

CITY OF HENDERSON, TEXAS

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

FISCAL YEAR ENDED SEPTEMBER 30, 2022

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

Opinions

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, 2022, 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.

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, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of City of Henderson, Texas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

City of Henderson, Texas' management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Henderson, Texas' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Henderson, Texas' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Henderson, Texas' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

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 67-70 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.

Supplementary 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 schedules of expenditures of federal and state awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U. S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State of Texas *Uniform Grant Management Standards* are also not a required part of the basic financial statements.

The additional supplementary information and the schedules of expenditures of federal and state awards 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. In our opinion, the additional supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2023, 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 14, 2023

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, 2022.

FINANCIAL HIGHLIGHTS

- As of the end of the current fiscal year, the assets of the City exceeded its liabilities by \$47,789,510 (net position). Of this amount, \$47,417 (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 6.47% from the prior year, primarily due to the increased payroll costs and costs incurred in water & sewer operations.
- The general fund reported a fund balance this year of \$3,051,147, of which \$65,500 was nonspendable, \$35,040 was restricted, and \$2,950,607 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 14-19 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 20-24 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 25-26 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 27-63 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 70-75 of this report.

The report also presents the detailed budget and actual amounts for the Water and Sewer Fund at pages 76-77.

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 \$47,789,510 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (98.77%) 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 \$4,018,626 during the current year primarily due the acquisition and improvements of the new city hall. 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, \$47,417, decreased by \$1,432,235 during the year.

City of Henderson's Net Position

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 8,658,819	\$ 11,405,793	\$ 6,199,309	\$ 3,447,972	\$ 14,858,128	\$ 14,853,765
Capital assets	40,198,711	36,203,248	21,650,873	19,983,040	61,849,584	56,186,288
Total Assets	48,857,530	47,609,041	27,850,182	23,431,012	76,707,712	71,040,053
Deferred outflows of resources	1,514,771	1,777,529	456,329	526,920	1,971,100	2,304,449
Total Deferred Outflows of Resources	1,514,771	1,777,529	456,329	526,920	1,971,100	2,304,449
Current liabilities	1,558,805	1,978,481	777,190	1,408,189	2,335,995	3,386,670
Non current liabilities	9,997,506	11,506,399	13,164,038	8,999,819	23,161,544	20,506,218
Total Liabilities	11,556,311	13,484,880	13,941,228	10,408,008	25,497,539	23,892,888
Deferred outflows of resources	4,730,704	3,865,920	661,059	564,048	5,391,763	4,429,968
Total Deferred Outflows of Resources	4,730,704	3,865,920	661,059	564,048	5,391,763	4,429,968
Net investment in capital assets	33,341,084	29,786,122	13,859,014	13,395,350	47,200,098	43,181,472
Restricted	525,380	343,807	16,615	16,615	541,995	360,422
Unrestricted	218,822	1,905,841	(171,405)	(426,089)	47,417	1,479,752
Total Net Position	\$ 34,085,286	\$ 32,035,770	\$ 13,704,224	\$ 12,985,876	\$ 47,789,510	\$ 45,021,646

The \$47,417 of unrestricted net position represents resources available to fund the programs of the City next year.

The City had a \$718,348 increase in net position for its business-type activities during the current year. This increase comes from an increase in service revenue due to decreased rainfall during the Summer 2022 that led to an increase in revenues during the more productive months of the year.

City of Henderson's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues:						
Program Revenues:						
Charges for services	\$ 3,156,649	\$ 3,326,559	\$ 6,064,710	\$ 5,223,185	\$ 9,221,359	\$ 8,549,744
General revenue:						
Property taxes	4,028,232	4,066,371	-	-	4,028,232	4,066,371
Sales taxes	6,064,105	5,318,870	-	-	6,064,105	5,318,870
Operating grants	2,123,314	634,731	-	-	2,123,314	634,731
Capital grants & donations	108,000	1,244,289	-	-	108,000	1,244,289
Franchise and other taxes	717,414	707,937	-	-	717,414	707,937
Interest income	48,077	34,091	12,983	14,179	61,060	48,270
Loss on sale of assets	(25,911)	-	-	-	(25,911)	-
Other	1,568,450	768,571	1,766	2,263	1,570,216	770,834
Total revenues	17,788,330	16,101,419	6,079,459	5,239,627	23,867,789	21,341,046
Expenses:						
General government	3,781,386	3,157,659	-	-	3,781,386	3,157,659
Public safety	5,316,481	5,508,442	-	-	5,316,481	5,508,442
Sanitation	1,577,129	1,587,035	-	-	1,577,129	1,587,035
Public services	3,699,342	3,395,492	-	-	3,699,342	3,395,492
Debt issuance costs	-	-	-	-	-	-
Interest	201,016	196,488	343,875	282,435	544,891	478,923
Water and sewer operations	-	-	5,728,100	5,264,910	5,728,100	5,264,910
Total expenses	14,575,354	13,845,116	6,071,975	5,547,345	20,647,329	19,392,461
Transfers	(710,864)	55,806	710,864	(55,806)	-	-
Change in net position	2,502,112	2,312,109	718,348	(363,524)	3,220,460	1,948,585
Net position beginning of year, as originally stated	32,035,770	29,723,661	12,985,876	13,349,400	45,021,646	43,073,061
Prior period adjustment	(452,596)	-	-	-	(452,596)	-
Net position beginning of year, as originally stated	31,583,174	29,723,661	12,985,876	13,349,400	44,569,050	43,073,061
Net position end of year	\$ 34,085,286	\$ 32,035,770	\$ 13,704,224	\$ 12,985,876	\$ 47,789,510	\$ 45,021,646

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 \$4,466,159, a decrease of \$2,270,435 in comparison with the prior year. A significant reason for the decrease was increased capital outlay costs associated with the acquisition of the new city hall and a prior period adjustment of \$452,596 due to an overstatement of grant revenues 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 \$2,590,607, while total fund balance was \$3,051,147. 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 15.28% of total general fund expenditures, while total fund balance represents 17.98% of that same amount.

	Governmental Activities	
	2022	2021
Nonspendable:		
Cemetery endowment	\$ 65,500	\$ 65,500
Restricted:		
Municipal court	33,768	33,768
Debt service	266,483	138,370
Fire department	-	17,506
Police department	1,272	2,775
Law enforcement	74,056	57,966
Tourism	149,719	93,340
Civic center	82	82
Committed:		
Main street	23,211	14,957
Cemetery	57,989	46,752
Street and drainage	332,577	196,690
Street renovation	-	409,325
Animal shelter	34,022	28,398
General construction	394,951	709,166
2012 Series Certificates of Obligation	81,922	81,922
Unassigned:		
General fund	2,950,607	4,840,077
Total Fund Balances	<u>\$ 4,466,159</u>	<u>\$ 6,736,594</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 (\$171,405). Overall, net position for the fund increased \$718,348. 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 (\$25,053).

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 \$2,991,136 and appropriations of \$3,053,488. The significant portion of the increase in budgeted revenues is due to the receipt of the American Rescue Act Funds in the amount of \$1,843,451. The significant increases to the overall budgeted expenditures are as follows:

- \$2,278,374 in the sanitation department for acquisitions of new property

Differences between the final amended budget and actual general fund expenditures were a net unfavorable variance of \$1,969,370.

Overall, the City budgeted for a net decrease to fund balance of \$260,480, and its actual decrease on a budgetary basis came to be \$2,229,850.

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, 2022, amounts to \$61,849,584 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 property acquisitions, including the acquisition and improvements to the new city hall. The total net increase in the City's investments in fixed assets for the current year was \$5,663,296.

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 2,578,679	\$ 1,521,687	\$ 410,131	\$ 410,131	\$ 2,988,810	\$ 1,931,818
Buildings and improvements	10,203,956	9,073,772	-	-	10,203,956	9,073,772
Machinery and equipment	2,445,539	1,928,546	68,568	199,756	2,514,107	2,128,302
Improvements other than buildings	2,087,408	2,442,826	-	-	2,087,408	2,442,826
Water and wastewater distribution	-	-	15,970,259	16,394,303	15,970,259	16,394,303
Infrastructure	22,276,392	21,166,867	-	-	22,276,392	21,166,867
Right-of-use asset	43,481	-	-	-	43,481	-
Construction in progress	563,256	69,550	5,201,915	2,978,850	5,765,171	3,048,400
Total	\$ 40,198,711	\$ 36,203,248	\$ 21,650,873	\$ 19,983,040	\$ 61,849,584	\$ 56,186,288

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 \$17,797,412 in bonds, certificates of obligation, and other long-term liabilities outstanding after principal payments of \$563,104 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	
	2022	2021	2022	2021	2022	2021
General obligation bonds	\$ -	\$ -	\$ 310,000	\$ 680,000	\$ 310,000	\$ 680,000
Certificates of obligation payable	5,779,825	6,188,550	7,355,175	7,526,450	13,135,000	13,715,000
Notes payable	875,797	-	-	-	-	-
Lease liability	40,516	1,045,863	-	-	40,516	1,045,863
Add: Premium on issue	161,489	182,713	25,959	30,284	187,448	212,997
Net OPEB liability	669,336	758,516	176,033	196,088	845,369	954,604
Compensated absences	357,411	327,197	72,555	41,331	429,966	368,528
Net pension liability	2,113,132	3,602,705	735,981	1,071,074	2,849,113	4,673,779
Total	\$ 9,997,506	\$ 12,105,544	\$ 8,675,703	\$ 9,545,227	\$ 17,797,412	\$ 21,650,771

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 2023, the following tax rate was approved:

- \$.0541828 per \$100 valuation Total Tax Rate

The City budgeted less for capital outlay costs due to the less needs in the current fiscal year. 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, 2022

	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	HEDCO
ASSETS				
Cash and cash equivalents	\$ 3,060,638	\$ 675,783	\$ 3,736,421	\$ -
Investments	1,964,487	647,239	2,611,726	-
Receivables (net of allowance for doubtful accounts)				
Taxes	2,073,069	-	2,073,069	372,024
Accounts	478,102	695,510	1,173,612	-
Leases	466,146	-	466,146	17,553
Special assessments	28,006	-	28,006	-
Other	195,767	-	195,767	-
Internal balances	256,716	(256,716)	-	-
Note receivable	124,469	-	124,469	705,000
Restricted Assets:				
Temporarily restricted				
Cash and cash equivalents	11,419	3,931,314	3,942,733	7,539,314
Investments	-	506,179	506,179	-
Capital Assets (net of accumulated depreciation):				
Land	2,578,679	410,131	2,988,810	4,773,641
Buildings and improvements	10,203,956	-	10,203,956	-
Machinery and equipment	2,445,539	68,568	2,514,107	-
Improvements other than buildings	2,087,408	-	2,087,408	-
Water and sewer system	-	15,970,259	15,970,259	-
Infrastructure	22,276,392	-	22,276,392	-
Right-of-use asset	43,481	-	43,481	3,245
Construction in progress	563,256	5,201,915	5,765,171	-
Total Assets	48,857,530	27,850,182	76,707,712	13,410,777
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding (net of amortization)	-	6,186	6,186	-
Deferred outflows on OPEB	198,493	49,541	248,034	-
Deferred charge on TMRS pension	1,316,278	400,602	1,716,880	-
Total Deferred Outflows of Resources	1,514,771	456,329	1,971,100	-
LIABILITIES				
Accounts payable and accrued liabilities	1,066,341	248,601	1,314,942	87,300
Accrued interest	39,835	48,614	88,449	-
Due to component unit	372,024	-	372,024	-
Due to other governments	9,189	-	9,189	-
Unearned revenue	71,416	-	71,416	-
Customer deposits	-	479,975	479,975	-
Non-current liabilities:				
Due within one year	640,197	785,889	1,426,086	917
Due in more than one year	6,574,841	11,466,135	18,040,976	2,402
Net OPEB liability	669,336	176,033	845,369	-
Net pension liability	2,113,132	735,981	2,849,113	-
Total Liabilities	11,556,311	13,941,228	25,497,539	90,619
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue - grants	1,608,886	-	1,608,886	-
Deferred revenue - leases	454,321	-	454,321	19,120
Deferred charge on OPEB	174,360	41,195	215,555	-
Deferred charge on TMRS pension	2,493,137	619,864	3,113,001	-
Total Deferred Inflows of Resources	4,730,704	661,059	5,391,763	19,120
NET POSITION				
Net investment in capital assets	33,341,084	13,859,014	47,200,098	4,773,567
Restricted for:				
Debt service	266,483	16,615	283,098	-
Construction	258,897	-	258,897	-
Unrestricted	218,822	(171,405)	47,417	8,527,471
Total Net Position	\$ 34,085,286	\$ 13,704,224	\$ 47,789,510	\$ 13,301,038

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

CITY OF HENDERSON, TEXAS
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2022

		PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION			
					PRIMARY GOVERNMENT		COMPONENT UNIT	
PROGRAM ACTIVITIES	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	HEDCO
PRIMARY GOVERNMENT:								
Governmental activities:								
General government	\$ 3,781,386	\$ 983,456	\$ 2,106,307	\$ 108,000	\$ (583,623)	\$ -	\$ (583,623)	
Public safety	5,316,481	165,285	17,007	-	(5,134,189)	-	(5,134,189)	
Sanitation	1,577,129	1,950,165	-	-	373,036	-	373,036	
Public services	3,699,342	57,743	-	-	(3,641,599)	-	(3,641,599)	
Interest on debt	201,016	-	-	-	(201,016)	-	(201,016)	
Total governmental activities	14,575,354	3,156,649	2,123,314	108,000	(9,187,391)	-	(9,187,391)	
Business-type activities:								
Water and sewer	5,728,100	6,064,710	-	-	-	336,610	336,610	
Interest on debt	343,875	-	-	-	-	(343,875)	(343,875)	
Total business-type activities	6,071,975	6,064,710	-	-	-	(7,265)	(7,265)	
Total primary government	20,647,329	9,221,359	2,123,314	108,000	(9,187,391)	(7,265)	(9,194,656)	
Component units:								
Economic development	\$ 682,573	\$ 12,747	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (669,826)
General revenues:								
Taxes:								
Property taxes					4,028,232	-	4,028,232	-
Franchise taxes					717,414	-	717,414	-
Sales and use taxes					6,064,105	-	6,064,105	2,011,948
Other taxes					287,671	-	287,671	-
Investment earnings					48,077	12,983	61,060	47,401
Loss on sale of assets					(25,911)	-	(25,911)	-
Miscellaneous					1,280,779	1,766	1,282,545	21,190
Transfers					(710,864)	710,864	-	-
Total general revenues and transfers					11,689,503	725,613	12,415,116	2,080,539
Change in net position					2,502,112	718,348	3,220,460	1,410,713
Net position - beginning of year, as originally stated					32,035,770	12,985,876	45,021,646	11,890,325
Prior period adjustment					(452,596)	-	(452,596)	-
Net position - beginning of year, as restated					31,583,174	12,985,876	44,569,050	11,890,325
Net position - end of year					\$ 34,085,286	\$ 13,704,224	\$ 48,242,106	\$ 13,301,038

CITY OF HENDERSON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2022

	GENERAL	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and cash equivalents	\$ 2,288,545	\$ 772,093	\$ 3,060,638
Investments	1,637,138	327,349	1,964,487
Receivables:			
Taxes:			
Sales	1,488,097	-	1,488,097
Property	361,808	-	361,808
Franchise	132,431	64,977	197,408
Lease receivable	466,146	-	466,146
Hotel/Motel	-	25,756	25,756
Accounts:			
Warrants	182,563	-	182,563
Sanitation	74,957	-	74,957
Other	-	220,582	220,582
Special Assessments	-	28,006	28,006
Other	195,767	-	195,767
Due from other funds	165,581	91,135	256,716
Total Assets	<u>6,993,033</u>	<u>1,529,898</u>	<u>8,522,931</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES:			
Accounts payable and accrued expenses	953,369	43,470	996,839
Due to component unit	372,024	-	372,024
Unearned revenue	-	71,416	71,416
Due to other governments	9,189	-	9,189
Total Liabilities	<u>1,334,582</u>	<u>114,886</u>	<u>1,449,468</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	361,534	-	361,534
Unavailable revenue - grants	1,608,886	-	1,608,886
Unavailable revenue - leases	454,321	-	454,321
Unavailable revenue - fines	182,563	-	182,563
Total Deferred Inflows of Resources	<u>2,607,304</u>	<u>-</u>	<u>2,607,304</u>
Fund Balances:			
Nonspendable	65,500	-	65,500
Restricted	35,040	490,340	525,380
Committed	-	924,672	924,672
Unassigned	2,950,607	-	2,950,607
Total Fund Balances	<u>3,051,147</u>	<u>1,415,012</u>	<u>4,466,159</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 6,993,033</u>	<u>\$ 1,529,898</u>	<u>\$ 8,522,931</u>

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

CITY OF HENDERSON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2022

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)	\$ 4,466,159
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	40,198,711
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	668,566
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.	(25,053)
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.	(7,287,903)
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.	(3,935,194)
Net position of governmental activities	\$ 34,085,286

CITY OF HENDERSON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2022

	GENERAL	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Taxes:			
Sales	\$ 6,064,105	\$ -	\$ 6,064,105
Property	3,279,626	741,196	4,020,822
Franchise	522,590	194,824	717,414
Hotel/Motel	-	287,671	287,671
Permits and fees	140,424	-	140,424
Charges for services	2,007,908	576,521	2,584,429
Fines and forfeitures	194,359	-	194,359
Intergovernmental revenues	266,511	-	266,511
Interest	35,302	12,775	48,077
Grant income	2,123,314	-	2,123,314
Donated revenue	108,000	-	108,000
Miscellaneous	1,159,395	121,333	1,280,728
Total Revenues	15,901,534	1,934,320	17,835,854
EXPENDITURES			
Current:			
General government:			
Administration	924,125	-	924,125
Finance	364,972	-	364,972
Municipal court	278,576	-	278,576
Nondepartmental	2,119,277	-	2,119,277
Public safety:			
Police	3,692,568	5,325	3,697,893
Fire	1,814,504	-	1,814,504
Sanitation	1,577,129	-	1,577,129
Public services:			
Tourism	-	223,383	223,383
Civic center	-	135,951	135,951
Main street	-	9,866	9,866
Streets	1,221,664	102,058	1,323,722
Parks	545,980	26,207	572,187
Activity center	8,603	-	8,603
Cemeteries	16,154	2,799	18,953
Community development	378,249	9,939	388,188
Animal Shelter	359,704	3,516	363,220
Capital outlay	3,477,947	975,310	4,453,257
Debt service:			
Bond principal	-	408,725	408,725
Lease payments	8,602	-	8,602
Note principal	170,066	-	170,066
Interest and fees	-	206,841	206,841
Total Expenditures	16,958,120	2,109,920	19,068,040
Revenues Over (Under) Expenditures	(1,056,586)	(175,600)	(1,232,186)

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

CITY OF HENDERSON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2022

	GENERAL	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 374,483	\$ 428,457	\$ 802,940
Transfers out	(899,188)	(614,813)	(1,514,001)
Proceeds from sale of assets	76,290	-	76,290
Lease proceeds	49,118	-	49,118
	<u>(399,297)</u>	<u>(186,356)</u>	<u>(585,653)</u>
Total Other Financing Sources (Uses)			
Net Change in Fund Balances	(1,455,883)	(361,956)	(1,817,839)
Fund Balance, October 1, 2021, as originally stated	4,959,626	1,776,968	6,736,594
Prior period adjustment	(452,596)	-	(452,596)
Fund Balance, October 1, 2021, as originally stated	4,507,030	1,776,968	6,283,998
Fund Balance, September 30, 2022	<u>\$ 3,051,147</u>	<u>\$ 1,415,012</u>	<u>\$ 4,466,159</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, 2022

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

Net change in fund balances - total governmental funds	\$ (1,817,839)
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.	2,946,345
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the government wide statements.	(24,962)
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.	544,100
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	854,417
Internal Service Funds are used by management to charge the costs of health insurance to individual funds.	51
Change in net position of governmental activities	<u>\$ 2,502,112</u>

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, 2022

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
REVENUES				
Taxes:				
Sales	\$ 6,870,000	\$ 7,838,485	\$ 8,018,726	\$ 180,241
Property	3,520,000	3,520,000	3,279,626	(240,374)
Franchise	640,000	640,000	522,590	(117,410)
Licenses and permits	115,000	115,000	140,424	25,424
Charges for services	1,992,812	1,992,812	2,013,960	21,148
Fines and forfeitures	235,800	235,800	194,359	(41,441)
Intergovernmental	278,741	282,741	266,511	(16,230)
Interest income	19,000	19,000	17,425	(1,575)
Grant income	-	1,843,451	1,649,916	(193,535)
Miscellaneous income	883,752	1,058,952	1,203,435	144,483
Total Revenues	14,555,105	17,546,241	17,306,972	(239,269)
EXPENDITURES				
General administration	927,497	1,028,064	2,480,550	(1,452,486)
Treasury and financial	378,726	400,666	370,280	30,386
Municipal court	274,734	314,627	286,972	27,655
Nondepartmental	1,411,150	1,445,810	1,504,765	(58,955)
Police	3,918,368	4,115,399	4,506,604	(391,205)
Fire	1,806,311	1,938,038	1,833,704	104,334
Sanitation	1,620,000	3,898,374	3,861,003	37,371
Streets	1,116,262	1,227,414	1,214,911	12,503
Parks	555,954	623,605	561,648	61,957
Activity center	12,800	12,800	8,603	4,197
Cemeteries	14,000	14,000	16,154	(2,154)
Community development	349,207	413,887	409,330	4,557
Animal control	361,891	382,160	370,410	11,750
Equipment replacement	157,500	143,044	193,096	(50,052)
Total Expenditures	12,904,400	15,957,888	17,618,030	(1,660,142)
Revenues Over (Under) Expenditures	1,650,705	1,588,353	(311,058)	(1,899,411)
OTHER FINANCING SOURCES (USES)				
Transfers in	44,397	374,483	374,483	-
Transfers out	(115,908)	(423,733)	(139,588)	284,145
Sales tax payments to HEDCO	(1,600,000)	(1,600,000)	(1,954,621)	(354,621)
Note payments	(177,380)	(199,583)	(199,066)	517
Total Other Financing Sources (Uses)	(1,848,891)	(1,848,833)	(1,918,792)	(69,959)
Revenues and Other Sources Over (Under)				
Expenditures and Other Uses - Budget Basis	(198,186)	(260,480)	(2,229,850)	(1,969,370)
Budget Basis to GAAP Basis Adjustment (Note A)	-	-	773,967	773,967
Revenues and Other Sources Over (Under)				
Expenditures and Other Uses - GAAP Basis	(198,186)	(260,480)	(1,455,883)	(1,195,403)
Fund Balance, October 1, 2021, as originally stated	198,186	260,480	4,959,626	4,699,146
Prior period adjustment	-	-	(452,596)	(452,596)
Fund Balance, October 1, 2021, as restated	198,186	260,480	4,507,030	4,246,550
Fund Balance, September 30, 2022	\$ -	\$ -	\$ 3,051,147	\$ 3,503,743

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	32,375
Donated revenue for capital acquisitions	108,000
Capital outlay received through donations	(108,000)
Lease proceeds from adoption of GASB 87	49,118
Capital outlay from adoption of GASB 87	(49,118)
Decrease in accrued expenses	11,825
Capital outlay transferred to water and sewer fund	759,600
Record transfers to other funds	(759,600)
Deferral of grant revenue	473,398
Adjust accrual of department salaries at year end	256,369
Net Change in Budget Basis Presentation and GAAP Basis Presentation	\$ 773,967

CITY OF HENDERSON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2022

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 675,783	\$ -
Investments	647,239	-
Accounts receivable (net)	695,510	-
Total Current Assets	2,018,532	-
Restricted Current Assets:		
Temporarily Restricted		
Cash and cash equivalents	3,931,314	11,419
Investments	506,179	-
Total Restricted Current Assets	4,437,493	11,419
Capital Assets:		
Land	410,131	-
Construction in progress	5,201,915	-
Motor vehicles	446,977	-
Machinery and equipment	1,462,120	-
Water and sewer system	33,199,129	-
Less: Accumulated depreciation	(19,069,399)	-
Total Capital Assets Net of Accumulated Depreciation	21,650,873	-
Total Assets	28,106,898	11,419
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding (net of amortization)	6,186	-
Deferred outflows on OPEB	49,541	-
Deferred outflows on TMRS pension	400,602	-
Total Deferred Outflows of Resources	456,329	-

(continued)

(continued)

CITY OF HENDERSON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2022

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
LIABILITIES		
Current Liabilities:		
Unrestricted current liabilities:		
Accounts payable	\$ 239,477	\$ -
Claims payable	-	36,472
Accrued expenses	9,124	-
Current portion of compensated absences payable	4,133	-
Due to other funds	256,716	-
Total Unrestricted Current Liabilities	509,450	36,472
Current Liabilities Payable from Restricted Assets:		
Accrued interest	48,614	-
Customer deposits	479,975	-
Bonds payable	541,275	-
Total Current Liabilities Payable from Restricted Assets:	1,069,864	-
Total Current Liabilities	1,579,314	36,472
Noncurrent Liabilities:		
Bonds payable	7,149,859	-
Notes payable	4,488,335	-
Net OPEB liability	176,033	-
Compensated absences payable	68,422	-
Net pension liability	735,981	-
Total Noncurrent Liabilities	12,618,630	-
Total Liabilities	14,197,944	36,472
DEFERRED INFLOWS OF RESOURCES		
Deferred charge on OPEB	41,195	-
Deferred charge on TMRS pension	619,864	-
Total Deferred Inflows of Resources	661,059	-
NET POSITION		
Net investment in capital assets	13,859,014	-
Restricted for:		
Debt service	16,615	-
Unrestricted	(171,405)	(25,053)
Total Net Position	\$ 13,704,224	\$ (25,053)

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

CITY OF HENDERSON, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2022

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Water and Sewer Fund	Self-Insurance Fund
OPERATING REVENUES		
Water sales	3,509,799	\$ -
Sewer charges	2,439,356	-
Charges for other services	115,555	-
Total Operating Revenues	6,064,710	-
OPERATING EXPENSES		
Administration	729,612	-
Cost of sales and services	3,992,170	-
Depreciation and amortization	1,006,318	-
Total Operating Expenses	5,728,100	-
Operating Income (Loss)	336,610	-
NON-OPERATING REVENUES (EXPENSES)		
Interest and fiscal charge expense	(343,875)	-
Other income (expense)	1,766	-
Interest income	12,983	51
Total Non-Operating Revenue (Expenses)	(329,126)	51
INCOME BEFORE TRANSFERS	7,484	51
Transfers in	759,600	
Transfers out	(48,736)	-
Total Transfers	710,864	-
Change in Net Position	718,348	51
Net Position, October 1, 2021	12,985,876	(25,104)
Net Position, September 30, 2022	\$ 13,704,224	\$ (25,053)

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

CITY OF HENDERSON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2022

	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	\$ 6,077,358	\$ -
Cash paid to suppliers for goods and services	(3,155,374)	-
Cash paid to employees for services	(1,864,357)	-
Net cash provided by operating activities	1,057,627	-
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Amounts received on interfund loans	67,871	-
Transfers in	759,600	-
Transfers out	(48,736)	-
Net cash used in non-capital financing activities	778,735	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases or construction of capital assets	(2,671,815)	-
Purchase of investments	(1,003,056)	-
Proceeds from notes	4,488,335	-
Interest paid	(324,554)	-
Principal paid on bonds	(541,275)	-
Net cash used in capital and related financing activities	(52,365)	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned on investments	12,983	51
Net cash provided by investing activities	12,983	51
Net increase in cash	1,796,980	51
Cash, beginning of period	2,810,117	11,368
Cash, end of period	\$ 4,607,097	\$ 11,419
Reconciliation to Exh 7		
Cash and cash equivalents - current asset	\$ 675,783	\$ -
Cash and cash equivalents - temporarily restricted	3,931,314	11,419
Total cash, end of period	\$ 4,607,097	\$ 11,419

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

**CITY OF HENDERSON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2022**

	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)	\$ 336,610	\$ -
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	1,006,318	-
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	(19,172)	-
Decrease (increase) in deferred outflows of resources	59,109	-
Increase (decrease) in accounts payable	(84,639)	-
Increase (decrease) in accrued expenses	(45,506)	-
Increase (decrease) in net pension liabilities	(335,093)	-
Increase (decrease) in postemployment benefits liabilities	(20,055)	-
Increase (decrease) in customer deposits	31,820	-
Increase (decrease) in compensated absences	31,224	-
Increase (decrease) in deferred inflows of resources	97,011	-
Total adjustments	<u>721,017</u>	<u>-</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 1,057,627</u></u>	<u><u>\$ -</u></u>

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

**CITY OF HENDERSON, TEXAS
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2022**

	FIREMEN RETIREMENT PENSION TRUST
ASSETS	
Cash and cash equivalents	\$ 1,597
Total Assets	1,597
LIABILITIES	
Accounts payable	-
Total Liabilities	-
NET POSITION	
Held in trust for pension benefits	1,597
Total Net Position	\$ 1,597

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

CITY OF HENDERSON, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	FIREMEN RETIREMENT PENSION TRUST
ADDITIONS	
Contributions:	
Employer	\$ 2,500
Investment income:	
Interest and dividend income	7
Total Additions	2,507
DEDUCTIONS	
Benefits	1,783
Total Deductions	1,783
Change in net position	724
Net Position - beginning of year	873
Net Position - end of year	\$ 1,597

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

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

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, 2022

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, 2022

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, 2022

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 categorizes 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, 2022

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, 2022

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, 2022

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, 2022

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 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. The City has adopted the provisions of this new standard and applied them where necessary.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

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 \$668,566 difference are as follows:

Delinquent Property Taxes Receivable	\$ 361,534
Outstanding Warrants Receivable	182,563
Note Receivable	<u>124,469</u>
Net Adjustment to <i>Increase</i> Total Fund Balances-Total Governmental Funds	
to Arrive at Net Position-Governmental Activities	<u><u>\$ 668,566</u></u>

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

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 \$(7,287,903) difference are as follows:

Certificates of Obligation Payable	\$ (5,779,825)
Accrued Interest	(39,835)
Unamortized Premium on Issue	(161,489)
Other Changes in Liabilities	(33,030)
Notes Payable	(875,797)
Lease Payable	(40,516)
Accrued Compensated Absences	<u>(357,411)</u>
Net Adjustment to <i>Decrease</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Position-Governmental Activities	<u><u>\$ (7,287,903)</u></u>

The reconciliation states that “Recognition of the City’s net pension liability and OPEB liability and related deferred resource inflows and outflows occurs in the Statement of Net Position but is not reported in the funds.” The details of this \$(3,935,194) difference are as follows:

Net Pension Liability	\$ (2,113,132)
Net OPEB Liability	(669,336)
Deferred Resource Inflow	(2,667,497)
Deferred Resource Outflow	<u>1,514,771</u>
Net Adjustment to <i>Decrease</i> Total Fund Balances-Total Governmental Funds to Arrive at Net Position-Governmental Activities	<u><u>\$ (3,935,194)</u></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 18 is a reconciliation between Net Changes in Fund Balances-Total Governmental Funds and Changes in Net Position of Governmental Activities as reported in the Government-wide Statement of Activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$2,946,345 difference are as follows:

Capital Outlay Expenditures, net of disposals	\$ 4,351,056
Depreciation Expense	<u>(1,404,711)</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>\$ 2,946,345</u></u>

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

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 \$(24,962) difference are as follows:

Current Year Increase/(Decrease) in Net Property Taxes Receivable	\$ 4,139
Current Year Increase/(Decrease) in Net Outstanding Warrants Receivable	<u>(29,101)</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>\$ (24,962)</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 \$544,100 difference are as follows:

Principal Payments on Certificates of Obligation	\$ 408,725
Principal Payments on Notes Payable	170,066
Principal Payments on Notes Payable	8,602
Reclassification of Capital Leases	1,045,863
Reclassification of Capital Leases to Notes payable	(1,045,863)
Current Year (Increase)/Decrease in Accrued Interest Payable	(15,399)
Proceeds from Leases	(49,118)
Amortization of Bond Premium	<u>21,224</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>\$ 544,100</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 \$854,417 difference are as follows:

Increase in Compensated Absences	(30,314)
Net OPEB Liability Expenses	(18,356)
Net Pension Liability Expenses	<u>903,087</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>\$ 854,417</u></u>

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

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, 2022, 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, 2022, 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, 2022 consist of and are classified in the accompanying financial statements as follows:

Statement of net position:	
Primary Government	
Cash and cash equivalents	\$ 3,736,421
Restricted cash and cash equivalents	3,942,733
Investments	2,611,726
Restricted investments	506,179
Fiduciary Funds	
Cash and cash equivalent	1,597
Restricted cash and cash equivalents	-
Total Cash and Investments	<u>\$ 10,798,656</u>
Cash on hand	\$ 3,710
Cash and cash equivalents held in investment account	709,945
External Investment pools	2,408,123
Savings and checking accounts	<u>7,676,878</u>
Total Cash and Investments	<u>\$ 10,798,656</u>

At September 30, 2022, the carrying amount of the City's deposits with financial institutions, including time deposits and certificates of deposits, was \$10,798,656 and the bank balance was \$11,221,365. 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, 2022

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, 2022, 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, 2022, is shown below.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Credit Risk</u>
Certificates of Deposit	\$ 709,782	0.54	N/A
TexSTAR	2,408,123	0.0004	AAAm
	<u>\$ 3,117,905</u>		

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, 2022

A. Deposits and Investments – Continued

A summary of the City’s investments under the requirements of the fair value hierarchy as of September 30, 2022 are as follows:

	Assets at Fair Value as of September 30, 2022			
	Level 1	Level 2	Level 3	Total
Primary Government:				
Certificates of Deposit	\$ -	\$ 709,782	\$ -	\$ 709,782
Texas Government Investment Pool	-	2,408,123	-	2,408,123
Total Primary Government	<u>\$ -</u>	<u>\$ 3,117,905</u>	<u>\$ -</u>	<u>\$ 3,117,905</u>

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The City’s investment policy limits its investments to U.S. government securities, investment pools, certificates of deposit, and money market funds. The City was not significantly exposed to credit risk.

At September 30, 2022, 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.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

A. Deposits and Investments – Continued

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	\$ 588,601	\$ 715,251	\$ 220,582	\$ 1,524,434
Taxes	2,022,715	-	90,733	2,113,448
Assessments	-	-	28,006	28,006
Lease Receivable	466,146	-	-	466,146
Miscellaneous	195,679	4	-	195,683
Gross receivables	3,273,141	715,255	339,321	4,327,717
Less: Allowance for Uncollectables	(371,372)	(19,745)	-	(391,117)
Net Receivables	<u>\$ 2,901,769</u>	<u>\$ 695,510</u>	<u>\$ 339,321</u>	<u>\$ 3,936,600</u>

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

B. Receivables – Continued

The only receivables not expected to be collected within one year are \$29,046 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 \$124,469 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, 2022, was as follows:

PRIMARY GOVERNMENT	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,521,687	\$ 1,079,492	\$ 22,500	\$ 2,578,679
Construction in progress	69,550	1,046,592	552,886	563,256
Total Capital Assets, Not Being Depreciated	<u>1,591,237</u>	<u>2,126,084</u>	<u>575,386</u>	<u>3,141,935</u>
Capital Assets, Being Depreciated				
Buildings	11,206,394	1,463,603	103,396	12,566,601
Improvements other than buildings	5,181,028	57,043	-	5,238,071
Motor Vehicles	2,264,913	193,096	-	2,458,009
Equipment	4,504,414	727,899	-	5,232,313
Infrastructure	25,744,561	438,418	-	26,182,979
Right-of-use Asset	-	49,118	-	49,118
Total Capital Assets, Being Depreciated	<u>48,901,310</u>	<u>2,929,177</u>	<u>103,396</u>	<u>51,727,091</u>
Less Accumulated Depreciation For:				
Buildings	2,132,622	253,718	23,695	2,362,645
Improvements other than buildings	2,738,202	412,461	-	3,150,663
Motor Vehicles	1,361,399	185,523	-	1,546,922
Equipment	3,479,382	218,479	-	3,697,861
Infrastructure	3,577,694	328,893	-	3,906,587
Right-of-use Asset	-	5,637	-	5,637
Total Accumulated Depreciation	<u>13,289,299</u>	<u>1,404,711</u>	<u>23,695</u>	<u>14,670,315</u>
Net Total Assets Being Depreciated	<u>35,612,011</u>	<u>60,863</u>	<u>79,701</u>	<u>37,056,776</u>
Governmental Activities Capital Assets, Net	<u>\$ 37,203,248</u>	<u>\$ 3,650,550</u>	<u>\$ 655,087</u>	<u>\$ 40,198,711</u>

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

C. Capital Assets – Continued

<u>PRIMARY GOVERNMENT</u>	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 410,131	\$ -	\$ -	\$ 410,131
Construction in Progress	2,978,850	2,498,117	275,052	5,201,915
Total Capital Assets, Not Being Depreciated	<u>3,388,981</u>	<u>2,498,117</u>	<u>275,052</u>	<u>5,612,046</u>
Capital Assets, Being Depreciated				
Water and Sewer System	32,919,072	280,057	-	33,199,129
Machinery and Equipment	1,742,504	166,593	-	1,909,097
Total Capital Assets, Being Depreciated	<u>34,661,576</u>	<u>446,650</u>	<u>-</u>	<u>35,108,226</u>
Less Accumulated Depreciation For:				
Water and Sewer System	16,524,769	704,101	-	17,228,870
Machinery and Equipment	1,542,748	297,781	-	1,840,529
Total Accumulated Depreciation	<u>18,067,517</u>	<u>1,001,882</u>	<u>-</u>	<u>19,069,399</u>
Net Total Assets Being Depreciated	<u>16,594,059</u>	<u>(555,232)</u>	<u>-</u>	<u>16,038,827</u>
Business-Type Activities Capital Assets, Net	<u>\$ 19,983,040</u>	<u>\$ 1,942,885</u>	<u>\$ 275,052</u>	<u>\$ 21,650,873</u>

Right-of-Use Assets

A lease is defined as a contract that conveys control of the right of use of another entity's nonfinancial asset as specified in a contract for a period of time in an exchange or exchange-like transaction. The City is party to a variety of lease contracts as lessee for which this right-of-use (ROU) has been recognized as an asset on the balance sheet. This recognition is new for the current fiscal year due to the implementation of GASB 87.

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

Governmental Activities:	
General Government	\$ 198,944
Public Safety	400,091
Public Services	805,676
Total depreciation expense, governmental activities	<u>\$ 1,404,711</u>
Business-Type Activities:	
Water and Sewer Operations	<u>\$ 1,001,882</u>

As of September 30, 2022, 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:

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

Project	Spent To-Date	Estimated Remaining Construction
East Side Sewer Main Phase II & III	2,978,850	1,616,942
West Loop 571 Water System Improvements	358,505	2,822
Bell Street Emergency Sewer Repair	275,052	10,500
Water meter upgrades	1,019,040	3,376,816
300 West Main St. Remodel	563,256	750,000

D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of September 30, 2022, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Tourism Fund	\$ 5,182
General Fund	Water and Sewer	174,793
Forfeiture Fund	General Fund	4,267
2012 Bond Fund	Water and Sewer	81,923
Total		<u>\$ 266,165</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, 2022, is as follows:

	Transfers In				
	General	Street & Drainage	Main Street	Water & Sewer	Total
Transfers Out:					
General	\$ -	\$ -	\$ 17,000	\$ 759,600	\$ 776,600
Main Street	4,773	-	-	-	4,773
General Construction	198,583	-	-	-	198,583
Water and Sewer	48,539	-	-	-	48,539
Total transfers out/in	<u>\$ 251,895</u>	<u>\$ -</u>	<u>\$ 17,000</u>	<u>\$ 759,600</u>	<u>\$1,028,495</u>

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

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, 2022:

	<u>GENERAL OBLIGATION</u>	<u>REVENUE</u>	<u>TOTAL</u>
Bonds payable - October 1, 2021	\$ 680,000	\$ 13,715,000	\$ 14,395,000
Additions	-	-	-
Retirements	(370,000)	(580,000)	(950,000)
Bonds payable - September 30, 2022	<u>\$ 310,000</u>	<u>\$ 13,135,000</u>	<u>\$ 13,445,000</u>

Original issue amounts currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Original Issue Amount</u>
Governmental Activities:		
2011 Tax & Waterworks and Sewer System Limited Pledge Revenue Certificates of Obligation	2.25% - 4.0%	\$ 340,000
2012 Tax & Waterworks and Sewer System Limited Pledge Revenue Certificates of Obligation	0.88% - 3.16%	484,825
2019 Tax & Waterworks and Sewer System Limited Pledge Revenue Certificates of Obligation	3.25% - 4.50%	4,955,000
Business-Type Activities:		
2012 Tax & Waterworks and Sewer System Limited Pledge Revenue Certificates of Obligation	0.88% - 3.16%	540,175
2014 General Obligation Refunding Bonds	2.00% - 2.50%	310,000
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>\$ 13,445,000</u>

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

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

E. Long-Term Debt – Continued

Year Ending September 30	GOVERNMENTAL		BUSINESS-TYPE		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2023	\$ 423,455	\$ 191,003	\$ 371,545	\$ 251,243	\$ 1,237,246
2024	440,820	175,105	384,180	239,699	1,239,805
2025	455,550	157,878	394,450	227,446	1,235,324
2026	470,000	142,638	405,000	217,631	1,235,269
2027	495,000	121,938	425,000	201,431	1,243,369
2028-2032	2,600,000	378,838	2,340,000	785,206	6,104,044
2033-2037	895,000	43,063	2,740,000	388,850	4,066,913
2038	-	-	605,000	21,175	626,175
Total	<u>\$ 5,779,825</u>	<u>\$ 1,210,462</u>	<u>\$ 7,665,175</u>	<u>\$ 2,332,681</u>	<u>\$ 16,988,143</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, 2022, 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, 2022 are as follows:

Debt Issue	Outstanding Balance as of September 30, 2022
City of Henderson 2004 Waterworks and Sewer System Limited Pledge Revenue	<u>375,000</u>
Certificates of Obligations	<u>\$ 375,000</u>

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

Changes in Long-Term Liabilities

Long term liability activity for the year ended September 30, 2022 was as follows:

	Beginning Balance 10/01/21	Additions	Reductions	Ending Balance 09/30/22	Due Within One Year
Governmental Activities:					
Certificates of Obligation	6,188,550	-	408,725	5,779,825	423,455
Add: Premium on Issue	182,713	-	21,224	161,489	-
Total Bonds Payable	6,371,263	-	429,949	5,941,314	423,455
Capital Lease	1,045,863	-	1,045,863	-	-
Lease liability	-	49,118	8,602	40,516	7,721
Notes Payable	-	1,045,863	170,066	875,797	173,280
OPEB Liability	758,516	18,812	107,992	669,336	-
Compensated Absences	327,197	30,214	-	357,411	35,741
Net Pension Liability	3,602,705	-	1,489,573	2,113,132	-
Governmental Activity Long-Term Liabilities	<u>\$ 12,105,544</u>	<u>\$ 1,144,007</u>	<u>\$ 3,252,045</u>	<u>\$ 9,997,506</u>	<u>\$ 640,197</u>
Business-Type Activities:					
General Obligation Bonds	680,000	-	370,000	310,000	105,000
Add: Premium on Issue	7,283	-	2,414	4,869	-
Certificates of Obligation	7,526,450	-	171,275	7,355,175	266,545
Add: Premium on Issue	23,001	-	1,911	21,090	-
Total Bonds Payable	8,236,734	-	545,600	7,691,134	371,545
Notes Payable	-	4,488,335	-	4,488,335	240,481
OPEB Liability	196,088	4,232	24,287	176,033	-
Compensated Absences	41,331	31,224	-	72,555	7,256
Net Pension Liability	1,071,074	-	335,093	735,981	-
Business-Type Activity Long-Term Liabilities	<u>\$ 9,545,227</u>	<u>\$ 35,456</u>	<u>\$ 904,980</u>	<u>\$ 8,675,703</u>	<u>\$ 378,801</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.

F. Leases

The City has various copiers and public safety radios under lease, along with leases to third parties for property and equipment. With the implementation of GASB Statement No. 87 Leases, effective for the fiscal year ended September 30, 2022, all leases were analyzed and classified as either qualified or non-qualified leases, for both lessor and lessee positions. With this implementation, a respective receivable or payable is recognized.

Lessor Leases Receivable

The City has entered into a lease agreement for rent space in the Firehouse for UT Health EMS, along with lease agreements for space on top of towers to Nextel and American Tower. Lease receivables additions for the year ended September 30, 2022 were \$495,636 and lease revenue for the year then ended was \$29,490. No new leases were entered into for the year. Annual payments range from \$11,504 to \$24,000 at an interest rate of 4.06%. Future annual lease receivables as of September 30, 2022, are as follows:

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

F. Leases (continued)

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Receipts</u>
2023	\$ 30,390	\$ 18,369	\$ 48,759
2024	33,163	17,079	50,242
2025	34,535	15,707	50,242
2026	35,964	14,279	50,243
2027	37,451	12,791	50,242
2028-2032	128,991	45,746	174,737
2033-2037	60,260	27,988	88,248
2038-2042	88,419	13,067	101,486
2043-2047	16,973	318	17,291
Total Future Receipts	<u>\$ 466,146</u>	<u>\$ 165,344</u>	<u>\$ 631,490</u>

Lessee Leases Payable

In March of 2022, the City entered into a lease with UT Health for radios for the police and fire departments. Lease payable additions for the year ended September 30, 2022 were \$49,118 and lease payments were \$8,602. Annual payments for the lease are based on the number of radios in use at the beginning of each year. For the year ended September 30, 2022, the City had 87 radios in use at a rate of \$100 per radio. The City expects this number to remain constant for the foreseeable future. Annual payments for the radios are \$8,700 at an interest rate of 2.39%. The future annual lease payables as of September 30, 2022, were as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2023	\$ 7,721	\$ 979	\$ 8,700
2024	7,908	792	8,700
2025	8,099	601	8,700
2026	8,294	406	8,700
2027	8,494	205	8,699
Total Future payments	<u>\$ 40,516</u>	<u>\$ 2,983</u>	<u>\$ 43,499</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.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

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:

	<u>Plan Year 2021</u>	<u>Plan Year 2020</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	60/5,0/20
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, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>12/31/2021</u>	<u>12/31/2020</u>
Inactive employees or beneficiaries currently receiving benefits	77	75
Inactive employees entitled to but not yet receiving benefits	77	72
Active employees	<u>138</u>	<u>131</u>
	292	278

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 2022. The contribution rate for the 2021 calendar year was 16.97%. The City's contributions to TMRS for the year ended September 30, 2022, were \$1,124,397 and were equal to the required contributions.

E. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2021, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

F. Actuarial Assumptions

The Total Pension Liability in the December 31, 2021 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

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, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 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 2022 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.00%	7.55%
Core Fixed Income	6.00%	2.00%
Non-Core Fixed Income	20.00%	5.68%
Real Return	12.00%	7.22%
Real Estate	12.00%	6.85%
Absolute Return	5.00%	5.35%
Private Equity	10.00%	10.00%
Total	100.00%	

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

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.

H. Changes in Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2020	\$ 37,666,144	\$ 32,992,365	\$ 4,673,779
Changes for the year:			
Service Cost	1,159,324	-	1,159,324
Interest	2,537,296	-	2,537,296
Change in benefit terms	-	-	-
Difference between expected/actual experience	365,425	-	365,425
Changes in assumptions	-	-	-
Contributions - employer	-	1,132,268	(1,132,268)
Contributions - employee	-	473,470	(473,470)
Net investment income	-	4,300,737	(4,300,737)
Benefits payments, including refunds of employee contributions	(1,312,473)	(1,312,473)	-
Administrative expenses	-	(19,900)	19,900
Other charges	-	136	(136)
Net changes	2,749,572	4,574,238	(1,824,666)
Balance at 12/31/2021	<u>\$ 40,415,716</u>	<u>\$ 37,566,603</u>	<u>\$ 2,849,113</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	\$ 9,258,587	\$ 2,849,113	\$ (2,317,053)

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, 2022, the city recognized pension expense in the amount of \$10,282.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

At September 30, 2022, 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	\$ 288,815	\$ 365,101
Changes in actuarial assumptions	53,638	-
Differences between projected and actual investment earnings	537,413	2,747,900
Contributions subsequent to the measurement date	837,013	-
Total	<u>\$ 1,716,879</u>	<u>\$ 3,113,001</u>

The City had \$837,013 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, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31		
2022	\$	(508,810)
2023		(923,090)
2024		(445,472)
2025		(355,763)
2026		-
Thereafter		-
	<u>\$</u>	<u>(2,233,135)</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.

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.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

C. Employees Covered by Benefit Terms

At the September 30, 2022 measurement date (September 30, 2022 valuation), the following employees were covered by the benefit terms:

	<u>9/30/2022</u>
Inactive employees currently receiving benefits	5
Active employees	<u>125</u>
	130

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	\$ 559.81	\$ 950.93	\$ 1,089.87	\$ 1,563.33
City Pays	559.81	222.94	302.13	572.01

The City's contributions for the year ended September 30, 2022, were \$38,240 (includes \$14,400 in subsidy contributions made by the employer).

E. Total OPEB Liability

The City's total OPEB liability was measured as of September 30, 2022 and was determined by an actuarial valuation as of September 30, 2022.

F. Actuarial Assumptions

The total OPEB liability in the September 30, 2022 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50%
Overall payroll growth	3.50%
Discount rate	4.77% (2.27% 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-2021. The trend assumption is used to project the growth of the expected claims over the lifetime of the healthcare recipients.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

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 4.77%.

G. Changes in the Total OPEB Liability

H.

	Total OPEB Liability
Balances as of September 30, 2019	\$ 526,720
Changes for the year:	
Service cost	15,497
Interest	11,770
Changes in benefit terms	-
Differences between expected and actual experience	(21,841)
Changes in assumptions	(99,466)
Benefit payments	(38,240)
Employer contributions	-
Net investment income	-
Administrative expenses	-
Other	
Net Changes	<u>(132,280)</u>
Balances as of September 30, 2020	<u>\$ 394,440</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 4.77%, would be if it were calculated using a discount rate that is 1-percentage-point lower (3.77%) or 1-percentage-point higher (5.77%) than the current rate:

	1% Decrease in Discount Rate (3.77%)	Discount Rate (4.77%)	1% Increase in Discount Rate (5.77%)
Total OPEB Liability	\$ 362,854	\$ 394,440	\$ 430,440

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:

	1% Decrease in Trend Rate (3.50%)	Current Trend Rate (4.50%)	1% Increase in Trend Rate (5.50%)
Total OPEB Liability	\$ 358,020	\$ 394,440	\$ 438,011

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

For the year ended September 30, 2022, the City recognized OPEB expense of \$32,414.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

Components of OPEB Expense	
Service cost	\$ 15,497
Interest on total OPEB liability	11,770
Differences between expected and actual experience	1,185
Changes in assumptions	3,962
Projected earnings on OPEB plan investments	-
Differences between projected and actual earnings on plan investments	-
OPEB plan administrative expenses	-
Total OPEB expense	<u>\$ 32,414</u>

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

At the September 30, 2022, 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	\$ 19,959	\$ 19,158
Changes in actuarial assumptions	83,491	87,247
Total	<u>\$ 103,450</u>	<u>\$ 106,405</u>

At the September 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Year Ended September 30	
2023	\$ 5,147
2024	5,147
2025	5,147
2026	5,147
2027	5,147
Thereafter	(28,690)
	<u>\$ (2,955)</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

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

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, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>12/31/2021</u>
Inactive employees currently receiving benefits	53
Inactive employees entitled to but not yet receiving benefits	15
Active employees	<u>138</u>
	206

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 2022, the total SDB contributions rate for the City was 0.21%, while the retiree portion of the SDB contribution was 0.12%. The City's contributions for the year ended September 30, 2022, were \$8,191 for the retiree portion, and \$14,677 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, 2021 and was determined by an actuarial valuation as of that date.

F. Actuarial Assumptions

The total OPEB liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022**

Inflation	2.50%
Overall payroll growth	3.50% to 11.50% including inflation
Discount rate *	1.84%
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, 2021.

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

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, 2014 to December 31, 2018.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

G. Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at 12/31/2020	\$ 427,885
Changes for the year:	
Service cost	20,968
Interest	8,666
Change of benefit terms	-
Difference between expected and actual experience	(10,090)
Changes of assumptions or other inputs	13,646
Benefit payments	<u>(10,146)</u>
Net changes	<u>23,044</u>
Balance at 12/31/2021	<u><u>\$ 450,929</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 1.84%, would be if it were calculated using a discount rate that is 1-percentage-point lower (0.84%) or 1-percentage-point higher (2.84%) than the current rate:

	<u>1% Decrease in Discount Rate (0.84%)</u>	<u>Discount Rate (1.84%)</u>	<u>1% Increase in Discount Rate (2.84%)</u>
Total OPEB Liability	\$ 549,608	\$ 450,929	\$ 373,535

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

For the year ended September 30, 2022, the City recognized OPEB expense of \$39,077

<u>Components of OPEB Expense</u>	
Service cost	\$ 20,968
Interest on total OPEB liability	8,666
Effect of plan changes	-
Employer administration costs	-
Recognition of deferred outflows/inflows of resources:	
Recognition of economic/demographic gains or losses	(10,084)
Recognition of assumption changes or inputs	<u>19,527</u>
Total OPEB expense	<u><u>\$ 39,077</u></u>

At the September 30, 2022, 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, 2022

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 28,606	\$ 82,952
Changes in actuarial assumptions	91,016	9,295
Contributions made subsequent to the measurement date	8,191	-
Total	<u>\$ 127,813</u>	<u>\$ 92,247</u>

The City had \$8,191 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, 2023. Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Year Ended December 31
2022	\$ 9,443
2023	8,871
2024	4,791
2025	276
2026	3,636
Thereafter	358
	<u>\$ 27,375</u>

NOTE 7 — DEFICIT NET POSITION OR FUND BALANCE

At September 30, 2022, the City's Internal Service Fund has a deficit net position in the amount of \$25,053.

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, 2022.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

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. This contract has been extended for an additional 5 years through December 31, 2025.

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.

During the year, citizens voted to change HEDCO from a Type A economic development corporation to a Type B. With this change, the Board increased to seven directors. All directors are appointed by the City Council for a term of two (2) years. As of September 30, 2022, the transition from a Type A to a Type B economic development corporation was still ongoing.

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, 2022, 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.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

1. Deposits

At September 30, 2022, the carrying amount of HEDCO's deposits (cash, certificates of deposit, and interest-bearing money-market accounts) was \$7,539,314 and the bank balance was \$7,545,914. HEDCO's cash deposits at September 30, 2022 and during the period ended September 30, 2022 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, 2022, HEDCO had no investments. All HEDCO's deposits were in a demand deposit accounts and a money market account.

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether HEDCO was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, HEDCO was not exposed to credit risk.

B. Deposits and Investments - Continued

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,

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

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, 2022 are as follows:

Sales Taxes (from City of Henderson)	\$ 372,024
Notes Receivable - Local Business (Incentive)	\$ 25,000
Notes Receivable - Rail District 2009	\$ 680,000
Lease Receivable	<u>17,553</u>
Total	<u><u>\$ 1,094,577</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.

On December 10, 2020, the HEDCO board approved the suspension of note payments from the Rail District for a period of one year, beginning January 2020. Payments resumed January 2021.

On January 13, 2022 the Board approved deferring the payments from the Rusk County Rural Rail District 2009 loan for 15 years.

On March 25, 2021, a note in the amount of \$30,000 was executed between HEDCO and a local business entity as an economic incentive. The agreement provides for five (5) \$6,000 annual payments beginning one year from the execution of this agreement. However, in the agreement HEDCO has agreed to forgive the repayment of the loan if the entity hires and retains six (6) full-time employees for a period of not less than five (5) years. In the event, the entity fails to uphold the agreement, HEDCO reserves the right to demand repayment of the loan balance outstanding after its receipt of a notice of default and a thirty (30) day opportunity to cure. In no event will HEDCO forgive more than \$6,000 of the loan balance in any given year. During the year ended September 30, 2022, \$5,000 was forgiven by HEDCO, leaving the balance at \$25,000.

Lease Receivable:

On February 1, 2022, HEDCO entered into a lease agreement with a local business where the local business leases property owned by HEDCO for the amount of \$1,600 a month. The lease ends in September 2023. The amount of lease revenue recognized from the lease for the year ended September 30, 2022 was \$12,747, and interest revenue totaled \$87. If specific conditions are met by the business, a lease extension of an additional 18 months will be granted for \$2,100 per month. The future lease payments to be received are as follows:

Year ended September 30,	Principal	Interest	Total
2023	\$ 11,180	\$ 47	\$ 11,227

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

D. Capital Assets

Capital asset activity for the year ended September 30, 2022, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land and investment property	\$ 2,764,385	\$ -	\$ -	\$ 2,764,385
Construction in Progress	269,363	1,739,893	-	2,009,256
Discretely Presented Component Unit Capital				
Assets, not being depreciated	\$ 3,033,748	\$ 1,739,893	\$ -	\$ 4,773,641
Capital assets, being depreciated:				
Right-to-Use Asset	\$ -	\$ 4,195	\$ -	\$ 4,195
Leasehold Improvements	37,573	-	37,573	-
Total capital assets, being depreciated:	37,573	4,195	37,573	4,195
Less accumulated depreciation for:				
Right-to-Use Asset	-	(950)	-	(950)
Leasehold Improvements	-	-	-	-
Total accumulated depreciation	-	(950)	-	(950)
Total capital assets being depreciated, net	37,573	3,245	37,573	3,245
Discretely Presented Component Unit Capital Assets, net	\$ 3,071,321	\$ 1,743,138	\$ 37,573	\$ 4,776,886

Depreciation was charged to functions as follows:

General Government \$950

E. Long-Term Obligations

Long-term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2022 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Capital Financing Activities	\$ -	\$ 4,195	\$ 876	\$ 3,319	\$ 917

HEDCO entered into a leasing agreement for a copy machine totaling \$4,195 payable in monthly installments of \$88 at an assumed interest rate of 4.68 percent. Variable payments are not included in the measurement of the lease.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

Future lease payment maturity schedule is as follows:

Year ended September 30,	Principal	Interest	Total
2023	\$ 917	\$ 136	\$ 1,053
2024	961	92	1,053
2025	1,007	46	1,053
2026	434	5	439
	\$ 3,319	\$ 279	\$ 3,598

F. 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.

G. Contingencies and Commitments

1. 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.
2. HEDCO has an active construction project as of September 30, 2022. The project is the East Texas Regional Business Park. At year-end, HEDCO's commitments related to the project are as follows:

Project	Total Contract Spent to Date	Remaining Contract
East Texas Regional Business Park:		
Engineering	\$ 482,845	\$ 170,530
Construction	1,294,785	311,410
Total	\$ 1,777,630	\$ 481,940

H. 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, 2022 was \$49,763. Employer contributions to the plan for the year ended September 30, 2022 were \$3,483.

I. Subsequent Events

Subsequent to year-end, HEDCO approved selling a 12 acres to a local business for a total of \$140,000 with the potential to discount the price to \$104,000 if specific conditions are met by the business.

CITY OF HENDERSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2022

NOTE 10 — 300 WEST MAIN STREET

During the year, the City purchased the remaining two-thirds interest in a building located at 300 West Main, Henderson Texas in which they were gifted the other one-third interest during the prior year. The total purchase price of this property and building was \$1,379,050 which was made up of \$1,271,050 in cash and \$108,000 in donated revenue in exchange for office space in the building for three years from one of the previous owners.

NOTE 11 — PRIOR PERIOD ADJUSTMENT

During the current year, the City concluded that there was grant revenues recognized in the prior year that should have been deferred due to the fact that the related costs were not incurred in the prior year. This resulted in a prior period adjustment of \$452, 596 that was made to the General Fund to properly defer these revenues.

NOTE 12 — 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, 2022. 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, 2022, employees of the City were covered by a health insurance plan (the Plan). The City contributes 100% of the cost for employee coverage and 50% of the cost for dependent coverage to the Plan and, employees electing dependent coverage authorize payroll withholding to pay the balance of contributions for their dependents.

NOTE 13 — SUBSEQUENT EVENTS

Subsequent events were evaluated through March 14, 2023, 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, 2022

	Measurement Year 2021	Measurement Year 2020	Measurement Year 2019	Measurement Year 2018	Measurement Year 2017	Measurement Year 2016	Measurement Year 2015	Measurement Year 2014
Total Pension Liability								
Service Cost	\$ 1,159,324	\$ 1,126,479	\$ 1,063,363	\$ 1,011,452	\$ 934,893	\$ 897,939	\$ 870,520	\$ 747,767
Interest (on the Total Pension Liability)	2,537,296	2,412,081	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	365,425	(310,723)	(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	(1,312,473)	(1,465,963)	(1,838,517)	(1,367,586)	(1,401,900)	(1,230,942)	(1,329,666)	(1,194,775)
Net Change in Total Pension Liability	2,749,572	1,761,874	1,574,766	1,874,606	769,295	1,954,401	1,548,674	1,383,480
Total Pension Liability - Beginning	37,666,144	35,904,270	34,329,504	32,454,898	31,685,603	29,731,202	28,182,528	26,799,048
Total Pension Liability - Ending (a)	<u>\$ 40,415,716</u>	<u>\$ 37,666,144</u>	<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	\$ 1,132,268	\$ 1,062,570	\$ 1,059,111	\$ 1,031,851	\$ 943,858	\$ 883,082	\$ 881,591	\$ 834,375
Contributions - Employee	473,470	462,032	452,088	435,188	418,430	402,971	407,874	374,069
Net Investment Income	4,300,737	2,324,026	4,147,962	(825,940)	3,363,955	1,534,069	33,532	1,229,656
Benefit payments, including refunds of employee contributions	(1,312,473)	(1,465,963)	(1,838,517)	(1,367,586)	(1,401,900)	(1,230,942)	(1,329,666)	(1,194,775)
Administrative Expense	(19,900)	(15,042)	(23,436)	(15,962)	(17,430)	(17,322)	(20,423)	(12,837)
Other	136	(587)	(704)	(834)	(883)	(933)	(1,009)	(1,055)
Net Change in Plan Fiduciary Net Position	4,574,238	2,367,036	3,796,504	(743,283)	3,306,030	1,570,925	(28,101)	1,229,433
Plan Fiduciary Net Position - Beginning	32,992,365	30,625,329	26,828,825	27,572,108	24,266,078	22,695,153	22,723,254	21,493,821
Plan Fiduciary Net Position - Ending (b)	<u>\$ 37,566,603</u>	<u>\$ 32,992,365</u>	<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)	2,849,113	4,673,779	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	92.95%	87.59%	85.30%	78.15%	84.96%	76.58%	76.33%	80.63%
Covered Payroll	\$ 6,763,853	\$ 6,595,311	\$ 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	42.12%	70.87%	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.

SCHEDULE 2

**CITY OF HENDERSON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
FISCAL YEAR ENDED SEPTEMBER 30, 2022**

	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 1,122,677	\$ 1,137,481	\$ 1,073,635	\$ 1,065,616	\$ 984,706	\$ 933,672	\$ 876,745	\$ 851,005
Contributions in relation to the actuarially determined contributions	<u>(1,124,397)</u>	<u>(1,137,481)</u>	<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)	\$ (1,720)	\$ -	\$ -	\$ -	\$ 48	\$ -	\$ -	\$ -
Covered payroll	\$ 6,825,578	\$ 6,863,337	\$ 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	16.47%	16.57%	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, 2022

	Measurement Year 2021	Measurement Year 2020	Measurement Year 2019	Measurement Year 2018	Measurement Year 2017
Total OPEB Liability					
Service Cost	\$ 20,968	\$ 15,169	\$ 10,963	\$ 10,555	\$ 8,369
Interest	8,666	10,478	14,754	11,028	11,036
Changes in benefit terms	-	-	-	-	-
Difference between expected and actual experience	(10,090)	(26,793)	(99,500)	68,894	-
Change of assumptions and other inputs	13,646	57,256	58,599	(22,376)	24,369
Benefit payments	(10,146)	(3,298)	(3,869)	(3,725)	(3,587)
Net Change in Total OPEB Liability	23,044	52,812	(19,053)	64,376	40,187
Total OPEB Liability - Beginning	427,885	375,073	394,126	329,750	289,563
Total OPEB Liability - Ending (a)	<u>\$ 450,929</u>	<u>\$ 427,885</u>	<u>\$ 375,073</u>	<u>\$ 394,126</u>	<u>\$ 329,750</u>
Covered Payroll	\$ 6,763,853	\$ 6,595,311	\$ 6,448,533	\$ 6,209,037	\$ 5,977,575
Total OPEB Liability as a Percentage of Covered Payroll	6.67%	6.49%	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

1.84%

Salary Increases

3.50% to 11.50% including inflation

Discount Rate

2.00%

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.

CITY OF HENDERSON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
HEALTH PLAN
FISCAL YEAR ENDED SEPTEMBER 30, 2022

	2022	2021	2020	2019	2018
Total OPEB Liability					
Service Cost	\$ 15,497	\$ 15,497	\$ 11,859	\$ 11,859	\$ 11,395
Interest	11,770	12,082	15,708	15,682	16,317
Changes in benefit terms	-	-	-	-	-
Difference between expected and actual experience	(21,841)	-	31,563	-	-
Change of assumptions and other inputs	(99,466)	-	132,034	-	-
Benefit payments	(38,240)	(44,709)	(44,709)	(32,825)	(31,070)
Net Change in Total OPEB Liability	(132,280)	(17,130)	146,455	(5,284)	(3,358)
Total OPEB Liability - Beginning	526,720	543,850	397,395	402,679	406,037
Total OPEB Liability - Ending (a)	<u>\$ 394,440</u>	<u>\$ 526,720</u>	<u>\$ 543,850</u>	<u>\$ 397,395</u>	<u>\$ 402,679</u>
Covered Payroll	\$ 6,851,654	\$ 6,335,820	\$ 5,400,705	\$ 5,137,898	\$ 5,175,802
Total OPEB Liability as a Percentage of Covered Payroll	5.76%	8.31%	10.07%	7.73%	7.78%

NOTES TO SCHEDULE

Valuation Date:

September 30, 2022

Methods and Assumptions Used to Determine Rates

Actuarial Cost Method	Individual Entry Age Normal - Level Percentage of Projected Salary
Inflation	2.50%
Salary Increases	3.50%
Discount Rate	4.77% (2.27% real rate of return plus 2.50% inflation)
Health Care Cost Trend	Level 4.50%
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, 2022**

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	CAPITAL PROJECTS FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	\$ 353,737	\$ 62,491	\$ 355,865	\$ 772,093
Investments	6,383	203,992	116,974	327,349
Receivables:				
Taxes:				
Franchise	-	-	64,977	64,977
Hotel/Motel	25,756	-	-	25,756
Accounts	-	-	220,582	220,582
Special assessments	-	-	28,006	28,006
Due from Other Funds	9,213	-	81,922	91,135
Total Assets	<u>\$ 395,089</u>	<u>\$ 266,483</u>	<u>\$ 868,326</u>	<u>\$ 1,529,898</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 13,472	\$ -	\$ 29,998	\$ 43,470
Unearned revenue	42,620	-	28,796	71,416
Total Liabilities	<u>56,092</u>	<u>-</u>	<u>58,794</u>	<u>114,886</u>
Fund Balances:				
Restricted	223,775	266,483	82	490,340
Committed	115,222	-	809,450	924,672
Total Fund Balances	<u>338,997</u>	<u>266,483</u>	<u>809,532</u>	<u>1,415,012</u>
Total Liabilities and Fund Balances	<u>\$ 395,089</u>	<u>\$ 266,483</u>	<u>\$ 868,326</u>	<u>\$ 1,529,898</u>

CITY OF HENDERSON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2022

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	CAPITAL PROJECTS FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES				
Taxes:				
Property	\$ -	\$ 741,196	\$ -	\$ 741,196
Franchise	-	-	194,824	194,824
Hotel/Motel	287,671	-	-	287,671
Charges for services	125,429	-	451,092	576,521
Intergovernmental revenues	-	-	-	-
Interest	1,279	2,483	9,013	12,775
Miscellaneous	118,038	-	3,295	121,333
Total Revenues	532,417	743,679	658,224	1,934,320
EXPENDITURES				
Public safety	5,325	-	-	5,325
Sanitation	-	-	-	-
Public services:				
Tourism	223,383	-	-	223,383
Civic Center	135,951	-	-	135,951
Main Street	9,866	-	-	9,866
Streets	-	-	102,058	102,058
Parks	-	-	26,207	26,207
Cemeteries	2,799	-	-	2,799
Animal Shelter	3,516	-	-	3,516
Community Development	-	-	9,939	9,939
Capital outlay	66,220	-	909,090	975,310
Debt service:				
Principal	-	408,725	-	408,725
Interest and fees	-	206,841	-	206,841
Total Expenditures	447,060	615,566	1,047,294	2,109,920
Excess (deficiency) of revenues over (under) expenditures	85,357	128,113	(389,070)	(175,600)
OTHER FINANCING SOURCES (USES):				
Transfers in	17,000	-	411,457	428,457
Transfers out	(4,773)	-	(610,040)	(614,813)
Total Other Financing Sources (Uses)	12,227	-	(198,583)	(186,356)
Net change in fund balances	97,584	128,113	(587,653)	(361,956)
Fund Balance - October 1, 2021	241,413	138,370	1,397,185	1,776,968
20Fund Balance - September 30, 2022	\$ 338,997	\$ 266,483	\$ 809,532	\$ 1,415,012

SCHEDULE 7

CITY OF HENDERSON, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
SEPTEMBER 30, 2022

	DRUG SEIZURE	TASK FORCE	TOURISM	MAIN STREET	CEMETERY	ANIMAL SHELTER	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
ASSETS							
Cash and cash equivalents	\$ 73,669	\$ 13,437	\$ 157,216	\$ 22,542	\$ 53,277	\$ 33,596	\$ 353,737
Investments	498	-	747	-	4,712	426	6,383
Receivables:							
Hotel/Motel Taxes	-	-	25,756	-	-	-	25,756
Due from other funds	4,267	-	4,946	-	-	-	9,213
Total Assets	<u>\$ 78,434</u>	<u>\$ 13,437</u>	<u>\$ 188,665</u>	<u>\$ 22,542</u>	<u>\$ 57,989</u>	<u>\$ 34,022</u>	<u>\$ 395,089</u>
LIABILITIES							
Accounts payable	-	-	5,616	(669)	-	-	4,947
Accrued salaries	-	-	8,525	-	-	-	8,525
Unearned revenue	9,071	8,744	24,805	-	-	-	42,620
Total Liabilities	<u>9,071</u>	<u>8,744</u>	<u>38,946</u>	<u>(669)</u>	<u>-</u>	<u>-</u>	<u>56,092</u>
FUND BALANCES							
Restricted	69,363	4,693	149,719	-	-	-	223,775
Committed	-	-	-	23,211	57,989	34,022	115,222
Total Fund Balances	<u>69,363</u>	<u>4,693</u>	<u>149,719</u>	<u>23,211</u>	<u>57,989</u>	<u>34,022</u>	<u>338,997</u>
Total Liabilities and Fund Balances	<u>\$ 78,434</u>	<u>\$ 13,437</u>	<u>\$ 188,665</u>	<u>\$ 22,542</u>	<u>\$ 57,989</u>	<u>\$ 34,022</u>	<u>\$ 395,089</u>

SCHEDULE 8

CITY OF HENDERSON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	DRUG SEIZURE	TASK FORCE	TOURISM	MAIN STREET	CEMETERY	ANIMAL SHELTER	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
REVENUES							
Hotel/Motel occupancy tax	\$ -	\$ -	\$ 287,671	\$ -	\$ -	\$ -	\$ 287,671
Charges for services	-	-	125,429	-	-	-	125,429
Interest	269	-	525	106	236	143	1,279
Miscellaneous	21,146	-	68,308	5,787	13,800	8,997	118,038
Total Revenues	21,415	-	481,933	5,893	14,036	9,140	532,417
EXPENDITURES							
Public Safety	5,325	-	-	-	-	-	5,325
Public Services:							
Tourism	-	-	223,383	-	-	-	223,383
Civic Center	-	-	135,951	-	-	-	135,951
Main Street	-	-	-	9,866	-	-	9,866
Cemeteries	-	-	-	-	2,799	-	2,799
Animal Shelter	-	-	-	-	-	3,516	3,516
Capital Outlay	-	-	66,220	-	-	-	66,220
Total Expenditures	5,325	-	425,554	9,866	2,799	3,516	447,060
Excess (deficiency) of revenues over (under) expenditures	16,090	-	56,379	(3,973)	11,237	5,624	85,357
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	16,090	-	56,379	8,254	11,237	5,624	97,584
Fund Balance - October 1, 2021	53,273	4,693	93,340	14,957	46,752	28,398	241,413
Fund Balance - September 30, 2022	\$ 69,363	\$ 4,693	\$ 149,719	\$ 23,211	\$ 57,989	\$ 34,022	\$ 338,997

SCHEDULE 9

**CITY OF HENDERSON, TEXAS
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS
SEPTEMBER 30, 2022**

	GENERAL CONSTRUCTION	STREET AND DRAINAGE	STREET RENOVATION FUND	2012 SERIES CERTIFICATE OF OBLIGATIONS	CIVIC CENTER	TOTAL NONMAJOR CAPITAL PROJECT FUNDS
ASSETS						
Cash and cash equivalents	\$ 63,414	\$ 292,369	\$ -	\$ -	\$ 82	\$ 355,865
Investments	116,182	792	-	-	-	116,974
Receivables:						
Franchise taxes	-	64,977	-	-	-	64,977
Accounts	218,282	2,300	-	-	-	220,582
Special assessments	-	28,006	-	-	-	28,006
Due from Other Funds	-	-	-	81,922	-	81,922
Total Assets	<u>\$ 397,878</u>	<u>\$ 388,444</u>	<u>\$ -</u>	<u>\$ 81,922</u>	<u>\$ 82</u>	<u>\$ 868,326</u>
LIABILITIES						
Accounts payable	2,927	27,071	-	-	-	29,998
Unearned revenue	-	28,796	-	-	-	28,796
Total Liabilities	<u>2,927</u>	<u>55,867</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,794</u>
FUND BALANCES						
Restricted	-	-	-	-	82	82
Committed	394,951	332,577	-	81,922	-	809,450
Total Fund Balances	<u>394,951</u>	<u>332,577</u>	<u>-</u>	<u>81,922</u>	<u>82</u>	<u>809,532</u>
Total Liabilities and Fund Balances	<u>\$ 397,878</u>	<u>\$ 388,444</u>	<u>\$ -</u>	<u>\$ 81,922</u>	<u>\$ 82</u>	<u>\$ 868,326</u>

CITY OF HENDERSON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	GENERAL CONSTRUCTION	STREET AND DRAINAGE	STREET RENOVATION FUND	2012 SERIES CERTIFICATE OF OBLIGATIONS	CIVIC CENTER	TOTAL NONMAJOR CAPITAL PROJECT FUNDS
REVENUES						
Franchise taxes	\$ -	\$ 194,824	\$ -	\$ -	\$ -	\$ 194,824
Charges for services	381,684	69,408	-	-	-	451,092
Intergovernmental revenues	-	-	-	-	-	-
Interest	6,207	674	2,132	-	-	9,013
Miscellaneous	3,295	-	-	-	-	3,295
Total Revenues	391,186	264,906	2,132	-	-	658,224
EXPENDITURES						
Sanitation	-	-	-	-	-	-
Public Services:						
Streets	-	102,058	-	-	-	102,058
Parks	26,207	-	-	-	-	26,207
Community Development	9,939	-	-	-	-	9,939
Capital Outlay	470,672	438,418	-	-	-	909,090
Total Expenditures	506,818	540,476	-	-	-	1,047,294
Excess (deficiency) of revenues over (under) expenditures	(115,632)	(275,570)	2,132	-	-	(389,070)
OTHER FINANCING SOURCES (USES):						
Transfers in	-	411,457	-	-	-	411,457
Transfers out	(198,583)	-	(411,457)	-	-	(610,040)
Total Other Financing Sources (Uses)	(198,583)	411,457	(411,457)	-	-	(198,583)
Net change in fund balances	(314,215)	135,887	(409,325)	-	-	(587,653)
Fund Balance - October 1, 2021	709,166	196,690	409,325	81,922	82	1,397,185
Fund Balance - September 30, 2022	\$ 394,951	\$ 332,577	\$ -	\$ 81,922	\$ 82	\$ 809,532

CITY OF HENDERSON, TEXAS
DETAILED SCHEDULE OF REVENUES - BUDGET AND ACTUAL -
(NON-GAAP BUDGET BASIS)
WATER AND SEWER FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2022

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL		TOTAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
			WATER	SEWER		
REVENUES						
Water charges	\$ 3,500,000	\$ 3,500,000	\$ 3,499,770	\$ -	\$ 3,499,770	\$ (230)
Sewer charges	2,285,000	2,429,995	-	2,434,679	2,434,679	4,684
Water connections	2,000	2,000	11,494	-	11,494	9,494
Sewer connections	1,500	1,500	-	6,700	6,700	5,200
Water service charges	5,000	5,000	4,161	-	4,161	(839)
Water Reconnect charges	25,000	25,000	27,380	-	27,380	2,380
Penalty	80,000	80,000	75,802	-	75,802	(4,198)
Miscellaneous income	1,000	1,000	1,766	-	1,766	766
Other operating revenues	15,000	83,160	12,373	-	12,373	(70,787)
Interest income	5,500	5,500	6,490	-	6,490	990
TOTAL REVENUES - BUDGET BASIS	\$ 5,920,000	\$ 6,133,155	\$ 3,639,236	\$ 2,441,379	6,080,615	\$ (52,540)
Financial Statement Adjustments:						
Adjustment to revenue and accounts receivable					(7,649)	
Transfers in from General Fund for capital expenditures made with grant funds					759,600	
Interest income on bond funds recorded in W&S Construction Fund					6,493	
TOTAL REVENUES - GAAP BASIS					\$ 6,839,059	

CITY OF HENDERSON, TEXAS
DETAILED SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL -
(NON-GAAP BUDGET BASIS)
WATER AND SEWER FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2022

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<u>WATER & SEWER DEPARTMENT</u>				
Water & Sewer Operations:				
Personnel services - Water	\$ 1,240,305	\$ 1,289,866	\$ 1,179,937	\$ 109,929
Personnel services - Sewer	287,225	299,427	284,732	14,695
Personnel services - Admin	174,216	188,820	189,094	(274)
Supplies and materials	476,600	656,600	753,686	(97,086)
Contractual	974,000	999,000	947,489	51,511
Maintenance	602,854	647,854	559,729	88,125
Capital outlay	110,000	140,670	127,935	12,735
Other administrative costs	972,852	977,152	912,140	65,012
Services	124,500	124,500	1,546	122,954
Total Water & Sewer Operations	<u>4,962,552</u>	<u>5,323,889</u>	<u>4,956,288</u>	<u>367,601</u>
Water & Sewer Construction	138,000	1,754,942	850,658	904,284
Other Expenses:				
Operating transfers out	16,721	48,539	48,736	(197)
Bond principal	541,275	541,275	541,275	-
Bond interest and charges	269,655	269,655	268,888	767
Total Other Expenses	<u>827,651</u>	<u>859,469</u>	<u>858,899</u>	<u>570</u>
Total Water & Sewer Department	<u>5,928,203</u>	<u>7,938,300</u>	<u>6,665,845</u>	<u>1,272,455</u>
TOTAL EXPENSES-BUDGET BASIS	<u>\$ 5,928,203</u>	<u>\$ 7,938,300</u>	6,665,845	<u>\$ 1,272,455</u>
Financial Statement Adjustments:				
Capital outlay capitalized			(1,650,675)	
Reclassify principal paid on bonds			(541,275)	
Depreciation expense			1,001,882	
Amortization of bond premiums/refundings			4,436	
Increase in accrued expenses			4,130	
Record transfers to other funds			759,600	
OPEB expense adjustment under GASB 75			79,926	
Pension expense adjustment under GASB 68			<u>(203,158)</u>	
TOTAL EXPENSES-GAAP BASIS			<u>\$ 6,120,711</u>	

SINGLE AUDIT SECTION

**INDEPENDENT AUDITORS' 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**

The Honorable Mayor and City Council
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, each major fund, and the aggregate remaining fund information of City of Henderson, Texas as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise City of Henderson, Texas's basic financial statements, and have issued our report thereon dated March 14, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Henderson, Texas's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Henderson, Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Henderson, Texas's 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Henderson, Texas's 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 City'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 14, 2023

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

Independent Auditors' Report

The Honorable Mayor and City Council
City of Henderson, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Henderson, Texas' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Henderson, Texas' major federal programs for the year ended September 30, 2022. The City of Henderson, Texas' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City of Henderson, Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (Government Auditing Standards); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Henderson and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Henderson's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City of Henderson's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City of Henderson's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists.

Auditors' Responsibilities for the Audit of Compliance (continued)

The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about City of Henderson's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Henderson's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Henderson's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Henderson's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Gollob Morgan Peddy PC

Certified Public Accountants

Tyler, Texas
March 14, 2023

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CITY OF HENDERSON, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Grantor or Pass-through Grantor's Number	Program Expenditures
U. S. DEPARTMENT OF TREASURY			
Passed Through the Texas Department of Emergency Management			
Coronavirus Relief Fund	21.019	N/A	\$ 146,483
Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	<u>1,959,824</u>
TOTAL U. S. DEPARTMENT OF TREASURY			<u>2,106,307</u>
U. S. DEPARTMENT OF HOMELAND SECURITY			
Assistance to Firefighters gran Program - COVID-19 Supplemental	97.044		<u>17,007</u>
TOTAL U. S. DEPARTMENT OF HOMELAND SECURITY			<u>17,007</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 2,123,314</u></u>

See Notes to Schedule on following page.

CITY OF HENDERSON, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING THE SCHEDULE

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Henderson, Texas under programs of the federal government for the year ended September 30, 2022 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U. S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of City of Henderson, Texas, it is not intended to and does not present the financial position, changes in net assets or cash flows of City of Henderson, Texas.

NOTE 2 – INDIRECT COST RATES

The City did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR § 200.414.

**CITY OF HENDERSON, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2022**

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None Reported
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X No

Type of auditors' report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) _____ Yes X No

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
21.027	Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish
Between type A and type B federal programs: \$750,000

Auditee qualified as low-risk auditee: _____ Yes X No

**CITY OF HENDERSON, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2022**

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

None noted.

**CITY OF HENDERSON, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2022**

None.