464,000	\$ 5,464,000	\$ 3,535,455	\$ 2,168,603	5,704,058	\$ 240,058
Financial Statement Adjustments:						
Adjustment to revenue and accounts receivable						(298,496)
Interest income on bond funds recorded in W&S Construction Fund						51,752
TOTAL REVENUES - GAAP BASIS	\$ 5,457,314					

CITY OF HENDERSON, TEXAS
DETAILED SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL -
(NON-GAAP BUDGET BASIS)
WATER AND SEWER FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2020

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<u>WATER & SEWER DEPARTMENT</u>				
Water & Sewer Operations:				
Personnel services - Water	\$ 1,266,302	\$ 1,266,302	\$ 1,149,964	\$ 116,338
Personnel services - Sewer	258,910	258,910	271,344	(12,434)
Personnel services - Admin	167,496	167,496	167,369	127
Supplies and materials	428,300	428,300	449,828	(21,528)
Contractual	1,001,500	999,000	862,775	136,225
Maintenance	458,813	458,813	571,565	(112,752)
Capital outlay	475,500	475,500	240,980	234,520
Other administrative costs	466,700	466,700	429,026	37,674
Services	87,000	87,000	85,276	1,724
Total Water & Sewer Operations	<u>4,610,521</u>	<u>4,608,021</u>	<u>4,228,127</u>	<u>379,894</u>
Water & Sewer Construction	169,141	5,144,755	2,667,401	2,477,354
Other Expenses:				
Operating transfers out	369,644	369,644	41,644	328,000
Bond principal	526,005	526,005	526,005	-
Bond interest and charges	297,706	297,706	297,160	546
Total Other Expenses	<u>1,193,355</u>	<u>1,193,355</u>	<u>864,809</u>	<u>328,546</u>
Total Water & Sewer Department	<u>5,973,017</u>	<u>10,946,131</u>	<u>7,760,337</u>	<u>3,185,794</u>
TOTAL EXPENSES-BUDGET BASIS	<u>\$ 5,973,017</u>	<u>\$ 10,946,131</u>	<u>7,760,337</u>	<u>\$ 3,185,794</u>
Financial Statement Adjustments:				
Capital outlay capitalized			(2,686,418)	
Increase in accrued expenses			104,970	
Reclassify principal paid on bonds			(526,005)	
Depreciation expense			969,330	
Amortization of bond premiums/refundings			8,380	
OPEB expense adjustment under GASB 75			5,563	
Pension expense adjustment under GASB 68			<u>(25,012)</u>	
TOTAL EXPENSES-GAAP BASIS			<u>\$ 5,611,145</u>	

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, 2020, 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 12, 2021. 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.

Gollob Morgan Peddy PC

Certified Public Accountants

Tyler, Texas
March 12, 2021