

**City of Henderson, Kentucky**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2010**

	<b>Business-type Activities</b>			<b>Governmental</b>
	<b>Enterprise Funds</b>			<b>Activities- Internal Service Fund</b>
	<b>Gas Fund</b>	<b>Sanitation Fund</b>	<b>Total Enterprise Funds</b>	<b>Health Insurance Fund</b>
<b>OPERATING REVENUES</b>				
Gas sales	\$ 20,094,824	\$ -	\$ 20,094,824	\$ -
Sanitation fees	-	2,395,949	2,395,949	-
Other income	343,121	33,660	376,781	36,824
Health insurance premiums:				
City of Henderson	-	-	-	4,279,900
Henderson Municipal Power & Light	-	-	-	564,825
Henderson Water Utility	-	-	-	1,122,675
Other	-	-	-	14,300
Total operating revenues	<u>20,437,945</u>	<u>2,429,609</u>	<u>22,867,554</u>	<u>6,018,524</u>
<b>OPERATING EXPENSES</b>				
Gas administration	1,282,709	-	1,282,709	-
Gas distribution	17,508,947	-	17,508,947	-
Sanitation expenses	-	2,513,706	2,513,706	-
Depreciation	224,101	94,042	318,143	-
Health insurance administration	-	-	-	417,246
Health insurance claims	-	-	-	6,403,384
Total operating expenses	<u>19,015,757</u>	<u>2,607,748</u>	<u>21,623,505</u>	<u>6,820,630</u>
Income (loss) from operations	1,422,188	(178,139)	1,244,049	(802,106)
<b>NONOPERATING REVENUES</b>				
Investment income	<u>52,950</u>	<u>55,939</u>	<u>108,889</u>	<u>1,244</u>
Income (loss) before transfers	1,475,138	(122,200)	1,352,938	(800,862)
Transfers from (to) General Fund	<u>(1,400,000)</u>	<u>207,000</u>	<u>(1,193,000)</u>	<u>-</u>
Change in net assets	75,138	84,800	159,938	(800,862)
Net assets (liabilities), beginning of year	<u>7,480,233</u>	<u>(757,483)</u>	<u>6,722,750</u>	<u>(561,818)</u>
Net assets (liabilities), end of year	<u>\$ 7,555,371</u>	<u>\$ (672,683)</u>	<u>\$ 6,882,688</u>	<u>\$ (1,362,680)</u>

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2010**

	<b>Business-type Activities</b>			<b>Governmental</b>
	<b>Enterprise Funds</b>			<b>Activities- Internal Service Fund</b>
	<b>Gas Fund</b>	<b>Sanitation Fund</b>	<b>Total Enterprise Funds</b>	<b>Health Insurance Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 19,861,760	\$ 2,414,961	\$ 22,276,721	\$ 6,514,924
Payments for goods and services	(17,146,517)	(1,502,742)	(18,649,259)	(417,186)
Payments for employees	(1,650,038)	(1,013,325)	(2,663,363)	-
Payments for health insurance claims	-	-	-	(6,175,740)
Net cash provided (used) by operating activities	<u>1,065,205</u>	<u>(101,106)</u>	<u>964,099</u>	<u>(78,002)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Loan repayments to General Fund	-	(16,232)	(16,232)	-
Transfers from (to) General Fund	(1,400,000)	207,000	(1,193,000)	-
Net cash provided (used) by noncapital financing activities	<u>(1,400,000)</u>	<u>190,768</u>	<u>(1,209,232)</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchases of capital assets	(255,547)	(91,248)	(346,795)	-
Net cash provided (used) by capital and related financing activities	<u>(255,547)</u>	<u>(91,248)</u>	<u>(346,795)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments	2,982,652	3,356,127	6,338,779	-
Purchases of investments	(2,844,767)	(3,420,936)	(6,265,703)	-
Investment fees paid	(1,836)	(1,762)	(3,598)	-
Interest received	91,697	66,854	158,551	1,244
Net cash provided (used) by investing activities	<u>227,746</u>	<u>283</u>	<u>228,029</u>	<u>1,244</u>
Net increase (decrease) in cash	(362,596)	(1,303)	(363,899)	(76,758)
Cash, beginning of year	<u>3,034,570</u>	<u>2,695</u>	<u>3,037,265</u>	<u>245,231</u>
Cash, end of year	<u>\$ 2,671,974</u>	<u>\$ 1,392</u>	<u>\$ 2,673,366</u>	<u>\$ 168,473</u>
<b>Reconciliation of income (loss) from operations to net cash provided (used) by operating activities</b>				
Income (loss) from operations	\$ 1,422,188	\$ (178,139)	\$ 1,244,049	\$ (802,106)
Reconciling items:				
Depreciation expense	224,101	94,042	318,143	-
Accounts receivable (increase) decrease	(322,917)	(8,431)	(331,348)	(71,201)
Due from other funds (increase) decrease	(157,155)	(8,107)	(165,262)	-
Inventories (increase) decrease	23,260	-	23,260	-
Accounts and deposits payable increase (decrease)	9,067	(1,274)	7,793	340,505
Accrued wages increase (decrease)	7,796	803	8,599	-
Deferred revenue increase (decrease)	-	-	-	454,800
Gas storage liability increase (decrease)	(141,135)	-	(141,135)	-
Net cash provided (used) by operating activities	<u>\$ 1,065,205</u>	<u>\$ (101,106)</u>	<u>\$ 964,099</u>	<u>\$ (78,002)</u>
<b>Noncash investing activities:</b>				
Decrease in fair value of investments	<u>\$ 30,505</u>	<u>\$ 905</u>	<u>\$ 31,410</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2010**

	<b>Pension Trust Funds</b>
<b>ASSETS</b>	
Cash	\$ 425,912
	425,912
<b>LIABILITIES</b>	
Accounts payable	16,052
	16,052
<b>NET ASSETS</b>	
Held in trust for pension benefits	62,082
Held in trust for health care benefits	347,778
	409,860
Total net assets	\$ 409,860

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2010**

	<b>Pension Trust Funds</b>
<b>ADDITIONS</b>	
Property taxes	\$ 26,436
Contributions:	
Employer	7,234
Employee	2,426
Total contributions	9,660
Investment income:	
Interest	10,473
Net increase (decrease) in the fair market value of investments	(4,964)
Investment fees	(214)
Total net investment income	5,295
Total additions	41,391
 <b>DEDUCTIONS</b>	
Benefits paid	796,161
Professional services	5,419
Total deductions	801,580
 Change in net assets	(760,189)
Net assets, beginning of year	1,170,049
Net assets, end of year	\$ 409,860

The accompanying notes are an integral part of the financial statements.



**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Henderson, Kentucky (City) is a municipal corporation governed by a five-member board of commissioners and operates under a city manager form of government. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

The discretely presented component units consist of Henderson Municipal Power & Light (HMPL) that provides electric utility services and Henderson Water Utility (HWU) that provides water and sewer services. Both HMPL and HWU have separate governing commissions the members of which are appointed by the Mayor and approved by the Board of Commissioners of the City. The Board of Commissioners must approve all rates and bond issues of HMPL and HWU. The City is contingently liable for the debt of the component units. HMPL has a fiscal year end of May 31<sup>st</sup>, and HWU has a fiscal year end of June 30<sup>th</sup>. The City's financial statements include certain financial information obtained from the audited financial statements of the component units. Complete audited financial statements may be obtained from HMPL and HWU.

Henderson Municipal Power & Light  
100 Fifth Street  
Henderson, Kentucky 42420

Henderson Water Utility  
111 Fifth Street  
Henderson, Kentucky 42420

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. 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 certain legally separate component units 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 revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

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 revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the 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 funds 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 they are collected within 60 days of the end of the current fiscal period. 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.

Certain receipts from government agencies, utility service charges, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary funds 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 City has elected not to follow subsequent private-sector guidance.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**D. Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and legal accounting entity with a self-balancing set of accounts. There are three categories of funds: 1) Governmental, 2) Proprietary, and 3) Fiduciary.

**1) Governmental Funds**

Governmental funds are those through which most governmental functions are typically financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds.

**General Fund**

The General Fund is the general operating fund of the City. It is used to account for all general tax revenues and other revenues not allocated by law, ordinance, or other agreement to another fund. From this fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs, not paid by other funds.

**Debt Service Fund**

The bond indenture for the General Obligation Bonds, Series 2007 (2007 Bonds) mandated the creation of the Debt Service Fund to receive and disburse the funds required by the bond indenture to pay the principal and interest due on the 2007 Bonds.

**Capital Projects Fund**

The bond indenture for the 2007 Bonds mandated the creation of the Capital Projects Fund to receive and disburse that portion of the 2007 Bonds allocated for the construction of the new Starlite Fire Station and acquisition and development of other capital projects.

## **CITY OF HENDERSON, KENTUCKY**

### **NOTES TO FINANCIAL STATEMENTS**

---

In addition, the City has nine other governmental funds that collectively are called nonmajor governmental funds because, individually, these nine funds are not financially significant enough to be classified as major governmental funds. The nonmajor governmental funds are collectively included together in one column of the financial statements of the governmental funds. Detailed financial information about each of these nonmajor governmental funds can be found in a separate section of this report.

#### **2) Proprietary Funds**

Proprietary fund reporting focuses on the changes in net assets, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service.

##### **Enterprise Funds**

Enterprise funds are used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing goods and or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determinations of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The major enterprise funds of the City of Henderson are as follows:

- **Gas Fund**

The Gas Fund is used to account for gas department utility operations.

- **Sanitation Fund**

This fund is used to account for the City's sanitation collection and disposal operations, and for the operation of the City's commercial demolition and debris landfill.

##### **Internal Service Fund**

The Health Insurance Fund accounts for the financing of services of the self-insured accident and health care plan maintained for the benefit of City employees and others, on a cost reimbursement basis.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**3) Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The City's fiduciary funds consist of two pension trust funds and one health care benefits trust fund. These funds are as follows:

**Civil Service Pension Fund**

The City of Henderson Civil Service Pension Fund (a contributory defined benefit plan) was created by ordinance. It covers City employees, other than those in the police and fire departments, who elected not to transfer into the County Employees Retirement System (CERS) plan.

**Police and Fire Pension Fund**

The City of Henderson Police and Fire Pension Fund (a contributory defined benefit plan) was created by state statute. It covers all of the employees of the police and fire departments who elected not to transfer to the CERS plan.

**Health Reimbursement Arrangement (HRA) Plan Fund**

The City of Henderson HRA Plan Fund was created by ordinance. It covers all employees enrolled in the City's health insurance plan. The HRA Fund reimburses participants for health insurance plan deductible and co-insurance expenses up to the amount in an individual participant's account balance.

**E. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, department, and division. Transfers of appropriations between departments require the approval of the Board of Commissioners. The legal level of budgetary control is the department level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are allowed to lapse and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**F. Deposits and Investments**

Cash consists of cash on hand and demand deposit accounts with commercial banks. The term, cash equivalents, refers to short-term investments with original maturities of three months or less from the date of acquisition.

City ordinance requires that all City deposits be secured by bonds or other securities of the United States Government or its agencies, or by other certificates of indebtedness of cities or corporations, which shall have a fair value equal to or greater than the amount on deposit.

Investments are reflected at fair value based on quoted market prices in all funds. The market quotations are obtained from national security exchanges or other published sources.

Kentucky Revised Statutes Chapter 66.480 permits the City to invest in U. S. Treasury obligations, U. S. Agency obligations, certain federal instruments, repurchase agreements, commercial banks' certificates of deposit, and savings and loan deposits, among other investments.

**G. Restricted Assets**

Restricted assets consist of assets of the Debt Service Fund, which are restricted to the uses mandated by a bond indenture; and investments and accrued interest of the Cemetery Fund, a nonmajor governmental fund, which are restricted by state law for cemetery perpetual care.

**H. Short-term Interfund Balances**

On the fund financial statements, short-term interfund advances are classified as “due to/from other funds” on the balance sheet. These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets. 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.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**I. Interfund Activity**

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues. Exchange transactions between funds are reported as revenues in the seller’s funds and as expenditures/expenses in the purchaser funds, and are not eliminated in the process of consolidation. Flows of goods from one fund to the other without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in the proprietary funds.

**J. Inventories**

Inventories in the Gas Fund are valued at cost, using the average cost method. Inventories in the Governmental Funds are valued at cost, using the first-in/first-out (FIFO) method. Inventories of Governmental Funds are recorded as expenditures when consumed rather than when purchased.

**K. Capital Assets**

All capital assets are capitalized at cost, or estimated historical cost, and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City’s infrastructure consists of bridges, roads, culverts, curbs, sidewalks, and streets. Improvements are capitalized; the cost of normal maintenance and repairs that do not add value to the asset, or materially extend the useful life of the asset, are not. Interest costs incurred during the construction of capital assets of business-type activities are also capitalized.

All reported capital assets are depreciated, with the exception of land and artwork. Depreciation is computed using the straight-line method over the following useful lives:

<u>Item</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Improvements	20 years	20 years
Machinery and equipment	5-10 years	5-10 years
Buildings	25-50 years	25-50 years
Gas system	N/A	33 years
Vehicles	5 years	5 years
Infrastructure	40 years	N/A

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**L. Compensated Absences**

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are recorded as long-term debt and an expense in the government-wide financial statements. In the fund financial statements, the governmental funds report the liability for compensated absences only if it has matured, for example, as a result of employee resignations and retirements. Proprietary funds report the liability as incurred since it is immaterial. In accordance with the provisions of Governmental Accounting Statement No. 16, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" upon retirement.

**M. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities, once incurred, are paid in a timely manner and in full from current financial obligations of the funds. However, claims and judgments, and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statement only to the extent that they are due for payment during the current year. Capital leases and long-term loans are recognized as a liability in the fund financial statements when due.

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the balance of any borrowings related to the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.



**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**O. Property Taxes**

Property taxes are levied as of the beginning of the fiscal year on property values assessed as of the preceding January 1<sup>st</sup>. Property tax bills are mailed in the Fall of the year. The property tax bills are considered past due at the end of the first business day following the New Year, at which time the applicable property is subject to lien, and penalties and interest are assessed.

**P. Operating Revenues and Expenses**

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

**Q. Use of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**2. INVESTMENTS**

As of June 30, 2010, the City had the following investments:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Investment Maturities (in Years)</b>			
		<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>
U.S. Government Agencies	\$ 1,635,184	\$ 141,167	\$ 1,094,248	\$ 346,191	\$ 53,578
U.S. Government Money Market	1,000,708	1,000,708	-	-	-
U.S. Treasury Obligations	371,048	36,034	335,014	-	-
Bank Certificates of Deposit	4,209,844	1,063,957	3,046,269	99,618	-
Total	<u>\$ 7,216,784</u>	<u>\$ 2,241,866</u>	<u>\$ 4,475,531</u>	<u>\$ 445,809</u>	<u>\$ 53,578</u>

Investments by Funds:

General Fund	\$ 2,284,084
Nonmajor Governmental Funds	306,218
Gas Fund	2,457,291
Sanitation Fund	2,169,191
Total per Statement of Net Assets	<u>\$ 7,216,784</u>

**Interest rate risk.** The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits the types of investments in which the City may invest its funds. The City believes it is in compliance with the law in this matter and has no investment policy that would further limit its investment choices. The City's investments in the bonds of U.S. Government Agencies are all rated AAA by Standard & Poor's.

**Concentration of credit risk.** The City places no limit on the amount it may invest in any one investment. More than five percent of the City's investments are in bonds issued by Federal Home Loan Bank (FHLB), which are 13.79% of the City's total investments.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**3. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

As of June 30, 2010, interfund receivables and payables and the composition of internal balances shown on the statement of net assets consist of the following:

	Due From Other Funds	Due To Other Funds	Internal Balances
<u>Governmental Activities:</u>			
General Fund	\$ 160,715	\$ (642,091)	\$ (481,376)
Capital Projects Fund	-	(134,315)	(134,315)
Nonmajor Governmental Funds	123,846	(26,400)	97,446
Total Governmental Activities	<u>\$ 284,561</u>	<u>\$ (802,806)</u>	<u>\$ (518,245)</u>
<u>Business-type Activities:</u>			
Gas Fund	\$ 445,875	\$ -	\$ 445,875
Sanitation Fund	72,370	-	72,370
Total Business-type Activities	<u>\$ 518,245</u>	<u>\$ -</u>	<u>\$ 518,245</u>
 Total all funds	 <u>\$ 802,806</u>	 <u>\$ (802,806)</u>	

As of June 30, 2010, interfund transfers consist of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>	
	<u>Totals</u>	<u>General Fund</u>	<u>Gas Fund Fund</u>
General Fund	\$ 1,400,000	\$ -	\$ (1,400,000)
Debt Service Fund	313,000	\$ (313,000)	-
Nonmajor Governmental Funds	1,261,500	(1,261,500)	-
Sanitation Fund	207,000	(207,000)	-
Totals	<u>\$ 3,181,500</u>	<u>\$ (1,781,500)</u>	<u>\$ (1,400,000)</u>

The Gas Fund transfers to the General Fund were to subsidize general fund operations. Transfers from the General Fund to various other funds were to subsidize the operations of those funds.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

**4. CAPITAL ASSETS**

**Capital asset activity for the fiscal year ended June 30, 2010 was as follows:**

<b>Primary Government</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 4,027,408	\$ -	\$ -	\$ 4,027,408
Artwork	196,500	-	-	196,500
Total	<u>4,223,908</u>	<u>-</u>	<u>-</u>	<u>4,223,908</u>
<u>Capital assets being depreciated:</u>				
Buildings	8,892,489	-	-	8,892,489
Improvements	3,915,076	325,739	-	4,240,815
Vehicles, machinery, and equipment	10,118,195	467,959	(286,766)	10,299,388
Infrastructure	64,781,509	-	-	64,781,509
Total	<u>87,707,269</u>	<u>793,698</u>	<u>(286,766)</u>	<u>88,214,201</u>
<u>Less accumulated depreciation for:</u>				
Buildings	(2,619,082)	(178,459)	-	(2,797,541)
Improvements	(2,394,520)	(137,116)	-	(2,531,636)
Vehicles, machinery, and equipment	(8,423,160)	(741,623)	284,732	(8,880,051)
Infrastructure	(46,752,588)	(1,619,539)	-	(48,372,127)
Total	<u>(60,189,350)</u>	<u>(2,676,737)</u>	<u>284,732</u>	<u>(62,581,355)</u>
Total governmental activities, net	<u>\$ 31,741,827</u>	<u>\$ (1,883,039)</u>	<u>\$ (2,034)</u>	<u>\$ 29,856,754</u>
<b>Business-type Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 114,815	\$ -	\$ -	\$ 114,815
<u>Capital assets being depreciated:</u>				
Buildings	561,065	-	-	561,065
Vehicles, machinery, and equipment	1,560,349	91,248	(27,049)	1,624,548
Gas system, vehicles, and equipment	8,073,424	255,547	(17,113)	8,311,858
Total	<u>10,194,838</u>	<u>346,795</u>	<u>(44,162)</u>	<u>10,497,471</u>
<u>Less accumulated depreciation for:</u>				
Buildings	(321,922)	(21,032)	-	(342,954)
Vehicles, machinery, and equipment	(1,387,361)	(73,010)	27,049	(1,433,322)
Gas system, vehicles, and equipment	(5,531,948)	(224,101)	17,113	(5,738,936)
Total	<u>(7,241,231)</u>	<u>(318,143)</u>	<u>44,162</u>	<u>(7,515,212)</u>
Total business-type activities, net	<u>\$ 3,068,422</u>	<u>\$ 28,652</u>	<u>\$ -</u>	<u>\$ 3,097,074</u>

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

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

Governmental activities:

Administration	\$ 15,015
Finance	25,601
Mass transit	108,109
Parks and recreation	213,851
Police	238,556
Fire	172,653
Public works	<u>1,902,952</u>
Total depreciation expense, governmental activities	<u><u>\$ 2,676,737</u></u>

Business-type activities

Gas	\$ 224,101
Sanitation	<u>94,042</u>
Total depreciation expense, business-type activities	<u><u>\$ 318,143</u></u>

Component units' capital asset activity was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Henderson Municipal Power &amp; Light</b>				
Utility plant and equipment	\$ 215,153,618	\$ 5,537,191	\$ -	\$ 220,690,809
Less accumulated depreciation	<u>(147,366,579)</u>	<u>(4,822,236)</u>	<u>-</u>	<u>(152,188,815)</u>
Capital assets, net	<u><u>\$ 67,787,039</u></u>	<u><u>\$ 714,955</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 68,501,994</u></u>
<b>Henderson Water Utility</b>				
Utility plant and equipment	\$ 77,989,224	\$ 6,339,928	\$ (1,357,364)	\$ 82,971,788
Less accumulated depreciation	<u>(36,041,804)</u>	<u>(2,398,941)</u>	<u>-</u>	<u>(38,440,745)</u>
Capital assets, net	<u><u>\$ 41,947,420</u></u>	<u><u>\$ 3,940,987</u></u>	<u><u>\$ (1,357,364)</u></u>	<u><u>\$ 44,531,043</u></u>

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

**5. LONG-TERM DEBT**

The following is a summary of long-term debt activity for the City for the fiscal year ended June 30, 2010:

<b>Governmental Activities:</b>	<b>Balance June 30, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2010</b>	<b>Amounts due in One Year</b>
KADD-Riverfront Improvements	\$ 795,000	\$ -	\$ (50,000)	\$ 745,000	\$ 50,000
KADD-Capital Lease-Police Station	705,000	-	(45,000)	660,000	45,000
Old National Bank - Equip. Loan	23,303	-	(23,303)	-	-
G. O. Bonds Series 2007	4,775,000	-	(240,000)	4,535,000	245,000
<b>Total capital leases, bonds, and notes payable</b>	<b>6,298,303</b>	<b>-</b>	<b>(358,303)</b>	<b>5,940,000</b>	<b>340,000</b>
Compensated absences	1,279,443	656,294	(607,759)	1,327,978	610,000
Net civil service pension obligation	(9,561)	99,460	(12,586)	77,313	-
HRA Fund unfunded obligation	-	115,932	-	115,932	-
<b>Total governmental activities</b>	<b>\$ 7,568,185</b>	<b>\$ 871,686</b>	<b>\$ (978,648)</b>	<b>\$ 7,461,223</b>	<b>\$ 950,000</b>

As of June 30, 2010 governmental long-term debt of the City consisted of the following:

**A. KADD-Riverfront Improvements – Series 2000**

During the fiscal year ended June 30, 2001, the City borrowed \$1,125,000 from the Kentucky Area Development District (KADD) for the purpose of completion of the Riverfront Improvement Project. The obligation matures in November of 2020, and interest rates range from 3.80% to 5.35% over the term of the loan. Interest is payable semi-annually. Future scheduled maturities as of June 30, 2010 are as follows:

<b>June 30th:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Interest Rates</b>
2011	\$ 50,000	\$ 38,107	\$ 88,107	4.35%
2012	55,000	35,715	90,715	4.50%
2013	55,000	33,158	88,158	4.60%
2014	60,000	30,423	90,423	4.70%
2015	65,000	27,323	92,323	5.00%
2016 to 2020	375,000	81,268	456,268	5% to 5.35%
2021	85,000	2,824	87,824	5.35%
<b>Totals</b>	<b>\$ 745,000</b>	<b>\$ 248,818</b>	<b>\$ 993,818</b>	

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**B. KADD-Police Building Renovation – Series 2002**

During the year ended June 30, 2002, the City borrowed \$1,000,000 from KADD to finance structural modifications to the new police department facility. This obligation matures in November of 2020. Interest rates range from 4.10 % to 5.35% over the term of the note. Interest is due in semi-annual installments. The obligation is secured by the property financed. The following is a summary of scheduled payments as of June 30, 2010:

<u>June 30th:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Interest Rates</u>
2011	\$ 45,000	\$ 33,738	\$ 78,738	4.35%
2012	50,000	31,573	81,573	4.50%
2013	50,000	29,248	79,248	4.60%
2014	55,000	26,750	81,750	4.70%
2015	55,000	24,028	79,028	5.00%
2016 to 2020	330,000	71,995	401,995	5% to 5.35%
2021	75,000	2,506	77,506	5.35%
Totals	<u>\$ 660,000</u>	<u>\$ 219,838</u>	<u>\$ 879,838</u>	

**C. General Obligation Bonds – Series 2007**

During the year ended June 30, 2007, the City issued \$5,230,000 to advance refund the outstanding KADD loan dated March 9, 2000, to pay costs of construction of a new fire station, acquisition and development of additional riverfront property near downtown, and other allowable expenditures. This obligation matures in April 2027. Interest rates range from 3.625 % to 4.000%. Interest is due in semi-annual installments. The obligation is secured by property taxes. The following is a summary of scheduled payments as of June 30, 2010:

<u>June 30th:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Interest Rates</u>
2011	\$ 245,000	\$ 172,962	\$ 417,962	3.625%
2012	260,000	164,081	424,081	3.625%
2013	265,000	154,656	419,656	3.625%
2014	275,000	145,050	420,050	3.65%
2015	285,000	135,013	420,013	3.7%
2016 to 2020	1,620,000	505,033	2,125,033	3.75% to 3.875%
2021 to 2025	1,150,000	213,150	1,363,150	3.875% to 4.0%
2026 to 2027	435,000	26,200	461,200	4.0%
Totals	<u>\$ 4,535,000</u>	<u>\$ 1,516,145</u>	<u>\$ 6,051,145</u>	

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

The following is an aggregate summary of debt service requirements for the City of Henderson as of June 30, 2010:

<u>June 30th:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 340,000	\$ 244,807	\$ 584,807
2012	365,000	231,369	596,369
2013	370,000	217,062	587,062
2014	390,000	202,223	592,223
2015	405,000	186,364	591,364
2016 to 2020	2,325,000	658,296	2,983,296
2021 to 2025	1,310,000	218,480	1,528,480
2026 to 2027	435,000	26,200	461,200
Totals	<u>\$ 5,940,000</u>	<u>\$ 1,984,801</u>	<u>\$ 7,924,801</u>

**Henderson Water Utility**

The City is contingently liable for the long-term debt of its component unit, Henderson Water Utility. The long-term debt of Henderson Water Utility consists of the following as of June 30, 2010:

	<u>Balance June 30,</u> <u>2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30,</u> <u>2010</u>	<u>Amounts due</u> <u>in One Year</u>
<u>Governmental Activities:</u>					
Series 2004A Water and Sewer	\$ 3,240,000	\$ -	\$ (490,000)	\$ 2,750,000	\$ 510,000
Series 2006A Water and Sewer	4,435,000	-	(165,000)	4,270,000	175,000
Kentucky Infrastructure Authority Assistance Agreement	2,734,383	-	(108,491)	2,625,892	113,096
Total	10,409,383	-	(763,491)	9,645,892	798,096
Less: Unamortized deferred loss on defeasance of bonds	(142,387)	-	46,312	(96,075)	
Total governmental activities	<u>\$ 10,266,996</u>	<u>\$ -</u>	<u>\$ (717,179)</u>	<u>\$ 9,549,817</u>	

Principal and interest requirements to retire Henderson Water Utility's long-term obligations as of June 30, 2010 were as follows:

<u>Fiscal year ended June 30th:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 798,096	\$ 368,102	\$ 1,166,198
2012	827,896	339,702	1,167,598
2013	862,899	309,397	1,172,296
2014	888,115	277,024	1,165,139
2015	933,553	242,468	1,176,021
2016-2020	1,927,753	934,806	2,862,559
2021-2025	2,392,793	490,977	2,883,770
2024-2027	1,014,787	44,259	1,059,046
Totals	<u>\$ 9,645,892</u>	<u>\$ 3,006,735</u>	<u>\$ 12,652,627</u>



**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

Other information on Henderson Water Utility's long-term indebtedness is summarized below:

	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Principal Balance</u>	<u>Security</u>
Water and Sewer Refunding Revenue Bonds, Series 2004A	2.5% - 3.75%	11/1/2014	\$3,715,000	Utility Revenue
Water and Sewer Refunding Revenue Bonds, Series 2006A	3.5% - 4.375%	11/1/2026	\$4,595,000	Utility Revenue
Kentucky Infrastructure Authority Assistance Agreement B94-03	4.20%	12/1/2026	\$2,838,458	Utility Revenue

Henderson Water Utility entered into two lease agreements to finance its Canoe Creek and Stormwater projects. These leases qualify as capital leases for accounting purposes and, therefore, the related assets have been recorded at the present value of the future minimum lease payments as of the dates of the agreements, which totaled \$4,475,000. The capitalized amounts of the leases are being amortized over the life of the assets and are reported as depreciation expense.

The following is a summary of future lease payments required as of June 30, 2010:

<u>For the fiscal year ending June 30</u>	<u>KADD 2002- Canoe Creek</u>	<u>KADD 2005- Stormwater</u>	<u>Total</u>
2011	\$ 154,936	\$ 170,750	\$ 325,686
2012	151,685	167,950	319,635
2013	153,185	164,975	318,160
2014	154,367	171,600	325,967
2015	150,329	163,113	313,442
2016 to 2020	755,830	841,952	1,597,782
2021 to 2025	612,125	846,113	1,458,238
2026 to 2030	-	834,750	834,750
Total minimum lease payments*	\$ 2,132,457	\$ 3,361,203	\$ 5,493,660
Less amount representing interest	<u>(577,457)</u>	<u>(1,211,203)</u>	<u>(1,788,660)</u>
Present value of future minimum lease payments	<u>\$ 1,555,000</u>	<u>\$ 2,150,000</u>	<u>\$ 3,705,000</u>

\* Interest rates on the capital leases range from 2.4% to 5.0% and is imputed based on the lower of Henderson Water Utility's incremental borrowing rate at the inception of the lease or the lessor's implicit rate of return.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**6. BOND ANTICIPATION NOTES**

**City of Henderson**

In December 2008, the City issued a bond anticipation note to Independence Bank, which is summarized as follows, and is recorded in the Capital Projects Fund of the City:

City of Henderson, Kentucky, General Obligation Bond Anticipation Note Series 2008C; maximum principal amount of \$4,000,000, or such lesser amount as borrowed, payable on December 15, 2010, at an adjustable interest rate per annum, which shall never be less than 3%, equal to the Prime Rate of the holder as fully described in the note payable, with interest payable on June 15<sup>th</sup> and December 15<sup>th</sup> of each year. As security for the payment of the note principal and interest, the City pledged the proceeds of any new bonds issued, and the general revenues of the City that are not otherwise pledged, encumbered, or restricted. Principal balance payable at June 30, 2010:

\$1,583,737

**Henderson Municipal Power & Light**

HMPL issued bond anticipation notes through an area financial institution. A summary of the obligations is as follows:

City of Henderson, Kentucky, General Obligation Bond Anticipation Note Series 2008A; maximum advance of \$3,500,000, or the outstanding principal, whichever is less, due December 1, 2011. Interest shall accrue based on the 30-day LIBOR, plus 2%, with the rate adjustable on a monthly basis. Interest is due on June 1<sup>st</sup> and December 1<sup>st</sup>.

\$2,313,874

City of Henderson, Kentucky, General Obligation Bond Anticipation Note Taxable Series 2008B; maximum advance of \$9,000,000, or the outstanding principal, whichever is less, due December 1, 2011. Interest shall accrue based on the 30-day LIBOR, plus 2%, with a rate adjustable on a monthly basis. Interest is due on June 1<sup>st</sup> and December 1<sup>st</sup>.

\$3,068,305

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

City of Henderson, Kentucky, General Obligation Bond Anticipation Note Series 2010A; maximum advance of \$1,500,000, or the outstanding principal, whichever is less. Interest shall accrue based on the 30-day LIBOR, plus 1.75%, with the rate adjustable on a monthly basis. Interest is due on June 1<sup>st</sup> and December 1<sup>st</sup>.

\$ 51,062

Total principal balance payable at May 31, 2010:

\$ 5,433,241

Each of the above obligations is secured by a pledge of the revenues of HMPL. HMPL intends to issue bonds in the near future and proceeds from the bond issue will be used to retire the above notes.

**7. CONDUIT DEBT**

From time to time the City has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The Bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the City of Henderson, nor any of its political subdivisions are obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2010, there were three series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$106,137,500.

**8. COMPENSATED ABSENCES**

**Vacation Leave**

City employees, other than police and fire department employees, generally earn vacation leave at the rate of 10/12 of a working day per month for the first four years of employment.

Police department employees get 15 working days per year vacation after one year's service. Fire department employees get 10 working days after one year's service.

At the end of four years an additional working day per year is accumulated up to a maximum vacation leave of 40 working days. One hundred percent of unused vacation leave is paid at retirement, formal resignation, or death.

**Sick Leave**

City employees accumulate sick leave at the rate of one day per month up to a maximum of two hundred forty days. Unused sick leave is forfeited upon termination or death. At retirement, individuals are paid one day's pay for each four days of unused sick leave.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

Accumulated unpaid vacation pay and sick pay are not accrued in the proprietary funds (accrual basis) since they are not significant at year-end.

Such compensated absences are not accrued in governmental funds (unless they have matured), which use the modified accrual basis of accounting, but instead are recorded in the (accrual basis) government-wide Statement of Net Assets. At June 30, 2010 these governmental activities liabilities included \$1,327,978 of vacation pay and sick pay, and are included in the Statement of Net Assets as noncurrent liabilities. Compensated absences are liquidated primarily by the General Fund.

**9. THE PUBLIC ENERGY AUTHORITY OF KENTUCKY (PEAK)**

PEAK is a Natural Gas Acquisition Authority created under the laws of the Commonwealth of Kentucky. It was created for the purpose of providing natural gas acquisition, delivery, and other related services for its members, which includes the City. PEAK is not a component unit of the City because 1) it is a separate legal entity, 2) PEAK is fiscally independent from the City, and 3) the board of directors of PEAK is structured in a manner that the City cannot exercise majority control over the organization.

PEAK has issued gas revenue bonds to finance the cost of acquisition by PEAK of prepaid supplies of natural gas. PEAK is solely responsible for repayment of the gas revenue bonds. The City has no liability for repayment of the gas revenue bonds issued by PEAK.

The City has entered into long term natural gas supply contracts with PEAK whereby the City is obligated to purchase specified quantities of natural gas from PEAK. The City purchases all of its natural gas supplies from PEAK.

PEAK issues separate audited financial statements, which are available through its administrative offices at the following address:

The Public Energy Authority of Kentucky  
516 Highland Avenue  
Carrollton, Kentucky 41008

Summarized totals for PEAK for its fiscal year ended June 30, 2010, from its unaudited financial statements are:

Assets	\$ 1,694,897,896
Costs recoverable from members	\$ 100,730,438
Liabilities	\$ 1,691,798,990
Net assets	\$ 3,098,906

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**10. GAS STORAGE LIABILITY**

The City has the right to withdraw 300,000 MMBtu's of natural gas from the gas storage reserves belonging to the City's gas transmission pipeline company. Any gas so withdrawn by the City must be replaced by November 1<sup>st</sup>, the beginning of the operating year of the Gas Fund. As of June 30, 2010, the estimated amount of this gas storage liability was \$529,250.

**11. CONCENTRATION OF SALES**

**Henderson Municipal Gas**

For the fiscal year ended June 30, 2010, four industrial customers accounted for \$8,189,727 in gas sales, which represents 40% of the operating revenues of the Gas Fund.

**Henderson Municipal Power and Light**

All of the sales generated by Station Two are exclusively to the Station Two Operator as per the contract in force. Three industrial customers from the Existing System accounted for sales in the amount of \$9,445,000 (32% of sales) for the fiscal year ended May 31, 2010.

**Henderson Water Utility**

For the fiscal year ended June 30, 2010, three industrial customers accounted for \$6,818,801 in sales and surcharges for approximately 46% of HWU's total operating revenues.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**12. JOINT VENTURE AND TRANSFER STATION OPERATING AGREEMENT**

The City of Henderson and County of Henderson were equal participants in the operation of a solid waste transfer station. This joint venture was established on June 27, 1995.

On August 24, 1999, the City of Henderson and County of Henderson entered into an agreement with a private contractor to haul and dispose of the solid waste for the City and County. The term of the contract was for a period of eight years, commencing on June 1, 1999 and ending on May 31, 2007. The City and County had the option to renew for five consecutive four-year terms upon the same terms and conditions contained in the initial contract. The contractor will be paid the fixed sum of \$7,925 per month to operate the transfer station. The contractor will haul the solid waste to its own contained landfill at the base rate of \$10.00 per ton for hauling and \$16.00 per ton for disposal for both parties. In addition, the contractor has agreed to provide the City with 22,000 tons of free airspace in its landfill spread over the life of the 28-year agreement. The City and County exercised their option to renew the agreement for an additional four-year term upon the same terms and conditions contained in the initial contract.

The City and County agreed to end the transfer station joint venture. Effective July 1, 2008, the City assumed the assets, liabilities, and other obligations of the transfer station, which were merged into the City's Sanitation Fund. The City agreed to provide all county residents with free use of the transfer station and the City's landfill. The County agreed to pay the City \$85,000 on the first day of July each fiscal year, beginning July 1, 2008, plus a 2 ½% annual cost of living adjustment each year during the term of the agreement. The initial term of the agreement is for a five year period beginning July 1, 2008 and ending June 30, 2013, with automatic renewal options for four successive five year terms, unless either party terminates the agreement.

**13. LANDFILL CLOSURE AND POST CLOSURE COSTS**

On July 1, 1998, the City Commission transferred the primary responsibility for operations of the City's solid waste landfill from the General Fund to the Sanitation Fund, and the related liability for landfill closure and post closure costs. As of June 30, 2010, the Sanitation Fund was in a deficit position because its assets were inadequate to cover estimated landfill closure costs. The deficit will be recovered from future revenues.

The City temporarily terminated its landfill operations on June 30, 1995 due to the increased costs mandated by federal regulations. However, during the year ended June 30, 1997, the City was awarded a permit to accept commercial construction debris only. The City will continue to accept construction debris until the space allotted for this operation is used up in its entirety.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

State and federal laws and regulations require that the City of Henderson place a final cover on its landfill site and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Post closure care costs will be incurred from the point in time that the landfill ceases to accept any further waste.

The liability reported in the statement of net assets of the Sanitation Fund of \$3,400,000 at June 30, 2010, consists of \$2,230,000 in closure costs, and \$1,170,000 for post closure costs. The amounts are based on engineering estimates and actual costs may be higher due to inflation and technological changes, or changes in state and federal regulations.

No costs were incurred towards the related liability, nor was a revision needed for the closure costs estimate, due to the fact that the City’s consulting engineers determined that the landfill was in compliance and there was no immediate work necessary.

The estimated liability consists of the following at June 30, 2010:

	<b>Estimated Closure Liability</b>	<b>Estimated Post-Closure Liability</b>	<b>Total</b>
June 30, 2009	\$ 2,230,000	\$ 1,170,000	\$ 3,400,000
Costs applied	-	-	-
Revision to estimate	-	-	-
June 30, 2010	<u>\$ 2,230,000</u>	<u>\$ 1,170,000</u>	<u>\$ 3,400,000</u>

**14. CONTINGENCIES**

The City is a defendant or plaintiff in lawsuits, which have arisen in the normal course of operations. While certain lawsuits involve substantial amounts, it is the opinion of management based on the advice of legal counsel, that the ultimate resolution of such litigation will not have a material adverse effect on the financial position of the City.

Under the terms of certain Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under terms of the grants. Such audits may lead to reimbursement of the grant monies to the respective grantor agency. Management of the City believes that any disallowance would be immaterial.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**15. RISK MANAGEMENT**

The City of Henderson 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. The City carries commercial insurance for these types of risks of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**16. HEALTH INSURANCE PLAN**

Effective July 1, 1986, the City began its own health insurance plan which covers all employees of the City. HMPL and HWU also participate in the City's health plan. Under the terms of this Plan, maximum amounts of coverage vary depending on the type of claim. However, the City is only responsible for a maximum of \$140,000 per claim, per employee, under any circumstances. Any claim, which exceeds \$140,000, is covered by an aggregate stop loss policy, which will cover up to 125% of expected claims for the current year. The City remits payments to the administrator on a weekly basis. A management fee is paid on a monthly basis.

All departments or other entities, which have employees participating in this Plan, bear a portion of the cost of the Plan based on the number of employees in that department or entity.

Amounts payable for claims are based on estimates as calculated by the City's third-party administrator. The Plan established liabilities based on the estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported, based on historical experience. The following represents a summary of changes in the liability for the last ten fiscal years including the year ended June 30, 2010:

	<b>Beginning of Fiscal Year Liability</b>	<b>Current Year Claims &amp; Changes In Estimates</b>	<b>Claim Payments</b>	<b>End of Fiscal Year Liability</b>
2000-2001	\$ 837,611	\$ 3,821,845	\$ (3,870,655)	\$ 788,801
2001-2002	\$ 788,801	\$ 3,808,880	\$ (3,949,617)	\$ 648,064
2002-2003	\$ 648,064	\$ 3,926,978	\$ (3,698,358)	\$ 876,684
2003-2004	\$ 876,684	\$ 4,541,901	\$ (4,719,970)	\$ 698,615
2004-2005	\$ 698,615	\$ 5,121,768	\$ (4,994,685)	\$ 825,698
2005-2006	\$ 825,698	\$ 4,458,456	\$ (4,677,761)	\$ 606,393
2006-2007	\$ 606,393	\$ 4,470,924	\$ (4,464,673)	\$ 612,644
2007-2008	\$ 612,644	\$ 4,617,270	\$ (4,411,052)	\$ 818,862
2008-2009	\$ 818,862	\$ 4,285,935	\$ (4,258,617)	\$ 846,180
2009-2010	\$ 846,180	\$ 6,403,384	\$ (6,175,740)	\$ 1,073,824



**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

The financial transactions of the Plan are recorded in the Health Insurance Fund, which is an internal service fund of the City. As of June 30, 2010, the Health Insurance Fund was in a deficit position due to user charges being inadequate to cover estimated liabilities for claims. The City intends to recover these amounts via increased charges to users in future fiscal periods.

**17. HEALTH REIMBURSEMENT ARRANGEMENT (HRA) PLAN**

In order to control increasing health care costs, effective January 1, 2006, the City made changes to its health insurance plan, which resulted in employees paying an increased share of their health care expenses. In order to help their employees pay for these increased health care expenses, the City established a Health Reimbursement Arrangement (HRA) Plan and Trust that will reimburse employees for health insurance plan deductible and co-insurance expenses up to the amount in an individual participant's account balance. Every year, the HRA Plan will credit each employee in the amount of \$250 for a single participant and \$500 for a family coverage participant in the health insurance plan. At the end of a plan year, any unused benefits in an HRA Plan account will be carried forward for use in the subsequent year. As of June 30, 2010, the City has an unfunded obligation to the HRA Plan of \$115,932, which the City will fund in future fiscal periods.

**18. RETIREMENT PLANS**

The City of Henderson has two pension plans that it sponsors: the City of Henderson Civil Service Plan, and the City of Henderson Police and Fire Pension Fund. The City of Henderson Civil Service Plan was authorized under City Ordinance, and the Police and Fire Pension Fund is authorized under Kentucky Revised Statutes (KRS). Due to the fact that a vast majority of City employees elected in 1987 to transfer participation from each of these plans to the County Employees Retirement System (CERS), there is only one active participant remaining in the City sponsored plans. The plans do not issue separate financial statements. Contributions to the plans are made in accordance with legal requirements and benefits and refunds are paid in accordance with the plan requirements. The following is a brief description of each plan, along with required supplementary information:

**A. Civil Service Pension Fund**

The plan is a single employer, defined benefit pension plan covering all City employees other than police and fire employees who elected to forego participation in the CERS plan. This plan is authorized by City ordinance. As of June 30, 1987, the plan was closed to new entrants.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**B. Police and Fire Pension Fund**

This plan is a single employer, defined benefit pension plan covering all employees of the police and fire departments who elected to forego participation in the CERS plan. The plan is authorized by KRS 95.621 through 95.629. As of June 30, 1987, the plan was closed to new entrants.

**C. Plan Summary**

The following is a summary of funding policies, contribution methods, and benefit provisions for each plan:

	<u>Civil Service</u>	<u>Police and Fire</u>
Year established by governing authority	1946	1946
Determination of contribution requirements:		
Employer	5% covered payroll	7.65% covered payroll
Employee	5% covered payroll	7.65% covered payroll
Funding of administrative costs	Absorbed by general fund	Absorbed by general fund
Period required vesting	20 years	20 years
Post-retirement benefit increases	Increases must be approved by the Pension Board	Increases must be approved by the Pension Board
Eligibility for distribution	20 years credited service and 60 years of age, pre 1980 hires, age 62 post 1980 hire	20 years credited service regardless of age
Provision for:		
Disability benefits	Yes	Yes
Death benefits	Yes	Yes

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**D. Membership of the Plans**

The following is a schedule of membership of the plans:

	<u>Civil Service</u>	<u>Police and Fire</u>
Non-vested active members	-	-
Fully-vested active members	1	-
Retirees and beneficiaries currently receiving benefits	<u>13</u>	<u>23</u>
Total	<u>14</u>	<u>23</u>

**E. Funded Status and Funding Progress**

	<b>Civil Service Pension Plan</b>	<b>Police &amp; Fire Pension Plan</b>
The funded status of the plans as of June 30, 2010, were as follows:		
Actuarial value of plan assets (a)	\$ 74,663	\$ (12,581)
Actuarial accrued liability (AAL) (b)	\$ 1,523,056	\$ 4,671,290
Unfunded actuarial accrued liability (UAAL) (b) - (a)	\$ 1,448,393	\$ 4,683,871
Funded ratio (a) / (b)	4.90%	-0.30%
Covered payroll (active plan members)	\$ 36,005	\$ -
UAAL as a percentage of covered payroll	4022.80%	Not applicable

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

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**F. Annual Pension Costs and Net Pension Obligations (NPO)**

The following is a schedule of annual pension costs and net pension obligations (NPO) for the two pension plans of the City:

1) Civil Service Pension Plan:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Actuarially determined contribution	\$ 116,421	\$ 111,784	\$ 99,171
Interest on NPO	14,276	7,733	(478)
Adjustment to actuarially determined contribution	<u>(22,911)</u>	<u>(12,410)</u>	<u>767</u>
Annual pension costs	107,786	107,107	99,460
Contributions made	<u>(238,636)</u>	<u>(271,333)</u>	<u>(12,586)</u>
Change in NPO	<u>(130,850)</u>	<u>(164,226)</u>	<u>86,874</u>
NPO, beginning of year	<u>285,515</u>	<u>154,665</u>	<u>(9,561)</u>
NPO, end of year	<u><u>\$ 154,665</u></u>	<u><u>\$ (9,561)</u></u>	<u><u>\$ 77,313</u></u>

2) Police and Fire Pension Plan:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Actuarially determined contribution	\$ 375,317	\$ 370,618	\$ 385,099
Interest on NPO	(26,266)	(26,931)	(22,402)
Adjustment to actuarially determined contribution	<u>59,059</u>	<u>60,556</u>	<u>50,372</u>
Annual pension costs	408,110	404,243	413,069
Contributions made	<u>(424,749)</u>	<u>(291,013)</u>	<u>(16,083)</u>
Change in NPO	<u>(16,639)</u>	<u>113,230</u>	<u>396,986</u>
NPO, beginning of year	<u>(656,641)</u>	<u>(673,280)</u>	<u>(560,050)</u>
NPO, end of year	<u><u>\$ (673,280)</u></u>	<u><u>\$ (560,050)</u></u>	<u><u>\$ (163,064)</u></u>

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**G. Three Year Trend Information**

1) Civil Service Pension:

<u>Fiscal year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Costs (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligations</u>
June 30, 2008	\$ 107,786	221.4 %	\$ 154,665
June 30, 2009	\$ 107,107	253.3 %	\$ (9,561)
June 30, 2010	\$ 99,460	12.7 %	\$ 77,313

2) Police and Fire Pension:

<u>Fiscal year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Costs (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligations</u>
June 30, 2008	\$ 408,110	104.1 %	\$ (673,280)
June 30, 2009	\$ 404,243	72.0 %	\$ (560,050)
June 30, 2010	\$ 413,069	3.9 %	\$ (163,064)

**H. Actuarial Assumptions**

An actuarial study was performed on each plan of the City as of June 30, 2010. The method of valuation used for each plan was “entry age normal”. The termination rate used was determined using Scale T-3 from the Actuary’s Pension Handbook. Mortality was determined using the UP 1994 Group Annuity Mortality Table projected to 2002. The following is a summary of key assumptions used for each plan:

	<u>Civil Service</u>	<u>Police and Fire</u>
Rate of return on investment	5.0%	4.0%
Projected salary increases	5.0%	5.0%
Amortization method	Level Dollar	Level Dollar
Remaining amortization period	20 years/closed	20 years/closed
Inflation rate	None	None
Asset valuation method	Market	Market
Cost of living adjustment	Annually	Annually

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

**I. Financial Information-Pension Trust Funds**

Financial information for the City of Henderson’s two pension trust funds and the HRA trust fund is reported below for the fiscal year ended June 30, 2010.

**Combining Statement of Fiduciary Net Assets-Pension Trust Funds**  
**June 30, 2010**

	<b>Civil Service Pension Fund</b>	<b>Police &amp; Fire Pension Fund</b>	<b>HRA Fund</b>	<b>Total</b>
<b>ASSETS</b>				
Cash	\$ 77,915	\$ 219	\$ 347,778	\$ 425,912
Investments	-	-	-	-
Accrued interest receivable	-	-	-	-
Due from other funds	-	-	-	-
Total assets	77,915	219	347,778	425,912
<b>LIABILITIES</b>				
Accounts payable	3,252	12,800	-	16,052
<b>NET ASSETS</b>				
Held in trust for pension benefits	74,663	(12,581)	-	62,082
Held in trust for health care benefits	-	-	347,778	347,778
Total net assets	\$ 74,663	\$ (12,581)	\$ 347,778	\$ 409,860

**Combining Statement of Changes in Fiduciary Net Assets-Pension Trust Funds**  
**For the Fiscal Year Ended June 30, 2010**

<b>ADDITIONS</b>				
Property taxes	\$ 10,352	\$ 16,084	\$ -	\$ 26,436
Contributions:				
Employer	2,234	5,000	-	7,234
Employee	2,234	192	-	2,426
Total contributions	4,468	5,192	-	9,660
Investment Income:				
Interest	4,486	4,415	1,572	10,473
Net increase (decrease) in the fair market value of investments	(3,493)	(1,471)	-	(4,964)
Investments fees	(96)	(118)	-	(214)
Total net investment income	897	2,826	1,572	5,295
Total additions	15,717	24,102	1,572	41,391
<b>DEDUCTIONS</b>				
Benefits paid	230,492	414,313	151,356	796,161
Professional services	2,844	2,575	-	5,419
Total deductions	233,336	416,888	151,356	801,580
Change in net assets	( 217,619)	(392,786)	(149,784)	(760,189)
Net assets, beginning of year	292,282	380,205	497,562	1,170,049
Net assets, end of year	\$ 74,663	\$ (12,581)	\$ 347,778	\$ 409,860

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**J. County Employees Retirement System, (CERS)**

Substantially all of the City’s full time employees participate in the County Employees Retirement System (CERS). The CERS is a multiple employer, cost sharing, defined benefit pension plan administered by the Board of Trustees of the Kentucky Retirement System (KRS). The CERS provides retirement, health, disability, and death benefits to plan members. Cost of living adjustments (COLA) are provided at the discretion of the State legislature. The Kentucky Revised Statutes assigns the authority to establish and amend benefit provisions to the KRS Board of Trustees. The KRS issues a publicly available financial report that includes financial statements and required supplementary information for the CERS. That report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

**Funding Policy**

Plan members hired prior to September 1, 2008 contribute 5% of their annual creditable compensation, those hired after September 1, 2008 contribute 6%, and the City contributes 16.16% of annual covered payroll. Employees classified as hazardous hired prior to September 1, 2008 contribute 8% of their annual creditable compensation, those hired after September 1, 2008 contribute 9%, while the City contributes 32.97% of annual covered payroll. The contribution requirements of the plan members and the City of Henderson are established and may be amended by the KRS Board of Trustees. Contributions to the CERS for the years ended June 30, 2008, 2009 and 2010 were equal to the required contributions for each year and were as follows:

(HMPL May 31st) Year ended June 30th	City of Henderson	Henderson Municipal Power & Light	Henderson Water Utility
2010	\$ 3,850,054	\$ 420,197	\$ 569,830
2009	\$ 3,441,148	\$ 435,888	\$ 694,477
2008	\$ 3,469,892	\$ 477,299	\$ 731,053

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**19. LAND HELD FOR RESALE**

In January 2006, the City paid \$1,250,000 to purchase 8.5 acres of land. The new Starlite Fire Station was built on 2.4 acres of this land, and \$356,000 of the purchase price was allocated to the fire station land. The remaining acreage was allocated the balance of the purchase price and was recorded as an asset, land held for resale, in the General Fund. The land held for resale is considered a current financial asset of the General Fund since the City intends to sell this land and deposit the proceeds in the General Fund to be used for payment of General Fund expenditures. As of June 30, 2010, land held for resale had a cost balance of \$590,000, which applies to two unsold lots of approximately four acres.

**20. RIVERFRONT DEVELOPMENT GRANT**

The City was awarded an \$8.6 million federal grant for riverfront development. The City Commission approved several projects to be funded with the grant, which will begin implementation in the coming fiscal year.

**21. RELATED PARTY TRANSACTIONS**

The following are related party transactions by the City with its two discretely presented component units, HMPL and HWU, which are not disclosed elsewhere in the notes to the financial statements.

The City provides utility billing and cash collection services for HMPL and HWU. All utility cash collections are remitted to HMPL and HWU on a weekly basis. In addition, the City provides HWU accounts payable, payroll, and general accounting services and administers the Human Resources function. Included in General Fund intergovernmental revenues are \$511,000 and \$461,000, respectively, from HMPL and HWU for such services for the fiscal year ended June 30, 2010.

The City, as sole owner of both utilities, received distributions of \$1,244,724 and \$400,000, respectively, from HMPL and HWU for the fiscal year ended June 30, 2010.

The City owns certain real estate used by HMPL.



**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**22. HENDERSON MUNICIPAL POWER & LIGHT (HMPL)**

The following are certain disclosures related to HMPL.

**A. Contracts**

HMPL operates the “Existing System” and pursuant to certain contracts and agreements described below, reserves power from “Station Two” which is owned by HMPL and operated by Big Rivers Electric Corporation (Big Rivers) through July 17, 1998, and subsequently an affiliate of LG&E Energy Corporation, pursuant to various lease, assignment, and other agreements between the parties. HMPL provides retail electric service to the residents of the City of Henderson within its service territory. HMPL also provided wholesale electricity to Big Rivers through July 18, 1998 and subsequently to an affiliate of LG&E Energy Corporation. LG&E was purchased by Powergen in 2000 and thereafter acquired by E.ON. Effective July 9, 2009, Big Rivers resumed its role as operator of Station Two as part of the “Unwind Transaction”.

HMPL has entered into certain contracts with Big Rivers and LG&E, as assignee under such agreements relating to Station Two, as follows:

**Power Plant Construction and Operation Agreement**

Under this agreement, Big Rivers agreed to furnish certain construction and start-up services for which it was paid out-of-pocket expenses plus overhead allowances, and to operate Station Two upon completion for which the Station Two Operator is paid reasonable expenditures allocable to the operation and maintenance of Station Two, as defined in the agreement. The original agreement was amended to include an option to extend through the useful operating life of Station Two. Big Rivers exercised this option in 1998.

**Power Sales Contract**

Under this agreement, the Station Two Operator purchases all of the Station Two capacity in excess of the City of Henderson’s requirements. Payments for capacity purchased by the Station Two Operator are made monthly based on the portion of Station Two capacity allocated to the Station Two Operator compared to the total monthly Station Two capacity costs as defined in the agreement. The original agreement was executed in 1970 and extended through 2003. During 1993, the agreement was amended to include an option to extend through the useful operating life of Station Two. Big Rivers exercised this option in 1998.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Joint Facilities Agreement**

This agreement provides for the continuing joint use by HMPL and the Station Two Operator of certain auxiliary facilities presently owned and used by the Station Two Operator at its generating station and of auxiliary facilities provided by HMPL in connection with the construction of Station Two, which is located adjacent to the generating station also operated by the Station Two Operator.

Power sales to the Station Two Operator under the agreement amounted to \$22,271,304 for the fiscal year ended May 31, 2010.

In connection with the negotiations related to the funding and construction of the Flue Gas Desulfurization System (FGD System) Station Two various aforementioned contracts were amended effective May 31, 1993. Significant provisions of the amendments include:

The total capacity of Station Two, a factor in determining various Station Two costs allocations, was reduced as a result of the power required to operate the FGD System.

Proceeds from the sales of sulfur dioxide emission allowances (Emission Allowances) will be divided between HMPL and the Station Two Operator based on current capacity allocation.

FGD System costs, up to the amount of proceeds from the sale of Emission Allowances, will be borne in the same proportion as the Emission Allowances are allocated. Additional FGD System costs will be borne in proportion to the new capacity allocation as determined by the contract amendments.

HMPL will reimburse the Station Two Operator for certain allocated costs of an existing Big Rivers' FGD System to be jointly used by the Station Two Operator and Station Two based upon an allocation formula defined in the amendments.

Amounts charged by the Station Two Operator as reasonable expenditures allocable to the operation and maintenance of Station Two are subject to review and approval by HMPL. Differences, if any, between amounts originally charged as allocable by the Station Two Operator and amounts accepted by HMPL are recorded when a final determination of such amounts is made. Operating revenues and expenses would be reduced by any amount subsequently determined not to be allocable to Station Two.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**B. Emission Allowances**

Amendments to the Clean Air Act in 1990 established a system whereby emission allowances were created and allocated to generating units subject to Phase 1 of the emission restrictions. Station Two was allotted a total of 226,901 allowances through 1999 (one emission allowance represents the authorization to emit one ton of sulfur dioxide in a given year). The allowances are allocated between HMPL and the Station Two Operator based upon the Station Two capacity allocations. As of May 31, 2010, there were remaining emission allowances of 16,982.

The remaining allowances have a market value as of May 31, 2010 of approximately \$407,568 and are held by HMPL for future sale or to satisfy emission requirements of the Clean Air Act. HMPL does not record the value of emission allowances in its financial statements because HMPL has no cost basis in these allowances. Emission allowances attributable to Station Two are shared proportionally between HMPL and the Station Two Operator based on megawatt hours as per the respective contract.

**C. Commitments and Contingencies**

**Unwind Transaction – Station Two**

In 1998, HMPL and Big Rivers Electric Corporation (Big Rivers) entered into contracts (subsequently assumed by Western Kentucky Energy Corporation) for the operation of the HMPL Station Two power plant and other Big Rivers generation plants. Subsequent to May 31, 2009, Big Rivers and Western Kentucky Energy Corporation (E.ON) signed an agreement under which the original 1998 contracts are rescinded and operational control of the Station Two power plant returned to Big Rivers. As part of this agreement, E.ON paid HMPL \$17.4 million to settle claims concerning the condition of the Station Two power plant and related matters.

HMPL and Big Rivers have identified a number of facility upgrades and maintenance projects for the Station Two power plant during the next five year period. Big Rivers has developed work plans for the five year period 2009 to 2014, which estimate that HMPL will incur additional maintenance expenses at Station Two during the five year period.

During the fiscal 2011 budget period, HMPL will review financing options and may present a formal recommendation to the City Commission concerning the issuance of general obligation bonds or revenue bonds to finance the upgrades and maintenance projects at Station Two and for the existing system.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Pending Litigation**

HMPL is currently engaged in litigation with Big Rivers, the Station Two Operator, concerning which party has the rights to certain surplus generation capacity of the Station Two power plant. Big Rivers has filed a petition in Henderson County, Kentucky Circuit Court requesting binding arbitration over the matter. HMPL asserts that it has the rights to all surplus power from Station Two related to its reserved capacity.

**23. HENDERSON WATER UTILITY (HWU)**

On August 30, 2007, a Consent Judgment between HWU and the Commonwealth of Kentucky Environmental and Public Protection Cabinet (EPPC) was entered by the Franklin Circuit Court in Civil Action 07-CI-1250. Under the Consent Judgment, HWU is committing to undertake certain studies and improvements to its sanitary sewer system in order to ensure compliance with certain program requirements of the Clean Water Act.

The Consent Judgment required certain plans to be developed and submitted to the EPPC and the Federal Environmental Protection Agency (EPA). The Long-term Control Plan was submitted to both the EPPC and EPA in March 2009.

Based on current estimates the identified projects required to comply with the Consent Judgment must be completed no later than December 2017. The current estimate of costs to satisfy this Consent Judgment ranges from \$33-\$50 million depending on the final plan approved by the various Federal and Kentucky agencies.

**24. SUBSEQUENT EVENT**

Prior to the end of calendar year 2010, the City intends to issue \$10,125,000 of general obligation bonds to be used by HWU for a sewer construction project. In addition, the City intends to issue \$3,605,000 of general obligation bonds to refinance certain outstanding debt.

**Required Supplementary Information  
(other than Management's Discussion and Analysis)**

**CITY OF HENDERSON, KENTUCKY**  
**DEFINED BENEFIT PENSION PLANS-REQUIRED SUPPLEMENTARY INFORMATION**

**I. Schedules of Funding Progress**

**Civil Service Pension Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/01	945,592	1,773,069	827,477	53.5 %	98,447	840.5 %
6/30/02	808,942	1,743,700	934,758	46.4 %	101,758	918.6 %
6/30/03	637,845	1,633,672	995,827	39.0 %	104,599	952.0 %
6/30/04	498,728	1,905,991	1,407,263	26.2 %	105,410	1,335.0 %
6/30/05	403,188	1,955,745	1,552,557	20.6 %	114,920	1,351.0 %
6/30/06	316,617	1,898,132	1,581,515	16.7 %	29,702	5,324.6 %
6/30/07	238,758	1,746,550	1,507,792	13.7 %	29,702	5,076.4 %
6/30/08	235,035	1,677,673	1,442,638	14.0 %	41,424	3,482.6 %
6/30/09	292,282	1,571,137	1,278,855	18.6 %	35,277	3,625.2 %
6/30/10	74,663	1,523,056	1,448,393	4.9 %	36,005	4,022.8 %

**Police and Fire Pension Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/01	108,135	3,014,607	2,906,472	3.6 %	32,832	8,852.6 %
6/30/02	181,527	3,063,190	2,881,663	5.9 %	34,183	8,430.1 %
6/30/03	219,527	3,086,503	2,866,976	7.1 %	35,756	8,018.2 %
6/30/04	260,570	4,434,100	4,173,529	5.9 %	37,543	11,116.7 %
6/30/05	331,833	4,451,738	4,119,905	7.5 %	39,641	10,393.0 %
6/30/06	402,328	4,603,711	4,201,383	8.7 %	- 0 -	Not applicable
6/30/07	469,739	4,809,574	4,339,835	9.8 %	- 0 -	Not applicable
6/30/08	495,824	4,781,321	4,285,497	10.4 %	- 0 -	Not applicable
6/30/09	380,205	4,833,147	4,452,942	7.9 %	- 0 -	Not applicable
6/30/10	(12,581)	4,671,290	4,683,871	-0.3 %	- 0 -	Not applicable

**CITY OF HENDERSON, KENTUCKY**  
**DEFINED BENEFIT PENSION PLANS-REQUIRED SUPPLEMENTARY INFORMATION**

---

**II. Schedules of Employer Contributions**

**Civil Service Pension Plan**

Fiscal Year Ending	Annual Pension Costs (APC)	City Contributions	Percentage of APC Contributions	Net Pension Obligation	Annual Required Contribution (ARC)	Percentage Contributed
6/30/01	61,677	4,168	6.8 %	168,708	62,659	6.7 %
6/30/02	70,468	5,138	7.3 %	234,038	71,957	7.1 %
6/30/03	78,409	5,294	6.6 %	307,153	80,475	6.5 %
6/30/04	82,311	88,911	108.0 %	300,553	85,023	105.0 %
6/30/05	91,582	98,138	107.2 %	293,997	96,105	102.1 %
6/30/06	117,555	102,465	87.2 %	309,087	126,446	81.0 %
6/30/07	112,685	136,257	120.9 %	285,515	122,033	111.7 %
6/30/08	107,786	238,636	221.4 %	154,665	116,421	205.0 %
6/30/09	107,107	271,333	253.3 %	(9,561)	111,784	242.7 %
6/30/10	99,460	12,586	12.7 %	77,313	99,171	12.7 %

**Police and Fire Pension Plan**

Fiscal Year Ending	Annual Pension Costs (APC)	City Contributions	Percentage of APC Contributions	Net Pension Obligation	Annual Required Contribution (ARC)	Percentage Contributed
6/30/01	240,130	332,469	138.5 %	(282,873)	238,890	139.2 %
6/30/02	243,726	347,047	142.8 %	(336,194)	241,670	143.6 %
6/30/03	242,729	340,802	140.4 %	(434,267)	239,762	142.1 %
6/30/04	242,539	359,532	148.2 %	(551,260)	238,705	150.6 %
6/30/05	253,768	373,444	147.2 %	(670,936)	243,939	153.1 %
6/30/06	389,806	379,192	97.3 %	(660,322)	356,298	106.4 %
6/30/07	396,320	392,639	99.1 %	(656,641)	363,343	108.1 %
6/30/08	408,110	424,749	104.1 %	(673,280)	375,317	113.2 %
6/30/09	404,243	291,013	72.0 %	(560,050)	370,618	78.5 %
6/30/10	413,069	16,083	3.9 %	(163,064)	385,099	4.2 %

## **Nonmajor Governmental Funds**



## Nonmajor Governmental Funds

For fiscal 2010, the nonmajor governmental funds of the City consist of nine special revenue funds as described below. This subsection contains combining financial statements whereby the special revenue funds are combined to present total amounts for the nonmajor governmental funds. Also presented are budget and actual schedules for the special revenue funds.

### Special Revenue Funds

Special revenue funds are used to account for specific revenues that are restricted to expenditure for particular purposes.

**Cemetery** The Cemetery Fund accounts for the funds used to operate the City's two cemeteries, Fernwood and Fairmont.

**PWI** The Public Way Improvement Fund accounts for funds that finance public works projects.

**Canoe Creek** The Canoe Creek Fund accounts for funds set aside for flood mitigation of Canoe Creek.

**HART** The Henderson Area Rapid Transit Fund accounts for funds that operate the City bus system.

**911** The Emergency Communications Fund accounts for funds that operate the 911 emergency communications system.

**CDBG** The Community Development Block Grant Fund accounts for federal grant money used to rehabilitate low income housing and public facilities.

**HOME** The HOME Fund accounts for grants used similar to the CDBG Fund except that the funds are provided through an agency of the Commonwealth of Kentucky.

**Police Investigation** The Police Investigation Fund accounts for funds from property sold seized from criminal activities and expended on law enforcement activities.

**JAG** The Justice Assistance Grant Fund accounts for federal grant money provided for local law enforcement activities.

**Also included at the end of this section are budget and actual schedules for the Debt Service Fund and the Capital Projects Fund.**

**City of Henderson, Kentucky  
Combining Balance Sheet  
Special Revenue Funds  
June 30, 2010**

	<b>Cemetery</b>	<b>PWI</b>	<b>Canoe Creek</b>	<b>HART</b>	<b>911</b>	<b>CDBG</b>	<b>HOME</b>	<b>Police Investigation</b>	<b>JAG</b>	<b>Totals</b>
<b>ASSETS</b>										
Cash	\$ 120,206	\$ 577	\$ 194,832	\$ 925	\$ 632	\$ -	\$ -	\$ 78,421	\$ 9,701	\$ 405,294
Investments	306,218	-	-	-	-	-	-	-	-	306,218
Accrued interest receivable	4,220	-	-	-	-	-	-	-	-	4,220
Receivables	-	52,465	225	103,168	70,896	-	-	-	-	226,754
Due from other funds	11,873	30,849	-	43,784	37,340	-	-	-	-	123,846
Inventories	-	-	-	22,828	-	-	-	-	-	22,828
<b>Total assets</b>	<b>\$ 442,517</b>	<b>\$ 83,891</b>	<b>\$ 195,057</b>	<b>\$ 170,705</b>	<b>\$ 108,868</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 78,421</b>	<b>\$ 9,701</b>	<b>\$ 1,089,160</b>
<b>LIABILITIES</b>										
Accounts payable	\$ 8,402	\$ 36,637	\$ 26,787	\$ 45,224	\$ 8,318	\$ 3,706	\$ -	\$ 34,994	\$ -	\$ 164,068
Accrued wages	8,580	21,598	-	32,272	28,704	-	-	-	-	91,154
Due to other funds	-	-	-	-	-	-	26,400	-	-	26,400
<b>Total liabilities</b>	<b>16,982</b>	<b>58,235</b>	<b>26,787</b>	<b>77,496</b>	<b>37,022</b>	<b>3,706</b>	<b>26,400</b>	<b>34,994</b>	<b>-</b>	<b>281,622</b>
<b>FUND BALANCES</b>										
Reserved:										
Cemetery perpetual care	310,438	-	-	-	-	-	-	-	-	310,438
Inventories	-	-	-	22,828	-	-	-	-	-	22,828
Unreserved	115,097	25,656	168,270	70,381	71,846	(3,706)	(26,400)	43,427	9,701	474,272
<b>Total fund balances</b>	<b>425,535</b>	<b>25,656</b>	<b>168,270</b>	<b>93,209</b>	<b>71,846</b>	<b>(3,706)</b>	<b>(26,400)</b>	<b>43,427</b>	<b>9,701</b>	<b>807,538</b>
<b>Total liabilities and fund balances</b>	<b>\$ 442,517</b>	<b>\$ 83,891</b>	<b>\$ 195,057</b>	<b>\$ 170,705</b>	<b>\$ 108,868</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 78,421</b>	<b>\$ 9,701</b>	<b>\$ 1,089,160</b>

**City of Henderson, Kentucky**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Special Revenue Funds**  
**For the Fiscal Year Ended June 30, 2010**

	<b>Cemetery</b>	<b>PWI</b>	<b>Canoe Creek</b>	<b>HART</b>	<b>911</b>	<b>CDBG</b>	<b>HOME</b>	<b>Police Investigation</b>	<b>JAG</b>	<b>Totals</b>
<b>REVENUES</b>										
Intergovernmental	\$ -	\$ 642,444	\$ 24,085	\$ 991,739	\$ 82,586	\$ 210,594	\$ 165,600	\$ 2,529	\$ 4,230	\$ 2,123,807
Service charges and fees	223,336	97,251	-	36,104	601,520	-	-	-	-	958,211
Investment income	14,142	137	721	302	98	-	-	290	35	15,725
Miscellaneous	-	2,516	-	7,831	-	-	-	-	-	10,347
Total revenues	237,478	742,348	24,806	1,035,976	684,204	210,594	165,600	2,819	4,265	3,108,090
<b>EXPENDITURES</b>										
Administration	-	-	61,775	-	-	214,300	192,000	-	-	468,075
Mass transit	-	-	-	1,193,074	-	-	-	-	-	1,193,074
Parks and recreation	394,861	-	-	-	-	-	-	-	-	394,861
Police	-	-	-	-	888,348	-	-	13,560	12,014	913,922
Public works	-	1,266,329	-	-	-	-	-	-	-	1,266,329
Capital outlays	43,370	-	-	356,903	-	-	-	-	-	400,273
Total expenditures	438,231	1,266,329	61,775	1,549,977	888,348	214,300	192,000	13,560	12,014	4,636,534
Excess (deficiency) of revenues over expenditures	(200,753)	(523,981)	(36,969)	(514,001)	(204,144)	(3,706)	(26,400)	(10,741)	(7,749)	(1,528,444)
<b>OTHER FINANCING SOURCES (USES)</b>										
Transfers in from General Fund	-	543,000	-	487,000	231,500	-	-	-	-	1,261,500
Total other financing sources (uses)	-	543,000	-	487,000	231,500	-	-	-	-	1,261,500
Net change in fund balances	(200,753)	19,019	(36,969)	(27,001)	27,356	(3,706)	(26,400)	(10,741)	(7,749)	(266,944)
Fund balances, beginning of year	626,288	6,637	205,239	120,210	44,490	-	-	54,168	17,450	1,074,482
Fund balances, end of year	\$ 425,535	\$ 25,656	\$ 168,270	\$ 93,209	\$ 71,846	\$ (3,706)	\$ (26,400)	\$ 43,427	\$ 9,701	\$ 807,538

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Cemetery Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Service charges and fees	173,800	173,800	223,336	49,536
Investment income	200	200	14,142	13,942
Miscellaneous	1,000	1,000	-	(1,000)
Total revenues	<u>175,000</u>	<u>175,000</u>	<u>237,478</u>	<u>62,478</u>
<b>EXPENDITURES</b>				
Administration	-	-	-	-
Mass transit	-	-	-	-
Parks and recreation	386,000	395,000	394,861	139
Police	-	-	-	-
Public works	-	-	-	-
Capital outlays	50,000	50,000	43,370	6,630
Total expenditures	<u>436,000</u>	<u>445,000</u>	<u>438,231</u>	<u>6,769</u>
Excess (deficiency) of revenues over expenditures	<u>(261,000)</u>	<u>(270,000)</u>	<u>(200,753)</u>	<u>69,247</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	50,000	50,000	-	(50,000)
Total other financing sources (uses)	<u>50,000</u>	<u>50,000</u>	<u>-</u>	<u>(50,000)</u>
Net change in fund balances	(211,000)	(220,000)	(200,753)	19,247
Fund balances, beginning of year	<u>626,288</u>	<u>626,288</u>	<u>626,288</u>	<u>-</u>
Fund balances, end of year	<u>\$ 415,288</u>	<u>\$ 406,288</u>	<u>\$ 425,535</u>	<u>\$ 19,247</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Public Way Improvement (PWI) Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 659,000	\$ 659,000	\$ 642,444	\$ (16,556)
Service charges and fees	72,000	72,000	97,251	25,251
Investment income	1,000	1,000	137	(863)
Miscellaneous	-	-	2,516	2,516
Total revenues	<u>732,000</u>	<u>732,000</u>	<u>742,348</u>	<u>10,348</u>
<b>EXPENDITURES</b>				
Administration	-	-	-	-
Mass transit	-	-	-	-
Parks and recreation	-	-	-	-
Police	-	-	-	-
Public works	1,335,000	1,385,000	1,266,329	118,671
Capital outlays	-	-	-	-
Total expenditures	<u>1,335,000</u>	<u>1,385,000</u>	<u>1,266,329</u>	<u>118,671</u>
Excess (deficiency) of revenues over expenditures	<u>(603,000)</u>	<u>(653,000)</u>	<u>(523,981)</u>	<u>129,019</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	603,000	603,000	543,000	(60,000)
Loan proceeds	-	-	-	-
Total other financing sources (uses)	<u>603,000</u>	<u>603,000</u>	<u>543,000</u>	<u>(60,000)</u>
Net change in fund balances	-	(50,000)	19,019	69,019
Fund balances, beginning of year	<u>6,637</u>	<u>6,637</u>	<u>6,637</u>	<u>-</u>
Fund balances, end of year	<u>\$ 6,637</u>	<u>\$ (43,363)</u>	<u>\$ 25,656</u>	<u>\$ 69,019</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Canoe Creek Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ -	\$ -	\$ 24,085	\$ 24,085
Service charges and fees	-	-	-	-
Investment income	2,000	2,000	721	(1,279)
Miscellaneous	-	-	-	-
Total revenues	<u>2,000</u>	<u>2,000</u>	<u>24,806</u>	<u>22,806</u>
<b>EXPENDITURES</b>				
Administration	199,400	199,400	61,775	137,625
Mass transit	-	-	-	-
Parks and recreation	-	-	-	-
Police	-	-	-	-
Public works	-	-	-	-
Capital outlays	-	-	-	-
Total expenditures	<u>199,400</u>	<u>199,400</u>	<u>61,775</u>	<u>137,625</u>
Excess (deficiency) of revenues over expenditures	<u>(197,400)</u>	<u>(197,400)</u>	<u>(36,969)</u>	<u>160,431</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(197,400)	(197,400)	(36,969)	160,431
Fund balances, beginning of year	<u>205,239</u>	<u>205,239</u>	<u>205,239</u>	<u>-</u>
Fund balances, end of year	<u>\$ 7,839</u>	<u>\$ 7,839</u>	<u>\$ 168,270</u>	<u>\$ 160,431</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Henderson Area Rapid Transit (HART) Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 749,780	\$ 749,780	\$ 991,739	\$ 241,959
Service charges and fees	33,000	33,000	36,104	3,104
Investment income	1,220	1,220	302	(918)
Miscellaneous	-	-	7,831	7,831
Total revenues	<u>784,000</u>	<u>784,000</u>	<u>1,035,976</u>	<u>251,976</u>
<b>EXPENDITURES</b>				
Administration	-	-	-	-
Mass transit	1,270,500	1,270,500	1,193,074	77,426
Parks and recreation	-	-	-	-
Police	-	-	-	-
Public works	-	-	-	-
Capital outlays	10,500	424,500	356,903	67,597
Total expenditures	<u>1,281,000</u>	<u>1,695,000</u>	<u>1,549,977</u>	<u>145,023</u>
Excess (deficiency) of revenues over expenditures	<u>(497,000)</u>	<u>(911,000)</u>	<u>(514,001)</u>	<u>396,999</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	497,000	497,000	487,000	(10,000)
Total other financing sources (uses)	<u>497,000</u>	<u>497,000</u>	<u>487,000</u>	<u>(10,000)</u>
Net change in fund balances	-	(414,000)	(27,001)	386,999
Fund balances, beginning of year	<u>120,210</u>	<u>120,210</u>	<u>120,210</u>	<u>-</u>
Fund balances, end of year	<u>\$ 120,210</u>	<u>\$ (293,790)</u>	<u>\$ 93,209</u>	<u>\$ 386,999</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Emergency Communications (911) Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 110,500	\$ 110,500	\$ 82,586	\$ (27,914)
Service charges and fees	590,000	590,000	601,520	11,520
Investment income	-	-	98	98
Miscellaneous	-	-	-	-
Total revenues	<u>700,500</u>	<u>700,500</u>	<u>684,204</u>	<u>(16,296)</u>
<b>EXPENDITURES</b>				
Administration	-	-	-	-
Mass transit	-	-	-	-
Parks and recreation	-	-	-	-
Police	976,400	976,400	888,348	88,052
Public works	-	-	-	-
Capital outlays	55,600	55,600	-	55,600
Total expenditures	<u>1,032,000</u>	<u>1,032,000</u>	<u>888,348</u>	<u>143,652</u>
Excess (deficiency) of revenues over expenditures	<u>(331,500)</u>	<u>(331,500)</u>	<u>(204,144)</u>	<u>127,356</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	331,500	331,500	231,500	(100,000)
Total other financing sources (uses)	<u>331,500</u>	<u>331,500</u>	<u>231,500</u>	<u>(100,000)</u>
Net change in fund balances	-	-	27,356	27,356
Fund balances, beginning of year	<u>44,490</u>	<u>44,490</u>	<u>44,490</u>	<u>-</u>
Fund balances, end of year	<u>\$ 44,490</u>	<u>\$ 44,490</u>	<u>\$ 71,846</u>	<u>\$ 27,356</u>



**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Community Development Block Grant (CDBG) Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 411,000	\$ 411,000	\$ 210,594	\$ (200,406)
Service charges and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>411,000</u>	<u>411,000</u>	<u>210,594</u>	<u>(200,406)</u>
<b>EXPENDITURES</b>				
Administration	411,000	411,000	214,300	196,700
Mass transit	-	-	-	-
Parks and recreation	-	-	-	-
Police	-	-	-	-
Public works	-	-	-	-
Capital outlays	-	-	-	-
Total expenditures	<u>411,000</u>	<u>411,000</u>	<u>214,300</u>	<u>196,700</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(3,706)</u>	<u>(3,706)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	(3,706)	(3,706)
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,706)</u>	<u>\$ (3,706)</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**HOME Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 264,000	\$ 264,000	\$ 165,600	\$ (98,400)
Service charges and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>264,000</u>	<u>264,000</u>	<u>165,600</u>	<u>(98,400)</u>
<b>EXPENDITURES</b>				
Administration	264,000	264,000	192,000	72,000
Mass transit	-	-	-	-
Parks and recreation	-	-	-	-
Police	-	-	-	-
Public works	-	-	-	-
Capital outlays	-	-	-	-
Total expenditures	<u>264,000</u>	<u>264,000</u>	<u>192,000</u>	<u>72,000</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(26,400)</u>	<u>(26,400)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	(26,400)	(26,400)
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (26,400)</u>	<u>\$ (26,400)</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Police Investigation Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 10,500	\$ 10,500	\$ 2,529	\$ (7,971)
Service charges and fees	-	-	-	-
Investment income	500	500	290	(210)
Miscellaneous	-	-	-	-
Total revenues	<u>11,000</u>	<u>11,000</u>	<u>2,819</u>	<u>(8,181)</u>
<b>EXPENDITURES</b>				
Administration	-	-	-	-
Mass transit	-	-	-	-
Parks and recreation	-	-	-	-
Police	36,580	36,580	13,560	23,020
Public works	-	-	-	-
Capital outlays	-	-	-	-
Total expenditures	<u>36,580</u>	<u>36,580</u>	<u>13,560</u>	<u>23,020</u>
Excess (deficiency) of revenues over expenditures	<u>(25,580)</u>	<u>(25,580)</u>	<u>(10,741)</u>	<u>14,839</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(25,580)	(25,580)	(10,741)	14,839
Fund balances, beginning of year	<u>54,168</u>	<u>54,168</u>	<u>54,168</u>	<u>-</u>
Fund balances, end of year	<u>\$ 28,588</u>	<u>\$ 28,588</u>	<u>\$ 43,427</u>	<u>\$ 14,839</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Justice Assistance Grant (JAG) Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 42,150	\$ 42,150	\$ 4,230	\$ (37,920)
Service charges and fees	-	-	-	-
Investment income	750	750	35	(715)
Miscellaneous	-	-	-	-
Total revenues	<u>42,900</u>	<u>42,900</u>	<u>4,265</u>	<u>(38,635)</u>
<b>EXPENDITURES</b>				
Administration	-	-	-	-
Mass transit	-	-	-	-
Parks and recreation	-	-	-	-
Police	-	-	12,014	(12,014)
Public works	-	-	-	-
Capital outlays	78,470	78,470	-	78,470
Total expenditures	<u>78,470</u>	<u>78,470</u>	<u>12,014</u>	<u>66,456</u>
Excess (deficiency) of revenues over expenditures	<u>(35,570)</u>	<u>(35,570)</u>	<u>(7,749)</u>	<u>27,821</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	14,100	14,100	-	(14,100)
Total other financing sources (uses)	<u>14,100</u>	<u>14,100</u>	<u>-</u>	<u>(14,100)</u>
Net change in fund balances	(21,470)	(21,470)	(7,749)	13,721
Fund balances, beginning of year	<u>17,450</u>	<u>17,450</u>	<u>17,450</u>	<u>-</u>
Fund balances, end of year	<u>\$ (4,020)</u>	<u>\$ (4,020)</u>	<u>\$ 9,701</u>	<u>\$ 13,721</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Debt Service Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ 424,000	\$ 424,000	\$ 17,237	\$ (406,763)
Investment income	4,000	4,000	789	(3,211)
Total revenues	<u>428,000</u>	<u>428,000</u>	<u>18,026</u>	<u>(409,974)</u>
<b>EXPENDITURES</b>				
Debt service:				
Principal	240,000	240,000	240,000	-
Interest	229,200	229,200	229,835	(635)
Total expenditures	<u>469,200</u>	<u>469,200</u>	<u>469,835</u>	<u>(635)</u>
Excess (deficiency) of revenues over expenditures	<u>(41,200)</u>	<u>(41,200)</u>	<u>(451,809)</u>	<u>(410,609)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	-	-	313,000	313,000
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>313,000</u>	<u>313,000</u>
Net change in fund balances	(41,200)	(41,200)	(138,809)	(97,609)
Fund balances, beginning of year	<u>139,515</u>	<u>139,515</u>	<u>139,515</u>	<u>-</u>
Fund balances, end of year	<u>\$ 98,315</u>	<u>\$ 98,315</u>	<u>\$ 706</u>	<u>\$ (97,609)</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Capital Projects Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 8,000,000	\$ 8,000,000	\$ 551,654	\$ (7,448,346)
Investment income	1,000	1,000	60	(940)
Total revenues	<u>8,001,000</u>	<u>8,001,000</u>	<u>551,714</u>	<u>(7,449,286)</u>
<b>EXPENDITURES</b>				
Nondepartmental	-	-	325,109	(325,109)
Capital outlays	8,000,000	8,000,000	-	8,000,000
Total expenditures	<u>8,000,000</u>	<u>8,000,000</u>	<u>325,109</u>	<u>7,674,891</u>
Excess (deficiency) of revenues over expenditures	<u>1,000</u>	<u>1,000</u>	<u>226,605</u>	<u>225,605</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	1,000	1,000	226,605	225,605
Fund balances, beginning of year	<u>(1,956,097)</u>	<u>(1,956,097)</u>	<u>(1,956,097)</u>	<u>-</u>
Fund balances, end of year	<u>\$ (1,955,097)</u>	<u>\$ (1,955,097)</u>	<u>\$ (1,729,492)</u>	<u>\$ 225,605</u>

## **STATISTICAL SECTION**

## Statistical Section

*This part of the City of Henderson's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.*

<b><u>Contents</u></b>	<b><u>Page</u></b>
<b>General Information</b>	90
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	93
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the City's most significant local revenue sources	99
<b>Debt Capacity</b> These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	109
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	113
<b>Operating Information</b> These schedules contain service and infrastructures data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	115

**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB 34 in 2003; schedules presenting government-wide information include information beginning in that year.



# City of Henderson, Kentucky

## General Information

### The City

Henderson, originally known as “Red Banks” in reference to the soil along the banks of the Ohio River, was first settled in 1797. By the early 1800’s the City had grown to 1,000 inhabitants. The City was incorporated as a town in 1810 and as a City in 1867. In 1922 a commission form of government was adopted, and in 1966 it was replaced by a city manager form of government.

The Henderson area has grown steadily and is known for its friendly people and southern hospitality. Henderson ranks as Kentucky’s ninth largest city in terms of population. Henderson is also the home of four governors and two lieutenant governors.

### Location



Henderson is the county seat of Henderson County, Kentucky, and lies on the southern banks of the Ohio River, one of the nation’s major waterways, in the western Kentucky coal field region. Henderson is located 10 miles south of Evansville, Indiana, and is 140 miles north of Nashville, Tennessee, 128 miles southwest of Louisville, Kentucky and 196 miles southeast of St. Louis, Missouri. Henderson sits on a bluff; more than 70 feet above the Ohio River’s low water mark, overlooking the river. For years the local slogan has been “On the Ohio, but never in it”. Henderson covers 17.9 square miles and is 400 feet above sea level.

### Industry

The Henderson area is home to several diverse industries, attracting major manufacturing and processors in aluminum, coal mining, steel, plastics, and agriculture. Locally produced commodities include aluminum ingot, automotive parts, truck axles and wheels, and poultry products.

## **Churches and Schools**

Henderson has over 63 churches representing many major religious denominations.

The county and parochial school systems provide elementary, middle, and secondary school students with a quality education. The school systems also have an excellent student-teacher ratio of 16:1. The school system has eight elementary schools, two junior high schools, one high school, and one special education center.

Henderson Community College, a part of the Kentucky Community and Technical College System, offers two year Associate of Arts and Science degrees. The College also offers many adult continuing educational programs as well as providing support to area businesses and industry through special educational workshops tailored to meet the respective businesses' needs.

## **Medical Facilities**

Henderson is fortunate to have an excellent, well staffed, 205 bed Methodist Hospital. The Hospital just recently opened two additions with total construction costs of \$21 million. Four nursing homes are located in the City as well as a state maintained county health department. Serving the medical needs of Henderson citizens are approximately 75 physicians and 15 dentists.

## **Recreation and Culture**

Available to area citizens are a wide range of recreational and cultural activities. The Henderson area is home to some of the finest duck and goose hunting in the United States, as well as many other outdoor activities.



Audubon State Park is home to the John James Audubon Museum. John James Audubon, the world-renowned wildlife artist lived in Henderson and operated a business. The museum holds an extensive collection of Audubon's works. The facility hosts visitors from all over the world who come to view Audubon's works and study his life. Lodging and camping accommodations can also be found at the park.



Municipal parks provide for picnicking, golfing, tennis, soccer, swimming, softball, and baseball. For fishermen, several lakes in the area are available, and other water sports may be enjoyed on the Ohio River.

Community activities include music, theatre, and art. Cultural activities play a major role in the lives of Hendersonians. The 1,000 seat Henderson Fine Arts Center located at the Henderson Community College provides quality entertainment with many of the top acts in the United States performing on a regular basis.



The summer is highlighted with the W.C. Handy Blues and Barbecue Festival. The Festival is held to honor the life of W.C. Handy who is known as the “Father of the Blues”. Handy lived in Henderson and it is in Henderson where he honed his musical skills. Many of the top names in jazz and blues perform at the event. The celebration is traditionally ended with a dazzling display of fireworks.

Henderson County High School participates in all major team sports offered by the Kentucky High School Athletic Association. The school is continually in contention for state titles in several sports. The recently expanded Henderson Public Library is one of the finest libraries in the area with well in excess of 112,000 volumes. The library was built in the early 1900’s by a grant provided by Andrew Carnegie.

## Government



Henderson operates under a city manager form of government. The Henderson Board of Commissioners consists of a mayor and four commissioners elected by the citizens on a non-partisan ballot. The mayor is elected for a term of four years, while the commissioners are elected for a term of two years. The mayor and commissioners have equal voting power.

The Commission sets policies that govern the City. It appoints advisory groups that assist in the decision making process. The city manager is appointed by the Commission and is responsible for the day-to-day operations of the City. The department managers responsible for their various departments report to the city manager.

**CITY OF HENDERSON**  
**NET ASSETS BY COMPONENT**  
**LAST EIGHT FISCAL YEARS**  
(accrual basis of accounting)

	Fiscal Year							
	2003	2004	2005	2006 a)	2007	2008	2009	2010
Governmental activities								
Invested in capital assets, net of related debt	\$ 3,056,869	\$ 5,311,939	\$ 5,648,894	\$ 28,992,905	\$ 26,557,865	\$ 26,382,562	\$ 25,443,524	\$ 22,333,017
Restricted	528,068	517,312	530,138	541,152	934,268	5,381	778,755	311,144
Unrestricted	3,096,082	2,304,101	2,908,310	2,534,369	3,675,129	3,819,538	2,489,572	4,659,177
<b>Total governmental activities net assets</b>	<b>\$ 6,681,019</b>	<b>\$ 8,133,352</b>	<b>\$ 9,087,342</b>	<b>\$ 32,068,426</b>	<b>\$ 31,167,262</b>	<b>\$ 30,207,481</b>	<b>\$ 28,711,851</b>	<b>\$ 27,303,338</b>
Business-type activities								
Invested in capital assets, net of related debt	\$ 3,001,891	\$ 2,991,253	\$ 2,901,711	\$ 3,000,351	\$ 2,901,469	\$ 2,971,746	\$ 3,068,422	\$ 3,097,074
Unrestricted	9,059,338	8,382,315	7,822,166	6,563,922	5,230,239	3,892,579	3,654,328	3,785,614
<b>Total business-type activities net assets</b>	<b>\$ 12,061,229</b>	<b>\$ 11,373,568</b>	<b>\$ 10,723,877</b>	<b>\$ 9,564,273</b>	<b>\$ 8,131,708</b>	<b>\$ 6,864,325</b>	<b>\$ 6,722,750</b>	<b>\$ 6,882,688</b>
Primary government								
Invested in capital assets, net of related debt	\$ 6,058,760	\$ 8,303,192	\$ 8,550,605	\$ 31,993,256	\$ 29,459,334	\$ 29,354,308	\$ 28,511,946	\$ 25,430,091
Restricted	528,068	517,312	530,138	541,152	934,268	5,381	778,755	311,144
Unrestricted	12,155,420	10,686,416	10,730,476	9,098,291	8,905,368	7,712,117	6,143,900	8,444,791
<b>Total primary government net assets</b>	<b>\$ 18,742,248</b>	<b>\$ 19,506,920</b>	<b>\$ 19,811,219</b>	<b>\$ 41,632,699</b>	<b>\$ 39,298,970</b>	<b>\$ 37,071,806</b>	<b>\$ 35,434,601</b>	<b>\$ 34,186,026</b>

a) In fiscal year 2006, the City of Henderson fully implemented GASB 34.

**CITY OF HENDERSON  
CHANGES IN NET ASSETS  
LAST EIGHT FISCAL YEARS**

(accrual basis of accounting)

	Fiscal Year							
	2003	2004	2005	2006 a)	2007	2008	2009	2010
<b>Expenses</b>								
Governmental activities:								
Administration	\$ 1,367,718	\$ 3,504,510	\$ 2,852,944	\$ 2,347,787	\$ 4,199,901	\$ 4,007,520	\$ 3,645,774	\$ 5,605,945
Finance	1,263,040	1,669,625	2,026,423	2,130,334	2,259,418	2,417,412	2,407,749	2,452,338
Mass transit	541,879	1,127,693	954,634	902,655	952,890	1,164,952	1,200,824	1,331,320
Parks and recreation	720,565	1,052,019	1,454,021	1,594,334	1,656,495	1,733,640	1,752,936	1,830,649
Public safety	7,784,506	9,309,616	10,352,496	11,334,251	11,018,065	11,179,873	11,097,829	11,631,711
Public works	2,071,301	2,388,391	3,107,277	4,916,759	5,065,764	4,946,437	5,139,345	5,134,823
Nondepartmental	1,034,076	1,308,577	1,453,683	1,363,796	1,173,052	1,392,650	1,923,248	1,881,343
Interest on long-term debt	235,855	239,639	230,231	220,711	269,917	281,184	297,764	306,503
Total governmental activities expenses	15,018,940	20,600,070	22,431,709	24,810,627	26,595,502	27,123,668	27,465,469	30,174,632
Business-type activities:								
Gas	18,501,546	19,159,759	21,517,615	28,993,461	24,583,655	30,026,696	24,380,948	19,015,757
Sanitation	1,622,684	1,960,497	1,997,939	2,375,386	2,388,064	2,361,380	2,568,844	2,607,748
Total business-type activities expenses	20,124,230	21,120,256	23,515,554	31,368,847	26,971,719	32,388,076	26,949,792	21,623,505
Total primary government expenses	\$ 35,143,170	\$ 41,720,326	\$ 45,947,263	\$ 56,179,474	\$ 53,567,221	\$ 59,511,744	\$ 54,415,261	\$ 51,798,137
<b>Program Revenues</b>								
Governmental activities:								
Charges for services								
Administration	\$ -	\$ 2,873,618	\$ 1,892,931	1,799,730	1,620,290	1,663,236	1,780,138	2,269,632
Finance	219,297	-	221,444	1,903,007	2,109,001	2,324,014	2,368,766	2,406,292
Mass transit	-	-	34,370	35,091	38,508	45,814	35,781	48,129
Parks and recreation	102,335	217,242	306,672	306,829	301,957	310,938	312,951	331,928
Public safety	24,400	85,764	413,814	716,936	481,805	761,937	919,361	953,804
Public works	242,750	35,484	64,503	466,240	80,196	95,649	111,668	169,680
Operating grants and contributions	891,523	964,976	3,322,409	2,262,836	3,056,723	2,616,045	2,366,703	2,617,657
Capital grants and contributions	-	901,449	1,254,164	886,861	105,300	244,931	161,409	795,477
Total governmental activities program revenues	1,480,305	5,078,533	7,510,307	8,377,530	7,793,780	8,062,564	8,056,777	9,592,599

**CITY OF HENDERSON**  
**CHANGES IN NET ASSETS**  
**LAST EIGHT FISCAL YEARS**  
(accrual basis of accounting)

	Fiscal Year							
	2003	2004	2005	2006 a)	2007	2008	2009	2010
Business-type activities:								
Charges for services								
Gas	\$ 19,685,060	\$ 20,065,081	\$ 22,160,449	\$ 29,861,306	\$ 24,739,734	\$ 29,926,210	\$ 24,699,179	\$ 20,437,945
Sanitation	1,563,673	1,594,648	1,589,366	1,488,001	1,586,933	2,107,769	2,393,856	2,429,609
Total business-type activities program revenues	21,248,733	21,659,729	23,749,815	31,349,307	26,326,667	32,033,979	27,093,035	22,867,554
Total primary government program revenues	\$ 22,729,038	\$ 26,738,262	\$ 31,260,122	\$ 39,726,837	\$ 34,120,447	\$ 40,096,543	\$ 35,149,812	\$ 32,460,153
<b>Net (Expenses)/Revenue</b>								
Governmental activities	\$ (13,538,635)	\$ (15,521,537)	\$ (14,921,402)	\$ (16,433,097)	\$ (18,801,722)	\$ (19,061,104)	\$ (19,408,692)	\$ (20,582,033)
Business-type activities	1,124,503	539,473	234,261	(19,540)	(645,052)	(354,097)	143,243	1,244,049
Total primary government net expense	\$ (12,414,132)	\$ (14,982,064)	\$ (14,687,141)	\$ (16,452,637)	\$ (19,446,774)	\$ (19,415,201)	\$ (19,265,449)	\$ (19,337,984)
<b>General Revenues and Other Changes in Net Assets</b>								
Governmental activities:								
Taxes:								
Payroll and net profits	\$ -	\$ -	\$ -	\$ 1,998,499	\$ 5,141,680	\$ 4,915,111	\$ 4,792,685	\$ 4,717,128
Property	3,849,171	3,983,611	4,202,727	4,355,360	4,753,013	5,250,283	5,593,273	6,571,652
Insurance	4,222,241	4,442,749	4,531,904	4,533,359	4,365,717	4,091,311	4,291,149	4,301,984
Other	827,687	837,737	655,649	627,676	624,842	746,004	672,452	656,896
Occupational licenses	691,755	682,582	610,539	-	-	-	-	-
Distributions from component units	3,150,000	3,500,000	3,500,000	1,128,727	1,444,724	1,444,724	1,644,734	1,644,724
Intergovernmental	2,462,025	1,263,360	-	-	-	-	-	-
Investment earnings	156,722	30,192	185,238	196,815	270,582	253,890	73,489	88,136
Miscellaneous	420,966	295,682	789,335	-	-	-	-	-
Extraordinary item	-	-	-	-	-	-	(554,720)	-
Transfers	1,444,764	1,937,957	1,400,000	2,400,000	1,300,000	1,400,000	1,400,000	1,193,000
Total governmental activities	17,225,331	16,973,870	15,875,392	15,240,436	17,900,558	18,101,323	17,913,062	19,173,520

**CITY OF HENDERSON**  
**CHANGES IN NET ASSETS**  
**LAST EIGHT FISCAL YEARS**  
(accrual basis of accounting)

	Fiscal Year							
	2003	2004	2005	2006 a)	2007	2008	2009	2010
Business-type activities:								
Investment earnings	\$ 798,258	\$ 18,876	\$ 516,048	\$ 157,936	\$ 464,487	\$ 486,714	\$ 160,214	\$ 108,889
Extraordinary item	-	-	-	-	-	-	954,968	-
Transfers	(1,444,764)	(1,937,957)	(1,400,000)	(2,400,000)	(1,300,000)	(1,400,000)	(1,400,000)	(1,193,000)
Total business-type activities	(646,506)	(1,919,081)	(883,952)	(2,242,064)	(835,513)	(913,286)	(284,818)	(1,084,111)
Total primary government	<u>\$ 16,578,825</u>	<u>\$ 15,054,789</u>	<u>\$ 14,991,440</u>	<u>\$ 12,998,372</u>	<u>\$ 17,065,045</u>	<u>\$ 17,188,037</u>	<u>\$ 17,628,244</u>	<u>\$ 18,089,409</u>
<b>Change in Net Assets</b>								
Governmental activities:	\$ 3,686,696	\$ 1,452,333	\$ 953,990	\$ (1,192,661)	\$ (901,164)	\$ (959,781)	\$ (1,495,630)	\$ (1,408,513)
Business-type activities:	477,997	(1,379,608)	(649,691)	(2,261,604)	(1,480,565)	(1,267,383)	(141,575)	159,938
Total primary government	<u>\$ 4,164,693</u>	<u>\$ 72,725</u>	<u>\$ 304,299</u>	<u>\$ (3,454,265)</u>	<u>\$ (2,381,729)</u>	<u>\$ (2,227,164)</u>	<u>\$ (1,637,205)</u>	<u>\$ (1,248,575)</u>

a) In fiscal year 2006, the City of Henderson fully implemented GASB 34.

**CITY OF HENDERSON**  
**FUND BALANCES OF GOVERNMENTAL FUNDS**  
**LAST EIGHT FISCAL YEARS**  
(modified accrual basis of accounting)

	Fiscal Year							
	2003	2004	2005	2006 a)	2007	2008	2009	2010
General Fund								
Reserved	\$ 43,626	\$ 30,168	\$ -	\$ -	\$ 850,000	\$ 590,000	\$ 590,000	\$ 1,095,872
Unreserved	4,263,230	3,821,230	3,377,314	2,648,312	3,157,175	4,019,711	4,692,077	5,932,799
Total general fund	<u>\$ 4,306,856</u>	<u>\$ 3,851,398</u>	<u>\$ 3,377,314</u>	<u>\$ 2,648,312</u>	<u>\$ 4,007,175</u>	<u>\$ 4,609,711</u>	<u>\$ 5,282,077</u>	<u>\$ 7,028,671</u>
All Other Governmental Funds								
Reserved, reported in:								
Permanent funds	\$ 533,023	\$ 517,312	\$ 530,138	\$ 541,152	\$ 567,511	\$ 602,345	\$ -	\$ -
Capital projects fund	-	-	-	-	261,792	-	-	-
Debt service fund	-	-	-	-	104,965	189,964	139,515	706
Special revenue funds	-	-	-	-	-	-	639,240	333,266
Unreserved, reported in:								
Capital projects fund	-	-	-	-	-	(786,928)	(1,956,097)	(1,729,492)
Special revenue funds	455,881	531,591	796,618	678,094	656,430	659,060	435,242	474,272
Total all other governmental funds	<u>\$ 988,904</u>	<u>\$ 1,048,903</u>	<u>\$ 1,326,756</u>	<u>\$ 1,219,246</u>	<u>\$ 1,590,698</u>	<u>\$ 664,441</u>	<u>\$ (742,100)</u>	<u>\$ (921,248)</u>

a) In fiscal year 2006, the City of Henderson fully implemented GASB 34.



**CITY OF HENDERSON**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**LAST EIGHT FISCAL YEARS**  
(modified accrual basis of accounting)

	Fiscal Year							
	2003	2004	2005	2006 a)	2007	2008	2009	2010
<b>Revenues</b>								
Taxes	\$ 8,637,268	\$ 9,005,832	\$ 9,390,280	\$ 11,514,894	\$ 14,885,252	\$ 15,002,709	\$ 15,349,559	\$ 16,247,660
Charges for services	678,276	556,876	663,766	990,955	1,026,292	1,242,500	1,349,938	1,460,316
Investment income	156,722	30,192	178,720	175,858	248,288	241,715	69,672	86,892
Licenses and permits	691,755	682,582	706,375	194,993	101,080	86,230	73,827	88,624
Intergovernmental revenue	3,353,548	4,274,985	4,576,573	4,724,916	4,904,924	4,913,514	4,867,253	5,825,278
Distributions from component units	3,150,000	3,500,000	3,500,000	1,128,727	1,444,724	1,444,724	1,644,734	1,644,724
Other	331,472	375,346	178,587	370,979	268,234	317,790	262,959	506,111
<b>Total revenues</b>	<b>16,999,041</b>	<b>18,425,813</b>	<b>19,194,301</b>	<b>19,101,322</b>	<b>22,878,794</b>	<b>23,249,182</b>	<b>23,617,942</b>	<b>25,859,605</b>
<b>Expenditures</b>								
Administration	1,333,218	1,431,563	1,007,131	1,025,138	2,596,582	2,072,530	2,277,438	2,517,239
Finance	1,529,349	1,579,727	1,884,715	1,987,523	2,065,065	2,274,800	2,326,392	2,426,737
Public safety	8,724,046	8,934,903	9,811,606	10,685,174	10,268,009	10,630,489	10,626,785	11,192,621
Public works	2,239,500	2,308,424	2,957,253	3,122,916	3,241,802	3,006,808	3,225,161	3,207,831
Parks & recreation	816,973	895,704	1,326,786	1,424,947	1,473,393	1,526,873	1,555,361	1,607,810
Non-departmental	1,202,440	1,308,577	1,453,683	1,363,796	1,173,052	1,392,650	1,923,248	1,881,343
Mass transit	1,050,334	1,127,693	886,039	860,592	884,040	1,091,239	1,124,891	1,193,074
Capital outlay	1,036,189	3,397,583	1,170,700	2,001,662	3,322,931	2,044,193	1,282,849	793,698
Debt service:								
Interest	235,855	239,639	230,231	220,711	269,917	281,184	297,764	306,503
Principal	601,534	593,680	300,000	423,755	2,391,669	652,137	557,508	358,303
<b>Total expenditures</b>	<b>18,769,438</b>	<b>21,817,493</b>	<b>21,028,144</b>	<b>23,116,214</b>	<b>27,686,460</b>	<b>24,972,903</b>	<b>25,197,397</b>	<b>25,485,159</b>
Excess of revenues over (under) expenditures	(1,770,397)	(3,391,680)	(1,833,843)	(4,014,892)	(4,807,666)	(1,723,721)	(1,579,455)	374,446
<b>Other Financing Sources (Uses)</b>								
Transfers in	4,223,051	3,452,761	3,290,783	3,818,766	3,596,374	2,802,811	2,797,000	2,974,500
Transfers out	(2,778,287)	(1,514,805)	(1,890,783)	(1,418,766)	(2,296,374)	(1,402,811)	(1,397,000)	(1,781,500)
Insurance recovery	-	-	-	328,914	-	-	-	-
Proceeds from loans	-	800,000	-	325,422	5,237,981	-	-	-
Other	-	-	-	124,044	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>1,444,764</b>	<b>2,737,956</b>	<b>1,400,000</b>	<b>3,178,380</b>	<b>6,537,981</b>	<b>1,400,000</b>	<b>1,400,000</b>	<b>1,193,000</b>
Extraordinary item	-	-	-	-	-	-	(554,720)	-
<b>Net change in fund balances</b>	<b>\$ (325,633)</b>	<b>\$ (653,724)</b>	<b>\$ (433,843)</b>	<b>\$ (836,512)</b>	<b>\$ 1,730,315</b>	<b>\$ (323,721)</b>	<b>\$ (734,175)</b>	<b>\$ 1,567,446</b>
Debt service as a percentage of noncapital expenditures	4.7%	4.5%	2.7%	3.1%	10.9%	4.1%	3.6%	2.7%

a) In fiscal year 2006, the City of Henderson fully implemented GASB 34.

**CITY OF HENDERSON  
GENERAL GOVERNMENTAL TAX REVENUE BY SOURCE  
LAST TEN FISCAL YEARS**

Fiscal Year	Total	Real & Personal Property	Insurance Premiums	Payroll	Net Profits	Franchise	Bank Deposits
2001	\$ 7,571,323	\$ 3,440,534	\$ 3,683,680			\$ 349,931	\$ 97,178
2002	7,805,156	3,628,929	3,712,328			359,970	103,929
2003	8,637,268	3,849,171	4,222,241			455,056	110,800
2004	9,005,832	3,983,611	4,442,749			470,138	109,334
2005	9,390,280	4,202,727	4,531,904			548,838	106,811
a) 2006	11,514,894	4,355,360	4,533,359	\$ 1,416,329	\$ 582,169	521,405	106,271
2007	14,885,252	4,753,013	4,365,717	4,172,189	969,491	511,027	113,815
2008	15,002,709	5,250,283	4,091,311	b) 4,192,856	722,255	b) 628,633	117,371
2009	15,349,559	5,593,273	4,291,149	4,017,229	775,456	555,857	116,595
2010	16,247,660	6,571,652	c) 4,301,984	3,946,880	770,248	531,854	125,042

- a) The City of Henderson implemented a 1% payroll/net profits tax in 2005 - 2006. The first payments were received in January 2006.  
b) The City of Henderson had several requests for large refunds of insurance premium and net profit taxes.  
c) Starting in fiscal 2010, the City of Henderson allocated 100% of property tax revenue to the General Fund.

**CITY OF HENDERSON**  
**ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY**  
**LAST TEN FISCAL YEARS**

(in thousands of dollars)

<u>Fiscal Year</u>	<u>Real Estate (a)</u>	<u>Personal Property (a)</u>	<u>Bank Deposits (b)</u>	<u>Total</u>
2001	\$ 741,393	\$ 122,635	\$ 396,647	\$ 1,260,675
2002	764,276	129,190	424,202	1,317,668
2003	792,285	111,817	452,246	1,356,348
2004	811,082	117,263	446,261	1,374,606
2005	844,235	115,836	435,962	1,396,033
2006	871,253	118,484	433,758	1,423,495
2007	912,708	109,100	464,553	1,486,361
2008	1,007,360	113,282	479,065	1,599,707
2009	1,051,673	120,011	475,900	1,647,584
2010	1,071,441	144,539	510,373	1,726,353

Note: Records of estimated actual value of taxable property are not maintained by the City of Henderson. Assessments on motor vehicles are not included as the State of Kentucky collects the taxes when vehicles are licensed. Franchise taxes are not included as the State of Kentucky collects the taxes.

- a) Source: Henderson County Property Valuation Administrator
- b) Source: Commonwealth of Kentucky, Department of Revenue, Office of Property Valuation

**CITY OF HENDERSON, KENTUCKY**  
**DETAIL OF ASSESSED VALUE and ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY**  
**LAST SEVEN FISCAL YEARS**

**Real Estate**

Fiscal Year	Residential Real Estate	Farm Real Estate	Commercial Real Estate	Mobile Home Real Estate	Less: Tax Exempt Property	Other	Total Taxable Real Estate	Total Direct Real Estate Tax Rate	Estimated Actual Tax Value
2004	\$ 594,270,664	\$ 2,245,720	\$ 265,361,382	\$ 9,785,685	\$ 60,581,405	\$ -	\$ 811,082,046	\$ 0.00413	\$ 3,349,769
2005	620,601,136	2,473,520	272,039,540	9,772,693	60,651,490	-	844,235,399	0.00426	3,596,443
2006	647,525,285	2,660,120	276,198,707	9,374,258	64,505,692	-	871,252,678	0.00427	3,720,249
2007	674,471,421	2,558,520	290,722,270	9,133,994	64,178,212	-	912,707,993	0.00444	4,052,423
2008	725,651,226	2,618,945	338,492,540	8,937,734	68,340,708	-	1,007,359,737	0.00440	4,432,383
2009	752,841,974	2,729,830	356,084,864	8,930,363	68,914,133	-	1,051,672,898	0.00460	4,837,695
2010	771,246,458	2,901,145	364,428,870	8,842,981	75,978,542	-	1,071,440,912	0.00466	4,992,915

**Personal**

Fiscal Year	Furniture/Fixtures	Merchant's Inventory	Manufacturer's Finished Goods	Goods Stored in Warehouse	Work In Progress	Other	Total Taxable Personal Property	Total Direct Personal Tax Rate	Estimated Actual Tax Value
2004	\$ 52,752,060	\$ 45,010,218	\$ 14,941,575	\$ 151,318	\$ 29,443	\$ 4,378,296	\$ 117,262,910	\$ 0.00497	\$ 582,797
2005	50,321,823	45,058,181	17,133,371	553,833	29,443	2,738,982	115,835,633	0.00540	625,512
2006	49,849,312	49,057,365	15,398,780	559,614	3,831	3,614,793	118,483,695	0.00536	635,073
2007	51,543,336	41,904,742	11,919,031	195,469	149,888	3,387,361	109,099,827	0.00634	691,693
2008	51,130,945	46,560,846	12,511,973	1,125	-	3,076,904	113,281,793	0.00668	756,722
2009	59,221,937	40,850,867	16,689,747	106,095	-	3,142,261	120,010,907	0.00688	825,675
2010	57,986,626	57,503,339	21,538,243	1,056,284	2,457,177	3,997,125	144,538,794	0.00590	852,779

Note: Records of estimated actual value of taxable property are not maintained by the City of Henderson. Assessments on motor vehicles are not included as the State of Kentucky collects the taxes when vehicles are licensed. It was not until 2004 that Henderson County provided detail information in the format presented.

Source: Henderson County Property Valuation Administrator

**CITY OF HENDERSON  
PROPERTY TAX RATES  
DIRECT AND OVERLAPPING GOVERNMENTS  
PER \$100 OF NET ASSESSED VALUATION  
LAST TEN FISCAL YEARS**

<b>Real property:</b>		<b>Direct</b>				<b>Overlapping</b>						<b>Total City Resident</b>
<b>Year</b>	<b>Police and Firemen's Pension</b>	<b>Civil Service Pension</b>	<b>Debt</b>	<b>General Fund Operations</b>	<b>City</b>	<b>County Schools</b>	<b>State</b>	<b>County</b>	<b>Library</b>	<b>Health</b>	<b>Extension</b>	
2001	0.0336	-	-	0.3444	0.3780	0.4300	0.1410	0.0920	0.0400	0.0260	0.0160	1.1230
2002	0.0338	-	-	0.3542	0.3880	0.4330	0.1360	0.0940	0.0420	0.0260	0.0160	1.1350
2003	0.0330	-	-	0.3640	0.3970	0.4330	0.1350	0.0940	0.0430	0.0260	0.0160	1.1440
2004	0.0329	0.0101	-	0.3717	0.4147	0.4450	0.1330	0.0980	0.0450	0.0260	0.0170	1.1787
2005	0.0337	0.0086	-	0.3837	0.4260	0.4500	0.1310	0.1010	0.0470	0.0260	0.0180	1.1990
2006	0.0337	0.0086	-	0.3847	0.4270	0.4620	0.1310	0.1060	0.0490	0.0260	0.0190	1.2200
2007	0.0337	0.0116	-	0.3987	0.4440	0.4650	0.1280	0.1110	0.0520	0.0260	0.0200	1.2460
2008	0.0325	0.0185	0.0384	0.3506	0.4400	0.4640	0.1240	0.1150	0.0550	0.0260	0.0210	1.2450
2009	0.0210	0.0210	0.0290	0.3890	0.4600	0.4700	0.1220	0.1180	0.0590	0.0260	0.0220	1.2770
2010	-	-	-	0.4660	0.4660	0.4770	0.1220	0.1180	0.0630	0.0260	0.0230	1.2950

<b>Personal property:</b>		<b>Direct</b>				<b>Overlapping</b>						<b>Total City Resident</b>
<b>Year</b>	<b>Police and Firemen's Pension</b>	<b>Civil Service Pension</b>	<b>Debt</b>	<b>General Fund Operations</b>	<b>City</b>	<b>County Schools</b>	<b>State</b>	<b>County</b>	<b>Library</b>	<b>Health</b>	<b>Extension</b>	
2001	0.0353	-	-	0.3617	0.3970	0.4300	0.4500	0.0950	0.0467	0.0260	0.0187	1.4634
2002	0.0347	-	-	0.3643	0.3990	0.4330	0.4500	0.0940	0.0444	0.0260	0.0176	1.4640
2003	0.0406	-	-	0.4484	0.4890	0.4350	0.4500	0.1070	0.0508	0.0260	0.0197	1.5775
2004	0.0396	0.0084	-	0.4473	0.4953	0.4450	0.4500	0.1070	0.0523	0.0260	0.0206	1.5962
2005	0.0337	0.0086	-	0.4977	0.5400	0.4500	0.4500	0.1230	0.0611	0.0260	0.0244	1.6745
2006	0.0337	0.0086	-	0.4937	0.5360	0.4620	0.4500	0.1330	0.0660	0.0260	0.0267	1.6997
2007	0.0337	0.0116	-	0.5887	0.6340	0.4650	0.4500	0.1580	0.0793	0.0260	0.0318	1.8441
2008	0.0325	0.0185	0.0384	0.5786	0.6680	0.4660	0.4500	0.1750	0.0897	0.0260	0.0357	1.9104
2009	0.0210	0.0210	0.0290	0.6170	0.6880	0.4700	0.4500	0.1750	0.0910	0.0260	0.0354	1.9354
2010	-	-	-	0.5900	0.5900	0.4770	0.4500	0.1750	0.0860	0.0260	0.0328	1.8368

Source: Kentucky Department of Revenue

Note: Excluding new property, the City of Henderson cannot increase its property tax revenue by more than 4% annually without a popular referendum. Overlapping rates are those of state, county and local governments that apply to property owners within the City of Henderson.

**CITY OF HENDERSON  
AD VALOREM TAX RATES  
DIRECT AND OVERLAPPING GOVERNMENTS  
PER \$100 OF NET ASSESSED VALUATION  
LAST TEN FISCAL YEARS**

<b>Real property: Direct</b>		<b>Overlapping</b>						<b>Total City Resident</b>
<b>Year</b>	<b>City</b>	<b>County Schools</b>	<b>State</b>	<b>County</b>	<b>Library</b>	<b>Health</b>	<b>Extension</b>	
2001	0.3780	0.4300	0.1410	0.0920	0.0400	0.0260	0.0160	1.1230
2002	0.3880	0.4330	0.1360	0.0940	0.0420	0.0260	0.0160	1.1350
2003	0.3970	0.4330	0.1350	0.0940	0.0430	0.0260	0.0160	1.1440
2004	0.4130	0.4450	0.1330	0.0980	0.0450	0.0260	0.0170	1.1770
2005	0.4260	0.4500	0.1310	0.1010	0.0470	0.0260	0.0180	1.1990
2006	0.4270	0.4620	0.1310	0.1060	0.0490	0.0260	0.1900	1.3910
2007	0.4440	0.4650	0.1280	0.1110	0.0520	0.0260	0.0200	1.2460
2008	0.4400	0.4640	0.1240	0.1150	0.0550	0.0260	0.0210	1.2450
2009	0.4600	0.4700	0.1220	0.1180	0.0590	0.0260	0.0220	1.2770
2010	0.4660	0.4770	0.1220	0.1180	0.0630	0.0260	0.0230	1.2950

**Personal property:**

2001	0.3970	0.4300	0.4500	0.0950	0.0467	0.0260	0.0187	1.4634
2002	0.3990	0.4330	0.4500	0.0940	0.0444	0.0260	0.0176	1.4640
2003	0.4890	0.4350	0.4500	0.1070	0.0508	0.0260	0.0197	1.5775
2004	0.4970	0.4450	0.4500	0.1070	0.0523	0.0260	0.0206	1.5979
2005	0.5400	0.4500	0.4500	0.1230	0.0611	0.0260	0.0244	1.6745
2006	0.5360	0.4620	0.4500	0.1330	0.0660	0.0260	0.0267	1.6997
2007	0.6340	0.4650	0.4500	0.1580	0.0793	0.0260	0.0318	1.8441
2008	0.6680	0.4660	0.4500	0.1750	0.0897	0.0260	0.0357	1.9104
2009	0.6880	0.4700	0.4500	0.1750	0.0910	0.0260	0.0354	1.9354
2010	0.5900	0.4770	0.4500	0.1750	0.0860	0.0260	0.0328	1.8368

Source: Kentucky Department of Revenue

**CITY OF HENDERSON, KENTUCKY  
TOP TEN TAXPAYERS  
LAST TEN FISCAL YEARS**

<b>Company</b>	<b>Type of Tax</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Kentucky Farm Bureau Insurance	Insurance premium tax	\$ 281,510	\$ 316,334	\$ 357,838	\$ 392,174	\$ 400,515	\$ 387,260	\$ 399,568	\$ 410,043	\$ 425,793	\$ 456,374
Commonwealth of Kentucky - Telecom (a)	Franchise tax	-	-	-	-	-	-	315,994	316,101	315,991	316,068
AT&T Kentucky	911 tax/Franchise fees	-	194,376	178,376	158,529	203,391	270,679	200,665	240,805	281,721	244,928
United Healthcare	Insurance premium tax	103,243	109,620	125,144	143,431	145,257	161,039	147,950	197,205	224,861	188,973
State Farm Mutual Automobile Insurance	Insurance premium tax	147,800	167,590	174,765	171,549	172,297	173,236	172,002	161,049	175,243	176,025
Progressive Casualty Insurance Company	Insurance premium tax	-	-	-	-	-	-	133,516	152,869	150,993	148,370
The Cincinnati Insurance Company	Insurance premium tax	93,380	102,201	105,243	102,818	-	113,508	100,644	96,125	115,878	127,925
State Farm Fire & Casualty Company	Insurance premium tax	-	-	-	-	114,262	112,343	114,716	114,810	116,277	127,469
West American Insurance Company	Insurance premium tax	140,209	113,133	94,068	106,617	116,083	118,402	118,984	120,170	110,157	103,134
State Auto Property & Casualty Company	Insurance premium tax	-	-	-	-	-	-	-	-	67,705	66,891
Grange Mutual	Insurance premium tax	106,749	119,129	122,315	134,139	137,350	131,073	122,680	98,266	-	-
Insight Communications (a)	Franchise tax	171,884	210,971	273,480	285,073	320,312	204,182	-	-	-	-
Midland National Life Insurance Company	Insurance premium tax	-	-	-	-	-	199,991	-	-	-	-
West Coast Life Insurance Company	Insurance premium tax	-	-	-	-	200,573	-	-	-	-	-
HCC Life Insurance Company	Insurance premium tax	-	-	-	-	117,644	-	-	-	-	-
Progressive Northern Insurance Co.	Insurance premium tax	-	-	-	109,319	-	-	-	-	-	-
Allstate Insurance Company	Insurance premium tax	93,516	-	-	108,017	-	-	-	-	-	-
Aetna Life Insurance	Insurance premium tax	-	150,524	184,959	-	-	-	-	-	-	-
St. Paul Fire & Marine Insurance Co.	Insurance premium tax	-	96,961	94,438	-	-	-	-	-	-	-
Jefferson Pilot	Insurance premium tax	137,037	-	-	-	-	-	-	-	-	-
American Premier Insurance Co.	Insurance premium tax	75,369	-	-	-	-	-	-	-	-	-

a) Starting in July 2006, the Commonwealth of Kentucky mandated per House Bill 272 that all revenue from multichannel video programming service providers and an array of communications services providers, including telephone services, be sent to the State and then distributed to local governments based on an elaborate formula.

**CITY OF HENDERSON , KENTUCKY  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST SEVEN FISCAL YEARS**

<b>Fiscal Year</b>	<b>Total Tax Levy for Fiscal Year</b>	<b>Collected within the Fiscal Year of the Levy</b>		<b>Collections in subsequent years (a)</b>	<b>Total Collections to Date</b>	
		<b>Amount</b>	<b>Percentage of Levy</b>		<b>Amount</b>	<b>Percentage of Levy</b>
2004	\$ 3,901,093	N/A	N/A	N/A	\$ 3,888,577	99.7%
2005	4,173,563	\$ 4,122,781	98.8%	\$ 39,920	4,162,701	99.7%
2006	4,302,094	4,247,636	98.7%	40,532	4,288,168	99.7%
2007	4,704,194	4,647,361	98.8%	39,834	4,687,195	99.6%
2008	5,137,044	5,064,159	98.6%	49,209	5,113,368	99.5%
2009	5,599,923	5,491,093	98.1%	46,586	5,537,679	98.9%
2010	5,788,490	5,692,217	98.3%	12,120	5,704,337	98.5%

N/A: The City installed a new property tax software in fiscal year 2005. Information prior to 2005 is not available in this format.

(a) Collections as of August 25, 2010.



**CITY OF HENDERSON, KENTUCKY  
NATURAL GAS VOLUME BY CUSTOMER TYPE  
LAST TEN CALENDAR YEARS  
(all amounts in thousand cubic feet )**

<b>Type of Customer</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Residential	819,056	655,179	700,265	708,087	611,354	613,872	513,033	558,863	622,342	566,728
Commercial	329,985	300,997	330,446	338,998	337,788	341,802	319,357	331,896	371,493	342,366
Industrial	2,127,007	1,952,279	2,031,564	1,690,014	1,844,269	1,579,765	1,807,274	1,881,901	2,147,867 d)	1,967,828
Municipal	-	-	-	-	-	-	-	6,428 a)	7,875	6,882
<b>Total Sold</b>	<b>3,276,048</b>	<b>2,908,455</b>	<b>3,062,275</b>	<b>2,737,099</b>	<b>2,793,411</b>	<b>2,535,439</b>	<b>2,639,664</b>	<b>2,779,088</b>	<b>3,149,577</b>	<b>2,883,804</b>
Delivered only	19,428	234,330	314,481	356,232	399,848	360,747	358,538	331,305	- d)	-
Pipeline distribution use (net of losses)	-	-	17,422	(2,302) b)	1,352	1,037	1,926	3,647 c)	1,733	4,628 e)
<b>Total Disposition</b>	<b>3,295,476</b>	<b>3,142,785</b>	<b>3,394,178</b>	<b>3,091,029</b>	<b>3,194,611</b>	<b>2,897,223</b>	<b>3,000,128</b>	<b>3,114,040</b>	<b>3,151,310</b>	<b>2,888,432</b>

- a) Prior to 2007, Municipal consumption was included in Commercial.
- b) The department reported a loss from leaks, migration, damage and/or accidents of 2,780.
- c) The department reported a loss from leaks, migration, damage and/or accidents of 2,634.
- d) A transport customer is now a sales service customer and now reflected in industrial.
- e) The department reported a loss from a ice storm of 2,250.

Source: Gas Department

**CITY OF HENDERSON, KENTUCKY  
NATURAL GAS SOLD BY CUSTOMER TYPE  
LAST TEN CALENDAR YEARS  
(all amounts in thousands)**

<b>Type of Customer</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Residential	\$ 6,322	\$ 6,355	\$ 5,063	\$ 6,595	\$ 6,028	\$ 8,064	\$ 6,421	\$ 6,594	\$ 7,715	\$ 5,925
Commercial	2,363	2,898	2,248	2,972	3,023	4,120	3,899	3,671	4,542	2,967
Industrial	9,964	12,820	10,105	10,913	12,704	16,702	16,612	15,147	22,049	10,524
Total Sold	\$ 18,649	\$ 22,073	\$ 17,416	\$ 20,480	\$ 21,755	\$ 28,886	\$ 26,932	\$ 25,413	\$ 34,306 a)	\$ 19,416 b)

- a) During 2008, the energy market experienced unusually high prices.
- b) Due to the global recession, demand for natural gas decreased and energy prices followed.

Note: The City of Henderson receives its gas free of charge from the gas department.

Source: Gas Department

**CITY OF HENDERSON, KENTUCKY  
NATURAL GAS RATES  
RESIDENTIAL CUSTOMERS  
LAST TEN FISCAL YEARS**

Fiscal Year	Monthly Base Rate	Rate per 1,000 cubic feet
2001	\$ 4.50	\$ 1.85
2002	4.50	1.85
2003	4.50	1.85
2004	4.50	1.85
2005	4.50	1.85
2006	4.50	1.85
2007	4.50	1.85
2008	4.50	1.85
2009	a) 12.00	2.25
2010	12.00	2.25

**Source:** Gas department

a) On May 12, 2009 the City increased the monthly base rate and the rate per 1,000 cubic feet.

Note: The City Commission can, and has on certain occasions, changed the rate due to high gas rates or cold weather.

**CITY OF HENDERSON**  
**DIRECT and OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT**  
**As of JUNE 30, 2010**

<b>Governmental Unit</b>	<b><u>Debt Outstanding</u></b>	<b><u>Estimated Percentage Applicable (a)</u></b>	<b><u>Estimated Share of Overlapping Debt</u></b>
<b>Debt repaid with property taxes</b>			
Henderson County Schools (c)	\$ 17,419,508	55.20% (b)	\$ 9,615,568
Henderson County (d)			
Henderson County Public Properties Corp.	6,495,000	55.20% (b)	<u>3,585,240</u>
Subtotal, overlapping debt			\$ 13,200,808
<b>City direct debt</b>			<u>4,535,000</u>
<b>Total direct and overlapping debt</b>			<u><u>\$ 17,735,808</u></u>

Note: This exhibit excludes the debt to be retired by the City's component units through rates. Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Henderson. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account.

- a) For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within Henderson's boundaries and dividing it by each unit's total taxable assessed value.
- b) Determined by the ratio of assessed valuation of property subject to taxation in the City of Henderson to the value of property in the overlapping units.
- c) Obtained from Henderson County Board of Education Finance Office for fiscal year 2009.
- d) Obtained from the Henderson County Treasurer's Office, does not include Judicial Center.

**CITY OF HENDERSON , KENTUCKY  
 PLEDGED - REVENUE COVERAGE  
 WATER & SEWER and ELECTRIC COMMISSIONS  
 LAST TEN FISCAL YEARS  
 (all amounts in thousands )**

<b>Water and Sewer Revenue Bonds</b>								<b>Electric Revenue Bonds</b>							
<b>Fiscal Year</b>	<b>Utility Operating Revenues</b>	<b>Less: Operating Expenses</b>	<b>Net Available Revenue</b>	<b>Debt Service Requirements</b>			<b>Coverage</b>	<b>Operating Revenues</b>	<b>Operating Expenses</b>	<b>Net Available Revenue</b>	<b>Debt Service Requirements</b>			<b>Coverage</b>	<b>Fiscal Year</b>
				<b>Principal</b>	<b>Interest</b>	<b>Total</b>					<b>Principal</b>	<b>Interest</b>	<b>Total</b>		
2001	\$ 9,841	\$ 6,883	\$ 2,958	\$ 491	\$ 701	\$ 1,192	2.48	\$ 37,480	\$ 29,239	\$ 8,241	\$ 4,985	\$ 859	\$ 5,844	1.41	2001
2002	10,592	7,319	3,273	395	691	1,086	3.01	30,979	27,847	3,132	5,950	429	6,379	0.49	2002
2003	10,933	6,997	3,936	516	672	1,188	3.31	37,713	33,528	4,185	5,590	188	5,778	0.72	2003
2004	11,378	8,247	3,131	522	632	1,154	2.71	39,163	36,559	2,604	-	-	-	N/A	2004
2005	11,617	8,896	2,721	568	549	1,117	2.44	40,141	36,584	3,557	-	-	-	N/A	2005
2006	13,250	9,132	4,118	537	555	1,092	3.77	48,499	45,707	2,792	-	-	-	N/A	2006
2007	14,657	9,946	4,711	546	528	1,074	4.39	42,978	38,097	4,881	-	-	-	N/A	2007
2008	14,723	10,416	4,307	700	500	1,200	3.59	56,938	52,500	4,438	-	-	-	N/A	2008
2009	14,688	10,604	4,084	739	651	1,390	2.94	56,575	50,788	5,787	-	-	-	N/A	2009
2010	14,747	10,789	3,958	763	613	1,376	2.88	53,365	49,438	3,927	-	-	-	N/A	2010

Note: Operating expenses do not include interest, depreciation, or amortization expenses.

**CITY OF HENDERSON , KENTUCKY  
RATIOS of OUTSTANDING DEBT by TYPE  
LAST TEN FISCAL YEARS**

Year	General Bonded Debt		Percentage of Actual Taxable Value of Property			Other Governmental Activities Debt		Business-Type Activities		Total Primary Government e)		Per Capita Income	Percentage of Personal Income
	General Obligation Bonds	Actual Taxable Value of Property	Actual Taxable Value of Property	Population	Per Capita	Bond Anticipation Note	Capital Leases	Capital Leases	Per Capita	Per Capita	Per Capita Income	Percentage of Personal Income	
2001	-	\$ 1,260,675,000	0.00%	27,407	N/A		\$ 5,715,475 a)	\$ 254,187	\$ 5,969,662	\$ 218	\$ 24,142	0.90%	
2002	-	1,317,668,000	0.00%	27,447	N/A		5,202,286	206,621	5,408,907	197	25,401	0.78%	
2003	-	1,356,348,000	0.00%	27,502	N/A		4,648,680	157,474	4,806,154	175	25,401	0.69%	
2004	-	1,374,606,000	0.00%	27,542	N/A		4,855,000 b)	106,690	4,961,690	180	25,356	0.71%	
2005	-	1,396,033,000	0.00%	27,666	N/A		4,555,000	54,218	4,609,218	167	26,232	0.64%	
2006	-	1,423,495,000	0.00%	27,666	N/A		4,534,667	-	4,534,667	164	26,232	0.62%	
2007	\$ 5,230,000	1,486,361,000	0.35%	27,768	\$ 188		2,277,948	-	7,507,948 c)	270	26,232	1.03%	
2008	5,005,000	1,599,707,000	0.31%	27,768	\$ 180		1,850,811	-	6,855,811	247	28,259	0.87%	
2009	4,775,000	1,647,584,000	0.29%	27,933	\$ 171	1,583,737 d)	1,523,303	-	7,882,040	282	29,434	0.96%	
2010	4,535,000	1,726,353,000	0.26%	27,952	\$ 162	1,583,737	1,405,000	-	7,523,737	269	31,265	0.86%	

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

- a) In addition to \$3.59 million in capital leases, the City issued \$2.125 million of new leases in 2001.
- b) In addition to \$4.06 million in capital leases, the City issued \$800,000 of new leases in 2004.
- c) In addition to \$2.3 million in capital leases, the City issued \$5.23 million in general obligation bonds in 2007.
- d) In 2009, the City drew down \$1.6 million of a \$4.0 million bond anticipation note.
- e) Includes general bonded debt, other governmental activities debt, and business-type activities debt.

**CITY OF HENDERSON, KENTUCKY**  
**RATIOS of GENERAL BONDED DEBT OUTSTANDING and LEGAL DEBT MARGIN**  
**LAST TEN FISCAL YEARS**  
(in thousands of dollars)

Company	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>General Bonded</b>										
General bonded debt outstanding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,230	\$ 5,005	\$ 4,775	\$ 4,535
Other bonded debt	-	-	-	-	-	-	-	-	1,584	1,584
Total	-	-	-	-	-	-	5,230	5,005	6,359	6,119
Estimated actual property value	\$ 1,260,675	\$ 1,317,668	\$ 1,356,348	\$ 1,374,606	\$ 1,396,033	\$ 1,423,495	\$ 1,486,361	\$ 1,599,707	\$ 1,647,584	\$ 1,726,353
Percentage of estimated actual property value	0%	0%	0%	0%	0%	0%	0.35%	0.31%	0.39%	0.35%
Population	27,407	27,447	27,502	27,542	27,666	27,666	27,768	27,768	27,933	27,952
Per capita	-	-	-	-	-	-	\$ 188	\$ 180	\$ 228	\$ 219
Less: Amounts set aside to repay general debt	-	-	-	-	-	-	-	-	-	-
Total net debt applicable to debt limit	-	-	-	-	-	-	\$ 5,230	\$ 5,005	\$ 6,359	\$ 6,119
Debt Limit	\$ 146,443	\$ 152,450	\$ 156,615	\$ 160,516	\$ 162,989	\$ 169,295	\$ 175,497	\$ 187,364	\$ 194,846	\$ 204,127
Total net debt applicable to limit	\$ 5,716	\$ 5,202	\$ 4,649	\$ 4,855	\$ 4,555	\$ 4,535	\$ 7,508	\$ 6,856	\$ 7,882	\$ 7,524
Legal Debt Limit a)	\$ 140,727	\$ 147,248	\$ 151,966	\$ 155,661	\$ 158,434	\$ 164,760	\$ 167,989	\$ 180,508	\$ 186,964	\$ 196,603
Legal Debt Margin b)	\$ 140,727	\$ 147,248	\$ 151,966	\$ 155,661	\$ 158,434	\$ 164,760	\$ 162,759	\$ 175,503	\$ 180,605	\$ 190,484
Legal debt margin as a percentage of the debt limit	100%	100%	100%	100%	100%	100%	96.9%	97.2%	96.6%	96.9%

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

a) – Section 158 of the Kentucky Constitution states that cities, having a population of fifteen thousand or more, shall not incur indebtedness to an amount exceeding 10% on the value of the taxable property therein, to be estimated by the last assessment previous to the incurring of the indebtedness, unless in case of emergency, the public health or safety should so require.

b) - The legal debt margin is the City's available borrowing authority under state finance statutes and is calculated by subtracting the net debt applicable to the legal debt limit from the legal debt limit.

**CITY OF HENDERSON, KENTUCKY  
DEMOGRAPHIC STATISTICS  
LAST TEN FISCAL YEARS**

<b>Fiscal Year</b>	<b>(a) Population</b>	<b>(b) Personal Income (thousands of dollars)</b>	<b>(b) Per Capita Income</b>	<b>(c) Median Age</b>	<b>(d) School Enrollment</b>	<b>(b) Unemployment Rate</b>
2001	27,407	\$ 661,660	\$ 24,142	36.7	7,277	5.4%
2002	27,447	697,181	25,401	36.7	6,827	5.2%
2003	27,502	698,578	25,401	36.7	6,818	6.0%
2004	27,542	698,355	25,356	37.0	6,638	4.4%
2005	27,666	725,735	26,232	37.0	6,767	5.5%
2006	27,666	725,735	26,232	37.0	6,861	5.3%
2007	27,768	728,410	26,232	37.0	6,858	4.8%
2008	27,768	784,696	28,259	37.0	6,893	5.3%
2009	27,933	822,180	29,434	36.5	6,876	11.0%
2010	27,952	873,919	31,265	38.2	6,895	10.2%

**Sources:**

- a) - Population Division, U.S. Census Bureau
- b) - Workforce Kentucky
- c) - U.S. Census Bureau
- d) - Henderson County Board of Education



**CITY OF HENDERSON, KENTUCKY  
PRINCIPAL EMPLOYERS  
LAST FIVE FISCAL YEARS**

Employer	2006 (a)			2007			2008			2009			2010		
	Rank	Payroll Tax	Percentage of Total Payroll Tax	Rank	Payroll Tax	Percentage of Total Payroll Tax	Rank	Payroll Tax	Percentage of Total Payroll Tax	Rank	Payroll Tax	Percentage of Total Payroll Tax	Rank	Payroll Tax	Percentage of Total Payroll Tax
Methodist Hospital	1	\$ 164,393	11.61%	1	\$ 406,693	9.75%	1	\$ 433,727	10.34%	1	\$ 468,120	11.65%	1	\$ 467,415	11.84%
Henderson County Schools	3	121,608	8.59%	2	278,054	6.66%	2	297,595	7.10%	2	306,117	7.62%	2	321,754	8.15%
Gibbs	4	83,475	5.89%	4	201,997	4.84%	4	167,912	4.00%	4	152,176	3.79%	3	162,702	4.12%
City of Henderson	5	47,119	3.33%	5	115,414	2.77%	5	118,877	2.84%	5	124,433	3.10%	4	161,027	4.08% (b)
Dana	2	111,294	7.86%	3	275,966	6.61%	3	249,417	5.95%	3	171,968	4.28%	5	133,290	3.38%
Big Rivers	8	26,063	1.84%	8	66,309	1.59%	6	76,604	1.83%	6	84,017	2.09%	6	107,244	2.72%
Wal-Mart	18	-	0.00%	11	-	0.00%	8	70,954	1.69%	7	79,145	1.97%	7	80,982	2.05%
Redbanks	13	-	0.00%	9	63,355	1.52%	10	64,275	1.53%	8	69,684	1.73%	8	73,480	1.86%
State of Kentucky	17	-	0.00%	14	-	0.00%	12	-	0.00%	9	64,760	1.61%	9	68,515	1.74%
Henderson Community College	9	23,867	1.69%	10	61,073	1.46%	9	65,096	1.55%	10	64,076	1.60%	10	64,660	1.64%
Sunspring America	6	44,200	3.12%	6	100,056	2.40%	7	75,034	1.79%	13	-	0.00%	42	-	0.00%
Vincent Plastics	7	24,779	1.75%	7	71,215	1.71%	11	-	0.00%	14	-	0.00%	(c)	-	0.00%
Spartan Staffing	10	22,830	1.61%	22	-	0.00%	15	-	0.00%	24	-	0.00%	17	-	0.00%
<b>Total</b>		<b>\$ 669,628</b>	<b>47.28%</b>		<b>\$ 1,640,132</b>	<b>39.31%</b>		<b>\$ 1,619,491</b>	<b>38.63%</b>		<b>\$ 1,584,496</b>	<b>39.44%</b>		<b>\$1,641,069</b>	<b>41.58%</b>

**Note:**

All businesses within the City are required to withhold a 1% payroll tax from all employees.  
The City of Henderson implemented the 1% payroll tax in fiscal 2006.  
Information prior to fiscal 2006 is not available in this format.

- (a) The data is based on receipts from January through June 2006.
- (b) Starting in fiscal 2010 the City's remittance included Henderson Water Utility
- (c) The entity has ceased operations in Henderson

Source: City of Henderson Occupational License Office

**CITY OF HENDERSON, KENTUCKY**  
**FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES by FUNCTION / PROGRAM**  
**LAST TEN FISCAL YEARS**

Function / Program	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>General Government</b>										
Administration	13.00	14.00	15.00	15.00	15.00	12.00 b	11.00	22.00 d	22.00	22.50 e
Finance	31.00	30.00	31.00	31.00	31.00	31.00	33.00 c	32.00	32.00	33.50 e
<b>Police</b>										
Officers	57.50	57.50	57.50	57.50	57.50	57.80	57.80	57.80	57.55	61.75 f
Civilians	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
9-1-1 Communications	11.50	13.50	13.50	14.50	14.50	14.20	15.20	15.20	15.45	15.25
<b>Fire</b>										
Firefighters	58.00	58.00	58.00	58.00	58.00	58.00	58.00	58.00	58.00	58.00
Civilians	6.00	6.00	7.00	7.00	7.00	9.00 b	9.00	2.00 d	2.00	2.00
<b>Parks and Recreation</b>	13.00	13.00	14.00 a	14.00	14.00	14.00	14.00	13.00	13.00	13.00
<b>Mass Transit</b>	12.00	11.00	12.00	12.00	12.00	12.00	12.00	13.00	14.00	14.00
<b>Gas System</b>	29.00	29.00	29.00	30.00	30.00	30.00	27.00	28.00	28.00	28.00
<b>Sanitation</b>	21.25	22.25	20.75	18.50	18.50	18.50	18.50	18.50	18.50	18.50
<b>Cemetery</b>	4.00	4.00	5.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
<b>Public Way Improvement</b>	37.75	37.75	37.25	37.50	37.50	37.50	37.50	35.50 d	35.50	35.50
<b>TOTAL</b>	302.00	304.00	308.00	307.00	307.00	306.00	305.00	307.00	308.00	314.00

Source: Applicable Departments

- a) The City has added additional parks and recreational employees as the number of facilities increased.
- b) The City moved Community Development from Administration to Fire.
- c) With the passage of the new payroll/net profits tax, the City added a tax collector and moved the Switchboard from Administration
- d) The City moved Codes, Community Development, and Engineering to Administration and added an Assistant City Manager with Administrative Secretary.
- e) Two positions from Henderson Water Utility were moved to the City.
- f) The City received funding from the Community Oriented Policing Service for four police officers.

**CITY OF HENDERSON, KENTUCKY  
CAPITAL ASSET STATISTICS by FUNCTION / PROGRAM  
LAST TEN FISCAL YEARS**

<u>Function / Program</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Public Way Improvement</b>										
Miles of streets paved	111	111	111	111	111	113	113	113	113	113
Miles of sidewalks	73	73	73	73	73	73	73	73	73	73
<b>Wastewater System</b>										
Miles of sanitary sewers	151	151	151	151	206	185	205	205	203	205
Miles of storm sewers	136	136	136	136	136	136	136	136	136	136
Number of service connections	10,186	10,054	10,136	10,136	11,156	11,156	10,792	10,793	10,782	10,846
Maximum daily capacity of treatment in 1,000 gallons	19,000	19,000	19,000	19,000	19,000	19,000	19,000	19,000	19,000	19,000
<b>Water System</b>										
Miles of water mains	202	202	203	203	223	206	219	222	224	225
Number of service connections	10,807	10,566	10,649	10,649	11,156	11,156	10,792	10,793	10,782	10,846
Number of fire hydrants	1,082	1,082	1,087	1,087	939	939	988	1,007	1,020	1,030
Maximum daily capacity of plant in 1,000 gallons	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000
<b>Electric System</b>										
Miles of transmission and primary distribution	206	206	206	206	206	208	208	208	208	208
Number of distribution stations	7	7	7	7	7	7	7	7	7	7
<b>Gas System</b>										
Miles of mains	216	216	216	234	236	241	243	244	245	247
Miles of service lines	*	*	*	128	129	129	129	129	129	130
Number of meters	10,158	10,158	10,158	10,150	10,095	10,030	10,008	10,000	9,652	9,532
<b>Parks and Recreation</b>										
Park acreage	205	205	205	210	210	210	210	210	210	210
Swimming pools	1	1	1	1	1	1	1	1	1	1
Tennis courts	14	14	14	14	14	14	14	14	14	14
Baseball fields	16	16	16	16	16	17	17	16	16	16
Golf courses	1	1	1	1	1	1	1	1	1	1
Soccer fields	4	4	4	4	4	4	4	4	4	4
Walking trails	2	2	2	2	2	2	2	2	2	2
Disc golf holes (a)	-	-	-	-	-	-	-	-	9	18

Source: Applicable Departments

(a) The City added 9 holes of disc golf in fiscal 2009 and expanded it to 18 holes in fiscal 2010.

\* - Data not available

**CITY OF HENDERSON, KENTUCKY  
OPERATING INDICATORS by FUNCTION / PROGRAM  
LAST TEN FISCAL YEARS**

<b>Function / Program</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Police</b>										
Physical arrests	5,121	6,195	4,096	5,776	3,827	3,696	3,759	3,793	3,519	3,183
Traffic violations	8,200	5,539	5,304	3,932	2,166	3,086	2,697	2,073	1,458	2,315
Parking violations	7,520	4,692	3,754	5,870	5,746	5,195	3,867	4,492	4,387	2,425
Calls for service	34,548	32,288	29,301	29,179	24,525	25,987	23,600	22,335	17,658	18,582
<b>Fire</b>										
Number of calls answered	1,862	1,715	1,642	1,753	1,964	1,831	1,995	1,938	2,142	1,972
Number of inspections performed	262	235	109	18	604	709	1,238	1,210	781	733
<b>Mass Transit</b>										
Number of routes	*	*	*	*	*	*	5	5	5	5
Fixed Route Passengers	*	*	*	*	*	*	101,683	108,817	121,058	114,154
Para transit Passengers	*	*	*	*	*	*	16,653	17,529	17,298	15,736
Wheelchair Usage	*	*	*	*	*	*	6,728	4,900	4,758	4,729
Miles of Service	*	*	*	*	*	*	202,885	216,852	222,297	227,937
<b>Wastewater System</b>										
Average daily treatment in 1,000 gallons	9,200	10,700	9,800	9,800	9,800	8,800	10,185	9,970	9,648	9,506
<b>Water System</b>										
Average daily consumption in 1,000 gallons	11,500	11,250	11,836	11,836	11,836	10,500	10,469	8,316	8,034	7,847

Source: Applicable Departments

\* - Data not available

**Case No. 2019-00269**  
**Attachment 1 to BREC 1-31**  
**Pages 134**



**CITY OF HENDERSON, KENTUCKY  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011**



**Atkinson Park River Walk  
Betty Smithhart, Photographer**



**CITY OF HENDERSON, KENTUCKY**  
**COMPREHENSIVE ANNUAL FINANCIAL**  
**REPORT**

**For the Fiscal Year Ended June 30, 2011**



**Prepared by the City of Henderson**  
**Finance Department**

**CITY OF HENDERSON, KENTUCKY  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 For the Fiscal Year Ended June 30, 2011**

---

**TABLE OF CONTENTS**

	<b>Page</b>
<b>INTRODUCTORY SECTION</b>	
Letter of Transmittal .....	1
GFOA Certificate of Achievement .....	9
Organizational Chart .....	10
List of Elected and Appointed Officials .....	11
<b>FINANCIAL SECTION</b>	
Independent Auditors' Report.....	12
Management's Discussion and Analysis .....	14
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	26
Statement of Activities .....	27
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	28
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets .....	29
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	30
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	31
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund .....	32
Statement of Net Assets – Proprietary Funds .....	33
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds .....	34
Statement of Cash Flows – Proprietary Funds.....	35
Statement of Fiduciary Net Assets – Fiduciary Funds.....	36
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.....	37
Notes to the Financial Statements.....	38
Required Supplementary Information:	
Schedules of Funding Progress .....	78
Schedules of Employer Contributions .....	79
Nonmajor Governmental Funds:	
Nonmajor Governmental Funds – Fund Descriptions .....	80
Combining Balance Sheet – Special Revenue Funds .....	81
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Special Revenue Funds .....	82

Continued



Schedules of Revenues, Expenditures, and Changes in Fund

Balances – Budget and Actual:

Cemetery Fund.....	83
Public Way Improvement Fund .....	84
Canoe Creek Fund.....	85
Henderson Area Rapid Transit Fund .....	86
Emergency Communications Fund.....	87
Community Development Block Grant Fund .....	88
HOME Fund.....	89
Police Investigation Fund .....	90
Justice Assistance Grant Fund .....	91
Debt Service Fund.....	92
Capital Projects Fund.....	93

**STATISTICAL SECTION**

Statistical Section Contents.....	94
General Information.....	95
Net Assets by Component.....	98
Changes in Net Assets .....	99
Fund Balances of Governmental Funds .....	102
Changes in Fund Balances of Governmental Funds .....	103
General Governmental Tax Revenue by Source.....	104
Assessed Value and Actual Value of Taxable Property .....	105
Detail of Assessed Value and Estimated Actual Value of Taxable Property .....	106
Property Tax Rates - Direct and Overlapping Governments .....	107
Ad Valorem Tax Rates – Direct and Overlapping Governments .....	108
Top Ten Taxpayers .....	109
Property Tax Levies and Collections.....	110
Natural Gas Volume by Customer Type.....	111
Natural Gas Sold by Customer Type .....	112
Natural Gas Rates – Residential Customers .....	103
Direct and Overlapping Governmental Activities Debt.....	114
Pledged-Revenue Coverage – Water & Sewer and Electric Commissions .....	115
Ratios of Outstanding Debt by Type .....	116
Ratios of General Bonded Debt Outstanding and Legal Debt Margin .....	117
Demographic Statistics .....	118
Principal Employers.....	119
Full-time Equivalent City Government Employees by Function / Program.....	121
Capital Asset Statistics by Function / Program.....	122
Operating Indicators by Function / Program .....	123

## **INTRODUCTORY SECTION**

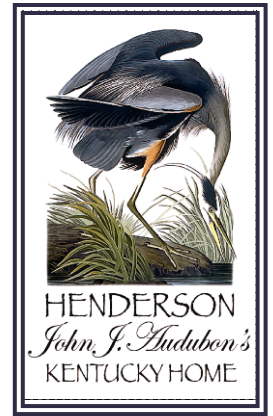


Steve Austin, Mayor

Commissioners:  
William M. Farmer  
Robert M. Mills  
Robert N. Pruitt  
Alan C. Taylor

# The City of Henderson

P.O. Box 716  
Henderson, Kentucky 42419-0716



Russell R. Sights, City Manager  
William L. Newman, Jr., Assistant City Manager  
Joseph E. Ternes, Jr., City Attorney  
Carolyn Williams, City Clerk

December 13, 2011

Honorable Mayor,  
City Commissioners, and  
Citizens of the City of Henderson, Kentucky

We present to you the Comprehensive Annual Financial Report of the City of Henderson for the fiscal year ended June 30, 2011. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the City of Henderson. To the best of our knowledge and belief, the enclosed report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

## FORMAT

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this transmittal letter, the City's organizational chart, and a list of principal officials. The Financial Section includes the independent auditors' report, management's discussion and analysis, basic financial statements, and required supplementary information. The Statistical Section includes selected unaudited financial and demographic information, which is generally presented on a multiyear basis.



## LEGAL REQUIREMENTS

This report has been prepared pursuant to, and in compliance with, the statutes of the Commonwealth of Kentucky, which require an annual audit of books of account, financial records, and transactions of the City. In addition to meeting the requirements set forth by state statute, the audit is intended to meet the requirements of the federal Single Audit Act and related *OMB Circular A-133*. The independent auditors' report on the basic financial statements is included in the financial section of this report. The independent auditors' report related specifically to the Single Audit Act is published separately. Those wishing to receive the Single Audit Act Report should direct their request to the City's Finance Director. Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

As demonstrated by the statements and schedules included in this report, the City continues to fulfill its responsibility for providing sound financial reporting.

## REPORTING ENTITY

The City provides a wide range of municipal services and includes, for financial reporting purposes, all entities involved in the provision of these services and for which, in the opinion of the City, the City is financially accountable. The City is financially accountable for legally separate organizations if City officials appoint a voting majority of an organization's governing body, and the City is either able to impose its will on that organization, or there is potential for the organization to provide specific financial benefits to, or to impose financial burdens on, the City.

The City has performed a comprehensive evaluation of its financial reporting entity in accordance with Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, and based on the foregoing criteria, has included the following separate organizations as discretely presented component units within the City's basic financial statements.

*Henderson Municipal Power and Light (HMPL)*  
*Henderson Water Utility (HWU)*

The City provides a full range of municipal services, including public safety (police, fire, and emergency communications), street maintenance, sanitation, cemetery, drainage, landfill, transit, recreation, and general administrative services.

## **ACCOUNTING SYSTEM**

The Finance Department is responsible for providing to the City all financial services, including accounting and reporting, accounts payable, risk management, cash and investment management, debt management, budgeting, and purchasing.

## **INTERNAL CONTROLS**

The City's management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse, and to ensure that adequate accounting information is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefit likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal and state financial assistance, the City also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by the management of the City and by the City's auditors.

As a part of the City's audit, tests were made to determine the adequacy of the internal control structure as well as to determine that the City has complied with applicable laws and regulations. The results of the City's audit for the fiscal year ended June 30, 2011, disclosed no instances of material weaknesses in the internal control structure or significant violations of applicable laws and regulations.

## **BUDGETARY CONTROLS**

In addition to internal controls, the City maintains budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriation and budget ordinance approved by the Board of Commissioners. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the departmental level within an individual fund. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control.

## **ECONOMIC CONDITION AND OUTLOOK**

Despite a global recession with high unemployment, depressed property values, and an increase in demands on social programs, the City of Henderson continues to maintain a positive economic outlook. By utilizing cash reserves, the city has been able to maintain service levels without any tax increases.

General Fund reserves decreased slightly from approximately \$7.03 million at June 30, 2010 to \$7.00 million at June 30, 2011. The reserves consisted of cash, investments, receivables, and \$300,000 of land held for resale on Starlite Drive. The \$30,573 decrease in General Fund reserves was primarily the result of higher property taxes collections offset by even higher health insurance costs. The General Fund will have a cash and investment balance, net of cash due to component units, entering the fiscal year equal to 3.3 months operating expense and transfers to other funds. The Gas Fund's cash and investment balance will be equal to 2.4 months operating expense. The City has reached its goal of establishing a balance of cash and investments equal to 3 months worth of operating expense in General Fund and is working to meet that same goal in the Gas Fund.

The City continues to play an active role in the Public Energy Authority of Kentucky (PEAK); a group the City co-founded in the 1990's. The 1998 pre-pay deal concluded in January 2009. The Gas Fund received nearly \$831,000 in residual revenue from the pre-pay venture. As a result of the annual consumption during the fiscal year, \$219,684 was returned to Henderson which is an increase of \$134,670 from the \$85,014 that was returned in fiscal 2010.

For fiscal years 2004 through 2009, the Gas Fund had losses on average of \$632,000. For fiscal 2010, there was a gain of \$75,138 and for fiscal 2011 there was a loss of \$247,780. The average for the last two years was a loss of \$86,321. On May 12, 2009, the Henderson Board of Commissioners increased the monthly base rates from \$4.50 to \$12.00 and the rate per 1,000 cubic feet of natural gas from \$1.85 to \$2.25. The rate increase will help reduce the amount of reserves used by the Gas Fund to meet operations. Staff is currently evaluating other ways to remain competitive.

Staff strongly recommends that once all funds have been stabilized, the City consider "cost of living adjustments" in rates periodically to avoid large and excessive increases in the future. Stagnant revenues with increasing costs of providing services is a recipe for disaster that can be avoided (or at least mostly offset) by smaller, incremental increases that do not have significant effects on taxpayers abilities to keep up.

From fiscal 1998 through 2005, the City experienced a significant increase in health costs with claims increasing from \$2.47 million in fiscal 1998 to \$5.12 million in fiscal 2005. The 107 percent increase over the seven years equates to a compounded annual increase in costs of nearly 11 percent. In December 2005, the City Board of Commissioners adopted significant modifications to the City's health plan to help control the increasing cost of medical coverage. In addition to higher deductibles, office co-payments, and prescription drug co-payments, the program incorporated a "consumerism" aspect called Health Reimbursement Arrangement (HRA). These HRA accounts reimburse employees for health insurance plan deductible and co-insurance expenses up to the amount in an individual participant's account balance. Every year, the HRA Plan will credit each employee in the amount of \$250 for a single participant and \$500 for a family coverage participant in the health insurance plan. At the end of a plan year, any unused benefits in an HRA Plan account will be carried forward for use in the subsequent year.

The changes appear to have had a positive effect on the fund with the City's medical care costs at or below national averages. From fiscal 2006 to fiscal 2009, the cost of health insurance increased by \$24,229 or 0.6% or an annualized increase of \$6,057 or 0.015%.

However, for fiscal years 2010 and 2011, the City spent \$6.40 million and \$6.2 million, respectively, on health claims. By the end of fiscal 2011 there had been an increase of \$1.91 million or 44.1% from the \$4.29 million spent in 2009. During this two year period, there were several large claims that were applied against the City's stop loss policy.

In August 2011, the City Board of Commissioners adopted more significant modifications to the City's health plan. In addition to higher deductibles, the program incorporated premiums for all employees. Whereas in the past only employees hired after January 1, 2006 paid dependent or family premiums, starting January 1, 2012 all employees will pay regardless of their hire date. The plan will require \$50 per month for employee only coverage, \$100 per month for employee plus one dependent, or \$150 for employee plus family.

The plan also requires spouses of employees who are eligible for coverage through their own employers are ineligible for coverage under the City's health plan unless they are enrolled in their own employers' coverage. Employees that elect to waive the City health insurance coverage on themselves or on their spouse will be eligible for a waiver benefit. The benefit can be up to \$2,000 per year and can be used in a flexible spending account, in a health reimbursement arrangement, used to reduce the employee's health insurance premium, or a combination of any two of the above options.

From a capital projects aspect, 2011 was a busy year with 2012 expected to have more construction projects. Some projects and improvements of note include:

*Riverfront Development:*

The City has submitted to the State a proposed budget for the expenditure of \$8.6 million in riverfront development funds. Among the projects scheduled in the first phase is the extension of the existing River walk from Red Banks Park to 12<sup>th</sup> Street; a contribution to Henderson Water Utility for improvements to its downtown infrastructure; major improvements to the riverfront tennis complex; and riverbank stabilization. The State of Kentucky has given its approval for the tennis complex and bids were awarded in fiscal 2012.

*City of Henderson and Henderson County Joint Ventures:*

In 2007, the Board of Commissioners along with the Fiscal Court jointly approved the creation of a Flood Mitigation Board to oversee the expenditure of funds dedicated to addressing the flooding problems caused by Canoe Creek that have plagued the City for many years. \$1.25 million in State funding was secured to cover costs associated with Phase I of this project. This project is nearing its completion with final work expected to be done by the end of calendar year 2011.

The City and County were awarded an additional \$1.35 million to be used in Phase II of flood mitigation. The grant is from the State of Kentucky and does require a local match from the City and County. It will be administered by the Flood Mitigation Board. The Board is also engaged in a “modeling” project that will allow future ideas to be tested using advanced software to see what potential benefit these ideas might generate.

In August 2008, the City of Henderson and Henderson County signed a new inter-local agreement for the disposal of solid waste. The agreement provides for all Henderson County residents to use the transfer station and the construction demolition and debris landfill free of charge for permitted waste. The agreement also provides that the County make an annual lump sum payment as its financial obligation to the City for County residents using these services and to supplement the City’s curbside recycling program. The term of the agreement is for an initial period of five years beginning July 1, 2008 and ending June 30, 2013, with four five year automatic renewal options.

The City of Henderson and Henderson County are also working together on the recycling programs throughout Henderson County. This will include cardboard, aluminum, and the mulching of leaves, branches, and yard clippings.

#### *Capital Building Projects:*

The City has started the construction of Fire Station #4 on South Green Street. Vectren Corp. purchased the property where the current station is located for the installation of a 345,000-volt electrical transmission line. The new location on South Green is a more suitable location that still provides fire protection coverage for the industrial area while increasing coverage for residential property in the southwest area of the community.

In fiscal 2009, the City completed construction of a 220 crypt garden mausoleum. The mausoleum complements the existing structures and setting. Since its opening, there have already been 5 double and 9 single crypts sold and its construction has generated increased interest in the remaining crypts in the older mausoleums.

When purchasing the land for the new Starlite Station, the City purchased the entire 8.5 acre parcel so that it could control the disposition and development of additional acreage and assure compatible uses for the land in consideration of neighborhood concerns. The City has sold two of the three parcels of land and anticipates disposing of the other parcel in the near future.

#### *Downtown Infrastructure Rehabilitation:*

Henderson Water Utility (HWU) has embarked on a massive \$40 million dollar set of projects. These projects when completed will: 1) replace much of the old infrastructure in a sixteen block space in the downtown area; 2) separate much of the combined wastewater and storm water system; 3) increase the amount of wastewater processed through the installation of new gravity sewer lines; and 4) increase the capacity and efficiency of the processing of wastewater at the North Wastewater Plant. These projects are part of HWU’s long term control plan as mandated



by the Environmental Protection Agency and the Kentucky Environmental & Public Protection Cabinet.

Initial construction on the downtown phase began in July 2010 with all underground and surface work scheduled to be completed by the end of calendar year 2011. Final repaving of all damaged streets is scheduled to be completed during the third quarter of 2012. The total cost of this downtown phase is anticipated to be \$13.9 million. The completion of all projects, as mandated by Consent Judgment, is required to be no later than December 21, 2017.

Henderson Municipal Power and Light (HMPL) utility is also improving its infrastructure downtown and in the surrounding area. In October 2009, the utility finished the rebuild of Substation 6-1; in September 2011, completed the 5<sup>th</sup> Street double circuit rebuild; and will complete the rebuild of Substation One by December 2011. Substation 5-1 rebuild will start in December and should be completed by April 2012. These rebuilds include the replacement of the existing static wire, insulators, conductors, and power poles. Replacing the current conductor with a larger one will allow HMPL to increase the capacity of the sub-tie line thereby improving system reliability for customers.

After the many recent improvements to both the interior and exterior of the Henderson Area Rapid Transit (HART) garage, the City, with funds provided by the America Recovery and Reinvestment Act, renovated the break room. In addition to the break room, the grant allowed HART to purchase a new hydraulic lift for the mechanics and purchase a diesel generator for use during power outages. The garage floor was recoated and paint was applied to the interior of the building and to the exterior perimeter fence.

#### *External Economic Development:*

From a residential growth perspective, a new development on US 60 East consisting of nearly 161 acres could eventually add approximately 400 home lots. This, in combination with other developments could add nearly 500 residential units to the City's base. However, with the current housing situation, the development could be delayed until the economy improves.

During fiscal 2011, the City successfully completed a seventh year of the World Changers program, in conjunction with the North American Mission Board, which provided renovations to 22 homes in the community. Also, the City successfully secured grant funds for the HOME Focus that included the construction of one new home, funding for another new home constructed with CDBG/private funds, Shelter for Women and Children, and police public services.

As with many other metropolitan areas, the economic dependency and interrelationship of the entire region is important as evidenced by the number of nonresident workers who commute daily to work in Henderson County and the equivalent number of Henderson County residents who commute to work outside of the county. Consequently, economic activity in the entire Kentucky, Indiana, and Illinois tri-state area – no matter where it occurs - is of benefit to the Henderson local economy.

It is a very exciting time for the community. Once all of the riverfront and downtown improvements are completed, the City will be well prepared for the future. The citizens, businesses, and employees of the City of Henderson have managed to endure a very trying time that not only has affected the local economy but one that has tested the global economy.

### **GFOA CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Henderson for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010. This was the twelfth year in a row that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **ACKNOWLEDGEMENTS**

The Board of Commissioners fulfills a critical function in their approval and oversight of the budget and the financial affairs of the City. We thank the Board of Commissioners for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

*Russell Sights*

/s/

Russell R. Sights  
City Manager

*Robert Gunter*

/s/

Robert Gunter  
Finance Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Henderson  
Kentucky

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

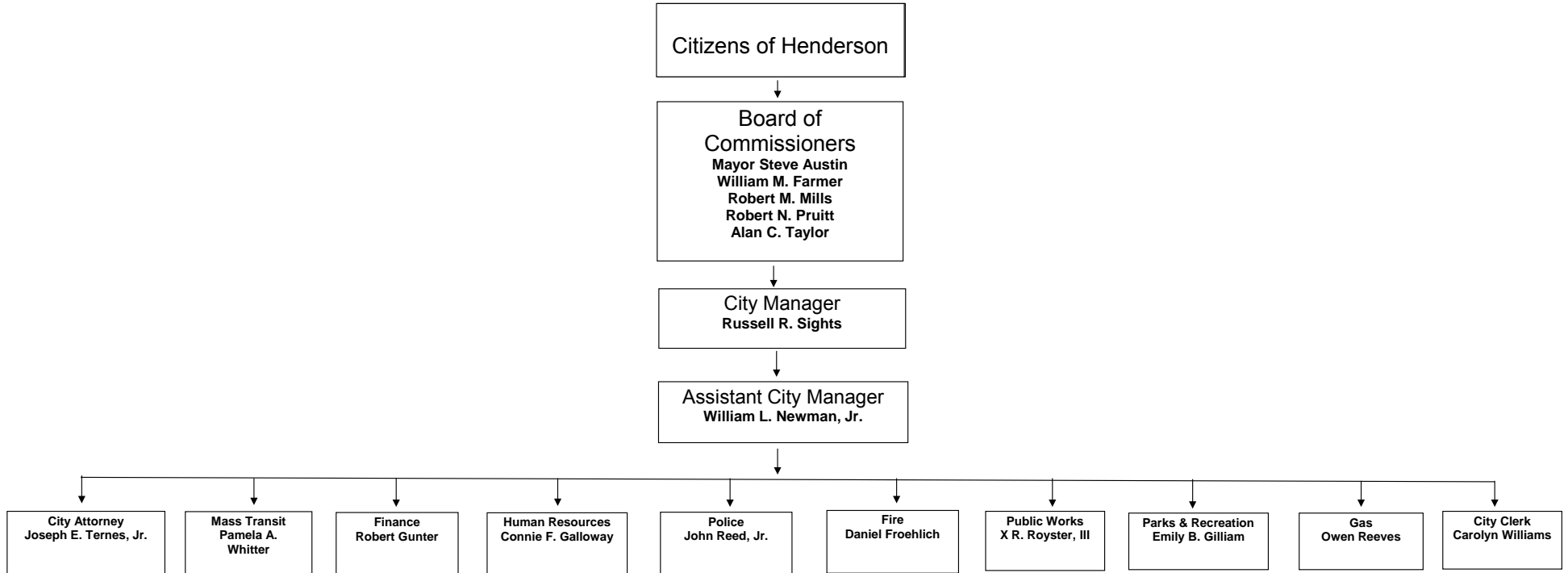
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

**CITY OF HENDERSON, KENTUCKY  
Organizational Chart**



**CITY OF HENDERSON, KENTUCKY  
LIST OF ELECTED AND APPOINTED OFFICIALS**

**Elected Officials**

Mayor	Steve Austin
Commissioner	William M. Farmer
Commissioner	Robert M. Mills
Commissioner	Robert N. Pruitt
Commissioner	Alan C. Taylor

**Appointed Officials**

City Manager	Russell R. Sights
Assistant City Manager	William L. Newman, Jr.
City Attorney	Joseph E. Ternes, Jr.
City Clerk	Carolyn Williams
Finance Director	Robert Gunter
Fire Chief	Daniel Froehlich
Gas System Director	Owen Reeves
Human Resources Director	Connie F. Galloway
Mass Transit Director	Pamela A. Whitter
Parks & Recreation Director	Emily B. Gilliam
Police Chief	John Reed, Jr.
Public Works Director	X R. Royster, III

## **FINANCIAL SECTION**



**MYRIAD** CPA  
GROUP  
Audit ■ Tax ■ Advisory

300 First Street Henderson, Kentucky 41419-0596

270.827.1577

www.myriadcpa.com

## **Independent Auditors' Report**

The Honorable Steve Austin, Mayor  
and the Board of Commissioners  
City of Henderson, Kentucky

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 the City of Henderson, Kentucky, as of and for the fiscal year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the City of Henderson, Kentucky's management. Our responsibility is to express opinions on these basic financial statements based on our audit. . We did not audit the financial statements of the City of Henderson Water & Sewer Commission, whose financial statements reflect assets of \$66,272,868 and revenues of \$16,107,888 for the year then ended. These financial statements were audited by other auditors whose report thereon dated November 18, 2011 has been furnished to us, and our opinion on the general purpose financial statements insofar as it relates to the amounts included for the City of Henderson Water & Sewer Commission in the component units column, is based on the report of other auditors.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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 the City of Henderson, Kentucky as of June 30, 2011, and the respective changes in financial position and cash flows where applicable, thereof and the budgetary comparison schedule for the general fund, for the fiscal year then ended, in conformity with United States generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 17, 2011, our consideration of the City of Henderson, Kentucky's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison schedule are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was performed for the purpose of forming opinions on the financial statements taken as a whole, that collectively comprise the City of Henderson, Kentucky's basic financial statements. The introductory section, combining financial statements, statistical section and other schedules listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Henderson, Kentucky. The combining financial statements and budgetary comparison schedules have been subjected to auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section of this report and the statistical section of this report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Myriad PA Group, LLC". The signature is written in a cursive, flowing style.

Henderson, Kentucky  
November 17, 2011



**Management's Discussion and Analysis  
(Required Supplementary Information)**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Henderson's Management's Discussion and Analysis provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. It should be read in conjunction with the transmittal letter and the financial statements provided in this document.

### **Financial Highlights**

- Primary Government assets exceeded liabilities by \$33.3 million at the close of fiscal 2011. Of this amount, \$8.3 million (unrestricted net assets) may be used to meet the City's ongoing obligations.
- City governmental funds reported combined ending fund balances of \$19.1 million. Of this total, \$3.5 million is unassigned.
- In the City's business-type activities, income from operations decreased from \$1,244,049 in fiscal 2010 to \$937,989 in fiscal 2011.
- The City's General Fund ended the year with a fund balance of \$6,998,098 million, a small decrease of \$30,573 or 0.4% from fiscal year 2010's balance of \$7,028,671.
- In the past five years, the General Fund's fund balance has increased 169.2% from \$2.6 million in 2006 to \$7.0 million in 2011.

### **Overview of Financial Statements**

This discussion and analysis serves as an introduction to the City's basic financial statements, which consist of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. Other supplemental information in addition to the basic financial statements is also included.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The City of Henderson ended fiscal 2011 with \$33,258,937 in net assets a decrease of \$927,089 from the previous year. Governmental funds net assets totaled \$26,541,238 a decrease of \$762,100, and the business-type funds had net assets of \$6,717,699, a decrease of \$164,989.

The governmental funds had an increase in fund balance of \$13,029,655 with the capital projects fund increasing \$13,052,057. Most of the increase was due to restricted assets applicable to Henderson Water Utility (HWU) for the issuance of debt on its behalf. Of the \$444,810 spent in Capital Projects Fund, \$73,497 or 16.5% was related to the riverfront and \$343,665 or 77.3% was related to the new fire station #4.

The General Fund had to use reserves in the amount of \$30,573 or 0.4% of the fund balance. Since fiscal 2006, the fund's balance has increased 169.2%. Based on the 2012 fiscal year's

budgeted expenditures, the General Fund has approximately 3.3 months worth of reserves. The City has assigned \$938,500 of the fiscal 2011 fund balance for an estimated fiscal 2012 budget deficit leaving \$3,836,690 unassigned. If the City adopts a fiscal 2013 budget in the same amount as fiscal 2012, it would equate to 2.9 months worth of reserves.

Due to an increase in personnel and supplies costs, the Gas Fund had expenses in excess of revenues in the amount of \$247,780 and it ended the fiscal year with net assets of \$7,307,591. Since 2006, the cumulative change in the net assets for the Gas Fund has been a decrease of \$2.3 million or 23.7%. Based on the 2012 fiscal year's budgeted expenditures and net of invested in capital assets, the Gas Fund now has approximately 2.5 months worth of reserves.

The Sanitation Fund showed a slight increase in fund balance. For fiscal 2011, revenues exceeded expenses in the amount of \$82,791 and the fund ended the year with net liabilities of \$589,892.

## **Government-wide Financial Statements**

Government-wide financial statements provide readers with a broad overview of City finances in a manner similar to private sector businesses.

The Statement of Net Assets provides information on all City assets and liabilities, with the difference between assets and liabilities reported as net assets. Increases or decreases in the net assets over time are one indicator of whether the City's financial health is improving, stagnating, or deteriorating.

The Statement of Activities displays how the City's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The above statements separate the City functions primarily supported by taxes and intergovernmental revenues (governmental activities) from other City functions that are intended to recover all or a large portion of expenses through user fees and charges (business-type activities). City governmental activities include general government, public safety, public works, community development, and recreation. Business-type activities include natural gas and sanitation.

Government-wide financial statements include not only the City (the primary government) but also the legally separate Henderson Municipal Power & Light (HMPL) and Henderson Water Utility (HWU) for which the City is financially accountable (component units). Financial information for the component units is reported separately from the financial information presented for the primary government.

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over segregated resources for specific activities or objectives. Like other state and local governments, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. City funds are divided into three categories:

### **Governmental Funds**

Most of the City's basic services are reported in governmental funds, which focus on how money flows to and from those funds and the balances left at year-end that are available for spending. Essentially governmental funds are used to account for the functions reported as governmental activities in the government-wide financial statements.

The City of Henderson maintains twelve (12) individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, and Capital Projects Fund, which are considered to be major funds. Information for the other nine (9) governmental funds are combined into a single aggregated presentation and shown as Nonmajor Governmental Funds. Individual fund information for each of these nonmajor governmental funds is provided in combining statements later in this report.

### **Proprietary Funds**

Proprietary funds provide the same kind of information as government-wide financial statements, but in greater detail. Proprietary fund financial detail is presented in the form of combining statements in this report. The City of Henderson maintains two different types of proprietary funds: enterprise and internal service.

#### **Enterprise Funds**

Enterprise funds report the same functions presented as business-type activities in the government-wide financial statements. Enterprise funds are used to account for operations that are managed in a manner similar to private business enterprises where the cost to provide services to the public is funded through user fees. Another characteristic of the enterprise fund is the periodic determination of revenues, expenses and/or net income that is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The City has two (2) enterprise funds: Gas and Sanitation. There are also two component units that provide electricity and water/sewer services. These two component units (Henderson Municipal Power & Light and Henderson Water Utility) each has its own board of directors and are enterprise funds. Except for the Sanitation Fund, each of these enterprise funds is self-supporting and does not receive a subsidy from the General Fund.

## **Internal Service Funds**

Internal service funds are used to accumulate and allocate costs internally among various functions. The City uses one internal service fund to account for its self-funded health insurance. The Health Insurance Fund has been included within governmental activities in the government-wide financial statements because this fund predominantly benefits governmental functions versus business-type functions.

## **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government and are not reflected in the government-wide financial statements because those resources are not available to support City programs. The City's three (3) fiduciary funds (Civil Service Pension, Police & Fire Pension, and the Health Reimbursement Arrangement Plan) are included in this report.

## **Notes to the Financial Statements**

Notes to the Financial Statements provide additional information needed to fully understand the government-wide and fund financial statements.

## **Other Information**

This report presents certain required supplementary information concerning the City's funding obligations of pension benefits, in addition to the basic financial statements and accompanying notes.

## **Government-Wide Financial Analysis**

The tables and charts on the next three pages provide a summary of the City's operations for the fiscal year ended June 30, 2011.

## City of Henderson – Changes in Net Assets Analysis of the City’s Operations

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 6,610,220	\$ 6,179,465	\$21,592,960	\$22,612,766	\$28,203,180	\$28,792,231
Operating grants	3,081,379	2,617,657	89,300	164,055	3,170,679	2,781,712
Capital grants	734,901	795,477	75,267	90,733	810,168	886,210
General revenues:						
Taxes	16,198,264	16,247,660	-	-	16,198,264	16,247,660
Investment income	86,572	88,136	103,022	108,889	189,594	197,025
Distributions from component units	<u>1,644,724</u>	<u>1,644,724</u>	<u>-</u>	<u>-</u>	<u>1,644,724</u>	<u>1,644,724</u>
Total revenues	<u>28,356,060</u>	<u>27,573,119</u>	<u>21,860,549</u>	<u>22,976,443</u>	<u>50,216,609</u>	<u>50,549,562</u>
<b>Expenses:</b>						
Administration	4,481,821	5,605,945	-	-	4,481,821	5,605,945
Finance	2,663,586	2,452,338	-	-	2,663,586	2,452,338
Mass transit	1,373,343	1,331,320	-	-	1,373,343	1,331,320
Parks & recreation	1,827,515	1,830,649	-	-	1,827,515	1,830,649
Public safety	12,171,884	11,631,711	-	-	12,171,884	11,631,711
Public works	5,342,349	5,134,823	-	-	5,342,349	5,134,823
Nondepartmental	2,024,182	1,881,343	-	-	2,024,182	1,881,343
Interest on long-term debt	439,480	306,503	-	-	439,480	306,503
Gas	-	-	18,002,896	19,015,757	18,002,896	19,015,757
Sanitation	-	-	2,816,642	2,607,748	2,816,642	2,607,748
Total expenses	<u>30,324,160</u>	<u>30,174,632</u>	<u>20,819,538</u>	<u>21,623,505</u>	<u>51,143,698</u>	<u>51,798,137</u>
Increase/(Decrease) before transfers	(1,968,100)	(2,601,513)	1,041,011	1,352,938	(927,089)	(1,248,575)
Transfers	<u>1,206,000</u>	<u>1,193,000</u>	<u>(1,206,000)</u>	<u>(1,193,000)</u>	<u>-</u>	<u>-</u>
Decrease in net assets	(762,100)	(1,408,513)	(164,989)	159,938	(927,089)	(1,248,575)
Net assets, beginning	<u>27,303,338</u>	<u>28,711,851</u>	<u>6,882,688</u>	<u>6,722,750</u>	<u>34,186,026</u>	<u>35,434,601</u>
Net assets, ending	<u>\$26,541,238</u>	<u>\$27,303,338</u>	<u>\$ 6,717,699</u>	<u>\$ 6,882,688</u>	<u>\$33,258,937</u>	<u>\$34,186,026</u>

Governmental activities: Governmental activities in the fiscal year decreased the City of Henderson’s net assets by \$762,100. Key elements of the decrease are as follows:

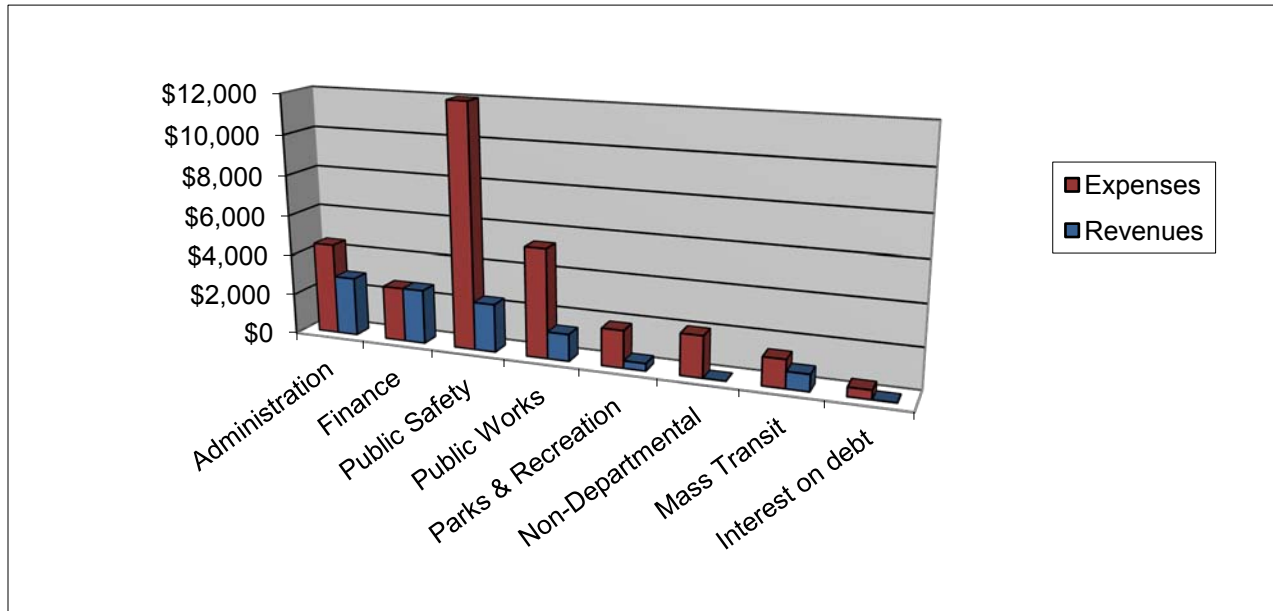
- The net changes in pension obligations were \$313,677.
- Reserves in the amount of \$124,697 were used in the Cemetery Fund.
- The Debt Service Fund had expenses in excess of revenues in the amount of \$501,520.
- The net changes in health insurance obligations were \$662,424.

## City of Henderson Net Assets

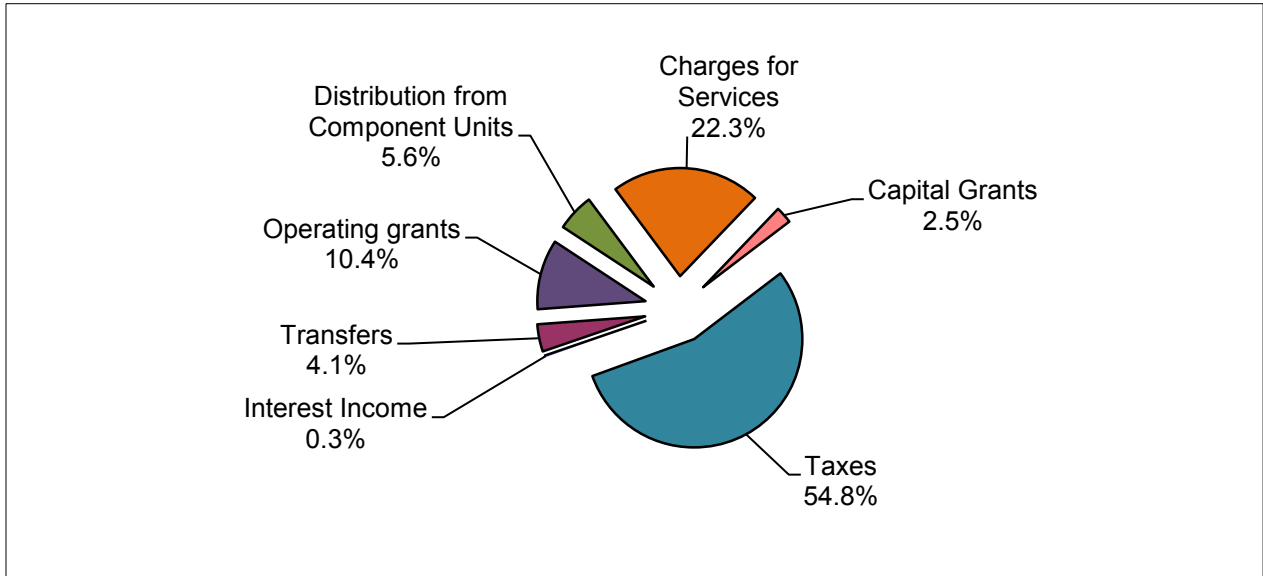
	Governmental Activities		Business-Type Activities		Total	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$22,848,833	\$10,395,155	\$ 9,164,888	\$ 9,407,147	\$32,013,721	\$19,802,302
Capital assets	27,966,912	29,856,754	3,045,705	3,097,074	31,012,617	32,953,828
<b>Total assets</b>	<b><u>\$50,815,745</u></b>	<b><u>\$40,251,909</u></b>	<b><u>\$12,210,593</u></b>	<b><u>\$12,504,221</u></b>	<b><u>\$63,026,338</u></b>	<b><u>\$52,756,130</u></b>
Long-term liabilities	\$19,652,806	\$ 7,461,223	\$ 3,400,000	\$ 3,400,000	\$23,052,806	\$10,861,223
Other liabilities	4,621,701	5,487,348	2,092,894	2,221,533	6,714,595	7,708,881
<b>Total liabilities</b>	<b><u>\$24,274,507</u></b>	<b><u>\$12,948,571</u></b>	<b><u>\$ 5,492,894</u></b>	<b><u>\$ 5,621,533</u></b>	<b><u>\$29,767,401</u></b>	<b><u>\$18,570,104</u></b>
Net assets:						
Invested in capital assets, net of related debt	\$21,669,525	\$22,333,017	\$ 3,045,705	\$ 3,097,074	\$24,715,230	\$25,430,091
Restricted for:						
Debt Service	924	706	-	-	924	706
Cemetery perpetual care	141,604	310,438	-	-	141,604	310,438
Law enforcement	85,826	-	-	-	85,826	-
Unrestricted	4,643,359	4,659,177	3,671,994	3,785,614	8,315,353	8,444,791
<b>Total net assets</b>	<b><u>\$26,541,238</u></b>	<b><u>\$27,303,338</u></b>	<b><u>\$ 6,717,699</u></b>	<b><u>\$ 6,882,688</u></b>	<b><u>\$33,258,937</u></b>	<b><u>\$34,186,026</u></b>

## Governmental Activities

### Expenses and Program Revenues – Governmental Activities (Thousands)

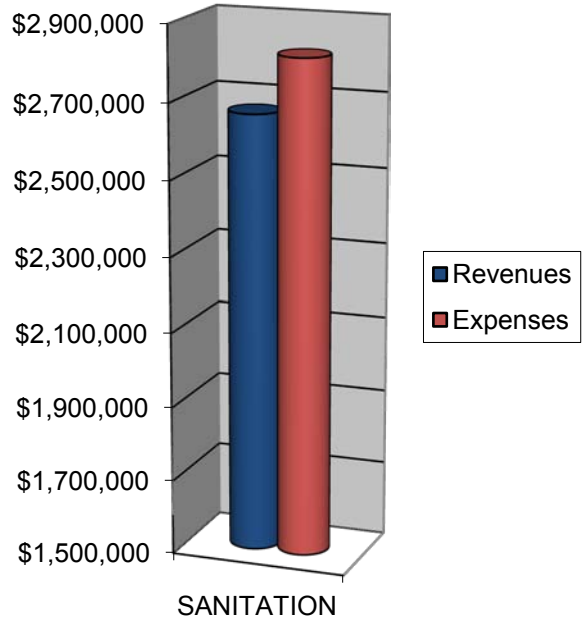
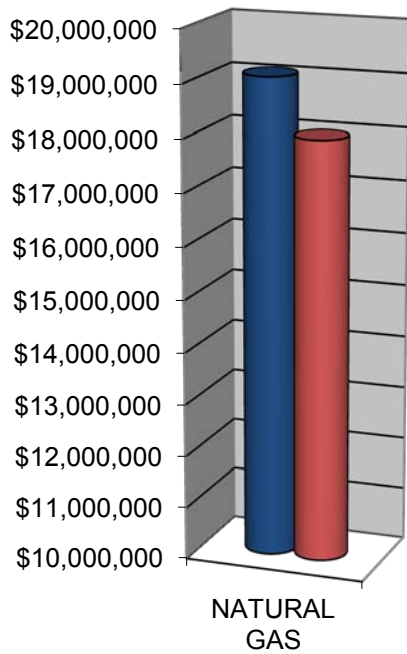


## Revenue by Source – Governmental Activities



## Business-Type Activities

### Expenses and Revenues – Business-Type Activities





## **Financial Analysis of the City's Funds**

The City of Henderson uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### **Governmental Funds**

At the end of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$19.14 million. Of this total, \$3.45 million (18.0%) was unassigned and available to be used in future years. Over 62.2% or \$11.9 million of the fund balance was restricted for debt, capital projects and other special purposes. There was also \$1.24 million that was classified as "nonspendable" that includes inventories, prepaid expenditures, and land held for resale.

The General Fund was the primary operating fund of the City of Henderson. At the end of the fiscal year, the General Fund unassigned fund balance was \$3,836,690. As a measure of liquidity, a comparison of the unassigned fund balance to total general fund expenditures and transfers net of capital outlays placed the fund balance at 15.8% of total expenditures which is a decrease from the 20.7% from fiscal 2010. It should be noted that \$938,500 of reserves appropriated in the fiscal 2012 budget was reclassified from unassigned to assigned due to the new Governmental Accounting Standards Board (GASB) Statement No. 54.

For 2011, the committed fund balance in the general fund was \$955,573. \$37,989 or 4.0% of these funds will be used to purchase or finance large vehicles and equipment in subsequent years. \$917,584 or 96.0% of these funds will be used to make debt payments on major building projects and improvements.

The General Fund's balance decreased by \$30,573 during the fiscal year. Factors contributing to this decrease include:

- Health insurance expenses were \$191,225 over budget due to higher loss experiences.
- Due to higher energy prices, the cost for fuel was \$15,000 over budget and \$59,000 higher than last year.
- Vehicle repairs were nearly \$45,000 over budget and \$58,277 higher than last year.

The Capital Projects Fund ended the fiscal year with a fund balance of \$11,322,565 which is an improvement of \$13,052,057 from the prior year. During fiscal 2011, the City issued \$13,730,000 in general obligation bonds. The City received federal funding on the riverfront project in the amount of \$56,369 during the fiscal year which included the reimbursement of prior year capital expenditures.

The Debt Service Fund had a fund balance increase of \$218. In fiscal 2010, the City opted to draw down cash reserves so the annual allocation of the property tax revenue was eliminated and the only tax revenue was from delinquent taxes.

The fund did have higher interest costs of \$172,677 with most of the increase due to the 2010 general obligation bonds.

## **Proprietary Funds**

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

Unrestricted net assets (liabilities) of the respective proprietary funds are as follows:

Natural Gas	\$4,781,951
Sanitation	(\$1,109,957)

Total net assets decreased by \$247,780 in the Gas Fund and increased by \$82,791 in the Sanitation Fund. The decrease in net assets in the Gas Fund is attributable to the increase in personnel costs of \$145,433 and an increase in costs of meter reading, billing, collections, and other overhead costs in the amount of \$51,000. Before the payment in lieu of tax (PILOT) transfer of \$1,400,000 from the Gas Fund to the General Fund, the Gas Fund had income of \$1,152,220. The Gas Fund had a \$592,751 net decrease in cash due to the payment in lieu of tax (PILOT).

Due to an increase in commercial business at the sanitary transfer station and transfers from the General Fund, the Sanitation Fund recognized a small increase in net assets. Without the transfer from the General Fund, the Sanitation Fund would have had a decrease in net assets of \$111,209.

The Sanitation Fund's statement of net assets reflects the landfill closure and post closure costs of \$3,400,000. Of this total, approximately \$2.23 million is for landfill closure costs that will include placing a low-permeability cap on the landfill. The City has investments in the amount of approximately \$2.2 million in a trust account that will be used for the landfill closure.

It is also estimated that approximately \$1.17 million will be needed for post closure costs that will involve monitoring, inspecting, and maintaining the landfill and its protective systems for at least 30 years. This includes extensive groundwater monitoring, inspection, and repair of the cap and other protective systems. The City will be able to fund the monitoring costs on an annual basis through the normal revenue flow.

## **General Fund Budgetary Highlights**

The amended fiscal 2011 budget was approved with anticipated expenses exceeding anticipated revenue by \$1,115,000. The difference was to come from reserves. The General Fund's actual revenue and transfers were \$25,394,269 or 100.2% of the approved budget of \$25,338,000 or a difference of \$56,269. The General Fund's actual expenses and transfers were \$25,424,842 or 96.1% of approved budget of \$26,453,000 or a difference of \$1,028,158.

The Fund needed only a fraction of the appropriated reserves. When the original fiscal 2011 budget was adopted, it included the use of \$1,035,000 of reserves. This included the expected use of \$650,000 of unassigned fund balance and \$385,000 of committed fund balance. At the

end of the fiscal year only \$30,573 was needed. The General Fund ended the year with \$955,573 in committed funds for short and long term debt payments for capital projects.

Health insurance costs continue to be a major factor in annual budgetary increases. The General Fund spent \$3.5 million for health care compared to \$3.1 million in fiscal 2010. The \$3.5 million for fiscal 2011 was \$191,225 over budget. As in most years, many of the City’s departments, especially Fire and Police, had vacant positions. These openings and merit increases that came in lower than the budgeted 2% helped offset the overage in health care costs and enabled the personnel expenses to come in \$116,373 under budget.

Transfers to other funds came in \$355,277 below budget. With the added volume at the transfer station, the General Fund did not have to transfer \$63,000 to the Sanitation Fund that was included in the fiscal 2011 General Fund budget. The Civil Service Pension Fund used its remaining reserves in fiscal 2011 and did not require \$88,000 in budgeted transfers from the General Fund. The only large expenditures that were not anticipated were improvements to Hopkins Cemetery that were essentially reimbursed by a state grant.

When the fiscal 2011 budget was adopted it included the issuance of \$343,500 in promissory notes to fund the purchase of a new fire truck and dump truck. Since the General Fund was able to fund current operations without having to use the appropriated reserves, the City opted to purchase the new vehicles without having to issue new debt.

## **Capital Asset and Debt Administration**

### **Capital Assets**

As of June 30, 2011 the City’s investment in capital assets for governmental and business-type activities was \$31.0 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, gas system improvements, park facilities, vehicles, sculptures, and infrastructure. A summary is as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 3,502,408	\$ 4,027,408	\$ 114,815	\$ 114,815	\$ 3,617,223	\$ 4,142,223
Artwork	196,500	196,500	-	-	196,500	196,500
Buildings	6,113,115	6,094,948	197,079	218,111	6,310,194	6,313,059
Improvements	1,558,793	1,709,179	-	-	1,558,793	1,709,179
Vehicles	1,075,505	832,347	276,572	223,362	1,352,077	1,055,709
Natural Gas System	-	-	2,293,487	2,359,401	2,293,487	2,359,401
Equipment	730,747	586,990	163,752	181,385	894,499	768,375
Infrastructure	14,789,844	16,409,382	-	-	14,789,844	16,409,382
Total	<u>\$ 27,966,912</u>	<u>\$ 29,856,754</u>	<u>\$ 3,045,705</u>	<u>\$ 3,097,074</u>	<u>\$ 31,012,617</u>	<u>\$ 32,953,828</u>

Additional information on the City of Henderson’s capital assets may be found in Note 4 in the notes to the financial statements.

## **Long-Term Debt**

The City incurs debt to fund capital improvement projects and purchase major capital equipment. Total debt at June 30, 2011 was \$18,000,000 compared to \$5,940,000 the prior year. The debt consists of capital leases and long-term bonds.

### **City of Henderson Debt**

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Capital lease and long-term bonds	<u>\$18,000,000</u>	<u>\$5,940,000</u>

## **Debt Description**

Fire Station and Riverfront Property – During fiscal 2007, the City issued \$5,230,000 in general obligation bonds for the construction of a new fire station and for the purchase of riverfront property that will be used for park development. Approximately \$1,950,000 of bond proceeds were used for the advance refunding of a capital lease used in 2000 for the purchase of an office building that houses the Police Department, Code Enforcement Division, Planning Commission, and the Emergency Management Agency.

Henderson Water Utility Downtown Project - During the year ended June 30, 2011, the City issued \$10,125,000 Build America Bonds to pay a portion of the costs of acquisition, construction, and installation of additions and improvements to the City’s combined and consolidated municipal water, sanitary sewer, and storm sewer system, including the installation of new water and sanitary sewer lines and the conversion of existing sanitary sewer lines to storm sewer lines in downtown Henderson, Kentucky and to pay other allowable expenditures including issuance costs.

Refunding of Prior Debt - During the year ended June 30, 2011, the City issued \$3,605,000 to currently refund and redeem the outstanding City of Ewing, Kentucky, Kentucky Area Development Districts Financing Trust, Lease Acquisition Program Revenue Bonds, Fixed Rate Series 2000H (funding for the City of Henderson, Kentucky), dated July 20, 2000 (the “2000H Obligations”), being bonds maturing on December 1, 2011 – 2016 and term bonds maturing on December 1, 2022, in the total principal amount of \$1,310,000, by providing for the City’s prepayment of its lease rental payments pursuant to two lease agreements between the Kentucky Area Development Districts Financing Trust and the City securing the 2000H Obligations, in order to derive debt service savings. This debt was recorded in the records of the City as KADD-Riverfront lease payable and KADD-Police Station lease payable.

Proceeds were also used to advance refund and redeem the outstanding City of Ewing, Kentucky, Kentucky Area Development Districts Financing Trust, Lease Acquisition Program Revenue Bonds, Fixed Rate Series 2000Y (funding for the City of Henderson,

Kentucky), dated July 20, 2000 (the “2000Y Obligations”), being bonds maturing on December 1, 2015 and term bonds maturing on December 1, 2012, 2014, 2017, 2019, and 2023, in the principal amount of \$1,470,000, by providing for the City’s prepayment of its lease rental payments pursuant to a lease agreement dated December 31, 2003, between the Kentucky Area Development Districts Financing Trust and the City securing the 2000Y Obligations, in order to derive debt service savings. This debt was recorded in the records of Henderson Water Utility as KADD 2002-Canoe Creek lease payable.

Proceeds in the amount of \$650,000 were also used to reimburse the City for its payment on December 15, 2010, of the City’s General Obligation Bond Anticipation Note Series 2008C (the “2008C Note”), which was outstanding in the principal amount of \$1,583,737 and which matured on December 15, 2010 and to pay other allowable expenditures including issuance costs.

Additional information on the City’s long-term debt may be found in Note 5 in the notes to the financial statements.

### **Economic Factors and Next Year’s Budget and Rates**

The City of Henderson was able to fund the fiscal 2012 Budget with existing resources and the use of reserves from the General and Gas Funds. Modest growth in property tax receipts and holding increases in operating expenses to a minimum will enable the City to continue to meet its needs.

### **Requests for Information**

This financial report is designed to provide a general financial overview for citizens, taxpayers, and customers of the City of Henderson. Questions or requests for additional financial information may be sent to Robert Gunter, Finance Director, City of Henderson, 222 First Street, PO Box 716, Henderson, KY 42419-0716, or visit our website at: [www.cityofhendersonky.org](http://www.cityofhendersonky.org).

## **Basic Financial Statements**

**City of Henderson, Kentucky**  
**Statement of Net Assets**  
**June 30, 2011**

	<b>Primary Government</b>			<b>Component Units</b>	
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Henderson Municipal Power &amp; Light</b>	<b>Henderson Water Utility</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 7,704,172	\$ 2,083,075	\$ 9,787,247	\$ 93,919	\$ 3,799,896
Investments	2,073,392	4,710,666	6,784,058	20,332,325	6,058,970
Accrued interest receivable	6,570	16,089	22,659	30,901	4,422
Receivables	1,068,117	1,282,027	2,350,144	8,609,539	2,141,844
Internal balances	(897,575)	897,575	-	-	-
Inventories	45,307	175,456	220,763	7,702,632	849,991
Prepaid expenses	376,483	-	376,483	63,558	103,329
Land held for resale	300,000	-	300,000	-	-
Restricted assets:					
Cash and cash equivalents	4,152,575	-	4,152,575	-	194,263
Receivable from HWU:					
Due in one year	357,246	-	357,246	-	-
Due after one year	7,346,316	-	7,346,316	-	-
Investments	140,743	-	140,743	-	1,433,266
Accrued interest receivable	861	-	861	-	11
Land and other nondepreciable capital assets	3,698,908	114,815	3,813,723	1,235,451	862,879
Capital assets, net of accumulated depreciation	24,268,004	2,930,890	27,198,894	64,948,743	50,533,822
Other assets	174,626	-	174,626	-	290,175
<b>Total assets</b>	<b>\$ 50,815,745</b>	<b>\$ 12,210,593</b>	<b>\$ 63,026,338</b>	<b>\$ 103,017,068</b>	<b>\$ 66,272,868</b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 2,317,106	\$ 1,427,896	\$ 3,745,002	\$ 9,030,801	\$ 2,274,782
Deposits payable	-	284,248	284,248	654,081	65,034
Due to component units	2,208,595	-	2,208,595	-	-
Deferred revenue	96,000	-	96,000	-	-
Gas storage liability	-	380,750	380,750	-	-
Bond anticipation notes	-	-	-	7,975,535	-
Noncurrent liabilities:					
Due in one year	1,615,000	-	1,615,000	-	1,891,629
Due after one year	18,037,806	3,400,000	21,437,806	-	17,258,081
<b>Total liabilities</b>	<b>24,274,507</b>	<b>5,492,894</b>	<b>29,767,401</b>	<b>17,660,417</b>	<b>21,489,526</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	21,669,525	3,045,705	24,715,230	58,208,659	32,913,867
Restricted for:					
Debt service	924	-	924	-	595,450
Cemetery perpetual care, expendable	141,604	-	141,604	-	-
Law enforcement	85,826	-	85,826	-	-
Unrestricted	4,643,359	3,671,994	8,315,353	27,147,992	11,274,025
<b>Total net assets</b>	<b>26,541,238</b>	<b>6,717,699</b>	<b>33,258,937</b>	<b>85,356,651</b>	<b>44,783,342</b>
<b>Total liabilities and net assets</b>	<b>\$ 50,815,745</b>	<b>\$ 12,210,593</b>	<b>\$ 63,026,338</b>	<b>\$ 103,017,068</b>	<b>\$ 66,272,868</b>

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2011**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Henderson Municipal Power & Light	Henderson Water Utility
					Governmental Activities	Business-type Activities			
<b>Primary government</b>									
Governmental activities:									
Administration	\$ 4,481,821	\$ 2,193,280	\$ 478,508	\$ 219,540	\$ (1,590,493)	\$ -	\$ (1,590,493)		
Finance	2,663,586	2,667,698	-	-	4,112	-	4,112		
Mass transit	1,373,343	43,305	665,087	106,010	(558,941)	-	(558,941)		
Parks and recreation	1,827,515	362,825	-	-	(1,464,690)	-	(1,464,690)		
Police	6,896,751	970,762	673,404	94,835	(5,157,750)	-	(5,157,750)		
Fire	5,275,133	196,474	231,409	201,940	(4,645,310)	-	(4,645,310)		
Public works	5,342,349	175,876	1,032,971	112,576	(4,020,926)	-	(4,020,926)		
Nondepartmental	2,024,182	-	-	-	(2,024,182)	-	(2,024,182)		
Interest on long-term debt	439,480	-	-	-	(439,480)	-	(439,480)		
Total governmental activities	<u>30,324,160</u>	<u>6,610,220</u>	<u>3,081,379</u>	<u>734,901</u>	<u>(19,897,660)</u>	<u>-</u>	<u>(19,897,660)</u>		
Business-type activities:									
Gas	18,002,896	19,017,178	-	75,267	-	1,089,549	1,089,549		
Sanitation	2,816,642	2,575,782	89,300	-	-	(151,560)	(151,560)		
Total business-type activities	<u>20,819,538</u>	<u>21,592,960</u>	<u>89,300</u>	<u>75,267</u>	<u>-</u>	<u>937,989</u>	<u>937,989</u>		
Total primary government	<u>\$ 51,143,698</u>	<u>\$ 28,203,180</u>	<u>\$ 3,170,679</u>	<u>\$ 810,168</u>	<u>(19,897,660)</u>	<u>937,989</u>	<u>(18,959,671)</u>		
<b>Component units</b>									
Henderson Municipal Power & Light	\$ 58,215,272	\$ 55,425,983	\$ -	\$ -			\$ (2,789,289)	\$ -	
Henderson Water Utility	15,328,566	16,118,143	-	94,682			-	884,259	
Total component units	<u>\$ 73,543,838</u>	<u>\$ 71,544,126</u>	<u>\$ -</u>	<u>\$ 94,682</u>			<u>(2,789,289)</u>	<u>884,259</u>	
General revenues:									
Taxes:									
Property					6,664,192	-	6,664,192	-	
Payroll and net profits					4,703,133	-	4,703,133	-	
Insurance					4,136,526	-	4,136,526	-	
Franchise					561,308	-	561,308	-	
Bank deposits					133,105	-	133,105	-	
Distributions from component units					1,644,724	-	1,644,724	-	
Investment income					86,572	103,022	189,594	114,041	
Transfers					1,206,000	(1,206,000)	-	-	
Total general revenues and transfers					<u>19,135,560</u>	<u>(1,102,978)</u>	<u>18,032,582</u>	<u>114,041</u>	
Change in net assets					(762,100)	(164,989)	(927,089)	(2,675,248)	
Net assets, beginning of year					27,303,338	6,882,688	34,186,026	88,031,899	
Net assets, end of year					<u>\$ 26,541,238</u>	<u>\$ 6,717,699</u>	<u>\$ 33,258,937</u>	<u>\$ 85,356,651</u>	

The accompanying notes are an integral part of the financial statements.



**City of Henderson, Kentucky  
Balance Sheet  
Governmental Funds  
June 30, 2011**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash	\$ 7,019,361	\$ -	\$ 12,247	\$ 298,311	\$ 7,329,919
Investments	2,073,392	-	-	-	2,073,392
Accrued interest receivable	6,570	-	-	-	6,570
Receivables	755,705	-	-	312,212	1,067,917
Due from other funds	368,600	-	-	129,398	497,998
Inventories	22,187	-	-	23,120	45,307
Prepaid expenditures	895,148	-	-	-	895,148
Land held for resale	300,000	-	-	-	300,000
Restricted assets:					
Cash	-	924	3,999,051	152,600	4,152,575
Receivable from HWU:					
Due in one year	-	-	357,246	-	357,246
Due after one year	-	-	7,346,316	-	7,346,316
Investments	-	-	-	140,743	140,743
Accrued interest receivable	-	-	-	861	861
Total assets	<u>\$ 11,440,963</u>	<u>\$ 924</u>	<u>\$ 11,714,860</u>	<u>\$ 1,057,245</u>	<u>\$ 24,213,992</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 403,310	\$ -	\$ 48,630	\$ 119,573	\$ 571,513
Accrued wages	707,987	-	-	97,246	805,233
Due to other funds	1,026,973	-	343,665	24,935	1,395,573
Due to component units	2,208,595	-	-	-	2,208,595
Deferred revenue	96,000	-	-	-	96,000
Total liabilities	<u>4,442,865</u>	<u>-</u>	<u>392,295</u>	<u>241,754</u>	<u>5,076,914</u>
<b>FUND BALANCES</b>					
Nonspendable	1,217,335	-	-	23,120	1,240,455
Restricted	-	924	11,702,613	227,430	11,930,967
Committed	955,573	-	-	566,741	1,522,314
Assigned	988,500	-	-	-	988,500
Unassigned	<u>3,836,690</u>	<u>-</u>	<u>(380,048)</u>	<u>(1,800)</u>	<u>3,454,842</u>
Total fund balances	<u>6,998,098</u>	<u>924</u>	<u>11,322,565</u>	<u>815,491</u>	<u>19,137,078</u>
Total liabilities and fund balances	<u>\$ 11,440,963</u>	<u>\$ 924</u>	<u>\$ 11,714,860</u>	<u>\$ 1,057,245</u>	<u>\$ 24,213,992</u>

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**To the Statement of Net Assets**  
**June 30, 2011**

Total fund balances of governmental funds per balance sheet \$ 19,137,078

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. 27,966,912

Other assets in governmental activities, which consists of a negative net pension obligation, an asset, for the police & fire pension plan, is not a current financial resource and, therefore, is not reported in the governmental funds. 174,626

The Health Insurance Fund, an internal service fund, is used to charge health insurance costs to individual funds and other entities. The assets and liabilities of this internal service fund are included in governmental activities in the statement of net assets. (1,084,572)

Long-term debt and other liabilities were not currently due and payable in the fiscal year ended June 30, 2011, and, therefore, were not reported in the governmental funds.

Long-term debt payable	\$(18,000,000)	
Accrued compensated absences	(1,373,266)	
Net civil service pension obligation	(34,540)	
HRA Fund unfunded obligation	(245,000)	
	(19,652,806)	(19,652,806)

Total net assets of governmental activities per statement of net assets \$ 26,541,238

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2011**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Taxes:					
Property	\$ 6,662,091	\$ 2,101	\$ -	\$ -	\$ 6,664,192
Payroll and net profits	4,703,133	-	-	-	4,703,133
Insurance	4,136,526	-	-	-	4,136,526
Franchise	561,308	-	-	-	561,308
Bank deposits	133,105	-	-	-	133,105
Intergovernmental	4,053,127	163,171	56,369	2,113,117	6,385,784
Distributions from component units	1,644,724	-	-	-	1,644,724
Service charges and fees	539,257	-	-	895,926	1,435,183
Rents, concessions, and other services	128,002	-	-	-	128,002
Licenses and permits	102,046	-	-	-	102,046
Investment income	67,006	720	12,291	5,090	85,107
Fines, finance charges, and penalties	63,522	-	-	-	63,522
Miscellaneous	55,422	-	-	5,054	60,476
Total revenues	<u>22,849,269</u>	<u>165,992</u>	<u>68,660</u>	<u>3,019,187</u>	<u>26,103,108</u>
<b>EXPENDITURES</b>					
Current:					
Administration	2,203,454	-	73,497	350,102	2,627,053
Finance	2,610,767	-	-	-	2,610,767
Mass transit	-	-	-	1,271,873	1,271,873
Parks and recreation	1,239,332	-	-	377,339	1,616,671
Police	5,727,106	-	-	979,654	6,706,760
Fire	5,158,381	-	-	-	5,158,381
Public works	2,123,723	-	-	1,315,763	3,439,486
Nondepartmental	2,024,182	-	-	-	2,024,182
Debt service:					
Principal	95,000	265,000	-	-	360,000
Interest	36,968	402,512	-	-	439,480
Bond issuance costs	-	-	27,648	-	27,648
Capital outlays	1,074,906	-	343,665	143,581	1,562,152
Total expenditures	<u>22,293,819</u>	<u>667,512</u>	<u>444,810</u>	<u>4,438,312</u>	<u>27,844,453</u>
Excess (deficiency) of revenues over expenditures	<u>555,450</u>	<u>(501,520)</u>	<u>(376,150)</u>	<u>(1,419,125)</u>	<u>(1,741,345)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	1,400,000	1,811,738	1,047,945	1,427,078	5,686,761
Transfers out	(3,131,023)	-	(1,349,738)	-	(4,480,761)
Bond issuance	-	-	13,730,000	-	13,730,000
Bond refundings	-	(1,310,000)	-	-	(1,310,000)
Sale of land	1,145,000	-	-	-	1,145,000
Total other financing sources (uses)	<u>(586,023)</u>	<u>501,738</u>	<u>13,428,207</u>	<u>1,427,078</u>	<u>14,771,000</u>
Net change in fund balances	(30,573)	218	13,052,057	7,953	13,029,655
Fund balances, beginning of year	<u>7,028,671</u>	<u>706</u>	<u>(1,729,492)</u>	<u>807,538</u>	<u>6,107,423</u>
Fund balances, end of year	<u>\$ 6,998,098</u>	<u>\$ 924</u>	<u>\$ 11,322,565</u>	<u>\$ 815,491</u>	<u>\$ 19,137,078</u>

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2011**

Net change in fund balances of governmental funds \$ 13,029,655

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. In addition, governmental funds do not report the net book value of deletions as expenditures.

Capital outlays	1,562,152
Depreciation expense	(2,593,162)
Deleted capital assets	(858,832)

Governmental funds report the repayment of the principal of long-term debt as an expenditure and bond refundings as other financing uses, while the statement of activities does not report such repayments as an expense.

Principal paid on long-term debt	360,000
Bond refundings	1,310,000

Governmental funds report the issuance of long-term debt as other financing sources, while the statement of activities does not report such issuance as revenues.

Bond issuance	(13,730,000)
---------------	--------------

Expenses or revenues in the statement of activities that do not affect current financial resources are not reported as expenditures or revenues in the governmental funds.

Increase in accrued compensated absences	(45,288)
Decrease in net civil service pension obligation	42,773
Increase in negative net police & fire pension obligation	11,562
Increase in HRA Fund unfunded obligation	(129,068)

The Health Insurance Fund, an internal service fund, is used to charge health insurance costs to individual funds and other entities. The statement of activities includes the net income of this fund.

Net income of Health Insurance Fund	278,108
-------------------------------------	---------

Change in net assets of governmental activities \$ (762,100)

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes:				
Property	\$ 6,326,000	\$ 6,326,000	\$ 6,662,091	\$ 336,091
Payroll and net profits	4,700,000	4,700,000	4,703,133	3,133
Insurance	4,250,000	4,250,000	4,136,526	(113,474)
Franchise	570,000	570,000	561,308	(8,692)
Bank deposits	125,000	125,000	133,105	8,105
Intergovernmental	3,330,900	4,033,900	4,053,127	19,227
Distributions from component units	1,644,700	1,644,700	1,644,724	24
Service charges and fees	473,600	473,600	539,257	65,657
Rents, concessions, and other services	119,400	119,400	128,002	8,602
Licenses and permits	74,500	74,500	102,046	27,546
Investment income	49,500	49,500	67,006	17,506
Fines, finance charges, and penalties	61,200	61,200	63,522	2,322
Miscellaneous	16,700	16,700	55,422	38,722
Total revenues	<u>21,741,500</u>	<u>22,444,500</u>	<u>22,849,269</u>	<u>404,769</u>
<b>EXPENDITURES</b>				
Current:				
Administration	2,290,340	2,290,340	2,203,454	86,886
Finance	2,557,420	2,577,420	2,610,767	(33,347)
Parks and recreation	1,309,990	1,309,990	1,239,332	70,658
Police	5,816,300	5,861,600	5,727,106	134,494
Fire	5,063,840	5,063,840	5,158,381	(94,541)
Public works	2,053,810	2,053,810	2,123,723	(69,913)
Nondepartmental	2,160,300	2,160,300	2,024,182	136,118
Debt service:				
Principal	209,500	209,500	95,000	114,500
Interest	89,000	89,000	36,968	52,032
Capital outlays	738,500	1,456,200	1,074,906	381,294
Total expenditures	<u>22,289,000</u>	<u>23,072,000</u>	<u>22,293,819</u>	<u>778,181</u>
Excess (deficiency) of revenues over expenditures	<u>(547,500)</u>	<u>(627,500)</u>	<u>555,450</u>	<u>1,182,950</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,400,000	1,400,000	1,400,000	-
Transfers out	(2,231,000)	(3,381,000)	(3,131,023)	249,977
Loan proceeds	343,500	343,500	-	(343,500)
Sale of land	-	1,150,000	1,145,000	(5,000)
Total other financing sources (uses)	<u>(487,500)</u>	<u>(487,500)</u>	<u>(586,023)</u>	<u>(98,523)</u>
Net change in fund balances	(1,035,000)	(1,115,000)	(30,573)	1,084,427
Fund balances, beginning of year	<u>7,028,671</u>	<u>7,028,671</u>	<u>7,028,671</u>	<u>-</u>
Fund balances, end of year	<u>\$ 5,993,671</u>	<u>\$ 5,913,671</u>	<u>\$ 6,998,098</u>	<u>\$ 1,084,427</u>

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2011**

	<b>Business-type Activities Enterprise Funds</b>			<b>Governmental Activities- Internal Service Fund</b>
	<b>Gas Fund</b>	<b>Sanitation Fund</b>	<b>Total Enterprise Funds</b>	<b>Health Insurance Fund</b>
<b>ASSETS</b>				
Current assets:				
Cash	\$ 2,079,223	\$ 3,852	\$ 2,083,075	\$ 374,253
Investments	2,498,295	-	2,498,295	-
Accrued interest receivable	8,309	-	8,309	-
Receivables	1,149,382	132,645	1,282,027	200
Due from other funds	812,548	85,027	897,575	-
Inventories	175,456	-	175,456	-
Total current assets	<u>6,723,213</u>	<u>221,524</u>	<u>6,944,737</u>	<u>374,453</u>
Noncurrent assets:				
Investments and accrued interest, designated for landfill closure costs	-	2,220,151	2,220,151	-
Land	-	114,815	114,815	-
Capital assets, net of accumulated depreciation	2,525,640	405,250	2,930,890	-
Total noncurrent assets	<u>2,525,640</u>	<u>2,740,216</u>	<u>5,265,856</u>	<u>-</u>
Total assets	<u>\$ 9,248,853</u>	<u>\$ 2,961,740</u>	<u>\$ 12,210,593</u>	<u>\$ 374,453</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 1,206,782	\$ 116,483	\$ 1,323,265	\$ 940,360
Deposits payable	284,248	-	284,248	-
Accrued wages	69,482	35,149	104,631	-
Deferred revenue	-	-	-	518,665
Gas storage liability	380,750	-	380,750	-
Total current liabilities	<u>1,941,262</u>	<u>151,632</u>	<u>2,092,894</u>	<u>1,459,025</u>
Noncurrent liabilities:				
Estimated landfill closure costs	-	3,400,000	3,400,000	-
Total noncurrent liabilities	<u>-</u>	<u>3,400,000</u>	<u>3,400,000</u>	<u>-</u>
Total liabilities	<u>1,941,262</u>	<u>3,551,632</u>	<u>5,492,894</u>	<u>1,459,025</u>
<b>NET ASSETS</b>				
Invested in capital assets	2,525,640	520,065	3,045,705	-
Unrestricted	4,781,951	(1,109,957)	3,671,994	(1,084,572)
Total net assets (liabilities)	<u>7,307,591</u>	<u>(589,892)</u>	<u>6,717,699</u>	<u>(1,084,572)</u>
Total liabilities and net assets	<u>\$ 9,248,853</u>	<u>\$ 2,961,740</u>	<u>\$ 12,210,593</u>	<u>\$ 374,453</u>

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2011**

	<b>Business-type Activities</b>			<b>Governmental</b>
	<b>Enterprise Funds</b>			<b>Activities-</b>
	<b>Gas</b>	<b>Sanitation</b>	<b>Total</b>	<b>Internal</b>
	<b>Fund</b>	<b>Fund</b>	<b>Enterprise</b>	<b>Service Fund</b>
	<b>Fund</b>	<b>Fund</b>	<b>Funds</b>	<b>Health</b>
	<b>Fund</b>	<b>Fund</b>	<b>Funds</b>	<b>Insurance</b>
	<b>Fund</b>	<b>Fund</b>	<b>Funds</b>	<b>Fund</b>
<b>OPERATING REVENUES</b>				
Gas sales	\$ 18,886,442	\$ -	\$ 18,886,442	\$ -
Sanitation fees	-	2,604,164	2,604,164	-
Other income	206,003	60,918	266,921	129,706
Health insurance premiums:				
City of Henderson	-	-	-	4,852,600
Henderson Municipal Power & Light	-	-	-	639,350
Henderson Water Utility	-	-	-	1,273,000
Other	-	-	-	15,750
Total operating revenues	<u>19,092,445</u>	<u>2,665,082</u>	<u>21,757,527</u>	<u>6,910,406</u>
<b>OPERATING EXPENSES</b>				
Gas administration	1,367,211	-	1,367,211	-
Gas distribution	16,422,301	-	16,422,301	-
Sanitation expenses	-	2,713,025	2,713,025	-
Depreciation	213,384	103,617	317,001	-
Health insurance administration	-	-	-	457,126
Health insurance claims	-	-	-	6,176,637
Total operating expenses	<u>18,002,896</u>	<u>2,816,642</u>	<u>20,819,538</u>	<u>6,633,763</u>
Income (loss) from operations	1,089,549	(151,560)	937,989	276,643
<b>NONOPERATING REVENUES</b>				
Investment income	<u>62,671</u>	<u>40,351</u>	<u>103,022</u>	<u>1,465</u>
Income (loss) before transfers	1,152,220	(111,209)	1,041,011	278,108
Transfers from (to) General Fund	<u>(1,400,000)</u>	<u>194,000</u>	<u>(1,206,000)</u>	<u>-</u>
Change in net assets	(247,780)	82,791	(164,989)	278,108
Net assets (liabilities), beginning of year	<u>7,555,371</u>	<u>(672,683)</u>	<u>6,882,688</u>	<u>(1,362,680)</u>
Net assets (liabilities), end of year	<u>\$ 7,307,591</u>	<u>\$ (589,892)</u>	<u>\$ 6,717,699</u>	<u>\$ (1,084,572)</u>

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2011**

	Business-type Activities Enterprise Funds			Governmental Activities- Internal Service Fund
	Gas Fund	Sanitation Fund	Total Enterprise Funds	Health Insurance Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 18,878,087	\$ 2,630,654	\$ 21,508,741	\$ 6,974,071
Payments for goods and services	(16,129,551)	(1,654,351)	(17,783,902)	(459,655)
Payments for employees	(1,795,357)	(1,068,591)	(2,863,948)	-
Payments for health insurance claims	-	-	-	(6,310,101)
Net cash provided (used) by operating activities	<u>953,179</u>	<u>(92,288)</u>	<u>860,891</u>	<u>204,315</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers from (to) General Fund	(1,400,000)	194,000	(1,206,000)	-
Net cash provided (used) by noncapital financing activities	<u>(1,400,000)</u>	<u>194,000</u>	<u>(1,206,000)</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchases of capital assets	(166,102)	(99,530)	(265,632)	-
Net cash provided (used) by capital and related financing activities	<u>(166,102)</u>	<u>(99,530)</u>	<u>(265,632)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments	1,117,658	2,182,538	3,300,196	-
Purchases of investments	(1,146,645)	(2,225,221)	(3,371,866)	-
Investment fees paid	(1,856)	(1,758)	(3,614)	-
Interest received	51,015	44,719	95,734	1,465
Net cash provided (used) by investing activities	<u>20,172</u>	<u>278</u>	<u>20,450</u>	<u>1,465</u>
Net increase (decrease) in cash	(592,751)	2,460	(590,291)	205,780
Cash, beginning of year	<u>2,671,974</u>	<u>1,392</u>	<u>2,673,366</u>	<u>168,473</u>
Cash, end of year	<u>\$ 2,079,223</u>	<u>\$ 3,852</u>	<u>\$ 2,083,075</u>	<u>\$ 374,253</u>
<b>Reconciliation of income (loss) from operations to net cash provided (used) by operating activities</b>				
Income (loss) from operations	\$ 1,089,549	\$ (151,560)	\$ 937,989	\$ 276,643
Reconciling items:				
Depreciation expense	213,384	103,617	317,001	-
Accounts receivable (increase) decrease	142,988	(23,270)	119,718	112,601
Due from other funds (increase) decrease	(366,673)	(12,657)	(379,330)	-
Inventories (increase) decrease	(5,848)	-	(5,848)	-
Accounts and deposits payable increase (decrease)	25,963	(9,184)	16,779	(248,794)
Accrued wages increase (decrease)	2,316	766	3,082	-
Deferred revenue increase (decrease)	-	-	-	63,865
Gas storage liability increase (decrease)	(148,500)	-	(148,500)	-
Net cash provided (used) by operating activities	<u>\$ 953,179</u>	<u>\$ (92,288)</u>	<u>\$ 860,891</u>	<u>\$ 204,315</u>
<b>Noncash investing activities:</b>				
(Increase) in fair value of investments	<u>\$ (13,767)</u>	<u>\$ (7,369)</u>	<u>\$ (21,136)</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.



**City of Henderson, Kentucky**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2011**

	<b>Pension Trust Funds</b>
<b>ASSETS</b>	
Cash	\$ 199,760
Total assets	<u>199,760</u>
<b>LIABILITIES</b>	
Accounts payable	<u>15,011</u>
Total liabilities	<u>15,011</u>
<b>NET ASSETS</b>	
Held in trust for pension benefits	(14,157)
Held in trust for health care benefits	<u>198,906</u>
Total net assets	<u><u>\$ 184,749</u></u>

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2011**

	<b>Pension Trust Funds</b>
<b>ADDITIONS</b>	
Property taxes	\$ 3,592
Contributions:	
Employer	573,806
Employee	2,106
Total contributions	575,912
Interest income	1,106
Total additions	580,610
<b>DEDUCTIONS</b>	
Benefits paid	800,364
Professional services	5,357
Total deductions	805,721
Change in net assets	(225,111)
Net assets, beginning of year	409,860
Net assets, end of year	\$ 184,749

The accompanying notes are an integral part of the financial statements.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Henderson, Kentucky (City) is a municipal corporation governed by a five-member board of commissioners and operates under a city manager form of government. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

The discretely presented component units consist of Henderson Municipal Power & Light (HMPL) that provides electric utility services and Henderson Water Utility (HWU) that provides water and sewer services. Both HMPL and HWU have separate governing commissions the members of which are appointed by the Mayor and approved by the Board of Commissioners of the City. The Board of Commissioners must approve all rates and bond issues of HMPL and HWU. The City is contingently liable for the debt of the component units. HMPL has a fiscal year end of May 31<sup>st</sup>, and HWU has a fiscal year end of June 30<sup>th</sup>. The City's financial statements include certain financial information obtained from the audited financial statements of the component units. Complete audited financial statements may be obtained from HMPL and HWU.

Henderson Municipal Power & Light  
100 Fifth Street  
Henderson, Kentucky 42420

Henderson Water Utility  
111 Fifth Street  
Henderson, Kentucky 42420

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. 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 certain legally separate component units 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 revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

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 revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the 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 funds 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 they are collected within 60 days of the end of the current fiscal period. 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.

Certain receipts from government agencies, utility service charges, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary funds 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 City has elected not to follow subsequent private-sector guidance.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**D. Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and legal accounting entity with a self-balancing set of accounts. There are three categories of funds: 1) Governmental, 2) Proprietary, and 3) Fiduciary.

**1) Governmental Funds**

Governmental funds are those through which most governmental functions are typically financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds.

**General Fund**

The General Fund is the general operating fund of the City. It is used to account for all general tax revenues and other revenues not allocated by law, ordinance, or other agreement to another fund. From this fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs, not paid by other funds.

**Debt Service Fund**

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

**Capital Projects Fund**

The Capital Projects Fund accounts for the acquisition and construction of major capital facilities and other capital projects of the City.

In addition, the City has nine other governmental funds that collectively are called nonmajor governmental funds because, individually, these nine funds are not financially significant enough to be classified as major governmental funds. The nonmajor governmental funds are collectively included together in one column of the financial statements of the governmental funds. Detailed financial information about each of these nonmajor governmental funds can be found in a separate section of this report.

# **CITY OF HENDERSON, KENTUCKY**

## **NOTES TO FINANCIAL STATEMENTS**

---

### **2) Proprietary Funds**

Proprietary fund reporting focuses on the changes in net assets, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service.

#### **Enterprise Funds**

Enterprise funds are used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing goods and or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determinations of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The major enterprise funds of the City of Henderson are as follows:

- **Gas Fund**

The Gas Fund is used to account for gas department utility operations.

- **Sanitation Fund**

This fund is used to account for the City's sanitation collection and disposal operations, and for the operation of the City's commercial demolition and debris landfill.

#### **Internal Service Fund**

The Health Insurance Fund accounts for the financing of services of the self-insured accident and health care plan maintained for the benefit of City employees and others, on a cost reimbursement basis.

### **3) Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The City's fiduciary funds consist of two pension trust funds and one health care benefits trust fund. These funds are as follows:

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Civil Service Pension Fund**

The City of Henderson Civil Service Pension Fund (a contributory defined benefit plan) was created by ordinance. It covers City employees, other than those in the police and fire departments, who elected not to transfer into the County Employees Retirement System (CERS) plan.

**Police and Fire Pension Fund**

The City of Henderson Police and Fire Pension Fund (a contributory defined benefit plan) was created by state statute. It covers all of the employees of the police and fire departments who elected not to transfer to the CERS plan.

**Health Reimbursement Arrangement (HRA) Plan Fund**

The City of Henderson HRA Plan Fund was created by ordinance. It covers all employees enrolled in the City's health insurance plan. The HRA Fund reimburses participants for health insurance plan deductible and co-insurance expenses up to the amount in an individual participant's account balance.

**E. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, department, and division. Transfers of appropriations between departments require the approval of the Board of Commissioners. The legal level of budgetary control is the department level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are allowed to lapse and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**F. Deposits and Investments**

Cash consists of cash on hand and demand deposit accounts with commercial banks. The term, cash equivalents, refers to short-term investments with original maturities of three months or less from the date of acquisition.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

City ordinance requires that all City deposits be secured by bonds or other securities of the United States Government or its agencies, or by other certificates of indebtedness of cities or corporations, which shall have a fair value equal to or greater than the amount on deposit.

Investments are reflected at fair value based on quoted market prices in all funds. The market quotations are obtained from national security exchanges or other published sources.

Kentucky Revised Statutes Chapter 66.480 permits the City to invest in U. S. Treasury obligations, U. S. Agency obligations, certain federal instruments, repurchase agreements, commercial banks' certificates of deposit, and savings and loan deposits, among other investments.

**G. Restricted Assets**

Restricted assets consist of cash of the Debt Service Fund, which is restricted to the uses mandated by bond indentures; cash and a receivable of the Capital Projects Fund, which funds came from the issuance of general obligations bonds of the City, which were loaned or to be loaned to Henderson Water Utility for capital projects; cash of certain nonmajor governmental funds subject to legal restrictions; and investments and accrued interest of the Cemetery Fund, a nonmajor governmental fund, which are restricted by state law for cemetery perpetual care.

**H. Short-term Interfund Balances**

On the fund financial statements, short-term interfund advances are classified as “due to/from other funds” on the balance sheet. These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets. 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.

**I. Interfund Activity**

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues. Exchange transactions between funds are reported as revenues in the seller’s funds and as expenditures/expenses in the purchaser funds, and are not eliminated in the process of consolidation. Flows of goods from one fund to the other without a requirement for



**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in the proprietary funds.

**J. Inventories**

Inventories in the Gas Fund are valued at cost, using the average cost method. Inventories in the Governmental Funds are valued at cost, using the first-in/first-out (FIFO) method. Inventories of Governmental Funds are recorded as expenditures when consumed rather than when purchased.

**K. Capital Assets**

All capital assets are capitalized at cost, or estimated historical cost, and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City’s infrastructure consists of bridges, roads, culverts, curbs, sidewalks, and streets. Improvements are capitalized; the cost of normal maintenance and repairs that do not add value to the asset, or materially extend the useful life of the asset, are not. Interest costs incurred during the construction of capital assets of business-type activities are also capitalized.

All reported capital assets are depreciated, with the exception of land and artwork. Depreciation is computed using the straight-line method over the following useful lives:

<u>Item</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Improvements	20 years	20 years
Machinery and equipment	5-10 years	5-10 years
Buildings	25-50 years	25-50 years
Gas system	N/A	33 years
Vehicles	5 years	5 years
Infrastructure	40 years	N/A

**L. Compensated Absences**

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

recorded as long-term debt and an expense in the government-wide financial statements. In the fund financial statements, the governmental funds report the liability for compensated absences only if it has matured, for example, as a result of employee resignations and retirements. Proprietary funds report the liability as incurred since it is immaterial. In accordance with the provisions of Governmental Accounting Statement No. 16, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" upon retirement.

**M. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities, once incurred, are paid in a timely manner and in full from current financial obligations of the funds. However, claims and judgments, and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statement only to the extent that they are due for payment during the current year. Capital leases and long-term loans are recognized as a liability in the fund financial statements when due.

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the balance of any borrowings related to the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**O. Property Taxes**

Property taxes are levied as of the beginning of the fiscal year on property values assessed as of the preceding January 1<sup>st</sup>. Property tax bills are mailed in the Fall of the year. The property tax bills are considered past due at the end of the first business day following the New Year, at which time the applicable property is subject to lien, and penalties and interest are assessed.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**P. Operating Revenues and Expenses**

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

**Q. Use of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**2. INVESTMENTS**

As of June 30, 2011, the City had the following investments:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Investment Maturities (in Years)</b>			
		<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>
U.S. Government Agencies	\$ 1,698,609	\$ -	\$ 435,352	\$ 936,322	\$ 326,935
U.S. Government Money Market	1,011,226	1,011,226	-	-	-
U.S. Treasury Obligations	334,870	300,000	34,870	-	-
Bank Certificates of Deposit	3,880,096	1,455,675	2,323,095	101,326	-
Total	<u>\$ 6,924,801</u>	<u>\$ 2,766,901</u>	<u>\$ 2,793,317</u>	<u>\$ 1,037,648</u>	<u>\$ 326,935</u>

Investments by Funds:

General Fund	\$ 2,073,392
Nonmajor Governmental Funds	140,743
Gas Fund	2,498,295
Sanitation Fund	2,212,371
Total per Statement of Net Assets	<u>\$ 6,924,801</u>

**Interest rate risk.** The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits the types of investments in which the City may invest its funds. The City believes it is in compliance with the law in this matter and has no investment policy that would further limit its investment choices. The City's investments in the bonds of U.S. Government Agencies are all rated Aaa by Moody's.

**Concentration of credit risk.** The City places no limit on the amount it may invest in any one investment. More than five percent of the City's investments are in bonds issued by the Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Bank (FHLB), and Federal National Mortgage Association (FNMA), which are 6.71%, 5.39%, and 10.07%, respectively, of the City's total investments.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**3. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

As of June 30, 2011, interfund receivables and payables and the composition of internal balances shown on the statement of net assets consist of the following:

	Due From Other Funds	Due To Other Funds	Internal Balances
<u>Governmental Activities:</u>			
General Fund	\$ 368,600	\$ (1,026,973)	\$ (658,373)
Capital Projects Fund	-	(343,665)	(343,665)
Nonmajor Governmental Funds	129,398	(24,935)	104,463
Total Governmental Activities	<u>\$ 497,998</u>	<u>\$ (1,395,573)</u>	<u>\$ (897,575)</u>
<u>Business-type Activities:</u>			
Gas Fund	\$ 812,548	\$ -	\$ 812,548
Sanitation Fund	85,027	-	85,027
Total Business-type Activities	<u>\$ 897,575</u>	<u>\$ -</u>	<u>\$ 897,575</u>
 Total all funds	 <u>\$ 1,395,573</u>	 <u>\$ (1,395,573)</u>	

As of June 30, 2011, interfund transfers consist of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>		
		Totals	General Fund	Capital Projects Fund
General Fund	\$ 1,400,000	\$ -	\$ -	\$ (1,400,000)
Debt Service Fund	1,811,738	(462,000)	(1,349,738)	-
Capital Projects Fund	1,047,945	(1,047,945)	-	-
Nonmajor Governmental Funds	1,427,078	(1,427,078)	-	-
Sanitation Fund	194,000	(194,000)	-	-
Totals	<u>\$ 5,880,761</u>	<u>\$ (3,131,023)</u>	<u>\$ (1,349,738)</u>	<u>\$ (1,400,000)</u>

The Gas Fund transfers to the General Fund were to subsidize general fund operations. Transfers from the General Fund and Capital Projects Fund to various other funds were to subsidize the operations of those funds.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

**4. CAPITAL ASSETS**

**Capital asset activity for the fiscal year ended June 30, 2011 was as follows:**

<b>Primary Government</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 4,027,408	\$ 300,000	\$ (825,000)	\$ 3,502,408
Artwork	196,500	-	-	196,500
Total	<u>4,223,908</u>	<u>300,000</u>	<u>(825,000)</u>	<u>3,698,908</u>
<u>Capital assets being depreciated:</u>				
Buildings	8,892,489	235,357	(98,237)	9,029,609
Improvements	4,240,815	-	-	4,240,815
Vehicles, machinery, and equipment	10,299,388	1,026,795	(30,934)	11,295,249
Infrastructure	64,781,509	-	-	64,781,509
Total	<u>88,214,201</u>	<u>1,262,152</u>	<u>(129,171)</u>	<u>89,347,182</u>
<u>Less accumulated depreciation for:</u>				
Buildings	(2,797,541)	(183,808)	64,855	(2,916,494)
Improvements	(2,531,636)	(150,386)	-	(2,682,022)
Vehicles, machinery, and equipment	(8,880,051)	(639,430)	30,484	(9,488,997)
Infrastructure	(48,372,127)	(1,619,538)	-	(49,991,665)
Total	<u>(62,581,355)</u>	<u>(2,593,162)</u>	<u>95,339</u>	<u>(65,079,178)</u>
Total governmental activities, net	<u>\$ 29,856,754</u>	<u>\$ (1,031,010)</u>	<u>\$ (858,832)</u>	<u>\$ 27,966,912</u>
<b>Business-type Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 114,815	\$ -	\$ -	\$ 114,815
<u>Capital assets being depreciated:</u>				
Buildings	561,065	-	-	561,065
Vehicles, machinery, and equipment	1,624,548	99,530	(167,346)	1,556,732
Gas system, vehicles, and equipment	8,311,858	169,677	(100,867)	8,380,668
Total	<u>10,497,471</u>	<u>269,207</u>	<u>(268,213)</u>	<u>10,498,465</u>
<u>Less accumulated depreciation for:</u>				
Buildings	(342,954)	(21,032)	-	(363,986)
Vehicles, machinery, and equipment	(1,433,322)	(82,585)	167,346	(1,348,561)
Gas system, vehicles, and equipment	(5,738,936)	(213,384)	97,292	(5,855,028)
Total	<u>(7,515,212)</u>	<u>(317,001)</u>	<u>264,638</u>	<u>(7,567,575)</u>
Total business-type activities, net	<u>\$ 3,097,074</u>	<u>\$ (47,794)</u>	<u>\$ (3,575)</u>	<u>\$ 3,045,705</u>

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

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

Governmental activities:

Administration	\$ 15,654
Finance	25,171
Mass transit	111,994
Parks and recreation	213,851
Police	198,820
Fire	116,752
Public works	<u>1,910,920</u>
Total depreciation expense, governmental activities	<u><u>\$ 2,593,162</u></u>

Business-type activities

Gas	\$ 213,384
Sanitation	<u>103,617</u>
Total depreciation expense, business-type activities	<u><u>\$ 317,001</u></u>

Component units' capital asset activity was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Henderson Municipal Power &amp; Light</b>				
Utility plant and equipment	\$ 220,591,648	\$ 2,711,833	\$ -	\$ 223,303,481
Less accumulated depreciation	<u>(152,089,657)</u>	<u>(5,029,630)</u>	<u>-</u>	<u>(157,119,287)</u>
Capital assets, net	<u><u>\$ 68,501,991</u></u>	<u><u>\$ (2,317,797)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 66,184,194</u></u>
<b>Henderson Water Utility</b>				
Utility plant and equipment	\$ 82,971,788	\$ 12,476,369	\$ (3,145,105)	\$ 92,303,052
Less accumulated depreciation	<u>(38,440,745)</u>	<u>(2,465,606)</u>	<u>-</u>	<u>(40,906,351)</u>
Capital assets, net	<u><u>\$ 44,531,043</u></u>	<u><u>\$ 10,010,763</u></u>	<u><u>\$ (3,145,105)</u></u>	<u><u>\$ 51,396,701</u></u>

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

**5. LONG-TERM DEBT**

The following is a summary of long-term debt activity for the City for the fiscal year ended June 30, 2011:

<b>Governmental Activities:</b>	<b>Balance June 30, 2010</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2011</b>	<b>Amounts due in One Year</b>
G. O. Bonds Series 2007	\$ 4,535,000	\$ -	\$ (245,000)	\$ 4,290,000	\$ 260,000
G. O. Bonds Series 2010A	-	10,125,000	-	10,125,000	420,000
G. O. Bonds Series 2010B	-	3,605,000	(20,000)	3,585,000	275,000
KADD-Riverfront	745,000	-	(745,000)	-	-
KADD-Police Station	660,000	-	(660,000)	-	-
<b>Total capital leases and bonds payable</b>	<b>5,940,000</b>	<b>13,730,000</b>	<b>(1,670,000)</b>	<b>18,000,000</b>	<b>955,000</b>
Compensated absences	1,327,978	709,598	(664,310)	1,373,266	660,000
Net civil service pension obligation	77,313	109,851	(152,624)	34,540	-
HRA Fund unfunded obligation	115,932	129,068	-	245,000	-
<b>Total governmental activities</b>	<b>\$ 7,461,223</b>	<b>\$ 14,678,517</b>	<b>\$ (2,486,934)</b>	<b>\$ 19,652,806</b>	<b>\$ 1,615,000</b>

As of June 30, 2011 governmental long-term debt of the City consisted of the following:

**A. General Obligation Bonds – Series 2007**

During the year ended June 30, 2007, the City issued \$5,230,000 to advance refund the outstanding KADD loan dated March 9, 2000, to pay costs of construction of a new fire station, acquisition and development of additional riverfront property near downtown, and other allowable expenditures. This obligation matures in April 2027. Interest rates range from 3.63 % to 4.00%. Interest is due in semi-annual installments. The obligation is secured by property taxes. The following is a summary of scheduled payments as of June 30, 2011:

<b>June 30th:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Interest Rates</b>
2012	\$ 260,000	\$ 164,080	\$ 424,080	3.63%
2013	265,000	154,656	419,656	3.63%
2014	275,000	145,050	420,050	3.65%
2015	285,000	135,013	420,013	3.70%
2016	300,000	124,467	424,467	3.75%
2017 to 2021	1,680,000	443,516	2,123,516	3.75% to 3.88%
2022 to 2026	1,005,000	167,600	1,172,600	4.00%
2027	220,000	8,800	228,800	4.00%
<b>Totals</b>	<b>\$ 4,290,000</b>	<b>\$ 1,343,182</b>	<b>\$ 5,633,182</b>	



**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**B. General Obligation Bonds – Series 2010A**

During the year ended June 30, 2011, the City issued \$10,125,000 Build America Bonds to pay a portion of the costs of acquisition, construction, and installation of additions and improvements to the City’s combined and consolidated municipal water, sanitary sewer, and storm sewer system, including the installation of new water and sanitary sewer lines and the conversion of existing sanitary sewer lines to storm sewer lines in downtown Henderson, Kentucky and to pay other allowable expenditures including issuance costs. This obligation matures in November 2030. Interest rates range from 1.00 % to 5.50%. Interest is due in semi-annual installments. The net interest reflected below is net of the actual interest payment and the subsidy payment from the federal government which is equal to 35% of the amount of each interest payment. The obligation is secured by property taxes. The following is a summary of scheduled payments as of June 30, 2011:

<u>June 30th:</u>	<u>Principal</u>	<u>Interest</u>	<u>IRS Direct Pay</u>	<u>Net Interest</u>	<u>Total</u>	<u>Interest Rates</u>
2012	\$ 420,000	\$ 396,325	\$ (138,714)	\$ 257,611	\$ 677,611	1.00%
2013	420,000	391,915	(137,170)	254,745	674,745	1.10%
2014	425,000	386,630	(135,320)	251,310	676,310	1.40%
2015	430,000	380,108	(133,038)	247,070	677,070	1.65%
2016	435,000	372,210	(130,274)	241,936	676,936	2.00%
2017 to 2021	2,290,000	1,682,580	(588,903)	1,093,677	3,383,677	2.30% to 3.85%
2022 to 2026	2,605,000	1,197,325	(419,064)	778,261	3,383,261	4.10% to 5.50%
2027 to 2031	3,100,000	438,350	(153,422)	284,928	3,384,928	5.50%
Totals	<u>\$ 10,125,000</u>	<u>\$ 5,245,443</u>	<u>\$ (1,835,905)</u>	<u>\$ 3,409,538</u>	<u>\$ 13,534,538</u>	

**C. General Obligation Bonds – Series 2010B**

During the year ended June 30, 2011, the City issued \$3,605,000 to currently refund and redeem the outstanding City of Ewing, Kentucky, Kentucky Area Development Districts Financing Trust, Lease Acquisition Program Revenue Bonds, Fixed Rate Series 2000H (funding for the City of Henderson, Kentucky), dated July 20, 2000 (the “2000H Obligations”), being bonds maturing on December 1, 2011 – 2016 and term bonds maturing on December 1, 2022, in the total principal amount of \$1,310,000, by providing for the City’s prepayment of its lease rental payments pursuant to two lease agreements between the Kentucky Area Development Districts Financing Trust and the City securing the 2000H Obligations, in order to derive debt service savings. This debt was recorded in the records of the City as KADD-Riverfront lease payable and KADD-Police Station lease payable.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

Proceeds were also used to advance refund and redeem the outstanding City of Ewing, Kentucky, Kentucky Area Development Districts Financing Trust, Lease Acquisition Program Revenue Bonds, Fixed Rate Series 2000Y (funding for the City of Henderson, Kentucky), dated July 20, 2000 (the “2000Y Obligations”), being bonds maturing on December 1, 2015 and term bonds maturing on December 1, 2012, 2014, 2017, 2019, and 2023, in the principal amount of \$1,470,000, by providing for the City’s prepayment of its lease rental payments pursuant to a lease agreement dated December 31, 2003, between the Kentucky Area Development Districts Financing Trust and the City securing the 2000Y Obligations, in order to derive debt service savings. This debt was recorded in the records of Henderson Water Utility as KADD 2002-Canoe Creek lease payable.

Proceeds in the amount of \$650,000 were also used to reimburse the City for its payment on December 15, 2010, of the City’s General Obligation Bond Anticipation Note Series 2008C (the “2008C Note”), which was outstanding in the principal amount of \$1,583,737 and which matured on December 15, 2010 and to pay other allowable expenditures including issuance costs.

This obligation matures in November 2023. Interest rates range from 2.00 % to 3.50%. Interest is due in semi-annual installments. The obligation is secured by property taxes. The following is a summary of scheduled payments as of June 30, 2011:

<u>June 30th:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Interest Rates</u>
2012	\$ 275,000	\$ 85,774	\$ 360,774	2.00%
2013	275,000	80,274	355,274	2.00%
2014	285,000	74,674	359,674	2.00%
2015	285,000	68,974	353,974	2.00%
2016	295,000	63,174	358,174	2.00%
2017 to 2021	1,580,000	210,056	1,790,056	2.00% to 3.00%
2022 to 2024	590,000	30,897	620,897	3.25% to 3.50%
Totals	<u>\$ 3,585,000</u>	<u>\$ 613,823</u>	<u>\$ 4,198,823</u>	

The following is an aggregate summary of debt service requirements for the City of Henderson as of June 30, 2011:

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

<u>June 30th:</u>	<u>Principal</u>	<u>Interest</u>	<u>IRS Direct Pay</u>	<u>Net Interest</u>	<u>Total</u>
2012	\$ 955,000	\$ 646,180	\$ (138,714)	\$ 507,466	\$ 1,462,466
2013	960,000	626,845	(137,170)	489,675	1,449,675
2014	985,000	606,354	(135,320)	471,034	1,456,034
2015	1,000,000	584,095	(133,038)	451,057	1,451,057
2016	1,030,000	559,851	(130,274)	429,577	1,459,577
2017 to 2021	5,550,000	2,336,152	(588,903)	1,747,249	7,297,249
2022 to 2026	4,200,000	1,395,822	(419,064)	976,758	5,176,758
2027 to 2031	3,320,000	447,149	(153,422)	293,727	3,613,727
Totals	<u>\$ 18,000,000</u>	<u>\$ 7,202,448</u>	<u>\$ (1,835,905)</u>	<u>\$ 5,366,543</u>	<u>\$ 23,366,543</u>

**Henderson Water Utility (HWU)**

The City is contingently liable for the long-term debt of its component unit, Henderson Water Utility. The long-term debt of Henderson Water Utility consists of the following as of June 30, 2011:

	Balance June 30,			Balance June 30,	Amounts due
<u>Governmental Activities:</u>	<u>2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>2011</u>	<u>in One Year</u>
Series 2004A Water and Sewer	\$ 2,750,000	\$ -	\$ (510,000)	\$ 2,240,000	\$ 530,000
Series 2006A Water and Sewer	4,270,000	-	(175,000)	4,095,000	180,000
Due to City of Henderson-2010A	-	6,125,949	-	6,125,949	420,000
Due to City of Henderson-2010B	-	1,591,251	(13,638)	1,577,613	105,246
Kentucky Infrastructure Authority Assistance Agreement	2,625,892	-	(113,096)	2,512,796	117,896
Total	<u>9,645,892</u>	<u>7,717,200</u>	<u>(811,734)</u>	<u>16,551,358</u>	<u>1,353,142</u>
Less: Unamortized deferred loss on defeasance of bonds	(96,075)	(95,962)	43,513	(148,524)	
Total long-term debt	<u>\$ 9,549,817</u>	<u>\$ 7,621,238</u>	<u>\$ (768,221)</u>	<u>\$ 16,402,834</u>	

Principal and interest requirements to retire Henderson Water Utility's long-term obligations as of June 30, 2011 were as follows:

<u>Fiscal year ended June 30th:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,353,142	\$ 636,932	\$ 1,990,074
2013	1,218,721	551,445	1,770,166
2014	1,250,270	514,102	1,764,372
2015	1,296,837	473,914	1,770,751
2016	723,465	442,589	1,166,054
2017-2021	3,968,110	1,846,357	5,814,467
2022-2026	4,454,384	1,034,417	5,488,801
2027-2031	2,286,429	238,860	2,525,289
Totals	<u>\$ 16,551,358</u>	<u>\$ 5,738,616</u>	<u>\$ 22,289,974</u>

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

Other information on Henderson Water Utility’s long-term indebtedness is summarized below:

	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Principal Balance</u>	<u>Security</u>
Water and Sewer Refunding Revenue Bonds, Series 2004A	3.35% - 3.75%	11/1/2014	\$2,240,000	Utility Revenue
Water and Sewer Refunding Revenue Bonds, Series 2006A	3.65% - 4.375%	11/1/2026	\$4,095,000	Utility Revenue
Kentucky Infrastructure Authority Assistance Agreement B94-03	4.20%	12/1/2026	\$2,512,797	Utility Revenue
Due to City of Henderson-2010A	1.10% - 5.50%	11/1/2030	\$6,125,949	Unsecured
Due to City of Henderson-2010B	2.00% - 3.50%	11/1/2023	\$1,577,613	Unsecured

Henderson Water Utility entered into a lease agreement to finance the Stormwater project. This lease qualifies as capital lease for accounting purposes and, therefore, the related assets have been recorded at the present value of the future minimum lease payments as of the dates of the agreement, which totaled \$2,475,000. The capitalized amount of the lease is being amortized over the life of the assets and is reported as depreciation expense.

The following is a summary of future lease payments required as of June 30, 2011:

<u>For the fiscal year ending June 30</u>	<u>KADD 2005-Stormwater</u>
2012	\$ 167,950
2013	164,975
2014	171,600
2015	163,113
2016	169,513
2017 to 2021	840,801
2022 to 2026	846,375
2027 to 2030	<u>666,125</u>
Total minimum lease payments*	\$ 3,190,452
Less amount representing interest	<u>(1,110,452)</u>
Present value of future minimum lease payments	<u>\$ 2,080,000</u>

\* Interest rates on the capital lease range from 4.0% to 5.0% and is imputed based on the lower of Henderson Water Utility’s incremental borrowing rate at the inception of the lease or the lessor’s implicit rate of return.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Restricted Assets Applicable To HWU**

In the Capital Projects Fund of the City are restricted assets applicable to HWU.

The City issued General Obligation Bonds Series 2010A in the face amount of \$10,125,000, which proceeds were to be loaned to HWU to fund a capital sewer project. As of June 30, 2011, \$6,125,949 had been loaned to HWU. The remaining balance of \$3,999,051 was held in a restricted cash bank account and was subsequently loaned to HWU after fiscal year end.

The City issued General Obligation Bonds Series 2010B in the face amount of \$3,605,000. Of that amount, \$1,591,251 was loaned to HWU, which was applied to advance refund a KADD 2002-Canoe Creek lease payable.

HWU will repay the loans from the City by paying the City the underlying G.O. Bonds debt service payments until the bonds are retired. Prior to fiscal year end, HWU paid the City the required interest payments on both loans and \$13,638 of principal on the G.O. Bonds Series 2010B.

The following is a summary of restricted assets applicable to HWU for the fiscal year ended June 30, 2011, as recorded in the Capital Projects Fund:

<u>Restricted Assets</u>	<u>G.O. Bonds Payable Series 2010A</u>	<u>G.O. Bonds Payable Series 2010B</u>	<u>Total</u>
Cash	\$ 3,999,051	\$ -	\$ 3,999,051
Receivable from HWU:			
Due in one year	252,000	105,246	357,246
Due after one year	5,873,949	1,472,367	7,346,316
Total	<u>\$ 10,125,000</u>	<u>\$ 1,577,613</u>	<u>\$ 11,702,613</u>

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**6. BOND ANTICIPATION NOTES**

**City of Henderson**

The following is a summary of short-term debt activity for the City for the fiscal year ended June 30, 2011, as recorded in the Capital Projects Fund:

<u>Bond Anticipation Notes (BAN)</u>	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>
G. O. BAN Series 2008C	\$ 1,583,737	\$ -	\$ (1,583,737)	\$ -

**Henderson Municipal Power & Light (HMPL)**

The following is a summary of short-term debt activity for HMPL for the fiscal year ended June 30, 2011:

<u>Bond Anticipation Notes (BAN)</u>	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>
G. O. BAN Series 2008A	\$ 2,313,874	\$ 1,081,147	\$ -	\$ 3,395,021
G.O. BAN Series 2008B	3,068,305	1,461,147	-	4,529,452
G.O. BAN Series 2010A	51,062	-	-	51,062
	<u>\$ 5,433,241</u>	<u>\$ 2,542,294</u>	<u>\$ -</u>	<u>\$ 7,975,535</u>

HMPL issued bond anticipation notes through an area financial institution. A summary of the obligations is as follows:

City of Henderson, Kentucky, General Obligation Bond Anticipation Note Series 2008A; maximum advance of \$3,500,000, or the outstanding principal, whichever is less, due December 1, 2011. Interest shall accrue based on the 30-day LIBOR, plus 2%, with the rate adjustable on a monthly basis. Interest is due on June 1<sup>st</sup> and December 1<sup>st</sup>. \$3,395,021

City of Henderson, Kentucky, General Obligation Bond Anticipation Note Taxable Series 2008B; maximum advance of \$9,000,000, or the outstanding principal, whichever is less, due December 1, 2011. Interest shall accrue based on the 30-day LIBOR, plus 2%, with a rate adjustable on a monthly basis. Interest is due on June 1<sup>st</sup> and December 1<sup>st</sup>. \$4,529,452

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

City of Henderson, Kentucky, General Obligation Bond Anticipation Note Series 2010A; maximum advance of \$1,500,000, or the outstanding principal, whichever is less. Interest shall accrue based on the 30-day LIBOR, plus 1.75%, with the rate adjustable on a monthly basis. Interest is due on June 1<sup>st</sup> and December 1<sup>st</sup>.

\$ 51,062

Total principal balance payable at May 31, 2011:

\$ 7,975,535

Each of the above obligations is secured by a pledge of the revenues of HMPL. HMPL intends to issue bonds in the near future and proceeds from the bond issue will be used to retire the above notes.

**7. CONDUIT DEBT**

From time to time the City has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The Bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the City of Henderson, nor any of its political subdivisions are obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2011, there were three series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$105,707,500.

**8. COMPENSATED ABSENCES**

**Vacation Leave**

City employees, other than police and fire department employees, generally earn vacation leave at the rate of 10/12 of a working day per month for the first four years of employment.

Police department employees get 15 working days per year vacation after one year's service. Fire department employees get 10 working days after one year's service.

At the end of four years an additional working day per year is accumulated up to a maximum vacation leave of 40 working days. One hundred percent of unused vacation leave is paid at retirement, formal resignation, or death.

**Sick Leave**

City employees accumulate sick leave at the rate of one day per month up to a maximum of two hundred forty days. Unused sick leave is forfeited upon termination or death. At retirement, individuals are paid one day's pay for each four days of unused sick leave.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

Accumulated unpaid vacation pay and sick pay are not accrued in the proprietary funds (accrual basis) since they are not significant at year-end.

Such compensated absences are not accrued in governmental funds (unless they have matured), which use the modified accrual basis of accounting, but instead are recorded in the (accrual basis) government-wide Statement of Net Assets. At June 30, 2011 these governmental activities liabilities included \$1,373,266 of vacation pay and sick pay, and are included in the Statement of Net Assets as noncurrent liabilities. Compensated absences are liquidated primarily by the General Fund.

**9. PUBLIC ENERGY AUTHORITY OF KENTUCKY (PEAK)**

PEAK is a Natural Gas Acquisition Authority created under the laws of the Commonwealth of Kentucky. It was created for the purpose of providing natural gas acquisition, delivery, and other related services for its members, which includes the City. PEAK is not a component unit of the City because 1) it is a separate legal entity, 2) PEAK is fiscally independent from the City, and 3) the board of directors of PEAK is structured in a manner that the City cannot exercise majority control over the organization.

PEAK has issued gas revenue bonds to finance the cost of acquisition by PEAK of prepaid supplies of natural gas. PEAK is solely responsible for repayment of the gas revenue bonds. The City has no liability for repayment of the gas revenue bonds issued by PEAK.

The City has entered into long term natural gas supply contracts with PEAK whereby the City is obligated to purchase specified quantities of natural gas from PEAK. The City purchases all of its natural gas supplies from PEAK.

PEAK issues separate audited financial statements, which are available through its administrative offices at the following address:

Public Energy Authority of Kentucky  
516 Highland Avenue  
Carrollton, Kentucky 41008

Summarized totals for PEAK for its fiscal year ended June 30, 2011, from its audited financial statements are:

Assets	\$ 1,615,957,994
Costs recoverable from members	\$ 112,716,561
Liabilities	\$ 1,613,230,744
Net assets	\$ 2,727,250



**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**10. GAS STORAGE LIABILITY**

The City has the right to withdraw 300,000 MMBtu's of natural gas from the gas storage reserves belonging to the City's gas transmission pipeline company. Any gas so withdrawn by the City must be replaced by November 1<sup>st</sup>, the beginning of the operating year of the Gas Fund. As of June 30, 2011, the estimated amount of this gas storage liability was \$380,750.

**11. CONCENTRATION OF SALES**

**Henderson Municipal Gas**

For the fiscal year ended June 30, 2011, five industrial customers accounted for \$8,811,610 in gas sales, which represents 46% of the operating revenues of the Gas Fund.

**Henderson Municipal Power and Light**

All of the sales generated by Station Two (\$21,148,276 for fiscal 2011) are exclusively to the Station Two Operator per the contract in force. Three industrial customers from the Existing System accounted for sales in the amount of \$8,741,000 (27% of Existing System sales) for the fiscal year ended May 31, 2011.

**Henderson Water Utility**

For the fiscal year ended June 30, 2011, three industrial customers accounted for \$7,589,460 in sales and surcharges for approximately 47% of HWU's total operating revenues.

**12. JOINT VENTURE AND TRANSFER STATION OPERATING AGREEMENT**

The City of Henderson and County of Henderson were equal participants in the operation of a solid waste transfer station. This joint venture was established on June 27, 1995.

On August 24, 1999, the City of Henderson and County of Henderson entered into an agreement with a private contractor to haul and dispose of the solid waste for the City and County. The term of the contract was for a period of eight years, commencing on June 1, 1999 and ending on May 31, 2007. The City and County had the option to renew for five consecutive four-year terms upon the same terms and conditions contained in the initial contract. The contractor will be paid the fixed sum of \$7,925 per month to operate the transfer station. The contractor will haul the solid waste to its own contained landfill at the base rate of \$10.00 per ton for hauling and \$16.00 per ton for disposal for both parties. In addition, the contractor has agreed to provide the City with 22,000 tons of free airspace in its landfill spread over the life of the 28-year

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

agreement. The City and County exercised their option to renew the agreement for an additional four-year term upon the same terms and conditions contained in the initial contract.

The City and County agreed to end the transfer station joint venture. Effective July 1, 2008, the City assumed the assets, liabilities, and other obligations of the transfer station, which were merged into the City's Sanitation Fund. The City agreed to provide all county residents with free use of the transfer station and the City's landfill. The County agreed to pay the City \$85,000 on the first day of July each fiscal year, beginning July 1, 2008, plus a 2 ½% annual cost of living adjustment each year during the term of the agreement. The initial term of the agreement is for a five year period beginning July 1, 2008 and ending June 30, 2013, with automatic renewal options for four successive five year terms, unless either party terminates the agreement.

**13. LANDFILL CLOSURE AND POST CLOSURE COSTS**

On July 1, 1998, the City Commission transferred the primary responsibility for operations of the City's solid waste landfill from the General Fund to the Sanitation Fund, and the related liability for landfill closure and post closure costs. As of June 30, 2011, the Sanitation Fund was in a deficit position because its assets were inadequate to cover estimated landfill closure costs. The deficit will be recovered from future revenues.

The City temporarily terminated its landfill operations on June 30, 1995 due to the increased costs mandated by federal regulations. However, during the year ended June 30, 1997, the City was awarded a permit to accept commercial construction debris only. The City will continue to accept construction debris until the space allotted for this operation is used up in its entirety.

State and federal laws and regulations require that the City of Henderson place a final cover on its landfill site and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Post closure care costs will be incurred from the point in time that the landfill ceases to accept any further waste.

The liability reported in the statement of net assets of the Sanitation Fund of \$3,400,000 at June 30, 2011, consists of \$2,230,000 in closure costs, and \$1,170,000 for post closure costs. The amounts are based on engineering estimates and actual costs may be higher due to inflation and technological changes, or changes in state and federal regulations. The cost of landfill closure and postclosure care is allocated based on landfill capacity used to date. The percentage of the landfill's total capacity that has been used to date is 55.3%. The estimated remaining life of the landfill is 19.1 years.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

No costs were incurred towards the related liability, nor was a revision needed for the closure costs estimate, due to the fact that the City’s consulting engineers determined that the landfill was in compliance and there was no immediate work necessary.

The estimated liability consists of the following at June 30, 2011:

	<u>Estimated Closure Liability</u>	<u>Estimated Post-Closure Liability</u>	<u>Total</u>
June 30, 2010	\$ 2,230,000	\$ 1,170,000	\$ 3,400,000
Costs applied	-	-	-
Revision to estimate	-	-	-
June 30, 2011	<u>\$ 2,230,000</u>	<u>\$ 1,170,000</u>	<u>\$ 3,400,000</u>

**14. CONTINGENCIES**

The City is a defendant or plaintiff in lawsuits, which have arisen in the normal course of operations. While certain lawsuits involve substantial amounts, it is the opinion of management based on the advice of legal counsel, that the ultimate resolution of such litigation will not have a material adverse effect on the financial position of the City.

Under the terms of certain Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under terms of the grants. Such audits may lead to reimbursement of the grant monies to the respective grantor agency. Management of the City believes that any disallowance would be immaterial.

**15. RISK MANAGEMENT**

The City of Henderson 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. The City carries commercial insurance for these types of risks of loss, including workers’ compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**16. HEALTH INSURANCE PLAN**

Effective July 1, 1986, the City began its own health insurance plan which covers all employees of the City. HMPL and HWU also participate in the City’s health plan. Under the terms of this Plan, maximum amounts of coverage vary depending on the type of claim. However, the City is

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

only responsible for a maximum of \$140,000 per claim, per employee, under any circumstances. Any claim, which exceeds \$140,000, is covered by an aggregate stop loss policy, which will cover up to 125% of expected claims for the current year. The City remits payments to the administrator on a weekly basis. A management fee is paid on a monthly basis.

All departments or other entities, which have employees participating in this Plan, bear a portion of the cost of the Plan based on the number of employees in that department or entity.

Amounts payable for claims are based on estimates as calculated by the City’s third-party administrator. The Plan established liabilities based on the estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported, based on historical experience. The following represents a summary of changes in the liability for the last ten fiscal years including the year ended June 30, 2011:

	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims &amp; Changes In Estimates</u>	<u>Claim Payments</u>	<u>End of Fiscal Year Liability</u>
2001-2002	\$ 788,801	\$ 3,808,880	\$ (3,949,617)	\$ 648,064
2002-2003	\$ 648,064	\$ 3,926,978	\$ (3,698,358)	\$ 876,684
2003-2004	\$ 876,684	\$ 4,541,901	\$ (4,719,970)	\$ 698,615
2004-2005	\$ 698,615	\$ 5,121,768	\$ (4,994,685)	\$ 825,698
2005-2006	\$ 825,698	\$ 4,458,456	\$ (4,677,761)	\$ 606,393
2006-2007	\$ 606,393	\$ 4,470,924	\$ (4,464,673)	\$ 612,644
2007-2008	\$ 612,644	\$ 4,617,270	\$ (4,411,052)	\$ 818,862
2008-2009	\$ 818,862	\$ 4,285,935	\$ (4,258,617)	\$ 846,180
2009-2010	\$ 846,180	\$ 6,403,384	\$ (6,175,740)	\$ 1,073,824
2010-2011	\$ 1,073,824	\$ 6,176,637	\$ (6,310,101)	\$ 940,360

The financial transactions of the Plan are recorded in the Health Insurance Fund, which is an internal service fund of the City. As of June 30, 2011, the Health Insurance Fund was in a deficit position due to user charges being inadequate to cover estimated liabilities for claims. The City intends to recover these amounts via increased charges to users in future fiscal periods.

**17. HEALTH REIMBURSEMENT ARRANGEMENT (HRA) PLAN**

In order to control increasing health care costs, effective January 1, 2006, the City made changes to its health insurance plan, which resulted in employees paying an increased share of their health care expenses. In order to help their employees pay for these increased health care expenses, the City established a Health Reimbursement Arrangement (HRA) Plan and Trust that will reimburse employees for health insurance plan deductible and co-insurance expenses up to the amount in an individual participant’s account balance. Every year, the HRA Plan will credit each employee in the amount of \$250 for a single participant and \$500 for a family coverage

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

participant in the health insurance plan. At the end of a plan year, any unused benefits in an HRA Plan account will be carried forward for use in the subsequent year. As of June 30, 2011, the City has an unfunded obligation to the HRA Plan of \$245,000, which the City will fund in future fiscal periods.

**18. RETIREMENT PLANS**

The City of Henderson has two pension plans that it sponsors: the City of Henderson Civil Service Plan, and the City of Henderson Police and Fire Pension Fund. The City of Henderson Civil Service Plan was authorized under City Ordinance, and the Police and Fire Pension Fund is authorized under Kentucky Revised Statutes (KRS). Due to the fact that a vast majority of City employees elected in 1987 to transfer participation from each of these plans to the County Employees Retirement System (CERS), there is only one active participant remaining in the City sponsored plans. The plans do not issue separate financial statements. Contributions to the plans are made in accordance with legal requirements and benefits and refunds are paid in accordance with the plan requirements. The following is a brief description of each plan, along with required supplementary information:

**A. Civil Service Pension Fund**

The plan is a single employer, defined benefit pension plan covering all City employees other than police and fire employees who elected to forego participation in the CERS plan. This plan is authorized by City ordinance. As of June 30, 1987, the plan was closed to new entrants.

**B. Police and Fire Pension Fund**

This plan is a single employer, defined benefit pension plan covering all employees of the police and fire departments who elected to forego participation in the CERS plan. The plan is authorized by KRS 95.621 through 95.629. As of June 30, 1987, the plan was closed to new entrants.

**C. Plan Summary**

The following is a summary of funding policies, contribution methods, and benefit provisions for each plan:

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

	<u><b>Civil Service</b></u>	<u><b>Police and Fire</b></u>
Year established by governing authority	1946	1946
Determination of contribution requirements:		
Employer	5% covered payroll	7.65% covered payroll
Employee	5% covered payroll	7.65% covered payroll
Funding of administrative costs	Absorbed by general fund	Absorbed by general fund
Period required vesting	20 years	20 years
Post-retirement benefit increases	Increases must be approved by the Pension Board	Increases must be approved by the Pension Board
Eligibility for distribution	20 years credited service and 60 years of age, pre 1980 hires, age 62 post 1980 hire	20 years credited service regardless of age
Provision for:		
Disability benefits	Yes	Yes
Death benefits	Yes	Yes

**D. Membership of the Plans**

The following is a schedule of membership of the plans:

	<u><b>Civil Service</b></u>	<u><b>Police and Fire</b></u>
Non-vested active members	0	0
Fully-vested active members	1	0
Retirees and beneficiaries currently receiving benefits	13	22
Total	<u>14</u>	<u>22</u>

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**E. Funded Status and Funding Progress**

	<u>Civil Service Pension Plan</u>	<u>Police &amp; Fire Pension Plan</u>
The funded status of the plans as of June 30, 2011, were as follows:		
Actuarial value of plan assets (a)	\$ (4,527)	\$ (9,631)
Actuarial accrued liability (AAL) (b)	\$ 1,498,608	\$ 4,437,007
Unfunded actuarial accrued liability (UAAL) (b) - (a)	\$ 1,503,135	\$ 4,446,638
Funded ratio (a) / (b)	-0.30%	-0.22%
Covered payroll (active plan members)	\$ 36,899	\$ -
UAAL as a percentage of covered payroll	4073.65%	Not applicable

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

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**F. Annual Pension Costs and Net Pension Obligations (NPO)**

The net pension obligations are liquidated primarily by the General Fund.

The following is a schedule of annual pension costs and net pension obligations (NPO) for the two pension plans of the City:

1) Civil Service Pension Plan:

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Actuarially determined contribution	\$ 111,784	\$ 99,171	\$ 112,188
Interest on NPO	7,733	(478)	3,866
Adjustment to actuarially determined contribution	<u>(12,410)</u>	<u>767</u>	<u>(6,203)</u>
Annual pension costs	107,107	99,460	109,851
Contributions made	<u>(271,333)</u>	<u>(12,586)</u>	<u>(152,624)</u>
Change in NPO	<u>(164,226)</u>	<u>86,874</u>	<u>(42,773)</u>
NPO, beginning of year	<u>154,665</u>	<u>(9,561)</u>	<u>77,313</u>
NPO, end of year	<u><u>\$ (9,561)</u></u>	<u><u>\$ 77,313</u></u>	<u><u>\$ 34,540</u></u>

2) Police and Fire Pension Plan:

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Actuarially determined contribution	\$ 370,618	\$ 385,099	\$ 405,070
Interest on NPO	(26,931)	(22,402)	(6,523)
Adjustment to actuarially determined contribution	<u>60,556</u>	<u>50,372</u>	<u>14,666</u>
Annual pension costs	404,243	413,069	413,213
Contributions made	<u>(291,013)</u>	<u>(16,083)</u>	<u>(424,775)</u>
Change in NPO	<u>113,230</u>	<u>396,986</u>	<u>(11,562)</u>
NPO, beginning of year	<u>(673,280)</u>	<u>(560,050)</u>	<u>(163,064)</u>
NPO, end of year	<u><u>\$ (560,050)</u></u>	<u><u>\$ (163,064)</u></u>	<u><u>\$ (174,626)</u></u>



**CITY OF HENDERSON, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

---

**G. Three Year Trend Information**

1) Civil Service Pension:

<u>Fiscal year Ending</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligations</u>
June 30, 2009	\$ 107,107	253.3 %	\$ (9,561)
June 30, 2010	\$ 99,460	12.7 %	\$ 77,313
June 30, 2011	\$ 109,850	138.9 %	\$ 34,540

2) Police and Fire Pension:

<u>Fiscal year Ending</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligations</u>
June 30, 2009	\$ 404,243	72.0 %	\$ (560,050)
June 30, 2010	\$ 413,069	3.9 %	\$ (163,064)
June 30, 2011	\$ 413,213	102.8 %	\$ (174,626)

**H. Actuarial Assumptions**

An actuarial study was performed on each plan of the City as of June 30, 2011. The method of valuation used for each plan was “entry age normal”. The termination rate used was determined using Scale T-3 from the Actuary’s Pension Handbook. Mortality was determined using the UP 1994 Group Annuity Mortality Table projected to 2002. The following is a summary of key assumptions used for each plan:

	<u>Civil Service</u>	<u>Police and Fire</u>
Rate of return on investment	5.0%	4.0%
Projected salary increases	5.0%	5.0%
Amortization method	Level Dollar	Level Dollar
Remaining amortization period	20 years/closed	20 years/closed
Inflation rate	None	None
Asset valuation method	Market	Market
Cost of living adjustment	Annually	Annually

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

**I. Financial Information-Pension Trust Funds**

Financial information for the City of Henderson's two pension trust funds and the HRA trust fund is reported below for the fiscal year ended June 30, 2011.

**Combining Statement of Fiduciary Net Assets-Pension Trust Funds**  
**June 30, 2011**

	<b>Civil Service Pension Fund</b>	<b>Police &amp; Fire Pension Fund</b>	<b>HRA Fund</b>	<b>Total</b>
<b>ASSETS</b>				
Cash	\$ 485	\$ 369	\$ 198,906	\$ 199,760
Investments	-	-	-	-
Accrued interest receivable	-	-	-	-
Due from other funds	-	-	-	-
Total assets	485	369	198,906	199,760
<b>LIABILITIES</b>				
Accounts payable	5,011	10,000	-	15,011
<b>NET ASSETS</b>				
Held in trust for pension benefits	(4,526)	(9,631)	-	(14,157)
Held in trust for health care benefits	-	-	198,906	198,906
Total net assets	\$ (4,526)	\$ (9,631)	\$ 198,906	\$ 184,749

**Combining Statement of Changes in Fiduciary Net Assets-Pension Trust Funds**  
**For the Fiscal Year Ended June 30, 2011**

<b>ADDITIONS</b>				
Property taxes	\$ 1,517	\$ 2,075	\$ -	\$ 3,592
Contributions:				
Employer	151,106	422,700	-	573,806
Employee	2,106	-	-	2,106
Total contributions	153,212	422,700	-	575,912
Investment Income:				
Interest	67	34	1,005	1,106
Net increase (decrease) in the fair market value of investments	-	-	-	-
Investments fees	-	-	-	-
Total net investment income	67	34	1,005	1,106
Total additions	154,796	424,809	1,005	580,610
<b>DEDUCTIONS</b>				
Benefits paid	231,441	419,046	149,877	800,364
Professional services	2,544	2,813	-	5,357
Total deductions	233,985	421,859	149,877	805,721
Change in net assets	(79,189)	2,950	(148,872)	(225,111)
Net assets, beginning of year	74,663	(12,581)	347,778	409,860
Net assets, end of year	\$ (4,526)	\$ (9,631)	\$ 198,906	\$ 184,749

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**J. County Employees Retirement System, (CERS)**

Substantially all of the City’s full time employees participate in the County Employees Retirement System (CERS). The CERS is a multiple employer, cost sharing, defined benefit pension plan administered by the Board of Trustees of the Kentucky Retirement System (KRS). The CERS provides retirement, health, disability, and death benefits to plan members. Cost of living adjustments (COLA) are provided at the discretion of the State legislature. The Kentucky Revised Statutes assigns the authority to establish and amend benefit provisions to the KRS Board of Trustees. The KRS issues a publicly available financial report that includes financial statements and required supplementary information for the CERS. That report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

**Funding Policy**

Plan members hired prior to September 1, 2008 contribute 5% of their annual creditable compensation, those hired after September 1, 2008 contribute 6%, and the City contributes 16.93% of annual covered payroll. Employees classified as hazardous hired prior to September 1, 2008 contribute 8% of their annual creditable compensation, those hired after September 1, 2008 contribute 9%, while the City contributes 33.25% of annual covered payroll. The contribution requirements of the plan members and the City of Henderson are established and may be amended by the KRS Board of Trustees. Contributions to the CERS for the years ended June 30, 2009, 2010 and 2011 were equal to the required contributions for each year and were as follows:

(HMPL May 31st) Year ended June 30th	City of Henderson	Henderson Municipal Power & Light	Henderson Water Utility
2011	\$ 3,811,690	\$ 459,118	\$ 794,962
2010	\$ 3,850,054	\$ 420,197	\$ 569,830
2009	\$ 3,441,148	\$ 435,888	\$ 694,477

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**19. LAND HELD FOR RESALE**

In January 2006, the City paid \$1,250,000 to purchase 8.5 acres of land. The new Starlite Fire Station was built on 2.4 acres of this land, and \$356,000 of the purchase price was allocated to the fire station land. The remaining acreage was allocated the balance of the purchase price and was recorded as an asset, land held for resale, in the General Fund. The land held for resale is considered a current financial asset of the General Fund since the City intends to sell this land and deposit the proceeds in the General Fund to be used for payment of General Fund expenditures. As of June 30, 2011, land held for resale had a cost balance of \$300,000, which applies to one unsold lot of approximately two acres.

**20. RIVERFRONT DEVELOPMENT GRANT**

The City was awarded an \$8.6 million federal grant for riverfront development. The City Commission approved several projects to be funded with the grant, which will begin implementation in the coming fiscal year.

**21. RELATED PARTY TRANSACTIONS**

The following are related party transactions by the City with its two discretely presented component units, HMPL and HWU, which are not disclosed elsewhere in the notes to the financial statements.

The City provides utility billing and cash collection services for HMPL and HWU. All utility cash collections are remitted to HMPL and HWU on a weekly basis. In addition, the City provides HWU accounts payable, payroll, and general accounting services and administers the Human Resources function. Included in General Fund intergovernmental revenues are \$550,000 and \$599,000, respectively, from HMPL and HWU for such services for the fiscal year ended June 30, 2011.

The City, as sole owner of both utilities, received distributions of \$1,244,724 and \$400,000, respectively, from HMPL and HWU for the fiscal year ended June 30, 2011.

The City owns certain real estate used by HMPL.

## **CITY OF HENDERSON, KENTUCKY**

### **NOTES TO FINANCIAL STATEMENTS**

---

#### **22. FUND BALANCE**

Accounting standards have changed as to the proper classification of fund balance in governmental funds. Fund balance is now classified in five categories that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The five categories are as follows:

##### **Nonspendable Fund Balance**

The nonspendable fund balance classification includes amounts that cannot be spent because they are either 1) not in spendable form, or 2) legally or contractually required to be maintained intact. The nonspendable fund balance of the City consists of amounts not in spendable form such as inventories, prepaid expenditures, and land held for resale.

##### **Restricted Fund Balance**

The restricted fund balance classification is used when constraints placed on the use of resources are externally imposed by creditors (such as debt covenants), grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation.

##### **Committed Fund Balance**

The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision making authority, which would be ordinances or resolutions passed by the Board of Commissioners of the City. Those committed amounts cannot be used for any other purpose unless the Board of Commissioners changes the commitments by ordinance or resolution.

##### **Assigned Fund Balance**

The assigned fund balance classification includes amounts constrained by the City's **intent** to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by either the Board of Commissioners or the City Manager or any other body or official which they have delegated the authority to assign amounts to be used for a specific purpose.

##### **Unassigned Fund Balance**

The unassigned fund balance classification is the residual classification for the General Fund. This classification represents spendable fund balance that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund is the only governmental fund that reports a positive unassigned fund balance.

For expenditure purposes, restricted fund balances are considered to be spent first, followed in order by committed, assigned, and unassigned fund balances, respectively.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

Governmental fund balances consist of the following classifications as of June 30, 2011:

<b><u>Fund Balances</u></b>	<b><u>General Fund</u></b>	<b><u>Debt Service Fund</u></b>	<b><u>Capital Projects Fund</u></b>	<b><u>Nonmajor Governmental Funds</u></b>	<b><u>Total Governmental Funds</u></b>
<b>Nonspendable</b>					
Inventories	\$ 22,187	\$ -	\$ -	\$ 23,120	\$ 45,307
Prepaid expenditures	895,148	-	-	-	895,148
Land held for resale	300,000	-	-	-	300,000
	<b>1,217,335</b>	<b>-</b>	<b>-</b>	<b>23,120</b>	<b>1,240,455</b>
<b>Restricted</b>					
Debt service	-	924	-	-	924
HWU capital projects	-	-	11,702,613	-	11,702,613
Cemetery perpetual care	-	-	-	141,604	141,604
Law enforcement	-	-	-	85,826	85,826
	<b>-</b>	<b>924</b>	<b>11,702,613</b>	<b>227,430</b>	<b>11,930,967</b>
<b>Committed</b>					
Major building projects	917,584	-	-	-	917,584
Major equipment buys	37,989	-	-	-	37,989
Cemetery	-	-	-	159,234	159,234
Public works	-	-	-	208,006	208,006
Mass transit	-	-	-	111,476	111,476
Law enforcement	-	-	-	88,025	88,025
	<b>955,573</b>	<b>-</b>	<b>-</b>	<b>566,741</b>	<b>1,522,314</b>
<b>Assigned</b>					
2012 Budget deficit	938,500	-	-	-	938,500
Newman park shelter	50,000	-	-	-	50,000
	<b>988,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>988,500</b>
<b>Unassigned</b>	<b>3,836,690</b>	<b>-</b>	<b>(380,048)</b>	<b>(1,800)</b>	<b>3,454,842</b>
<b>Total fund balances</b>	<b>\$ 6,998,098</b>	<b>\$ 924</b>	<b>\$ 11,322,565</b>	<b>\$ 815,491</b>	<b>\$ 19,137,078</b>

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**23. HENDERSON MUNICIPAL POWER & LIGHT (HMPL)**

The following are certain disclosures related to HMPL.

**A. Contracts**

HMPL operates the “Existing System” and pursuant to certain contracts and agreements described below, reserves power from “Station Two” which is owned by HMPL and operated by Big Rivers Electric Corporation (Big Rivers) through July 17, 1998, and subsequently an affiliate of LG&E Energy Corporation, pursuant to various lease, assignment, and other agreements between the parties. HMPL provides retail electric service to the residents of the City of Henderson within its service territory. HMPL also provided wholesale electricity to Big Rivers through July 18, 1998 and subsequently to an affiliate of LG&E Energy Corporation. LG&E was purchased by Powergen in 2000 and thereafter acquired by E.ON. Effective July 9, 2009, Big Rivers resumed its role as operator of Station Two as part of the “Unwind Transaction”.

HMPL has entered into certain contracts with Big Rivers and LG&E, as assignee under such agreements relating to Station Two, as follows:

**Power Plant Construction and Operation Agreement**

Under this agreement, Big Rivers agreed to furnish certain construction and start-up services for which it was paid out-of-pocket expenses plus overhead allowances, and to operate Station Two upon completion for which the Station Two Operator is paid reasonable expenditures allocable to the operation and maintenance of Station Two, as defined in the agreement. The original agreement was amended to include an option to extend through the useful operating life of Station Two. Big Rivers exercised this option in 1998.

**Power Sales Contract**

Under this agreement, the Station Two Operator purchases all of the Station Two capacity in excess of the City of Henderson’s requirements. Payments for capacity purchased by the Station Two Operator are made monthly based on the portion of Station Two capacity allocated to the Station Two Operator compared to the total monthly Station Two capacity costs as defined in the agreement. The original agreement was executed in 1970 and extended through 2003. During 1993, the agreement was amended to include an option to extend through the useful operating life of Station Two. Big Rivers exercised this option in 1998.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Joint Facilities Agreement**

This agreement provides for the continuing joint use by HMPL and the Station Two Operator of certain auxiliary facilities presently owned and used by the Station Two Operator at its generating station and of auxiliary facilities provided by HMPL in connection with the construction of Station Two, which is located adjacent to the generating station also operated by the Station Two Operator.

Power sales to the Station Two Operator under the agreement amounted to \$21,148,276 for the fiscal year ended May 31, 2011.

In connection with the negotiations related to the funding and construction of the Flue Gas Desulfurization System (FGD System) Station Two various aforementioned contracts were amended effective May 31, 1993. Significant provisions of the amendments include:

The total capacity of Station Two, a factor in determining various Station Two costs allocations, was reduced as a result of the power required to operate the FGD System.

Proceeds from the sales of sulfur dioxide emission allowances (Emission Allowances) will be divided between HMPL and the Station Two Operator based on current capacity allocation.

FGD System costs, up to the amount of proceeds from the sale of Emission Allowances, will be borne in the same proportion as the Emission Allowances are allocated. Additional FGD System costs will be borne in proportion to the new capacity allocation as determined by the contract amendments.

HMPL will reimburse the Station Two Operator for certain allocated costs of an existing Big Rivers' FGD System to be jointly used by the Station Two Operator and Station Two based upon an allocation formula defined in the amendments.

Amounts charged by the Station Two Operator as reasonable expenditures allocable to the operation and maintenance of Station Two are subject to review and approval by HMPL. Differences, if any, between amounts originally charged as allocable by the Station Two Operator and amounts accepted by HMPL are recorded when a final determination of such amounts is made. Operating revenues and expenses would be reduced by any amount subsequently determined not to be allocable to Station Two.



**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**B. Emission Allowances**

Amendments to the Clean Air Act in 1990 established a system whereby emission allowances were created and allocated to generating units subject to Phase 1 of the emission restrictions. Station Two was allotted a total of 226,901 allowances through 1999 (one emission allowance represents the authorization to emit one ton of sulfur dioxide in a given year). The allowances are allocated between HMPL and the Station Two Operator based upon the Station Two capacity allocations. As of May 31, 2011, there were remaining emission allowances of 18,189.

The remaining allowances have a market value as of May 31, 2011 of approximately \$54,567 and are held by HMPL for future sale or to satisfy emission requirements of the Clean Air Act. HMPL does not record the value of emission allowances in its financial statements because HMPL has no cost basis in these allowances. Emission allowances attributable to Station Two are shared proportionally between HMPL and the Station Two Operator based on megawatt hours as per the respective contract.

**C. Commitments and Contingencies**

**Unwind Transaction – Station Two**

In 1998, HMPL and Big Rivers Electric Corporation (Big Rivers) entered into contracts (subsequently assumed by Western Kentucky Energy Corporation) for the operation of the HMPL Station Two power plant and other Big Rivers generation plants. Subsequent to May 31, 2009, Big Rivers and Western Kentucky Energy Corporation (E.ON) signed an agreement under which the original 1998 contracts are rescinded and operational control of the Station Two power plant returned to Big Rivers. As part of this agreement, E.ON paid HMPL \$17.4 million to settle claims concerning the condition of the Station Two power plant and related matters.

HMPL and Big Rivers have identified a number of facility upgrades and maintenance projects for the Station Two power plant during the next five year period. Big Rivers has developed work plans for the five year period 2009 to 2014, which estimate that HMPL will incur additional maintenance expenses at Station Two during the five year period.

During the fiscal 2012 budget period, HMPL will present a formal recommendation to the City Commission concerning the issuance of revenue bonds to finance the upgrades and maintenance projects at Station Two and for the existing system.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Pending Litigation**

HMPL is currently engaged in litigation with Big Rivers, the Station Two Operator, concerning which party has the rights to certain surplus generation capacity of the Station Two power plant. Big Rivers has filed a petition in Henderson County, Kentucky Circuit Court requesting binding arbitration over the matter. HMPL asserts that it has the rights to all surplus power from Station Two related to its reserved capacity.

**24. HENDERSON WATER UTILITY (HWU)**

On August 30, 2007, a Consent Judgment between HWU and the Commonwealth of Kentucky Environmental and Public Protection Cabinet (EPPC) was entered by the Franklin Circuit Court in Civil Action 07-CI-1250. Under the Consent Judgment, HWU is committing to undertake certain studies and improvements to its sanitary sewer system in order to ensure compliance with certain program requirements of the Clean Water Act.

The Consent Judgment required certain plans to be developed and submitted to the EPPC and the Federal Environmental Protection Agency (EPA). The Long-term Control Plan was submitted to both the EPPC and EPA in March 2009.

Based on current estimates the identified projects required to comply with the Consent Judgment must be completed no later than December 2017. The current estimate of remaining costs as of June 30, 2011, to satisfy the Consent Judgment is approximately \$31 million depending on the final plan approved by the various Federal and Kentucky agencies.

**25. SUBSEQUENT EVENTS**

Prior to the end of calendar year 2011, the City intends to issue \$2,085,000 of general obligation bonds to be used for the construction of a new fire station. In calendar year 2012, the City intends to issue \$9,995,000 of general obligation bonds to be used by HWU for capital construction projects.

After its fiscal year end, HMPL issued revenue bonds, payable over a twenty year term, in the amount of \$15 million, which will be used to repay its bond anticipation notes and for capital purposes.

**Required Supplementary Information  
(other than Management's Discussion and Analysis)**

**CITY OF HENDERSON, KENTUCKY**  
**DEFINED BENEFIT PENSION PLANS-REQUIRED SUPPLEMENTARY INFORMATION**

**I. Schedules of Funding Progress**

**Civil Service Pension Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/02	808,942	1,743,700	934,758	46.4 %	101,758	918.6 %
6/30/03	637,845	1,633,672	995,827	39.0 %	104,599	952.0 %
6/30/04	498,728	1,905,991	1,407,263	26.2 %	105,410	1,335.0 %
6/30/05	403,188	1,955,745	1,552,557	20.6 %	114,920	1,351.0 %
6/30/06	316,617	1,898,132	1,581,515	16.7 %	29,702	5,324.6 %
6/30/07	238,758	1,746,550	1,507,792	13.7 %	29,702	5,076.4 %
6/30/08	235,035	1,677,673	1,442,638	14.0 %	41,424	3,482.6 %
6/30/09	292,282	1,571,137	1,278,855	18.6 %	35,277	3,625.2 %
6/30/10	74,663	1,523,056	1,448,393	4.9 %	36,005	4,022.8 %
6/30/11	(4,527)	1,498,608	1,503,135	-0.3 %	36,899	4,073.6 %

**Police and Fire Pension Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/02	181,527	3,063,190	2,881,663	5.9 %	34,183	8,430.1 %
6/30/03	219,527	3,086,503	2,866,976	7.1 %	35,756	8,018.2 %
6/30/04	260,570	4,434,100	4,173,529	5.9 %	37,543	11,116.7 %
6/30/05	331,833	4,451,738	4,119,905	7.5 %	39,641	10,393.0 %
6/30/06	402,328	4,603,711	4,201,383	8.7 %	- 0 -	Not applicable
6/30/07	469,739	4,809,574	4,339,835	9.8 %	- 0 -	Not applicable
6/30/08	495,824	4,781,321	4,285,497	10.4 %	- 0 -	Not applicable
6/30/09	380,205	4,833,147	4,452,942	7.9 %	- 0 -	Not applicable
6/30/10	(12,581)	4,671,290	4,683,871	-0.3 %	- 0 -	Not applicable
6/30/11	(9,631)	4,437,007	4,446,638	-0.2 %	- 0 -	Not applicable

**CITY OF HENDERSON, KENTUCKY**  
**DEFINED BENEFIT PENSION PLANS-REQUIRED SUPPLEMENTARY INFORMATION**

---

**II. Schedules of Employer Contributions**

**Civil Service Pension Plan**

Fiscal Year Ending	Annual Pension Costs (APC)	City Contributions	Percentage of APC Contributions	Net Pension Obligation	Annual Required Contribution (ARC)	Percentage Contributed
6/30/02	70,468	5,138	7.3 %	234,038	71,957	7.1 %
6/30/03	78,409	5,294	6.6 %	307,153	80,475	6.5 %
6/30/04	82,311	88,911	108.0 %	300,553	85,023	105.0 %
6/30/05	91,582	98,138	107.2 %	293,997	96,105	102.1 %
6/30/06	117,555	102,465	87.2 %	309,087	126,446	81.0 %
6/30/07	112,685	136,257	120.9 %	285,515	122,033	111.7 %
6/30/08	107,786	238,636	221.4 %	154,665	116,421	205.0 %
6/30/09	107,107	271,333	253.3 %	(9,561)	111,784	242.7 %
6/30/10	99,460	12,586	12.7 %	77,313	99,171	12.7 %
6/30/11	109,851	152,624	138.9 %	34,540	112,188	136.0 %

**Police and Fire Pension Plan**

Fiscal Year Ending	Annual Pension Costs (APC)	City Contributions	Percentage of APC Contributions	Net Pension Obligation	Annual Required Contribution (ARC)	Percentage Contributed
6/30/02	243,726	347,047	142.8 %	(336,194)	241,670	143.6 %
6/30/03	242,729	340,802	140.4 %	(434,267)	239,762	142.1 %
6/30/04	242,539	359,532	148.2 %	(551,260)	238,705	150.6 %
6/30/05	253,768	373,444	147.2 %	(670,936)	243,939	153.1 %
6/30/06	389,806	379,192	97.3 %	(660,322)	356,298	106.4 %
6/30/07	396,320	392,639	99.1 %	(656,641)	363,343	108.1 %
6/30/08	408,110	424,749	104.1 %	(673,280)	375,317	113.2 %
6/30/09	404,243	291,013	72.0 %	(560,050)	370,618	78.5 %
6/30/10	413,069	16,083	3.9 %	(163,064)	385,099	4.2 %
6/30/11	413,213	424,775	102.8 %	(174,626)	405,070	104.9 %

## **Nonmajor Governmental Funds**

## **Nonmajor Governmental Funds**

For fiscal 2011, the nonmajor governmental funds of the City consist of nine special revenue funds as described below. This subsection contains combining financial statements whereby the special revenue funds are combined to present total amounts for the nonmajor governmental funds. Also presented are budget and actual schedules for the special revenue funds.

### **Special Revenue Funds**

Special revenue funds are used to account for specific revenues that are restricted to expenditure for particular purposes.

- |                             |   |
|-----------------------------|---|
| <b>Cemetery</b>             | The Cemetery Fund accounts for the funds used to operate the City's two cemeteries, Fernwood and Fairmont.  |
| <b>PWI</b>                  | The Public Way Improvement Fund accounts for funds that finance public works projects.  |
| <b>Canoe Creek</b>          | The Canoe Creek Fund accounts for funds set aside for flood mitigation of Canoe Creek.  |
| <b>HART</b>                 | The Henderson Area Rapid Transit Fund accounts for funds that operate the City bus system.  |
| <b>911</b>                  | The Emergency Communications Fund accounts for funds that operate the 911 emergency communications system.  |
| <b>CDBG</b>                 | The Community Development Block Grant Fund accounts for federal grant money used to rehabilitate low income housing and public facilities.            |
| <b>HOME</b>                 | The HOME Fund accounts for grants used similar to the CDBG Fund except that the funds are provided through an agency of the Commonwealth of Kentucky. |
| <b>Police Investigation</b> | The Police Investigation Fund accounts for funds from property sold seized from criminal activities and expended on law enforcement activities.       |
| <b>JAG</b>                  | The Justice Assistance Grant Fund accounts for federal grant money provided for local law enforcement activities.                                     |

**Also included at the end of this section are budget and actual schedules for the Debt Service Fund and the Capital Projects Fund.**

**City of Henderson, Kentucky  
Combining Balance Sheet  
Special Revenue Funds  
June 30, 2011**

	<b>Cemetery</b>	<b>PWI</b>	<b>Canoe Creek</b>	<b>HART</b>	<b>911</b>	<b>CDBG</b>	<b>HOME</b>	<b>Police Investigation</b>	<b>JAG</b>	<b>Totals</b>
<b>ASSETS</b>										
Cash	\$ 160,281	\$ 798	\$ 135,435	\$ 769	\$ 1,028	\$ -	\$ -	\$ -	\$ -	\$ 298,311
Receivables	-	102,789	-	128,770	80,653	-	-	-	-	312,212
Due from other funds	12,023	33,327	-	45,829	38,219	-	-	-	-	129,398
Inventories	-	-	-	23,120	-	-	-	-	-	23,120
Restricted assets:										
Cash	-	-	-	-	-	-	-	117,880	34,720	152,600
Investments	140,743	-	-	-	-	-	-	-	-	140,743
Accrued interest receivable	861	-	-	-	-	-	-	-	-	861
<b>Total assets</b>	<b>\$ 313,908</b>	<b>\$ 136,914</b>	<b>\$ 135,435</b>	<b>\$ 198,488</b>	<b>\$ 119,900</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 117,880</b>	<b>\$ 34,720</b>	<b>\$ 1,057,245</b>
<b>LIABILITIES</b>										
Accounts payable	\$ 4,400	\$ 30,059	\$ 10,301	\$ 29,259	\$ 1,915	\$ 1,800	\$ -	\$ 41,839	\$ -	\$ 119,573
Accrued wages	8,670	23,983	-	34,633	29,960	-	-	-	-	97,246
Due to other funds	-	-	-	-	-	-	-	-	24,935	24,935
<b>Total liabilities</b>	<b>13,070</b>	<b>54,042</b>	<b>10,301</b>	<b>63,892</b>	<b>31,875</b>	<b>1,800</b>	<b>-</b>	<b>41,839</b>	<b>24,935</b>	<b>241,754</b>
<b>FUND BALANCES</b>										
Nonspendable	-	-	-	23,120	-	-	-	-	-	23,120
Restricted	141,604	-	-	-	-	-	-	76,041	9,785	227,430
Committed	159,234	82,872	125,134	111,476	88,025	-	-	-	-	566,741
Assigned	-	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	(1,800)	-	-	-	(1,800)
<b>Total fund balances</b>	<b>300,838</b>	<b>82,872</b>	<b>125,134</b>	<b>134,596</b>	<b>88,025</b>	<b>(1,800)</b>	<b>-</b>	<b>76,041</b>	<b>9,785</b>	<b>815,491</b>
<b>Total liabilities and fund balances</b>	<b>\$ 313,908</b>	<b>\$ 136,914</b>	<b>\$ 135,435</b>	<b>\$ 198,488</b>	<b>\$ 119,900</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 117,880</b>	<b>\$ 34,720</b>	<b>\$ 1,057,245</b>



**City of Henderson, Kentucky**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Special Revenue Funds**  
**For the Fiscal Year Ended June 30, 2011**

	<b>Cemetery</b>	<b>PWI</b>	<b>Canoe Creek</b>	<b>HART</b>	<b>911</b>	<b>CDBG</b>	<b>HOME</b>	<b>Police Investigation</b>	<b>JAG</b>	<b>Totals</b>
<b>REVENUES</b>										
Intergovernmental	\$ -	\$ 790,432	\$ -	\$ 771,097	\$ 146,180	\$ 236,268	\$ 98,400	\$ 45,805	\$ 24,935	\$ 2,113,117
Service charges and fees	249,057	-	-	38,664	608,205	-	-	-	-	895,926
Investment income	3,420	299	604	208	121	-	-	354	84	5,090
Miscellaneous	165	248	-	4,641	-	-	-	-	-	5,054
Total revenues	252,642	790,979	604	814,610	754,506	236,268	98,400	46,159	25,019	3,019,187
<b>EXPENDITURES</b>										
Administration	-	-	43,740	-	-	234,362	72,000	-	-	350,102
Mass transit	-	-	-	1,271,873	-	-	-	-	-	1,271,873
Parks and recreation	377,339	-	-	-	-	-	-	-	-	377,339
Police	-	-	-	-	967,731	-	-	11,923	-	979,654
Public works	-	1,315,763	-	-	-	-	-	-	-	1,315,763
Capital outlays	-	-	-	53,550	58,596	-	-	6,500	24,935	143,581
Total expenditures	377,339	1,315,763	43,740	1,325,423	1,026,327	234,362	72,000	18,423	24,935	4,438,312
Excess (deficiency) of revenues over expenditures	(124,697)	(524,784)	(43,136)	(510,813)	(271,821)	1,906	26,400	27,736	84	(1,419,125)
<b>OTHER FINANCING SOURCES (USES)</b>										
Transfers in from General Fund	-	582,000	-	552,200	288,000	-	-	4,878	-	1,427,078
Total other financing sources (uses)	-	582,000	-	552,200	288,000	-	-	4,878	-	1,427,078
Net change in fund balances	(124,697)	57,216	(43,136)	41,387	16,179	1,906	26,400	32,614	84	7,953
Fund balances, beginning of year	425,535	25,656	168,270	93,209	71,846	(3,706)	(26,400)	43,427	9,701	807,538
Fund balances, end of year	\$ 300,838	\$ 82,872	\$ 125,134	\$ 134,596	\$ 88,025	\$ (1,800)	\$ -	\$ 76,041	\$ 9,785	\$ 815,491

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Cemetery Fund**  
**For the Fiscal Year Ended June 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Service charges and fees	207,500	207,500	249,057	41,557
Investment income	4,500	4,500	3,420	(1,080)
Miscellaneous	-	-	165	165
Total revenues	<u>212,000</u>	<u>212,000</u>	<u>252,642</u>	<u>40,642</u>
<b>EXPENDITURES</b>				
Administration	-	-	-	-
Mass transit	-	-	-	-
Parks and recreation	398,300	398,300	377,339	20,961
Police	-	-	-	-
Public works	-	-	-	-
Capital outlays	5,700	5,700	-	5,700
Total expenditures	<u>404,000</u>	<u>404,000</u>	<u>377,339</u>	<u>26,661</u>
Excess (deficiency) of revenues over expenditures	<u>(192,000)</u>	<u>(192,000)</u>	<u>(124,697)</u>	<u>67,303</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(192,000)	(192,000)	(124,697)	67,303
Fund balances, beginning of year	<u>425,535</u>	<u>425,535</u>	<u>425,535</u>	<u>-</u>
Fund balances, end of year	<u>\$ 233,535</u>	<u>\$ 233,535</u>	<u>\$ 300,838</u>	<u>\$ 67,303</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Public Way Improvement (PWI) Fund**  
**For the Fiscal Year Ended June 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 681,800	\$ 681,800	\$ 790,432	\$ 108,632
Service charges and fees	-	-	-	-
Investment income	200	200	299	99
Miscellaneous	-	-	248	248
Total revenues	<u>682,000</u>	<u>682,000</u>	<u>790,979</u>	<u>108,979</u>
<b>EXPENDITURES</b>				
Administration	-	-	-	-
Mass transit	-	-	-	-
Parks and recreation	-	-	-	-
Police	-	-	-	-
Public works	1,352,000	1,352,000	1,315,763	36,237
Capital outlays	-	-	-	-
Total expenditures	<u>1,352,000</u>	<u>1,352,000</u>	<u>1,315,763</u>	<u>36,237</u>
Excess (deficiency) of revenues over expenditures	<u>(670,000)</u>	<u>(670,000)</u>	<u>(524,784)</u>	<u>145,216</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	<u>670,000</u>	<u>670,000</u>	<u>582,000</u>	<u>(88,000)</u>
Total other financing sources (uses)	<u>670,000</u>	<u>670,000</u>	<u>582,000</u>	<u>(88,000)</u>
Net change in fund balances	-	-	57,216	57,216
Fund balances, beginning of year	<u>25,656</u>	<u>25,656</u>	<u>25,656</u>	<u>-</u>
Fund balances, end of year	<u>\$ 25,656</u>	<u>\$ 25,656</u>	<u>\$ 82,872</u>	<u>\$ 57,216</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Canoe Creek Fund**  
**For the Fiscal Year Ended June 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Service charges and fees	-	-	-	-
Investment income	500	500	604	104
Miscellaneous	-	-	-	-
Total revenues	<u>500</u>	<u>500</u>	<u>604</u>	<u>104</u>
<b>EXPENDITURES</b>				
Administration	180,000	180,000	43,740	136,260
Mass transit	-	-	-	-
Parks and recreation	-	-	-	-
Police	-	-	-	-
Public works	-	-	-	-
Capital outlays	-	-	-	-
Total expenditures	<u>180,000</u>	<u>180,000</u>	<u>43,740</u>	<u>136,260</u>
Excess (deficiency) of revenues over expenditures	<u>(179,500)</u>	<u>(179,500)</u>	<u>(43,136)</u>	<u>136,364</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(179,500)	(179,500)	(43,136)	136,364
Fund balances, beginning of year	<u>168,270</u>	<u>168,270</u>	<u>168,270</u>	<u>-</u>
Fund balances, end of year	<u>\$ (11,230)</u>	<u>\$ (11,230)</u>	<u>\$ 125,134</u>	<u>\$ 136,364</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Henderson Area Rapid Transit (HART) Fund**  
**For the Fiscal Year Ended June 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 993,000	\$ 1,047,000	\$ 771,097	\$ (275,903)
Service charges and fees	33,000	33,000	38,664	5,664
Investment income	1,000	1,000	208	(792)
Miscellaneous	-	-	4,641	4,641
Total revenues	<u>1,027,000</u>	<u>1,081,000</u>	<u>814,610</u>	<u>(266,390)</u>
<b>EXPENDITURES</b>				
Administration	-	-	-	-
Mass transit	1,287,000	1,287,000	1,271,873	15,127
Parks and recreation	-	-	-	-
Police	-	-	-	-
Public works	-	-	-	-
Capital outlays	276,000	330,000	53,550	276,450
Total expenditures	<u>1,563,000</u>	<u>1,617,000</u>	<u>1,325,423</u>	<u>291,577</u>
Excess (deficiency) of revenues over expenditures	<u>(536,000)</u>	<u>(536,000)</u>	<u>(510,813)</u>	<u>25,187</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	536,000	536,000	552,200	16,200
Total other financing sources (uses)	<u>536,000</u>	<u>536,000</u>	<u>552,200</u>	<u>16,200</u>
Net change in fund balances	-	-	41,387	41,387
Fund balances, beginning of year	<u>93,209</u>	<u>93,209</u>	<u>93,209</u>	<u>-</u>
Fund balances, end of year	<u>\$ 93,209</u>	<u>\$ 93,209</u>	<u>\$ 134,596</u>	<u>\$ 41,387</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Emergency Communications (911) Fund**  
**For the Fiscal Year Ended June 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 156,000	\$ 156,000	\$ 146,180	\$ (9,820)
Service charges and fees	600,000	600,000	608,205	8,205
Investment income	-	-	121	121
Miscellaneous	-	-	-	-
Total revenues	<u>756,000</u>	<u>756,000</u>	<u>754,506</u>	<u>(1,494)</u>
<b>EXPENDITURES</b>				
Administration	-	-	-	-
Mass transit	-	-	-	-
Parks and recreation	-	-	-	-
Police	1,003,000	1,003,000	967,731	35,269
Public works	-	-	-	-
Capital outlays	56,000	56,000	58,596	(2,596)
Total expenditures	<u>1,059,000</u>	<u>1,059,000</u>	<u>1,026,327</u>	<u>32,673</u>
Excess (deficiency) of revenues over expenditures	<u>(303,000)</u>	<u>(303,000)</u>	<u>(271,821)</u>	<u>31,179</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	303,000	303,000	288,000	(15,000)
Total other financing sources (uses)	<u>303,000</u>	<u>303,000</u>	<u>288,000</u>	<u>(15,000)</u>
Net change in fund balances	-	-	16,179	16,179
Fund balances, beginning of year	<u>71,846</u>	<u>71,846</u>	<u>71,846</u>	<u>-</u>
Fund balances, end of year	<u>\$ 71,846</u>	<u>\$ 71,846</u>	<u>\$ 88,025</u>	<u>\$ 16,179</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Community Development Block Grant (CDBG) Fund**  
**For the Fiscal Year Ended June 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 494,000	\$ 494,000	\$ 236,268	\$ (257,732)
Service charges and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>494,000</u>	<u>494,000</u>	<u>236,268</u>	<u>(257,732)</u>
<b>EXPENDITURES</b>				
Administration	494,000	494,000	234,362	259,638
Mass transit	-	-	-	-
Parks and recreation	-	-	-	-
Police	-	-	-	-
Public works	-	-	-	-
Capital outlays	-	-	-	-
Total expenditures	<u>494,000</u>	<u>494,000</u>	<u>234,362</u>	<u>259,638</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>1,906</u>	<u>1,906</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	1,906	1,906
Fund balances, beginning of year	<u>(3,706)</u>	<u>(3,706)</u>	<u>(3,706)</u>	<u>-</u>
Fund balances, end of year	<u>\$ (3,706)</u>	<u>\$ (3,706)</u>	<u>\$ (1,800)</u>	<u>\$ 1,906</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**HOME Fund**  
**For the Fiscal Year Ended June 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 66,000	\$ 66,000	\$ 98,400	\$ 32,400
Service charges and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>66,000</u>	<u>66,000</u>	<u>98,400</u>	<u>32,400</u>
<b>EXPENDITURES</b>				
Administration	66,000	66,000	72,000	(6,000)
Mass transit	-	-	-	-
Parks and recreation	-	-	-	-
Police	-	-	-	-
Public works	-	-	-	-
Capital outlays	-	-	-	-
Total expenditures	<u>66,000</u>	<u>66,000</u>	<u>72,000</u>	<u>(6,000)</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>26,400</u>	<u>26,400</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	26,400	26,400
Fund balances, beginning of year	<u>(26,400)</u>	<u>(26,400)</u>	<u>(26,400)</u>	<u>-</u>
Fund balances, end of year	<u>\$ (26,400)</u>	<u>\$ (26,400)</u>	<u>\$ -</u>	<u>\$ 26,400</u>



**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Police Investigation Fund**  
**For the Fiscal Year Ended June 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 8,800	\$ 8,800	\$ 45,805	\$ 37,005
Service charges and fees	-	-	-	-
Investment income	200	200	354	154
Miscellaneous	-	-	-	-
Total revenues	<u>9,000</u>	<u>9,000</u>	<u>46,159</u>	<u>37,159</u>
<b>EXPENDITURES</b>				
Administration	-	-	-	-
Mass transit	-	-	-	-
Parks and recreation	-	-	-	-
Police	47,000	47,000	11,923	35,077
Public works	-	-	-	-
Capital outlays	-	-	6,500	(6,500)
Total expenditures	<u>47,000</u>	<u>47,000</u>	<u>18,423</u>	<u>28,577</u>
Excess (deficiency) of revenues over expenditures	<u>(38,000)</u>	<u>(38,000)</u>	<u>27,736</u>	<u>65,736</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	-	-	4,878	4,878
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>4,878</u>	<u>4,878</u>
Net change in fund balances	(38,000)	(38,000)	32,614	70,614
Fund balances, beginning of year	<u>43,427</u>	<u>43,427</u>	<u>43,427</u>	<u>-</u>
Fund balances, end of year	<u>\$ 5,427</u>	<u>\$ 5,427</u>	<u>\$ 76,041</u>	<u>\$ 70,614</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Justice Assistance Grant (JAG) Fund**  
**For the Fiscal Year Ended June 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 27,000	\$ 27,000	\$ 24,935	\$ (2,065)
Service charges and fees	-	-	-	-
Investment income	-	-	84	84
Miscellaneous	-	-	-	-
Total revenues	<u>27,000</u>	<u>27,000</u>	<u>25,019</u>	<u>(1,981)</u>
<b>EXPENDITURES</b>				
Administration	-	-	-	-
Mass transit	-	-	-	-
Parks and recreation	-	-	-	-
Police	5,000	5,000	-	5,000
Public works	-	-	-	-
Capital outlays	22,000	22,000	24,935	(2,935)
Total expenditures	<u>27,000</u>	<u>27,000</u>	<u>24,935</u>	<u>2,065</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>84</u>	<u>84</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	84	84
Fund balances, beginning of year	<u>9,701</u>	<u>9,701</u>	<u>9,701</u>	<u>-</u>
Fund balances, end of year	<u>\$ 9,701</u>	<u>\$ 9,701</u>	<u>\$ 9,785</u>	<u>\$ 84</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Debt Service Fund**  
**For the Fiscal Year Ended June 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ 2,101	\$ 2,101
Intergovernmental	-	-	163,171	163,171
Investment income	2,000	2,000	720	(1,280)
Total revenues	<u>2,000</u>	<u>2,000</u>	<u>165,992</u>	<u>163,992</u>
<b>EXPENDITURES</b>				
Debt service:				
Principal	245,000	245,000	265,000	(20,000)
Interest	222,000	222,000	402,512	(180,512)
Total expenditures	<u>467,000</u>	<u>467,000</u>	<u>667,512</u>	<u>(200,512)</u>
Excess (deficiency) of revenues over expenditures	<u>(465,000)</u>	<u>(465,000)</u>	<u>(501,520)</u>	<u>(36,520)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	465,000	465,000	462,000	(3,000)
Transfers in from Capital Projects Fund	-	-	1,349,738	1,349,738
Bond refundings	-	-	(1,310,000)	(1,310,000)
Total other financing sources (uses)	<u>465,000</u>	<u>465,000</u>	<u>501,738</u>	<u>36,738</u>
Net change in fund balances	-	-	218	218
Fund balances, beginning of year	<u>706</u>	<u>706</u>	<u>706</u>	<u>-</u>
Fund balances, end of year	<u>\$ 706</u>	<u>\$ 706</u>	<u>\$ 924</u>	<u>\$ 218</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Capital Projects Fund**  
**For the Fiscal Year Ended June 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 7,500,000	\$ 7,500,000	\$ 56,369	\$ (7,443,631)
Investment income	-	-	12,291	12,291
Total revenues	<u>7,500,000</u>	<u>7,500,000</u>	<u>68,660</u>	<u>(7,431,340)</u>
<b>EXPENDITURES</b>				
Administration	-	-	73,497	(73,497)
Bond issuance costs	-	178,000	27,648	150,352
Capital outlays	7,500,000	17,500,000	343,665	17,156,335
Total expenditures	<u>7,500,000</u>	<u>17,678,000</u>	<u>444,810</u>	<u>17,233,190</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(10,178,000)</u>	<u>(376,150)</u>	<u>9,801,850</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from General Fund	-	900,000	1,047,945	147,945
Transfers out to Debt Service Fund	-	-	(1,349,738)	(1,349,738)
Bond issuance	-	13,730,000	13,730,000	-
Total other financing sources (uses)	<u>-</u>	<u>14,630,000</u>	<u>13,428,207</u>	<u>(1,201,793)</u>
Net change in fund balances	-	4,452,000	13,052,057	8,600,057
Fund balances, beginning of year	<u>(1,729,492)</u>	<u>(1,729,492)</u>	<u>(1,729,492)</u>	<u>-</u>
Fund balances, end of year	<u>\$ (1,729,492)</u>	<u>\$ 2,722,508</u>	<u>\$ 11,322,565</u>	<u>\$ 8,600,057</u>

## **STATISTICAL SECTION**

## Statistical Section

*This part of the City of Henderson's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.*

<b><u>Contents</u></b>	<b><u>Page</u></b>
<b>General Information</b>	95
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	98
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the City's most significant local revenue sources	104
<b>Debt Capacity</b> These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	114
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	118
<b>Operating Information</b> These schedules contain service and infrastructures data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	121
<b>Sources:</b> Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB 34 in 2003; schedules presenting government-wide information include information beginning in that year.	

# City of Henderson, Kentucky

## General Information

### The City

Henderson, originally known as “Red Banks” in reference to the soil along the banks of the Ohio River, was first settled in 1797. By the early 1800’s the City had grown to 1,000 inhabitants. The City was incorporated as a town in 1810 and as a City in 1867. In 1922 a commission form of government was adopted, and in 1966 it was replaced by a city manager form of government.

The Henderson area has grown steadily and is known for its friendly people and southern hospitality. Henderson ranks as Kentucky’s ninth largest city in terms of population. Henderson is also the home of four governors and two lieutenant governors.

### Location



Henderson is the county seat of Henderson County, Kentucky, and lies on the southern banks of the Ohio River, one of the nation’s major waterways, in the western Kentucky coal field region. Henderson is located 10 miles south of Evansville, Indiana, and is 140 miles north of Nashville, Tennessee, 128 miles southwest of Louisville, Kentucky and 196 miles southeast of St. Louis, Missouri. Henderson sits on a bluff; more than 70 feet above the Ohio River’s low water mark, overlooking the river. For years the local slogan has been “On the Ohio, but never in it”. Henderson covers 17.9 square miles and is 400 feet above sea level.

### Industry

The Henderson area is home to several diverse industries, attracting major manufacturing and processors in aluminum, coal mining, steel, plastics, and agriculture. Locally produced commodities include aluminum ingot, automotive parts, truck axles and wheels, and poultry products.

## **Churches and Schools**

Henderson has over 63 churches representing many major religious denominations.

The county and parochial school systems provide elementary, middle, and secondary school students with a quality education. The school systems also have an excellent student-teacher ratio of 16:1. The school system has eight elementary schools, two junior high schools, one high school, and one special education center.

Henderson Community College, a part of the Kentucky Community and Technical College System, offers two year Associate of Arts and Science degrees. The College also offers many adult continuing educational programs as well as providing support to area businesses and industry through special educational workshops tailored to meet the respective businesses' needs.

## **Medical Facilities**

Henderson is fortunate to have an excellent, well staffed, 205 bed Methodist Hospital. The Hospital just recently opened two additions with total construction costs of \$21 million. Four nursing homes are located in the City as well as a state maintained county health department. Serving the medical needs of Henderson citizens are approximately 75 physicians and 15 dentists.

## **Recreation and Culture**

Available to area citizens are a wide range of recreational and cultural activities. The Henderson area is home to some of the finest duck and goose hunting in the United States, as well as many other outdoor activities.



Audubon State Park is home to the John James Audubon Museum. John James Audubon, the world-renowned wildlife artist lived in Henderson and operated a business. The museum holds an extensive collection of Audubon's works. The facility hosts visitors from all over the world who come to view Audubon's works and study his life. Lodging and camping accommodations can also be found at the park.





Municipal parks provide for picnicking, golfing, tennis, soccer, swimming, softball, and baseball. For fishermen, several lakes in the area are available, and other water sports may be enjoyed on the Ohio River.

Community activities include music, theatre, and art. Cultural activities play a major role in the lives of Hendersonians. The 1,000 seat Henderson Fine Arts Center located at the Henderson Community College provides quality entertainment with many of the top acts in the United States performing on a regular basis.



The summer is highlighted with the W.C. Handy Blues and Barbecue Festival. The Festival is held to honor the life of W.C. Handy who is known as the “Father of the Blues”. Handy lived in Henderson and it is in Henderson where he honed his musical skills. Many of the top names in jazz and blues perform at the event. The celebration is traditionally ended with a dazzling display of fireworks.

Henderson County High School participates in all major team sports offered by the Kentucky High School Athletic Association. The school is continually in contention for state titles in several sports. The recently expanded Henderson Public Library is one of the finest libraries in the area with well in excess of 112,000 volumes. The library was built in the early 1900’s by a grant provided by Andrew Carnegie.

## Government



Henderson operates under a city manager form of government. The Henderson Board of Commissioners consists of a mayor and four commissioners elected by the citizens on a non-partisan ballot. The mayor is elected for a term of four years, while the commissioners are elected for a term of two years. The mayor and commissioners have equal voting power.

The Commission sets policies that govern the City. It appoints advisory groups that assist in the decision making process. The city manager is appointed by the Commission and is responsible for the day-to-day operations of the City. The department managers responsible for their various departments report to the city manager.

**CITY OF HENDERSON**  
**NET ASSETS BY COMPONENT**  
**LAST NINE FISCAL YEARS**  
(accrual basis of accounting)

	Fiscal Year								
	2003	2004	2005	2006 a)	2007	2008	2009	2010	2011
Governmental activities									
Invested in capital assets, net of related debt	\$ 3,056,869	\$ 5,311,939	\$ 5,648,894	\$ 28,992,905	\$ 26,557,865	\$ 26,382,562	\$ 25,443,524	\$ 22,333,017	\$ 21,669,525
Restricted	528,068	517,312	530,138	541,152	934,268	5,381	778,755	311,144	228,354
Unrestricted	3,096,082	2,304,101	2,908,310	2,534,369	3,675,129	3,819,538	2,489,572	4,659,177	4,643,359
<b>Total governmental activities net assets</b>	<b>\$ 6,681,019</b>	<b>\$ 8,133,352</b>	<b>\$ 9,087,342</b>	<b>\$ 32,068,426</b>	<b>\$ 31,167,262</b>	<b>\$ 30,207,481</b>	<b>\$ 28,711,851</b>	<b>\$ 27,303,338</b>	<b>\$ 26,541,238</b>
Business-type activities									
Invested in capital assets, net of related debt	\$ 3,001,891	\$ 2,991,253	\$ 2,901,711	\$ 3,000,351	\$ 2,901,469	\$ 2,971,746	\$ 3,068,422	\$ 3,097,074	\$ 3,045,705
Unrestricted	9,059,338	8,382,315	7,822,166	6,563,922	5,230,239	3,892,579	3,654,328	3,785,614	3,671,994
<b>Total business-type activities net assets</b>	<b>\$ 12,061,229</b>	<b>\$ 11,373,568</b>	<b>\$ 10,723,877</b>	<b>\$ 9,564,273</b>	<b>\$ 8,131,708</b>	<b>\$ 6,864,325</b>	<b>\$ 6,722,750</b>	<b>\$ 6,882,688</b>	<b>\$ 6,717,699</b>
Primary government									
Invested in capital assets, net of related debt	\$ 6,058,760	\$ 8,303,192	\$ 8,550,605	\$ 31,993,256	\$ 29,459,334	\$ 29,354,308	\$ 28,511,946	\$ 25,430,091	\$ 24,715,230
Restricted	528,068	517,312	530,138	541,152	934,268	5,381	778,755	311,144	228,354
Unrestricted	12,155,420	10,686,416	10,730,476	9,098,291	8,905,368	7,712,117	6,143,900	8,444,791	8,315,353
<b>Total primary government net assets</b>	<b>\$ 18,742,248</b>	<b>\$ 19,506,920</b>	<b>\$ 19,811,219</b>	<b>\$ 41,632,699</b>	<b>\$ 39,298,970</b>	<b>\$ 37,071,806</b>	<b>\$ 35,434,601</b>	<b>\$ 34,186,026</b>	<b>\$ 33,258,937</b>

a) In fiscal year 2006, the City of Henderson fully implemented GASB 34.

**CITY OF HENDERSON  
CHANGES IN NET ASSETS  
LAST NINE FISCAL YEARS**  
(accrual basis of accounting)

	Fiscal Year								
	2003	2004	2005	2006 a)	2007	2008	2009	2010	2011
<b>Expenses</b>									
Governmental activities:									
Administration	\$ 1,367,718	\$ 3,504,510	\$ 2,852,944	\$ 2,347,787	\$ 4,199,901	\$ 4,007,520	\$ 3,645,774	\$ 5,605,945	\$ 4,481,821
Finance	1,263,040	1,669,625	2,026,423	2,130,334	2,259,418	2,417,412	2,407,749	2,452,338	2,663,586
Mass transit	541,879	1,127,693	954,634	902,655	952,890	1,164,952	1,200,824	1,331,320	1,373,343
Parks and recreation	720,565	1,052,019	1,454,021	1,594,334	1,656,495	1,733,640	1,752,936	1,830,649	1,827,515
Public safety	7,784,506	9,309,616	10,352,496	11,334,251	11,018,065	11,179,873	11,097,829	11,631,711	12,171,884
Public works	2,071,301	2,388,391	3,107,277	4,916,759	5,065,764	4,946,437	5,139,345	5,134,823	5,342,349
Nondepartmental	1,034,076	1,308,577	1,453,683	1,363,796	1,173,052	1,392,650	1,923,248	1,881,343	2,024,182
Interest on long-term debt	235,855	239,639	230,231	220,711	269,917	281,184	297,764	306,503	439,480
<b>Total governmental activities expenses</b>	<b>15,018,940</b>	<b>20,600,070</b>	<b>22,431,709</b>	<b>24,810,627</b>	<b>26,595,502</b>	<b>27,123,668</b>	<b>27,465,469</b>	<b>30,174,632</b>	<b>30,324,160</b>
Business-type activities:									
Gas	18,501,546	19,159,759	21,517,615	28,993,461	24,583,655	30,026,696	24,380,948	19,015,757	18,002,896
Sanitation	1,622,684	1,960,497	1,997,939	2,375,386	2,388,064	2,361,380	2,568,844	2,607,748	2,816,642
<b>Total business-type activities expenses</b>	<b>20,124,230</b>	<b>21,120,256</b>	<b>23,515,554</b>	<b>31,368,847</b>	<b>26,971,719</b>	<b>32,388,076</b>	<b>26,949,792</b>	<b>21,623,505</b>	<b>20,819,538</b>
<b>Total primary government expenses</b>	<b>\$ 35,143,170</b>	<b>\$ 41,720,326</b>	<b>\$ 45,947,263</b>	<b>\$ 56,179,474</b>	<b>\$ 53,567,221</b>	<b>\$ 59,511,744</b>	<b>\$ 54,415,261</b>	<b>\$ 51,798,137</b>	<b>\$ 51,143,698</b>
<b>Program Revenues</b>									
Governmental activities:									
Charges for services									
Administration	\$ -	\$ 2,873,618	\$ 1,892,931	\$ 1,799,730	\$ 1,620,290	\$ 1,663,236	\$ 1,780,138	\$ 2,269,632	\$ 2,193,280
Finance	219,297	-	221,444	1,903,007	2,109,001	2,324,014	2,368,766	2,406,292	2,667,698
Mass transit	-	-	34,370	35,091	38,508	45,814	35,781	48,129	43,305
Parks and recreation	102,335	217,242	306,672	306,829	301,957	310,938	312,951	331,928	362,825
Public safety	24,400	85,764	413,814	716,936	481,805	761,937	919,361	953,804	1,167,236
Public works	242,750	35,484	64,503	466,240	80,196	95,649	111,668	169,680	175,876
Operating grants and contributions	891,523	964,976	3,322,409	2,262,836	3,056,723	2,616,045	2,366,703	2,617,657	3,081,379
Capital grants and contributions	-	901,449	1,254,164	886,861	105,300	244,931	161,409	795,477	734,901
<b>Total governmental activities program revenues</b>	<b>1,480,305</b>	<b>5,078,533</b>	<b>7,510,307</b>	<b>8,377,530</b>	<b>7,793,780</b>	<b>8,062,564</b>	<b>8,056,777</b>	<b>9,592,599</b>	<b>10,426,500</b>

**CITY OF HENDERSON**  
**CHANGES IN NET ASSETS**  
**LAST NINE FISCAL YEARS**  
(accrual basis of accounting)

	Fiscal Year								
	2003	2004	2005	2006 a)	2007	2008	2009	2010	2011
Business-type activities:									
Charges for services									
Gas	\$ 19,685,060	\$ 20,065,081	\$ 22,160,449	\$ 29,861,306	\$ 24,739,734	\$ 29,926,210	\$ 24,699,179	\$ 20,437,945	\$ 19,092,445
Sanitation	1,563,673	1,594,648	1,589,366	1,488,001	1,586,933	2,107,769	2,393,856	2,429,609	2,665,082
Total business-type activities program revenues	21,248,733	21,659,729	23,749,815	31,349,307	26,326,667	32,033,979	27,093,035	22,867,554	21,757,527
Total primary government program revenues	\$ 22,729,038	\$ 26,738,262	\$ 31,260,122	\$ 39,726,837	\$ 34,120,447	\$ 40,096,543	\$ 35,149,812	\$ 32,460,153	\$ 32,184,027
<b>Net (Expenses)/Revenue</b>									
Governmental activities	\$ (13,538,635)	\$ (15,521,537)	\$ (14,921,402)	\$ (16,433,097)	\$ (18,801,722)	\$ (19,061,104)	\$ (19,408,692)	\$ (20,582,033)	\$ (19,897,660)
Business-type activities	1,124,503	539,473	234,261	(19,540)	(645,052)	(354,097)	143,243	1,244,049	937,989
Total primary government net expense	\$ (12,414,132)	\$ (14,982,064)	\$ (14,687,141)	\$ (16,452,637)	\$ (19,446,774)	\$ (19,415,201)	\$ (19,265,449)	\$ (19,337,984)	\$ (18,959,671)
<b>General Revenues and Other Changes in Net Assets</b>									
Governmental activities:									
Taxes:									
Payroll and net profits	\$ -	\$ -	\$ -	\$ 1,998,499	\$ 5,141,680	\$ 4,915,111	\$ 4,792,685	\$ 4,717,128	\$ 4,703,133
Property	3,849,171	3,983,611	4,202,727	4,355,360	4,753,013	5,250,283	5,593,273	6,571,652	6,664,192
Insurance	4,222,241	4,442,749	4,531,904	4,533,359	4,365,717	4,091,311	4,291,149	4,301,984	4,136,526
Other	827,687	837,737	655,649	627,676	624,842	746,004	672,452	656,896	694,413
Occupational licenses	691,755	682,582	610,539	-	-	-	-	-	-
Distributions from component units	3,150,000	3,500,000	3,500,000	1,128,727	1,444,724	1,444,724	1,644,734	1,644,724	1,644,724
Intergovernmental	2,462,025	1,263,360	-	-	-	-	-	-	-
Investment earnings	156,722	30,192	185,238	196,815	270,582	253,890	73,489	88,136	86,572
Miscellaneous	420,966	295,682	789,335	-	-	-	-	-	-
Extraordinary item	-	-	-	-	-	-	(554,720)	-	-
Transfers	1,444,764	1,937,957	1,400,000	2,400,000	1,300,000	1,400,000	1,400,000	1,193,000	1,206,000
Total governmental activities	17,225,331	16,973,870	15,875,392	15,240,436	17,900,558	18,101,323	17,913,062	19,173,520	19,135,560

**CITY OF HENDERSON  
CHANGES IN NET ASSETS  
LAST NINE FISCAL YEARS**

(accrual basis of accounting)

	Fiscal Year								
	2003	2004	2005	2006 a)	2007	2008	2009	2010	2011
<b>Business-type activities:</b>									
Investment earnings	\$ 798,258	\$ 18,876	\$ 516,048	\$ 157,936	\$ 464,487	\$ 486,714	\$ 160,214	\$ 108,889	\$ 103,022
Extraordinary item	-	-	-	-	-	-	954,968	-	-
Transfers	(1,444,764)	(1,937,957)	(1,400,000)	(2,400,000)	(1,300,000)	(1,400,000)	(1,400,000)	(1,193,000)	(1,206,000)
<b>Total business-type activities</b>	<b>(646,506)</b>	<b>(1,919,081)</b>	<b>(883,952)</b>	<b>(2,242,064)</b>	<b>(835,513)</b>	<b>(913,286)</b>	<b>(284,818)</b>	<b>(1,084,111)</b>	<b>(1,102,978)</b>
<b>Total primary government</b>	<b>\$ 16,578,825</b>	<b>\$ 15,054,789</b>	<b>\$ 14,991,440</b>	<b>\$ 12,998,372</b>	<b>\$ 17,065,045</b>	<b>\$ 17,188,037</b>	<b>\$ 17,628,244</b>	<b>\$ 18,089,409</b>	<b>\$ 18,032,582</b>
<b>Change in Net Assets</b>									
Governmental activities:	\$ 3,686,696	\$ 1,452,333	\$ 953,990	\$ (1,192,661)	\$ (901,164)	\$ (959,781)	\$ (1,495,630)	\$ (1,408,513)	\$ (762,100)
Business-type activities:	477,997	(1,379,608)	(649,691)	(2,261,604)	(1,480,565)	(1,267,383)	(141,575)	159,938	(164,989)
<b>Total primary government</b>	<b>\$ 4,164,693</b>	<b>\$ 72,725</b>	<b>\$ 304,299</b>	<b>\$ (3,454,265)</b>	<b>\$ (2,381,729)</b>	<b>\$ (2,227,164)</b>	<b>\$ (1,637,205)</b>	<b>\$ (1,248,575)</b>	<b>\$ (927,089)</b>

a) In fiscal year 2006, the City of Henderson fully implemented GASB 34.

**CITY OF HENDERSON**  
**FUND BALANCES OF GOVERNMENTAL FUNDS**  
**LAST NINE FISCAL YEARS**  
(modified accrual basis of accounting)

	Fiscal Year								
	2003	2004	2005	2006 a)	2007	2008	2009	2010	2011 b)
General Fund									
Reserved	\$ 43,626	\$ 30,168	\$ -	\$ -	\$ 850,000	\$ 590,000	\$ 590,000	\$ 1,095,872	
Unreserved	4,263,230	3,821,230	3,377,314	2,648,312	3,157,175	4,019,711	4,692,077	5,932,799	
Nonspendable									\$ 1,217,335
Restricted									-
Committed									955,573
Assigned									988,500
Unassigned									3,836,690
Total general fund	<u>\$ 4,306,856</u>	<u>\$ 3,851,398</u>	<u>\$ 3,377,314</u>	<u>\$ 2,648,312</u>	<u>\$ 4,007,175</u>	<u>\$ 4,609,711</u>	<u>\$ 5,282,077</u>	<u>\$ 7,028,671</u>	<u>\$ 6,998,098</u>
All Other Governmental Funds									
Reserved, reported in:									
Permanent funds	\$ 533,023	\$ 517,312	\$ 530,138	\$ 541,152	\$ 567,511	\$ 602,345	\$ -	\$ -	
Capital projects fund	-	-	-	-	261,792	-	-	-	
Debt service fund	-	-	-	-	104,965	189,964	139,515	706	
Special revenue funds	-	-	-	-	-	-	639,240	333,266	
Unreserved, reported in:									
Capital projects fund	-	-	-	-	-	(786,928)	(1,956,097)	(1,729,492)	
Special revenue funds	455,881	531,591	796,618	678,094	656,430	659,060	435,242	474,272	
Nonspendable									\$ 23,120
Restricted									
Debt service fund									924
Capital projects fund									11,702,613
Special revenue funds									227,430
Committed									
Special revenue funds									566,741
Assigned									-
Unassigned									
Capital projects fund									(380,048)
Special revenue funds									(1,800)
Total all other governmental funds	<u>\$ 988,904</u>	<u>\$ 1,048,903</u>	<u>\$ 1,326,756</u>	<u>\$ 1,219,246</u>	<u>\$ 1,590,698</u>	<u>\$ 664,441</u>	<u>\$ (742,100)</u>	<u>\$ (921,248)</u>	<u>\$ 12,138,980</u>

a) In fiscal year 2006, the City of Henderson fully implemented GASB 34.  
b) In fiscal year 2011, the City of Henderson fully implemented GASB 54.

**CITY OF HENDERSON**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**LAST NINE FISCAL YEARS**  
(modified accrual basis of accounting)

	Fiscal Year								
	2003	2004	2005	2006 a)	2007	2008	2009	2010	2011
<b>Revenues</b>									
Taxes	\$ 9,005,832	\$ 9,390,280	\$ 11,514,894	\$ 14,885,252	\$ 15,002,709	\$ 15,002,709	\$ 15,349,559	\$ 16,247,660	\$ 16,198,264
Charges for services	678,276	556,876	663,766	990,955	1,026,292	1,242,500	1,349,938	1,460,316	1,435,183
Investment income	156,722	30,192	178,720	175,858	248,288	241,715	69,672	86,892	85,107
Licenses and permits	691,755	682,582	706,375	194,993	101,080	86,230	73,827	88,624	102,046
Intergovernmental revenue	3,353,548	4,274,985	4,576,573	4,724,916	4,904,924	4,913,514	4,867,253	5,825,278	6,385,784
Distributions from component units	3,150,000	3,500,000	3,500,000	1,128,727	1,444,724	1,444,724	1,644,734	1,644,724	1,644,724
Other	331,472	375,346	178,587	370,979	268,234	317,790	262,959	506,111	252,000
<b>Total revenues</b>	<b>17,367,605</b>	<b>18,810,261</b>	<b>21,318,915</b>	<b>22,471,680</b>	<b>22,996,251</b>	<b>23,249,182</b>	<b>23,617,942</b>	<b>25,859,605</b>	<b>26,103,108</b>
<b>Expenditures</b>									
Administration	1,333,218	1,431,563	1,007,131	1,025,138	2,596,582	2,072,530	2,277,438	2,517,239	2,627,053
Finance	1,529,349	1,579,727	1,884,715	1,987,523	2,065,065	2,274,800	2,326,392	2,426,737	2,610,767
Public safety	8,724,046	8,934,903	9,811,606	10,685,174	10,268,009	10,630,489	10,626,785	11,192,621	11,865,141
Public works	2,239,500	2,308,424	2,957,253	3,122,916	3,241,802	3,006,808	3,225,161	3,207,831	3,439,486
Parks & recreation	816,973	895,704	1,326,786	1,424,947	1,473,393	1,526,873	1,555,361	1,607,810	1,616,671
Non-departmental	1,202,440	1,308,577	1,453,683	1,363,796	1,173,052	1,392,650	1,923,248	1,881,343	2,024,182
Mass transit	1,050,334	1,127,693	886,039	860,592	884,040	1,091,239	1,124,891	1,193,074	1,271,873
Capital outlay	1,036,189	3,397,583	1,170,700	2,001,662	3,322,931	2,044,193	1,282,849	793,698	1,562,152
Debt service:									
Interest	235,855	239,639	230,231	220,711	269,917	281,184	297,764	306,503	439,480
Principal	601,534	593,680	300,000	423,755	2,391,669	652,137	557,508	358,303	360,000
Other charges	-	-	-	-	-	-	-	-	27,648
<b>Total expenditures</b>	<b>18,769,438</b>	<b>21,817,493</b>	<b>21,028,144</b>	<b>23,116,214</b>	<b>27,686,460</b>	<b>24,972,903</b>	<b>25,197,397</b>	<b>25,485,159</b>	<b>27,844,453</b>
Excess of revenues over (under) expenditures	(1,401,833)	(3,007,232)	290,771	(644,534)	(4,690,209)	(1,723,721)	(1,579,455)	374,446	(1,741,345)
<b>Other Financing Sources (Uses)</b>									
Transfers in	4,223,051	3,452,761	3,290,783	3,818,766	3,596,374	2,802,811	2,797,000	2,974,500	5,686,761
Transfers out	(2,778,287)	(1,514,805)	(1,890,783)	(1,418,766)	(2,296,374)	(1,402,811)	(1,397,000)	(1,781,500)	(4,480,761)
Insurance recovery	-	-	-	328,914	-	-	-	-	-
Proceeds from loans	-	800,000	-	325,422	5,237,981	-	-	-	13,730,000
Bond refundings	-	-	-	-	-	-	-	-	(1,310,000)
Sale of land	-	-	-	-	-	-	-	-	1,145,000
Other	-	-	-	124,044	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>1,444,764</b>	<b>2,737,956</b>	<b>1,400,000</b>	<b>3,178,380</b>	<b>6,537,981</b>	<b>1,400,000</b>	<b>1,400,000</b>	<b>1,193,000</b>	<b>14,771,000</b>
Extraordinary item	-	-	-	-	-	-	(554,720)	-	-
<b>Net change in fund balances</b>	<b>\$ 42,931</b>	<b>\$ (269,276)</b>	<b>\$ 1,690,771</b>	<b>\$ 2,533,846</b>	<b>\$ 1,847,772</b>	<b>\$ (323,721)</b>	<b>\$ (734,175)</b>	<b>\$ 1,567,446</b>	<b>\$ 13,029,655</b>
Debt service as a percentage of noncapital expenditures	4.7%	4.5%	2.7%	3.1%	10.9%	4.1%	3.6%	2.7%	3.0%

a) In fiscal year 2006, the City of Henderson fully implemented GASB 34.

**CITY OF HENDERSON  
GENERAL GOVERNMENTAL TAX REVENUE BY SOURCE  
LAST TEN FISCAL YEARS**

Fiscal Year	Total	Real & Personal Property	Insurance Premiums	Payroll	Net Profits	Franchise	Bank Deposits
2002	\$ 7,805,156	\$ 3,628,929	\$ 3,712,328			\$ 359,970	\$ 103,929
2003	8,637,268	3,849,171	4,222,241			455,056	110,800
2004	9,005,832	3,983,611	4,442,749			470,138	109,334
2005	9,390,280	4,202,727	4,531,904			548,838	106,811
a) 2006	11,514,894	4,355,360	4,533,359	\$ 1,416,329	\$ 582,169	521,405	106,271
2007	14,885,252	4,753,013	4,365,717	4,172,189	969,491	511,027	113,815
2008	15,002,709	5,250,283	4,091,311	b) 4,192,856	722,255	c) 628,633	117,371
2009	15,349,559	5,593,273	4,291,149	4,017,229	775,456	555,857	116,595
2010	16,247,660	6,571,652	d) 4,301,984	3,946,880	770,248	531,854	125,042
2011	16,198,264	6,664,192	4,136,526	4,046,269	656,864	c) 561,308	133,105

- a) The City of Henderson implemented a 1% payroll/net profits tax in 2005 - 2006. The first payments were received in January 2006.
- b) The City of Henderson had several requests for large refunds of insurance premium taxes.
- c) The City of Henderson had several requests for large refunds of net profit taxes.
- d) Starting in fiscal 2010, the City of Henderson allocated 100% of property tax revenue to the General Fund.



**CITY OF HENDERSON**  
**ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY**  
**LAST TEN FISCAL YEARS**

(in thousands of dollars)

<u>Fiscal Year</u>	<u>Real Estate (a)</u>	<u>Personal Property (a)</u>	<u>Bank Deposits (b)</u>	<u>Total</u>
2002	\$ 764,276	\$ 129,190	\$ 424,202	\$ 1,317,668
2003	792,285	111,817	452,246	1,356,348
2004	811,082	117,263	446,261	1,374,606
2005	844,235	115,836	435,962	1,396,033
2006	871,253	118,484	433,758	1,423,495
2007	912,708	109,100	464,553	1,486,361
2008	1,007,360	113,282	479,065	1,599,707
2009	1,051,673	120,011	475,900	1,647,584
2010	1,071,441	144,539	510,373	1,726,353
2011	1,079,090	125,452	543,287	1,747,829

Note: Records of estimated actual value of taxable property are not maintained by the City of Henderson. Assessments on motor vehicles are not included as the State of Kentucky collects the taxes when vehicles are licensed. Franchise taxes are not included as the State of Kentucky collects the taxes.

- a) Source: Henderson County Property Valuation Administrator
- b) Source: Commonwealth of Kentucky, Department of Revenue, Office of Property Valuation

**CITY OF HENDERSON, KENTUCKY**  
**DETAIL OF ASSESSED VALUE and ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY**  
**LAST EIGHT FISCAL YEARS**

**Real Estate**

Fiscal Year	Residential Real Estate	Farm Real Estate	Commercial Real Estate	Mobile Home Real Estate	Less: Tax Exempt Property	Other	Total Taxable Real Estate	Total Direct Real Estate Tax Rate	Estimated Actual Tax Value
2004	\$ 594,270,664	\$ 2,245,720	\$ 265,361,382	\$ 9,785,685	\$ 60,581,405	\$ -	\$ 811,082,046	\$ 0.00413	\$ 3,349,769
2005	620,601,136	2,473,520	272,039,540	9,772,693	60,651,490	-	844,235,399	0.00426	3,596,443
2006	647,525,285	2,660,120	276,198,707	9,374,258	64,505,692	-	871,252,678	0.00427	3,720,249
2007	674,471,421	2,558,520	290,722,270	9,133,994	64,178,212	-	912,707,993	0.00444	4,052,423
2008	725,651,226	2,618,945	338,492,540	8,937,734	68,340,708	-	1,007,359,737	0.00440	4,432,383
2009	752,841,974	2,729,830	356,084,864	8,930,363	68,914,133	-	1,051,672,898	0.00460	4,837,695
2010	771,246,458	2,901,145	364,428,870	8,842,981	75,978,542	-	1,071,440,912	0.00466	4,992,915
2011	777,522,794	2,901,145	367,906,368	8,668,612	77,908,839	-	1,079,090,080	0.00486	5,244,378

**Personal**

Fiscal Year	Furniture/Fixtures	Merchant's Inventory	Manufacturer's Finished Goods	Goods Stored in Warehouse	Work In Progress	Other	Total Taxable Personal Property	Total Direct Personal Tax Rate	Estimated Actual Tax Value
2004	\$ 52,752,060	\$ 45,010,218	\$ 14,941,575	\$ 151,318	\$ 29,443	\$ 4,378,296	\$ 117,262,910	\$ 0.00497	\$ 582,797
2005	50,321,823	45,058,181	17,133,371	553,833	29,443	2,738,982	115,835,633	0.00540	625,512
2006	49,849,312	49,057,365	15,398,780	559,614	3,831	3,614,793	118,483,695	0.00536	635,073
2007	51,543,336	41,904,742	11,919,031	195,469	149,888	3,387,361	109,099,827	0.00634	691,693
2008	51,130,945	46,560,846	12,511,973	1,125	-	3,076,904	113,281,793	0.00668	756,722
2009	59,221,937	40,850,867	16,689,747	106,095	-	3,142,261	120,010,907	0.00688	825,675
2010	57,986,626	57,503,339	21,538,243	1,056,284	2,457,177	3,997,125	144,538,794	0.00590	852,779
2011	56,439,817	53,952,590	11,762,126	152,327	66,739	3,078,617	125,452,216	0.00714	895,729

Note: Records of estimated actual value of taxable property are not maintained by the City of Henderson. Assessments on motor vehicles are not included as the State of Kentucky collects the taxes when vehicles are licensed. It was not until 2004 that Henderson County provided detail information in the format presented.

Source: Henderson County Property Valuation Administrator

**CITY OF HENDERSON  
PROPERTY TAX RATES  
DIRECT AND OVERLAPPING GOVERNMENTS  
PER \$100 OF NET ASSESSED VALUATION  
LAST TEN FISCAL YEARS**

<b>Real property:</b>						<b>Overlapping</b>						<b>Total City Resident</b>
<b>Direct</b>						<b>Overlapping</b>						
<b>Year</b>	<b>Police and Firemen's Pension</b>	<b>Civil Service Pension</b>	<b>Debt</b>	<b>General Fund Operations</b>	<b>City</b>	<b>County Schools</b>	<b>State</b>	<b>County</b>	<b>Library</b>	<b>Health</b>	<b>Extension</b>	
2002	0.0338	-	-	0.3542	0.3880	0.4330	0.1360	0.0940	0.0420	0.0260	0.0160	1.1350
2003	0.0330	-	-	0.3640	0.3970	0.4330	0.1350	0.0940	0.0430	0.0260	0.0160	1.1440
2004	0.0329	0.0101	-	0.3717	0.4147	0.4450	0.1330	0.0980	0.0450	0.0260	0.0170	1.1787
2005	0.0337	0.0086	-	0.3837	0.4260	0.4500	0.1310	0.1010	0.0470	0.0260	0.0180	1.1990
2006	0.0337	0.0086	-	0.3847	0.4270	0.4620	0.1310	0.1060	0.0490	0.0260	0.0190	1.2200
2007	0.0337	0.0116	-	0.3987	0.4440	0.4650	0.1280	0.1110	0.0520	0.0260	0.0200	1.2460
2008	0.0325	0.0185	0.0384	0.3506	0.4400	0.4640	0.1240	0.1150	0.0550	0.0260	0.0210	1.2450
2009	0.0210	0.0210	0.0290	0.3890	0.4600	0.4700	0.1220	0.1180	0.0590	0.0260	0.0220	1.2770
2010	-	-	-	0.4660	0.4660	0.4770	0.1220	0.1180	0.0630	0.0260	0.0230	1.2950
2011	-	-	-	0.4860	0.4860	0.5000	0.1220	0.1180	0.0690	0.0260	0.0250	1.3460

<b>Personal property:</b>						<b>Overlapping</b>						<b>Total City Resident</b>
<b>Direct</b>						<b>Overlapping</b>						
<b>Year</b>	<b>Police and Firemen's Pension</b>	<b>Civil Service Pension</b>	<b>Debt</b>	<b>General Fund Operations</b>	<b>City</b>	<b>County Schools</b>	<b>State</b>	<b>County</b>	<b>Library</b>	<b>Health</b>	<b>Extension</b>	
2002	0.0347	-	-	0.3643	0.3990	0.4330	0.4500	0.0940	0.0444	0.0260	0.0176	1.4640
2003	0.0406	-	-	0.4484	0.4890	0.4350	0.4500	0.1070	0.0508	0.0260	0.0197	1.5775
2004	0.0396	0.0084	-	0.4473	0.4953	0.4450	0.4500	0.1070	0.0523	0.0260	0.0206	1.5962
2005	0.0337	0.0086	-	0.4977	0.5400	0.4500	0.4500	0.1230	0.0611	0.0260	0.0244	1.6745
2006	0.0337	0.0086	-	0.4937	0.5360	0.4620	0.4500	0.1330	0.0660	0.0260	0.0267	1.6997
2007	0.0337	0.0116	-	0.5887	0.6340	0.4650	0.4500	0.1580	0.0793	0.0260	0.0318	1.8441
2008	0.0325	0.0185	0.0384	0.5786	0.6680	0.4660	0.4500	0.1750	0.0897	0.0260	0.0357	1.9104
2009	0.0210	0.0210	0.0290	0.6170	0.6880	0.4700	0.4500	0.1750	0.0910	0.0260	0.0354	1.9354
2010	-	-	-	0.5900	0.5900	0.4770	0.4500	0.1750	0.0860	0.0260	0.0328	1.8368
2011	-	-	-	0.7140	0.7140	0.5000	0.4500	0.1750	0.0993	0.0260	0.0376	2.0019

Source: Kentucky Department of Revenue

Note: Excluding new property, the City of Henderson cannot increase its property tax revenue by more than 4% annually without a popular referendum. Overlapping rates are those of state, county and local governments that apply to property owners within the City of Henderson.

**CITY OF HENDERSON  
AD VALOREM TAX RATES  
DIRECT AND OVERLAPPING GOVERNMENTS  
PER \$100 OF NET ASSESSED VALUATION  
LAST TEN FISCAL YEARS**

<b>Real property: Direct</b>		<b>Overlapping</b>						<b>Total City Resident</b>
<b>Year</b>	<b>City</b>	<b>County Schools</b>	<b>State</b>	<b>County</b>	<b>Library</b>	<b>Health</b>	<b>Extension</b>	
2002	0.3880	0.4330	0.1360	0.0940	0.0420	0.0260	0.0160	1.1350
2003	0.3970	0.4330	0.1350	0.0940	0.0430	0.0260	0.0160	1.1440
2004	0.4130	0.4450	0.1330	0.0980	0.0450	0.0260	0.0170	1.1770
2005	0.4260	0.4500	0.1310	0.1010	0.0470	0.0260	0.0180	1.1990
2006	0.4270	0.4620	0.1310	0.1060	0.0490	0.0260	0.1900	1.3910
2007	0.4440	0.4650	0.1280	0.1110	0.0520	0.0260	0.0200	1.2460
2008	0.4400	0.4640	0.1240	0.1150	0.0550	0.0260	0.0210	1.2450
2009	0.4600	0.4700	0.1220	0.1180	0.0590	0.0260	0.0220	1.2770
2010	0.4660	0.4770	0.1220	0.1180	0.0630	0.0260	0.0230	1.2950
2011	0.4860	0.5000	0.1220	0.1180	0.0690	0.0260	0.0250	1.3460

**Personal property:**

2002	0.3990	0.4330	0.4500	0.0940	0.0444	0.0260	0.0176	1.4640
2003	0.4890	0.4350	0.4500	0.1070	0.0508	0.0260	0.0197	1.5775
2004	0.4970	0.4450	0.4500	0.1070	0.0523	0.0260	0.0206	1.5979
2005	0.5400	0.4500	0.4500	0.1230	0.0611	0.0260	0.0244	1.6745
2006	0.5360	0.4620	0.4500	0.1330	0.0660	0.0260	0.0267	1.6997
2007	0.6340	0.4650	0.4500	0.1580	0.0793	0.0260	0.0318	1.8441
2008	0.6680	0.4660	0.4500	0.1750	0.0897	0.0260	0.0357	1.9104
2009	0.6880	0.4700	0.4500	0.1750	0.0910	0.0260	0.0354	1.9354
2010	0.5900	0.4770	0.4500	0.1750	0.0860	0.0260	0.0328	1.8368
2011	0.7140	0.5000	0.4500	0.1750	0.0993	0.0260	0.0376	2.0019

Source: Kentucky Department of Revenue

**CITY OF HENDERSON, KENTUCKY  
TOP TEN TAXPAYERS  
LAST TEN FISCAL YEARS**

<b>Company</b>	<b>Type of Tax</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Kentucky Farm Bureau Insurance	Insurance premium tax	\$ 316,334	\$ 357,838	\$ 392,174	\$ 400,515	\$ 387,260	\$ 399,568	\$ 410,043	\$ 425,793	\$ 456,374	\$ 486,160
Commonwealth of Kentucky - Telecom (a)	Franchise tax	-	-	-	-	-	315,994	316,101	315,991	316,068	316,044
Bellsouth Telecommunications / AT&T	911 tax/Franchise fees	194,376	178,376	158,529	203,391	270,679	200,665	280,409	283,255	277,972	285,083
Insight Communications (a)	911 tax/Franchise fees	210,971	273,480	285,073	325,312	236,649	-	225,568	192,960	214,889	237,779
State Farm Mutual Automobile Insurance	Insurance premium tax	167,590	174,765	171,549	172,297	173,236	172,002	161,049	175,243	176,025	192,829
United Healthcare	Insurance premium tax	109,620	125,144	143,431	145,257	161,039	147,950	197,205	224,861	188,973	177,349
State Farm Fire & Casualty Company	Insurance premium tax	-	-	-	-	-	114,716	114,810	116,277	127,469	144,505
The Cincinnati Insurance Company	Insurance premium tax	102,201	105,243	102,818	-	113,508	100,644	96,125	115,878	127,925	136,640
Progressive Casualty Insurance Company	Insurance premium tax	-	-	-	-	-	133,516	152,869	150,993	148,370	123,904
West American Insurance Company	Insurance premium tax	113,133	94,068	106,617	116,083	118,402	118,984	120,170	110,157	103,134	95,201
Grange Mutual	Insurance premium tax	119,129	122,315	134,139	137,350	131,073	122,680	-	-	-	-
Midland National Life Insurance Company	Insurance premium tax	-	-	-	-	199,991	-	-	-	-	-
West Coast Life Insurance Company	Insurance premium tax	-	-	-	200,573	-	-	-	-	-	-
HCC Life Insurance Company	Insurance premium tax	-	-	-	117,644	-	-	-	-	-	-
Progressive Northern Insurance Co.	Insurance premium tax	-	-	109,319	-	-	-	-	-	-	-
Allstate Insurance Company	Insurance premium tax	-	-	108,017	-	-	-	-	-	-	-
Aetna Life Insurance	Insurance premium tax	150,524	184,959	-	-	-	-	-	-	-	-
St. Paul Fire & Marine Insurance Co.	Insurance premium tax	96,961	94,438	-	-	-	-	-	-	-	-

a) Starting in July 2006, the Commonwealth of Kentucky mandated per House Bill 272 that all revenue from multichannel video programming service providers and an array of communications services providers, including telephone services, be sent to the State and then distributed to local governments based on an elaborate formula.

**CITY OF HENDERSON , KENTUCKY  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST EIGHT FISCAL YEARS**

<b>Fiscal Year</b>	<b>Total Tax Levy for Fiscal Year (a)</b>	<b>Collected within the Fiscal Year of the Levy</b>		<b>Collections in subsequent years (b)</b>	<b>Total Collections to Date</b>	
		<b>Amount</b>	<b>Percentage of Levy</b>		<b>Amount</b>	<b>Percentage of Levy</b>
2004	\$ 3,900,986	N/A	N/A	N/A	\$ 3,889,735	99.7%
2005	4,173,453	\$ 4,122,781	98.8%	\$ 40,165	4,162,946	99.7%
2006	4,301,983	4,247,636	98.7%	41,021	4,288,657	99.7%
2007	4,704,133	4,647,361	98.8%	40,875	4,688,236	99.7%
2008	5,137,044	5,064,159	98.6%	52,446	5,116,605	99.6%
2009	5,596,878	5,491,093	98.1%	67,167	5,558,260	99.3%
2010	5,786,016	5,692,217	98.4%	51,848	5,744,065	99.3%
2011	6,065,698	5,959,466	98.2%	24,462	5,983,928	98.7%

N/A: The City installed a new property tax software in fiscal year 2005. Information prior to 2005 is not available in this format.

(a) Net of all corrections, additions, and deletions

(b) Collections as of October 11, 2011

**CITY OF HENDERSON, KENTUCKY  
NATURAL GAS VOLUME BY CUSTOMER TYPE  
LAST TEN CALENDAR YEARS  
(all amounts in thousand cubic feet )**

<b>Type of Customer</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Residential	655,179	700,265	708,087	611,354	613,872	513,033	558,863	622,342	566,728	589,839
Commercial	300,997	330,446	338,998	337,788	341,802	319,357	331,896	371,493	342,366	366,061
Industrial	1,952,279	2,031,564	1,690,014	1,844,269	1,579,765	1,807,274	1,881,901	2,147,867 d)	1,967,828	2,165,540
Municipal	-	-	-	-	-	-	6,428 a)	7,875	6,882	7,543
<b>Total Sold</b>	<b>2,908,455</b>	<b>3,062,275</b>	<b>2,737,099</b>	<b>2,793,411</b>	<b>2,535,439</b>	<b>2,639,664</b>	<b>2,779,088</b>	<b>3,149,577</b>	<b>2,883,804</b>	<b>3,128,983</b>
Delivered only	234,330	314,481	356,232	399,848	360,747	358,538	331,305	- d)	-	-
Pipeline distribution use (net of losses)	-	17,422	(2,302) b)	1,352	1,037	1,926	3,647 c)	1,733	4,628 e)	2,796
<b>Total Disposition</b>	<b>3,142,785</b>	<b>3,394,178</b>	<b>3,091,029</b>	<b>3,194,611</b>	<b>2,897,223</b>	<b>3,000,128</b>	<b>3,114,040</b>	<b>3,151,310</b>	<b>2,888,432</b>	<b>3,131,779</b>

- a) Prior to 2007, Municipal consumption was included in Commercial.
- b) The department reported a loss from leaks, migration, damage and/or accidents of 2,780.
- c) The department reported a loss from leaks, migration, damage and/or accidents of 2,634.
- d) A transport customer is now a sales service customer and now reflected in industrial.
- e) The department reported a loss from a ice storm of 2,250.

Source: Gas Department

**CITY OF HENDERSON, KENTUCKY  
NATURAL GAS SOLD BY CUSTOMER TYPE  
LAST TEN CALENDAR YEARS  
(all amounts in thousands)**

<b>Type of Customer</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Residential	\$ 6,355	\$ 5,063	\$ 6,595	\$ 6,028	\$ 8,064	\$ 6,421	\$ 6,594	\$ 7,715	\$ 5,925	\$ 6,142
Commercial	2,898	2,248	2,972	3,023	4,120	3,899	3,671	4,542	2,967	3,196
Industrial	12,820	10,105	10,913	12,704	16,702	16,612	15,147	22,049	10,524	11,460
Total Sold	\$ 22,073	\$ 17,416	\$ 20,480	\$ 21,755	\$ 28,886	\$ 26,932	\$ 25,413	\$ 34,306 a)	\$ 19,416 b)	\$ 20,798

a) During 2008, the energy market experienced unusually high prices.

b) Due to the global recession, demand for natural gas decreased and energy prices followed.

Note: The City of Henderson receives its gas free of charge from the gas department.

Source: Gas Department



**CITY OF HENDERSON, KENTUCKY  
NATURAL GAS RATES  
RESIDENTIAL CUSTOMERS  
LAST TEN FISCAL YEARS**

Fiscal Year	Monthly Base Rate	Rate per 1,000 cubic feet
2002	\$ 4.50	\$ 1.85
2003	4.50	1.85
2004	4.50	1.85
2005	4.50	1.85
2006	4.50	1.85
2007	4.50	1.85
2008	4.50	1.85
2009	a) 12.00	2.25
2010	12.00	2.25
2011	12.00	2.25

**Source:** Gas department

a) On May 12, 2009 the City increased the monthly base rate and the rate per 1,000 cubic feet.

Note: The City Commission can, and has on certain occasions, changed the rate due to high gas rates or cold weather.

**CITY OF HENDERSON**  
**DIRECT and OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT**  
**As of JUNE 30, 2011**

<b>Governmental Unit</b>	<b><u>Debt Outstanding</u></b>	<b><u>Estimated Percentage Applicable (a)</u></b>	<b><u>Estimated Share of Overlapping Debt</u></b>
<b>Debt repaid with property taxes</b>			
Henderson County Schools (c)	\$ 18,127,226	55.20% (b)	\$ 10,006,229
Henderson County (d) Henderson County Public Properties Corp.	5,570,000	55.20% (b)	<u>3,074,640</u>
Subtotal, overlapping debt			\$ 13,080,869
<b>City direct debt</b>			<u>18,000,000</u>
<b>Total direct and overlapping debt</b>			<u><u>\$ 31,080,869</u></u>

Note: This exhibit excludes the debt to be retired by the City's component units through rates. Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Henderson. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account.

- a) For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within Henderson's boundaries and dividing it by each unit's total taxable assessed value.
- b) Determined by the ratio of assessed valuation of property subject to taxation in the City of Henderson to the value of property in the overlapping units.
- c) Obtained from Henderson County Board of Education Finance Office for fiscal year 2011.
- d) Obtained from the Henderson County Treasurer's Office, does not include Judicial Center.

**CITY OF HENDERSON , KENTUCKY  
 PLEDGED - REVENUE COVERAGE  
 WATER & SEWER and ELECTRIC COMMISSIONS  
 LAST TEN FISCAL YEARS  
 (all amounts in thousands )**

Water and Sewer Revenue Bonds								Electric Revenue Bonds							
Fiscal Year	Utility Operating Revenues	Less: Operating Expenses	Net Available Revenue	Debt Service Requirements			Coverage	Operating Revenues	Operating Expenses	Net Available Revenue	Debt Service Requirements			Coverage	Fiscal Year
				Principal	Interest	Total					Principal	Interest	Total		
2002	\$ 10,592	\$ 7,319	\$ 3,273	\$ 395	\$ 691	\$ 1,086	3.01	\$ 30,979	\$ 27,847	\$ 3,132	\$ 5,950	\$ 429	\$ 6,379	0.49	2002
2003	10,933	6,997	3,936	516	672	1,188	3.31	37,713	33,528	4,185	5,590	188	5,778	0.72	2003
2004	11,378	8,247	3,131	522	632	1,154	2.71	39,163	36,559	2,604	-	-	-	N/A	2004
2005	11,617	8,896	2,721	568	549	1,117	2.44	40,141	36,584	3,557	-	-	-	N/A	2005
2006	13,250	9,132	4,118	537	555	1,092	3.77	48,499	45,707	2,792	-	-	-	N/A	2006
2007	14,657	9,946	4,711	546	528	1,074	4.39	42,978	38,097	4,881	-	-	-	N/A	2007
2008	14,723	10,416	4,307	700	500	1,200	3.59	56,938	52,500	4,438	-	-	-	N/A	2008
2009	14,688	10,604	4,084	739	651	1,390	2.94	56,575	50,788	5,787	-	-	-	N/A	2009
2010	14,747	10,789	3,958	763	613	1,376	2.88	53,365	49,438	3,927	-	-	-	N/A	2010
2011	16,108	11,740	4,368	812	696	1,508	2.90	55,426	50,472	4,954	-	-	-	N/A	2011

Note: Operating expenses do not include interest, depreciation, or amortization expenses.

**CITY OF HENDERSON , KENTUCKY  
RATIOS of OUTSTANDING DEBT by TYPE  
LAST TEN FISCAL YEARS**

Year	General Bonded Debt		Percentage of Actual Taxable Value of Property		Other Governmental Activities Debt		Business-Type Activities		Total Primary Government <sup>d)</sup> Per Capita		Per Capita Income	Percentage of Personal Income
	General Obligation Bonds	Actual Taxable Value of Property	Actual Taxable Value of Property	Population	Per Capita	Bond Anticipation Note	Capital Leases	Capital Leases	Per Capita	Per Capita Income	Percentage of Personal Income	
2002	-	\$ 1,237,987,000	0.00%	27,447	N/A		\$ 5,202,286	\$ 206,621	\$ 5,408,907	\$ 197	\$ 25,401	0.78%
2003	-	1,317,668,000	0.00%	27,502	N/A		4,648,680	157,474	4,806,154	175	25,401	0.69%
2004	-	1,356,348,000	0.00%	27,542	N/A		4,855,000 <sup>a)</sup>	106,690	4,961,690	180	25,356	0.71%
2005	-	1,374,606,000	0.00%	27,666	N/A		4,555,000	54,218	4,609,218	167	26,232	0.64%
2006	-	1,396,033,000	0.00%	27,666	N/A		4,534,667	-	4,534,667	164	26,232	0.62%
2007	\$ 5,230,000	1,423,495,000	0.37%	27,768	\$ 188		2,277,948	-	7,507,948 <sup>b)</sup>	270	26,232	1.03%
2008	5,005,000	1,486,361,000	0.34%	27,768	\$ 180		1,850,811	-	6,855,811	247	28,259	0.87%
2009	4,775,000	1,599,707,000	0.30%	27,933	\$ 171	1,583,737 <sup>c)</sup>	1,523,303	-	7,882,040	282	29,434	0.96%
2010	4,535,000	1,647,584,000	0.28%	27,952	\$ 162	1,583,737	1,405,000	-	7,523,737	269	31,265	0.86%
2011	18,000,000	1,747,829,333	1.03%	28,757	\$ 626	-	-	-	18,000,000	626	31,265	2.00%

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

- a) In addition to \$4.06 million in capital leases, the City issued \$800,000 of new leases in 2004.
- b) In addition to \$2.3 million in capital leases, the City issued \$5.23 million in general obligation bonds in 2007.
- c) In 2009, the City drew down \$1.6 million of a \$4.0 million bond anticipation note.
- d) Includes general bonded debt, other governmental activities debt, and business-type activities debt.

**CITY OF HENDERSON, KENTUCKY**  
**RATIOS of GENERAL BONDED DEBT OUTSTANDING and LEGAL DEBT MARGIN**  
**LAST TEN FISCAL YEARS**  
(in thousands of dollars)

Company	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>General Bonded</b>										
General bonded debt outstanding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,230	\$ 5,005	\$ 4,775	\$ 18,000
Other bonded debt	-	-	-	-	-	-	-	-	1,584	-
Total	-	-	-	-	-	-	5,230	5,005	6,359	18,000
Estimated actual property value	\$ 1,317,668	\$ 1,356,348	\$ 1,374,606	\$ 1,374,606	\$ 1,396,033	\$ 1,423,495	\$ 1,486,361	\$ 1,599,707	\$ 1,647,584	\$ 1,747,829
Percentage of estimated actual property value	0%	0%	0%	0%	0%	0%	0.35%	0.31%	0.39%	1.03%
Population	27,447	27,447	27,502	27,542	27,666	27,666	27,768	27,768	27,933	28,757
Per capita	-	-	-	-	-	-	\$ 188	\$ 180	\$ 228	\$ 626
Less: Amounts set aside to repay general debt	-	-	-	-	-	-	-	-	-	-
Total net debt applicable to debt limit	-	-	-	-	-	-	\$ 5,230	\$ 5,005	\$ 6,359	\$ 18,000
Debt Limit	\$ 76,428	\$ 79,229	\$ 81,108	\$ 84,424	\$ 87,125	\$ 91,271	\$ 100,736	\$ 105,167	\$ 107,144	\$ 107,909
Total net debt applicable to limit	\$ 5,202	\$ 5,202	\$ 4,649	\$ 4,855	\$ 4,555	\$ 4,535	\$ 7,508	\$ 6,856	\$ 7,524	\$ 18,000
Legal Debt Limit a)	\$ 71,226	\$ 74,027	\$ 76,459	\$ 79,569	\$ 82,570	\$ 86,736	\$ 93,228	\$ 98,311	\$ 99,620	\$ 89,909
Legal Debt Margin b)	\$ 71,226	\$ 74,027	\$ 76,459	\$ 79,569	\$ 82,570	\$ 86,736	\$ 87,998	\$ 93,306	\$ 93,261	\$ 71,909
Legal debt margin as a percentage of the debt limit	100%	100%	100%	100%	100%	100%	94.4%	94.9%	93.6%	80.0%

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

a) – Section 158 of the Kentucky Constitution states that cities, having a population of fifteen thousand or more, shall not incur indebtedness to an amount exceeding 10% on the value of the taxable property therein, to be estimated by the last assessment previous to the incurring of the indebtedness, unless in case of emergency, the public health or safety should so require.

b) - The legal debt margin is the City's available borrowing authority under state finance statutes and is calculated by subtracting the net debt applicable to the legal debt limit from the legal debt limit.

**CITY OF HENDERSON, KENTUCKY  
DEMOGRAPHIC STATISTICS  
LAST TEN FISCAL YEARS**

<b>Fiscal Year</b>	<b>(a) Population</b>	<b>(b) Personal Income (thousands of dollars)</b>	<b>(b) Per Capita Income</b>	<b>(c) Median Age</b>	<b>(d) School Enrollment</b>	<b>(b) Unemployment Rate</b>
2002	27,447	\$ 697,181	\$ 25,401	36.7	6,827	5.2%
2003	27,502	698,578	25,401	36.7	6,818	6.0%
2004	27,542	698,355	25,356	37.0	6,638	4.4%
2005	27,666	725,735	26,232	37.0	6,767	5.5%
2006	27,666	725,735	26,232	37.0	6,861	5.3%
2007	27,768	728,410	26,232	37.0	6,858	4.8%
2008	27,768	784,696	28,259	37.0	6,893	5.3%
2009	27,933	822,180	29,434	36.5	6,876	11.0%
2010	27,952	873,919	31,265	38.2	6,895	10.2%
2011	28,757	899,088	31,265	38.3	6,969	8.9%

**Sources:**

- a) - Population Division, U.S. Census Bureau
- b) - Workforce Kentucky
- c) - U.S. Census Bureau
- d) - Henderson County Board of Education

**CITY OF HENDERSON, KENTUCKY  
PRINCIPAL EMPLOYERS  
LAST SIX FISCAL YEARS**

Employer	2006 (a)			2007			2008		
	Rank	Payroll Tax	Percentage of Total Payroll Tax	Rank	Payroll Tax	Percentage of Total Payroll Tax	Rank	Payroll Tax	Percentage of Total Payroll Tax
Methodist Hospital	1	\$ 164,393	3.94%	1	\$ 406,693	9.70%	1	\$ 433,727	10.80%
Henderson County Schools	3	121,608	2.91%	2	278,054	6.63%	2	297,595	7.41%
Gibbs	4	83,475	2.00%	4	201,997	4.82%	4	167,912	4.18%
City of Henderson	5	47,119	1.13%	5	115,414	2.75%	5	118,877	2.96%
Dana	2	111,294	2.67%	3	275,966	6.58%	3	249,417	6.21%
Big Rivers	8	26,063	0.62%	8	66,309	1.58%	6	76,604	1.91%
Wal-Mart	18	-	0.00%	11	-	0.00%	8	70,954	1.77%
Redbanks	13	-	0.00%	9	63,355	1.51%	10	64,275	1.60%
Henderson Community College	9	23,867	0.57%	10	61,073	1.46%	9	65,096	1.62%
Sunspring America	6	44,200	1.06%	6	100,056	2.39%	7	75,034	1.87%
Vincent Plastics	7	24,779	0.59%	7	71,215	1.70%	11	-	0.00%
Spartan Staffing	10	22,830	0.55%	22	-	0.00%	15	-	0.00%
Total		<u>\$ 669,628</u>	<u>16.05%</u>		<u>\$ 1,640,132</u>	<u>39.12%</u>		<u>\$ 1,619,491</u>	<u>40.31%</u>

**Note:**

All businesses within the City are required to withhold a 1% payroll tax from all employees.

The City of Henderson implemented the 1% payroll tax in fiscal 2006.

Information prior to fiscal 2006 is not available in this format.

(a) The data is based on receipts from January through June 2006.

(b) Starting in fiscal 2010 the City's remittance included Henderson Water Utility

Source: City of Henderson Occupational License Office

**CITY OF HENDERSON, KENTUCKY  
PRINCIPAL EMPLOYERS  
LAST SIX FISCAL YEARS**

Employer	2009			2010			2011		
	Rank	Payroll Tax	Percentage of Total Payroll Tax	Rank	Payroll Tax	Percentage of Total Payroll Tax	Rank	Payroll Tax	Percentage of Total Payroll Tax
Methodist Hospital	1	\$ 468,120	11.86%	1	\$ 467,415	11.55%	1	\$ 468,695	11.67%
Henderson County Schools	2	306,117	7.76%	2	321,754	7.95%	2	321,922	8.01%
Gibbs	4	152,176	3.86%	3	162,702	4.02%	3	165,136	4.11%
City of Henderson	5	124,433	3.15%	4	161,027	3.98% (b)	4	163,558	4.07%
Dana	3	171,968	4.36%	5	133,290	3.29%	5	134,989	3.36%
Big Rivers	6	84,017	2.13%	6	107,244	2.65%	6	127,353	3.17%
Wal-Mart	7	79,145	2.01%	7	80,982	2.00%	7	78,704	1.96%
Redbanks	8	69,684	1.77%	8	73,480	1.82%	8	77,667	1.93%
Henderson Community College	10	64,076	1.62%	10	64,660	1.60%	9	68,000	1.69%
State of Kentucky	9	64,760	1.64%	9	68,515	1.69%	10	66,018	1.64%
Total		<u>\$ 1,584,496</u>	<u>40.15%</u>		<u>\$ 1,641,069</u>	<u>40.56%</u>		<u>\$ 1,672,042</u>	<u>41.62%</u>

**Note:**

All businesses within the City are required to withhold a 1% payroll tax from all employees.  
The City of Henderson implemented the 1% payroll tax in fiscal 2006.  
Information prior to fiscal 2006 is not available in this format.

- (a) The data is based on receipts from January through June 2006.  
(b) Starting in fiscal 2010 the City's remittance included Henderson Water Utility

Source: City of Henderson Occupational License Office



**CITY OF HENDERSON, KENTUCKY**  
**FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES by FUNCTION / PROGRAM**  
**LAST TEN FISCAL YEARS**

Function / Program	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>General Government</b>										
Administration	14.00	15.00	15.00	15.00	12.00 b	11.00	22.00 d	22.00	22.50 e	22.50
Finance	30.00	31.00	31.00	31.00	31.00	33.00 c	32.00	32.00	33.50 e	33.50
<b>Police</b>										
Officers	57.50	57.50	57.50	57.50	57.80	57.80	57.80	57.55	60.75 f	60.75
Civilians	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
9-1-1 Communications	13.50	13.50	14.50	14.50	14.20	15.20	15.20	15.45	15.25	15.25
<b>Fire</b>										
Firefighters	58.00	58.00	58.00	58.00	58.00	58.00	58.00	58.00	58.00	58.00
Civilians	6.00	7.00	7.00	7.00	9.00 b	9.00	2.00 d	2.00	2.00	2.00
<b>Parks and Recreation</b>	13.00	14.00 a	14.00	14.00	14.00	14.00	13.00	13.00	13.00	13.00
<b>Mass Transit</b>	11.00	12.00	12.00	12.00	12.00	12.00	13.00	14.00	14.00	14.00
<b>Gas System</b>	29.00	29.00	30.00	30.00	30.00	27.00	28.00	28.00	28.00	28.00
<b>Sanitation</b>	22.25	20.75	18.50	18.50	18.50	18.50	18.50	18.50	18.50	18.50
<b>Cemetery</b>	4.00	5.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
<b>Public Way Improvement</b>	37.75	37.25	37.50	37.50	37.50	37.50	35.50 d	35.50	35.50	35.50
<b>TOTAL</b>	304.00	308.00	307.00	307.00	306.00	305.00	307.00	308.00	313.00	313.00

Source: Applicable Departments

- a) The City has added additional parks and recreational employees as the number of facilities increased.
- b) The City moved Community Development from Administration to Fire.
- c) With the passage of the new payroll/net profits tax, the City added a tax collector and moved the Switchboard from Administration
- d) The City moved Codes, Community Development, and Engineering to Administration and added an Assistant City Manager with Administrative Secretary.
- e) Two positions from Henderson Water Utility were moved to the City.
- f) The City received funding from the Community Oriented Policing Service for three police officers.

**CITY OF HENDERSON, KENTUCKY**  
**CAPITAL ASSET STATISTICS by FUNCTION / PROGRAM**  
**LAST TEN FISCAL YEARS**

<u>Function / Program</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Public Way Improvement</b>										
Miles of streets paved	111	111	111	111	113	113	113	113	113	124
Miles of sidewalks	73	73	73	73	73	73	73	73	73	73
<b>Wastewater System</b>										
Miles of sanitary sewers	151	151	151	206	185	205	205	203	205	200
Miles of storm sewers	136	136	136	136	136	136	136	136	136	136
Number of service connections	10,054	10,136	10,136	11,156	11,156	10,792	10,793	10,782	10,846	10,884
Maximum daily capacity of treatment in 1,000 gallons	19,000	19,000	19,000	19,000	19,000	19,000	19,000	19,000	19,000	19,000
<b>Water System</b>										
Miles of water mains	202	203	203	223	206	219	222	224	225	225
Number of service connections	10,566	10,649	10,649	11,156	11,156	10,792	10,793	10,782	10,846	10,844
Number of fire hydrants	1,082	1,087	1,087	939	939	988	1,007	1,020	1,030	1,084
Maximum daily capacity of plant in 1,000 gallons	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000
<b>Electric System</b>										
Miles of transmission and primary distribution	206	206	206	206	208	208	208	208	208	208
Number of distribution stations	7	7	7	7	7	7	7	7	7	7
<b>Gas System</b>										
Miles of mains	216	216	234	236	241	243	244	245	247	249
Miles of service lines	*	*	128	129	129	129	129	129	129	127
Number of meters	10,158	10,158	10,150	10,095	10,030	10,008	10,000	9,652	9,532	9,470
<b>Parks and Recreation</b>										
Park acreage	205	205	210	210	210	210	210	210	210	210
Swimming pools	1	1	1	1	1	1	1	1	1	1
Tennis courts	14	14	14	14	14	14	14	14	14	14
Baseball fields	16	16	16	16	17	17	16	16	16	16
Golf courses	1	1	1	1	1	1	1	1	1	1
Soccer fields	4	4	4	4	4	4	4	4	4	4
Walking trails	2	2	2	2	2	2	2	2	2	2
Disc golf holes (a)	-	-	-	-	-	-	-	9	18	18

Source: Applicable Departments

(a) The City added 9 holes of disc golf in fiscal 2009 and expanded it to 18 holes in fiscal 2010.

\* - Data not available

**CITY OF HENDERSON, KENTUCKY  
OPERATING INDICATORS by FUNCTION / PROGRAM  
LAST TEN FISCAL YEARS**

<b>Function / Program</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Police</b>										
Physical arrests	6,195	4,096	5,776	3,827	3,696	3,759	3,793	3,519	3,183	2,615
Traffic violations	5,539	5,304	3,932	2,166	3,086	2,697	2,073	1,458	2,315	2,854
Parking violations	4,692	3,754	5,870	5,746	5,195	3,867	4,492	4,387	2,425	4,075
Calls for service	32,288	29,301	29,179	24,525	25,987	23,600	22,335	17,658	18,582	17,633
<b>Fire</b>										
Number of calls answered	1,715	1,642	1,753	1,964	1,831	1,995	1,938	2,142	1,972	2,007
Number of inspections performed	235	109	18	604	709	1,238	1,210	781	733	772
<b>Mass Transit</b>										
Number of routes	*	*	*	*	*	5	5	5	5	5
Fixed Route Passengers	*	*	*	*	*	101,683	108,817	121,058	114,154	138,603
Para transit Passengers	*	*	*	*	*	16,653	17,529	17,298	15,736	18,161
Wheelchair Usage	*	*	*	*	*	6,728	4,900	4,758	4,729	6,411
Miles of Service	*	*	*	*	*	202,885	216,852	222,297	227,937	242,024
<b>Wastewater System</b>										
Average daily treatment in 1,000 gallons	10,700	9,800	9,800	9,800	8,800	10,185	9,970	9,648	9,506	8,979
<b>Water System</b>										
Average daily consumption in 1,000 gallons	11,250	11,836	11,836	11,836	10,500	10,469	8,316	8,034	7,847	7,669

Source: Applicable Departments

\* - Data not available

**Case No. 2019-00269**  
**Attachment 1 to BREC 1-31**  
**Pages 140**



**CITY OF HENDERSON, KENTUCKY  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2012**



**Betty Smithhart  
Photographer**



**CITY OF HENDERSON, KENTUCKY**  
**COMPREHENSIVE ANNUAL FINANCIAL**  
**REPORT**

**For the Fiscal Year Ended June 30, 2012**



**Prepared by the City of Henderson**  
**Finance Department**

**CITY OF HENDERSON, KENTUCKY**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**For the Fiscal Year Ended June 30, 2012**

---

**TABLE OF CONTENTS**

	<b>Page</b>
<b>INTRODUCTORY SECTION</b>	
Letter of Transmittal .....	1
GFOA Certificate of Achievement .....	10
Organizational Chart .....	11
List of Elected and Appointed Officials .....	12
<b>FINANCIAL SECTION</b>	
Independent Auditors' Report.....	13
Management's Discussion and Analysis .....	15
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	30
Statement of Activities .....	31
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	32
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets .....	33
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	34
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	35
Statement of Revenues, Expenditures, and Change in Fund Balance – Budget and Actual – General Fund.....	36
Statement of Net Assets – Proprietary Funds .....	37
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds .....	38
Statement of Cash Flows – Proprietary Funds.....	39
Statement of Fiduciary Net Assets – Fiduciary Funds.....	40
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.....	41
Notes to the Financial Statements.....	42
Required Supplementary Information:	
Schedules of Funding Progress .....	84
Schedules of Employer Contributions .....	85
Nonmajor Governmental Funds:	
Nonmajor Governmental Funds – Fund Descriptions .....	86
Combining Balance Sheet – Special Revenue Funds .....	87
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Special Revenue Funds .....	88

Continued

Schedules of Revenues, Expenditures, and Changes in Fund

Balances – Budget and Actual:

Cemetery Fund.....	89
Public Way Improvement Fund .....	90
Canoe Creek Fund.....	91
Henderson Area Rapid Transit Fund .....	92
Emergency Communications Fund.....	93
Community Development Block Grant Fund .....	94
HOME Fund.....	95
Police Investigation Fund .....	96
Justice Assistance Grant Fund .....	97
Debt Service Fund.....	98
Capital Projects Fund.....	99

**STATISTICAL SECTION**

Statistical Section Contents.....	100
General Information.....	101
Net Assets by Component.....	104
Changes in Net Assets .....	105
Fund Balances of Governmental Funds .....	108
Changes in Fund Balances of Governmental Funds .....	109
General Governmental Tax Revenue by Source.....	110
Assessed Value and Actual Value of Taxable Property .....	111
Detail of Assessed Value and Estimated Actual Value of Taxable Property .....	112
Property Tax Rates - Direct and Overlapping Governments .....	113
Ad Valorem Tax Rates – Direct and Overlapping Governments .....	114
Top Ten Taxpayers .....	115
Property Tax Levies and Collections .....	116
Natural Gas Volume by Customer Type.....	117
Natural Gas Sold by Customer Type .....	118
Natural Gas Rates – Residential Customers .....	119
Direct and Overlapping Governmental Activities Debt.....	120
Pledged-Revenue Coverage – Water & Sewer and Electric Commissions .....	121
Ratios of Outstanding Debt by Type .....	122
Ratios of General Bonded Debt Outstanding and Legal Debt Margin .....	123
Demographic Statistics .....	124
Principal Employers .....	125
Full-time Equivalent City Government Employees by Function / Program.....	127
Capital Asset Statistics by Function / Program.....	128
Operating Indicators by Function / Program .....	129



## **INTRODUCTORY SECTION**

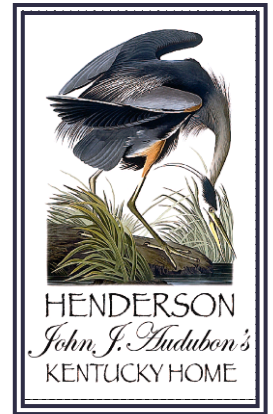


Steve Austin, Mayor

Commissioners:  
William M. Farmer  
Robert M. Mills  
Robert N. Pruitt  
Alan C. Taylor

# The City of Henderson

P.O. Box 716  
Henderson, Kentucky 42419-0716



Russell R. Sights, City Manager  
William L. Newman, Jr., Assistant City Manager  
Dawn S. Kelsey, City Attorney  
Carolyn Williams, City Clerk

December 11, 2012

Honorable Mayor,  
City Commissioners, and  
Citizens of the City of Henderson, Kentucky

We present to you the Comprehensive Annual Financial Report of the City of Henderson for the fiscal year ended June 30, 2012. This report has been prepared pursuant to, and in compliance with, the statutes of the Commonwealth of Kentucky, which require an annual audit of books of account, financial records, and transactions of the City be completed by February 1 immediately following the fiscal year. In addition to meeting the requirements set forth by state statute 91A.040, the audit is intended to meet the requirements of the federal Single Audit Act and related *OMB Circular A-133*.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

To the best of our knowledge and belief, the enclosed report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

Myriad Certified Public Accountants Group has issued an unqualified ("clean") opinion on the City of Henderson's financial statements for the year ended June 30, 2012. The independent auditors' report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.



## **FORMAT**

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this transmittal letter, the City's organizational chart, and a list of principal officials. The Financial Section includes the independent auditors' report, management's discussion and analysis, basic financial statements, and required supplementary information. The Statistical Section includes selected unaudited financial and demographic information, which is generally presented on a multiyear basis.

The independent auditors' report related specifically to the Single Audit Act is published separately. Those wishing to receive the Single Audit Act Report should direct their request to the City's Finance Director.

As demonstrated by the statements and schedules included in this report, the City continues to fulfill its responsibility for providing sound financial reporting.

## **REPORTING ENTITY**

The City of Henderson was incorporated as a town in 1810 and as a City in 1867. Henderson currently serves a population of 28,853 and is located in northwest Kentucky. The City has operated under the Board of Commissioners-City Manager structure since 1966. Policy-making and legislative authority are vested in the governing Board of Commissioners consisting of the mayor and four commissioners, all of whom are elected at large. Commission members serve two-year terms. The Mayor is elected for a four-year term. The Board of Commissioners appoints the City of Henderson's manager. The City Manager, with the approval of the Board of Commissioners, appoints department heads.

Henderson provides a wide range of municipal services and includes, for financial reporting purposes, all entities involved in the provision of these services and for which, in the opinion of the City, the City is financially accountable. The City is financially accountable for legally separate organizations if City officials appoint a voting majority of an organization's governing body, and the City is either able to impose its will on that organization, or there is potential for the organization to provide specific financial benefits to, or to impose financial burdens on, the City.

The City has performed a comprehensive evaluation of its financial reporting entity in accordance with Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, and based on the foregoing criteria, has included the following separate organizations as discretely presented component units within the City's basic financial statements.

*Henderson Municipal Power and Light (HMPL)*  
*Henderson Water Utility (HWU)*

The City provides a full range of municipal services, including public safety (police, fire, and emergency communications), street maintenance, sanitation, cemetery, drainage, landfill, transit, recreation, and general administrative services.

### **ACCOUNTING SYSTEM**

The Finance Department is responsible for providing to the City all financial services, including accounting and reporting, accounts payable, risk management, cash and investment management, debt management, budgeting, and purchasing.

### **INTERNAL CONTROLS**

The City's management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse, and to ensure that adequate accounting information is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefit likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal and state financial assistance, the City also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by the management of the City and by the City's auditors.

As a part of the City's audit, tests were made to determine the adequacy of the internal control structure as well as to determine that the City has complied with applicable laws and regulations. The results of the City's audit for the fiscal year ended June 30, 2012, disclosed no instances of material weaknesses in the internal control structure or significant violations of applicable laws and regulations.

### **BUDGETARY CONTROLS**

In addition to internal controls, the City maintains budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriation and budget ordinance approved by the Board of Commissioners. As required by Kentucky Revised Statutes 91A.030 and 83A.150, the City Manager submits a proposed operating budget on or before June 1<sup>st</sup> to the Board of Commissioners for the fiscal year commencing July 1. The budget includes appropriations for expenditures and means of financing them. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the departmental level within an individual fund. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control.

## **ECONOMIC CONDITION AND OUTLOOK**

Henderson is located in the Evansville, IN-KY Metropolitan Statistical Area (MSA). This geographical region covers approximately 2,367 square miles and is the 142<sup>nd</sup> largest MSA in the United States. The economy for the City of Henderson and Henderson County continues to slowly recover from the global recession. Even though most areas of the country are still struggling with high unemployment, depressed property values, and an increase in demands on social programs, the City of Henderson continues to maintain a positive economic outlook. By reducing expenses and utilizing cash reserves, the city has been able to maintain service levels with nominal tax increases.

Per the U.S. Census Bureau the family medium income for the City of Henderson for the past 12 months was \$52,967 which was \$844 or 1.6% higher than the Kentucky family medium income of \$52,123. The estimated medium price of a single family home in the county was \$101,500. Due to its healthy economy and strong financial reserves, the City of Henderson received a credit rating of Aa3 from Moody's Investor Service on its 2012A general obligation bonds.

Over the past ten years, the City has experienced a strong period of economic growth and investment. The real estate assessments have increased \$303 million from \$792.3 million in fiscal 2003 to \$1,095.3 million in fiscal 2012. Bank deposits have increased \$92.2 million from \$452.3 million to \$544.5 million over the same ten-year period.

The City of Henderson is a member of Northwest Kentucky Forward (NWKF), an economic development joint venture made up of the City of Henderson and four adjoining counties in the area. NWKF markets not only the City of Henderson but also the four-county region encompassing some 90,000 people. NWKF has four primary objectives: business attraction, business retention, business development, and education and workforce development.

## **LONG-TERM FINANCIAL PLANNING AND MAJOR INITIATIVES**

General Fund reserves increased from approximately \$7 million at June 30, 2011 to \$7.6 million at June 30, 2012. The reserves consisted of cash, investments, and receivables. The \$601,768 increase in General Fund reserves was primarily the result of higher property tax collections with decreases in capital expenditures. The General Fund will have a cash and investment balance, net of cash due to component units, entering the fiscal year equal to 3.4 months operating expense and transfers to other funds. The Gas Fund's cash and investment balance will be equal to 2.8 months operating expense. The City has reached its goal of establishing a balance of cash and investments equal to 3 months worth of operating expense in General Fund and is working to meet that same goal in the Gas Fund.

The City continues to play an active role in the Public Energy Authority of Kentucky (PEAK); a group the City co-founded in the 1990's. The 1998 pre-pay deal concluded in January 2009. The Gas Fund received nearly \$831,000 in residual revenue from the pre-pay venture. As a result of the annual consumption during the fiscal year, \$268,759 was returned to Henderson which is an increase of \$49,075 from the \$219,684 that was returned in fiscal 2011.

For fiscal years 2004 through 2009, the Gas Fund had losses on average of \$632,000. For fiscal 2010, there was a gain of \$75,138 and for fiscal 2011 and 2012 there were losses of \$247,780 and \$593,253, respectively. The average for the last two years was a loss of \$420,517. On May 12, 2009, the Henderson Board of Commissioners increased the monthly base rates from \$4.50 to \$12.00 and the rate per 1,000 cubic feet of natural gas from \$1.85 to \$2.25. Although the rate increase helped reduce the amount of reserves used by the Gas Fund to meet operations, staff will continue to evaluate other ways to remain competitive.

Staff strongly recommends that once all funds have been stabilized, the City consider “cost of living adjustments” in rates periodically to avoid large and excessive increases in the future. Stagnant revenues with increasing costs of providing services is a recipe for disaster that can be avoided (or at least mostly offset) by smaller, incremental increases that do not have significant effects on taxpayers abilities to keep up.

For fiscal years 2010, 2011, and 2012, the City spent \$6.82 million, \$6.63 million, and \$6.43 million, respectively, on health claims. By the end of fiscal 2012 there had been an increase of \$1.5 million or 30.6% from the \$4.9 million spent in 2009. During this three year period, there were several large claims that were applied against the City’s stop loss policy.

In August 2011, the City Board of Commissioners adopted significant modifications to the City’s health plan. In addition to higher deductibles, the program incorporates premiums for all employees. Whereas in the past only employees hired after January 1, 2006 paid dependent or family premiums, starting January 1, 2012 all employees pay regardless of their hire date. The plan requires \$50 per month for employee only coverage, \$100 per month for employee plus one dependent, or \$150 for employee plus family.

The plan also requires that spouses of employees who are eligible for coverage through their own employers are ineligible for coverage under the City’s health plan unless they are enrolled in their own employers’ coverage. Employees that elect to waive the City health insurance coverage on themselves or on their spouse are eligible for a waiver benefit. The benefit can be up to \$2,000 per year and can be used in a flexible spending account, in a health reimbursement arrangement, used to reduce the employee’s health insurance premium, or a combination of any two of the above options.

The plan also increases the contributions to the HRA Plan. Each employee that meets certain wellness criteria receive a credit in the amount of \$500 for a single participant and \$1,000 for a family coverage participant in the health insurance plan. At the end of a plan year, any unused benefits in an HRA Plan account is carried forward for use in the subsequent year.

From a capital projects aspect, 2012 was another busy year. Some projects and improvements of note include:

*Riverfront Development:*

The City completed the first phase of the \$8.6 million riverfront improvements. It included a complete renovation of the Doc Hosbach Tennis Complex, the addition of restrooms at Sunset

Park, riverbank stabilization, and contribution to Henderson Water Utility for improvements to its downtown infrastructure. Construction costs were approximately \$3.4 million for fiscal 2012.

Among the projects approved by the Kentucky Transportation Cabinet is the scheduled completion of the extension of the existing River walk from Red Banks Park to 12<sup>th</sup> Street. Future projects for the remaining funds will be considered and then submitted to the State of Kentucky in fiscal 2013.

*City of Henderson and Henderson County Joint Ventures:*

In 2007, the Board of Commissioners along with the Fiscal Court jointly approved the creation of a Flood Mitigation Board to oversee the expenditure of funds dedicated to addressing the flooding problems caused by Canoe Creek that have plagued the City for many years. \$1.25 million in State funding was secured to cover costs associated with Phase I of this project. This project was closed-out in fiscal 2012.

The City and County were awarded an additional \$1.35 million to be used in Phase II of flood mitigation. The grant is from the State of Kentucky and does require a local match from the City and County. It is administered by the Flood Mitigation Board. The Board is also engaged in a “modeling” project that will allow future ideas to be tested using advanced software to see what potential benefit these ideas might generate.

In August 2008, the City of Henderson and Henderson County signed a new inter-local agreement for the disposal of solid waste. The agreement provides for all Henderson County residents to use the transfer station and the construction demolition and debris landfill free of charge for permitted waste. The agreement also provides that the County make an annual lump sum payment as its financial obligation to the City for County residents using these services and to supplement the City’s curbside recycling program. The term of the agreement is for an initial period of five years beginning July 1, 2008 and ending June 30, 2013, with four five year automatic renewal options.

The City of Henderson and Henderson County are also working together on the recycling programs throughout Henderson County. This will include cardboard, aluminum, and the mulching of leaves, branches, and yard clippings. The City of Henderson and Henderson County are looking to improving the funding options for the emergency dispatch operations in the 911 center. The City of Henderson, Henderson County, and Methodist Hospital have formed a committee to address the Emergency Medical Services (EMS) needs of the community. The City of Henderson and Henderson County fund the operations of EMS equally. The focus of this committee is to review and discuss improvements to the ambulance service that is provided by Methodist Hospital. In fiscal 2012, the committee decided to move an ambulance that was housed at the hospital to the Starlite Fire Station. This saved the construction of another building and better utilized extra space at the Starlite Station.

### *Capital Building Projects:*

The City completed the construction of Fire Station #4 on South Green Street. Vectren Corporation purchased the property where the old station was located to be used for the installation of a 345,000-volt electrical transmission line. The new location on South Green is a more suitable location that still provides fire protection coverage for the industrial area while increasing coverage for residential property in the southwest area of the community. Construction costs were approximately \$1.82 million.

When purchasing the land for the new Starlite Station, the City purchased the entire 8.5 acre parcel so that it could control the disposition and development of additional acreage and assure compatible uses for the land in consideration of neighborhood concerns. During the fiscal year, the City has sold the final of three parcels of land for commercial development.

### *Downtown Infrastructure Rehabilitation:*

Henderson Water Utility (HWU) has embarked on a massive \$43 million dollar set of projects. These projects when completed will: 1) replace much of the old infrastructure in a sixteen block space in the downtown area; 2) separate much of the combined wastewater and storm water system; 3) increase the amount of wastewater processed through the installation of new gravity sewer lines; and 4) increase the capacity and efficiency of the processing of wastewater at the North Wastewater Plant. These projects are part of HWU's long term control plan as mandated by the Environmental Protection Agency and the Kentucky Environmental & Public Protection Cabinet.

Initial construction on the downtown phase began in July 2010 with all underground and surface work completed at the end of calendar year 2011. Final repaving of all damaged streets was completed during the fall of 2012. The total cost of this downtown phase is anticipated to be \$13.9 million. The completion of all projects, as mandated by Consent Judgment, is required to be no later than December 21, 2017.

Henderson Municipal Power and Light (HMPL) utility is also improving its infrastructure downtown and in the surrounding area. In October 2009, the utility finished the rebuild of Substation 6-1; in September 2011, completed the 5<sup>th</sup> Street double circuit rebuild; and completed the rebuild of Substation One at the end of the 2011 calendar year. Substation 5-1 rebuild was started in December 2011 and completed in April 2012. These rebuilds include the replacement of the existing static wire, insulators, conductors, and power poles. Replacing the current conductor with a larger one will allow HMPL to increase the capacity of the sub-tie line thereby improving system reliability for customers.

### *Other Developments:*

From a residential growth perspective, a new development on US 60 East consisting of nearly 161 acres could eventually add approximately 400 home lots. This, in combination with other developments could add nearly 500 residential units to the City's base. However, with the current housing situation, the development has been delayed until the economy improves.



During fiscal 2012, the City successfully completed an eighth year of the World Changers program, in conjunction with the North American Mission Board, which provided exterior renovations to 16 homes in the community. The City was successful in securing HOME Repair Affair grant funds to be utilized in conjunction with CDBG funds for this World Changers program.

One new home was constructed with CDBG and private funds. CDBG funds were also provided to Shelter for Women and Children and police public services for enhanced patrols.

A new accessible gymnasium floor was installed at John F. Kennedy Community Center with a combination of CDBG and general funds. The facility was used extensively during the fall and winter seasons due to basketball practice and tournaments. This center offers a wide range of daily activities for adults, adolescents, and children including a learning center; fitness, including taekwondo classes; yoga; basketball; recreation room; art and craft classes; and cooking classes; administered by the City's Parks & Recreation Department.

The installation of 925 linear feet of 6' sidewalks on Sand Lane was completed with CDBG and CDBG-Rehabilitation funds. The project, called Phase I, runs along the south side of public right-of-way of Sand Lane (known as State Route 136) from Woodland to Fairground Lane and a small section running adjacent to the Housing Authority of Henderson complex. This project is located in Census Tract 206.02 (64% low to moderate income). This is a continuous effort to provide safe passage for children, adolescents, adults, and handicapped pedestrians either walking or using motorized wheelchairs to elementary and middle schools and other public facilities.

As with many other metropolitan areas, the economic dependency and interrelationship of the entire region is important as evidenced by the number of nonresident workers who commute daily to work in Henderson County and the equivalent number of Henderson County residents who commute to work outside of the county. Consequently, economic activity in the entire Kentucky, Indiana, and Illinois tri-state area – no matter where it occurs - is of benefit to the Henderson local economy.

It is a very exciting time for the community. Once all of the riverfront and downtown improvements are completed, the City will be well prepared for the future. The citizens, businesses, and employees of the City of Henderson have managed to endure a very trying time that not only has affected the local economy but one that has tested the global economy.

## **GFOA CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Henderson for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. This was the thirteenth year in a row that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable

and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement for Excellence in Financial Reporting is valid for a period of one year only. However, we believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement for Excellence in Financial Reporting Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City of Henderson also received the GFOA's Distinguished Budget Presentation Award for its annual budget document beginning July 1, 2011 and ending June 30, 2012. To qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

### **ACKNOWLEDGEMENTS**

The preparation of this report would not have been possible without the skill, effort, and dedication of the entire staff of the Finance Department. We wish to thank all government departments for their assistance in providing the data necessary to prepare this report.

The Board of Commissioners fulfills a critical function in their approval and oversight of the budget and the financial affairs of the City. We thank the Board of Commissioners for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

*Russell Sights*

/s/

Russell R. Sights  
City Manager

*Robert Gunter*

/s/

Robert Gunter  
Finance Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Henderson  
Kentucky

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



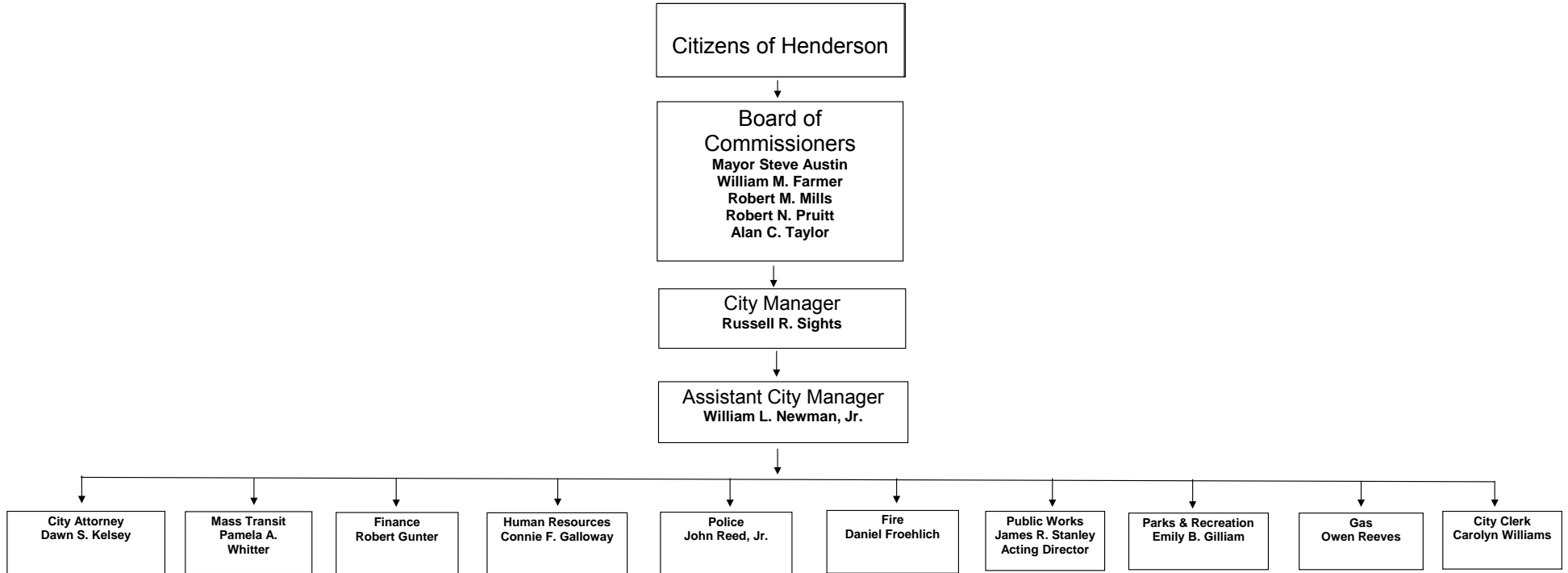
*Linda C. Danison*

President

*Jeffrey R. Emer*

Executive Director

**CITY OF HENDERSON, KENTUCKY  
Organizational Chart**



**CITY OF HENDERSON, KENTUCKY  
LIST OF ELECTED AND APPOINTED OFFICIALS**

**Elected Officials**

Mayor	Steve Austin
Commissioner	William M. Farmer
Commissioner	Robert M. Mills
Commissioner	Robert N. Pruitt
Commissioner	Alan C. Taylor

**Appointed Officials**

City Manager	Russell R. Sights
Assistant City Manager	William L. Newman, Jr.
City Attorney	Dawn S. Kelsey
City Clerk	Carolyn Williams
Finance Director	Robert Gunter
Fire Chief	Daniel Froehlich
Gas System Director	Owen Reeves
Human Resources Director	Connie F. Galloway
Mass Transit Director	Pamela A. Whitter
Parks & Recreation Director	Emily B. Gilliam
Police Chief	John Reed, Jr.
Public Works Director, Acting	James R. Stanley

## **FINANCIAL SECTION**



## **Independent Auditors' Report**

The Honorable Steve Austin, Mayor  
and the Board of Commissioners  
City of Henderson, Kentucky

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 the City of Henderson, Kentucky, as of and for the fiscal year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the City of Henderson, Kentucky's management. Our responsibility is to express opinions on these basic financial statements based on our audit. . We did not audit the financial statements of the City of Henderson Water & Sewer Commission, whose financial statements reflect assets of \$70,533,486 and revenues of \$15,756,587 for the year then ended. These financial statements were audited by other auditors whose report thereon dated November 8, 2012 has been furnished to us, and our opinion on the general purpose financial statements insofar as it relates to the amounts included for the City of Henderson Water & Sewer Commission in the component units column, is based on the report of other auditors.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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 the City of Henderson, Kentucky as of June 30, 2012, and the respective changes in financial position and cash flows where applicable, thereof and the budgetary comparison schedule for the general fund, for the fiscal year then ended, in conformity with United States generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 27, 2012, our consideration of the City of Henderson, Kentucky's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison schedule are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was performed for the purpose of forming opinions on the financial statements taken as a whole, that collectively comprise the City of Henderson, Kentucky's basic financial statements. The introductory section, combining financial statements, statistical section and other schedules listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Henderson, Kentucky. The combining financial statements and budgetary comparison schedules have been subjected to auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section of this report and the statistical section of this report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Myriad PA Group, LLC". The signature is written in a cursive, flowing style.

Henderson, Kentucky  
November 27, 2012



**Management's Discussion and Analysis  
(Required Supplementary Information)**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Henderson's Management's Discussion and Analysis provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. It should be read in conjunction with the transmittal letter and the financial statements provided in this document.

### **Financial Highlights**

- Primary Government assets exceeded liabilities by \$33.5 million at the close of fiscal 2012. Of this amount, \$8.2 million (unrestricted net assets) may be used to meet the City's ongoing obligations.
- City governmental funds reported combined ending fund balances of \$28.5 million. Of this total, \$4.9 million is unassigned.
- In the City's business-type activities, income from operations decreased from \$937,989 in fiscal 2011 to \$586,689 in fiscal 2012.
- The City's General Fund ended the year with a fund balance of \$7,599,866, an increase of \$601,768 or 8.6% from fiscal year 2011's balance of \$6,998,098.
- In the past four years, the General Fund's fund balance has increased 65.2% from \$4.6 million in 2008 to \$7.6 million in 2012.

### **Overview of Financial Statements**

This discussion and analysis serves as an introduction to the City's basic financial statements, which consist of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. Other supplemental information in addition to the basic financial statements is also included.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The City of Henderson ended fiscal 2012 with \$33,494,814 in net assets which is an increase of \$235,877 from the previous year. Governmental fund's net assets totaled \$27,505,541 an increase of \$964,303, and the business-type funds had net assets of \$5,989,273, a decrease of \$728,426.

The governmental funds had an increase in fund balance of \$9,378,040 with the capital projects fund increasing \$9,197,197. Most of the increase was due to restricted assets applicable to Henderson Water Utility (HWU) for the issuance of debt on its behalf. Of the \$5,383,394 spent in Capital Projects Fund, \$2,064,522 or 38.4% was related to the riverfront, \$1,816,335 or 33.7% was related to the new fire station #4, and \$1,363,929 or 25.3% was distributed to Henderson Water Utility for system improvements.

The General Fund added to its reserves in the amount of \$601,768. Since fiscal 2008, the fund's balance has increased 65.2%. Based on the fiscal 2013 budgeted expenditures, the General Fund has approximately 3.4 months worth of reserves. The City has assigned \$837,000 of the fiscal 2012 fund balance with \$787,000 of that amount to fill the fiscal 2013 budget deficit leaving \$5,592,998 unassigned. If the City adopts a fiscal 2014 budget in the same amount as fiscal 2013, it would equate to 2.6 months worth of reserves.

Due to a much milder winter, the Gas Fund had expenses in excess of revenues in the amount of \$593,253 and it ended the fiscal year with net assets of \$6,714,338. Since 2006, the cumulative change in the net assets for the Gas Fund has been a decrease of \$2.9 million or 29.9%. Based on the 2013 fiscal year's budgeted expenditures and net of invested in capital assets, the Gas Fund now has approximately three months worth of reserves.

The Sanitation Fund showed a decrease in fund balance. For fiscal 2012, expenses exceeded revenues in the amount of \$135,173 and the fund ended the year with net liabilities of \$725,065.

## **Government-wide Financial Statements**

Government-wide financial statements provide readers with a broad overview of City finances in a manner similar to private sector businesses.

The Statement of Net Assets provides information on all City assets, and liabilities, with the difference reported as net assets. Over time, increases or decreases in the net assets may serve as one indicator of whether the City's financial health is improving, stagnating, or deteriorating.

The Statement of Activities displays how the City's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The above statements separate the City functions primarily supported by taxes and intergovernmental revenues (governmental activities) from other City functions that are intended to recover all or a large portion of expenses through user fees and charges (business-type activities). City governmental activities include general government, public safety, public works, community development, and recreation. Business-type activities include natural gas and sanitation.

Government-wide financial statements include not only the City (the primary government) but also the legally separate Henderson Municipal Power & Light (HMPL) and Henderson Water Utility (HWU) for which the City is financially accountable (component units). Financial information for the component units is reported separately from the financial information presented for the primary government.

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over segregated resources for specific activities or objectives. Like other state and local governments, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. City funds are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

### **Governmental Funds**

Most of the City's basic services are reported in governmental funds, which focus on how money flows to and from those funds and the balances left at year-end that are available for spending. Essentially governmental funds are used to account for the functions reported as governmental activities in the government-wide financial statements.

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 government'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 of Henderson maintains twelve (12) individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, and Capital Projects Fund, which are considered to be major funds. Information for the other nine (9) governmental funds are combined into a single aggregated presentation and shown as Nonmajor Governmental Funds. Individual fund information for each of these nonmajor governmental funds is provided in combining statements later in this report.

The City of Henderson adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

### **Proprietary Funds**

Proprietary funds provide the same kind of information as government-wide financial statements, but in greater detail. Proprietary fund financial detail is presented in the form of combining statements in this report. The City of Henderson maintains two different types of proprietary funds: enterprise and internal service.

## **Enterprise Funds**

Enterprise funds report the same functions presented as business-type activities in the government-wide financial statements. Enterprise funds are used to account for operations that are managed in a manner similar to private business enterprises where the cost to provide services to the public is funded through user fees. Another characteristic of the enterprise fund is the periodic determination of revenues, expenses and/or net income that is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The City has two (2) enterprise funds: Gas and Sanitation. There are also two component units that provide electricity and water/sewer services. These two component units (Henderson Municipal Power & Light and Henderson Water Utility) each has its own board of directors and are enterprise funds. Each of these enterprise funds is self-supporting and does not receive a subsidy from the General Fund.

## **Internal Service Funds**

Internal service funds are used to accumulate and allocate costs internally among various functions. The City uses one internal service fund to account for its self-funded health insurance. The Health Insurance Fund has been included within governmental activities in the government-wide financial statements because this fund predominantly benefits governmental functions versus business-type functions.

## **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government and are not reflected in the government-wide financial statements because those resources are not available to support City programs. The City's three (3) fiduciary funds (Civil Service Pension, Police & Fire Pension, and the Health Reimbursement Arrangement Plan) are included in this report.

## **Notes to the Financial Statements**

Notes to the Financial Statements provide additional information needed to fully understand the government-wide and fund financial statements.

## **Other Information**

In addition to the basic financial statements and accompanying notes, this report presents required supplementary information concerning the City's progress in funding its obligations to provide pension benefits to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions.

## **Government-Wide Financial Analysis**

As noted earlier, net assets over time may serve as a useful indicator of a government's financial position. In the case of the City of Henderson, assets exceeded liabilities by \$33,494,814 at the close of the most recent fiscal year.

The tables and charts on the next few pages provide a summary of the City's operations for the fiscal year ended June 30, 2012.

### **City of Henderson's – Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$34,472,216	\$22,848,833	\$ 7,896,194	\$ 9,164,888	\$42,368,410	\$32,013,721
Capital assets	30,146,869	27,966,912	2,911,634	3,045,705	33,058,503	31,012,617
Total assets	<u>\$64,619,085</u>	<u>\$50,815,745</u>	<u>\$10,807,828</u>	<u>\$12,210,593</u>	<u>\$75,426,913</u>	<u>\$63,026,338</u>
Long-term liabilities	\$30,933,773	\$19,652,806	\$ 3,450,000	\$ 3,400,000	\$34,383,773	\$23,052,806
Other liabilities	6,179,771	4,621,701	1,368,555	2,092,894	7,548,326	6,714,595
Total liabilities	<u>\$37,113,544</u>	<u>\$24,274,507</u>	<u>\$ 4,818,555</u>	<u>\$ 5,492,894</u>	<u>\$41,932,099</u>	<u>\$29,767,401</u>
Net assets:						
Invested in capital assets, net of related debt	\$22,194,236	\$21,669,525	\$ 2,911,634	\$ 3,045,705	\$25,105,870	\$24,715,230
Restricted for:						
Debt Service	69,424	924	-	-	69,424	924
Cemetery perpetual care	-	141,604	-	-	-	141,604
Law enforcement	78,772	85,826	-	-	78,772	85,826
Unrestricted	<u>5,163,109</u>	<u>4,643,359</u>	<u>3,077,639</u>	<u>3,671,994</u>	<u>8,240,748</u>	<u>8,315,353</u>
	<u>\$27,505,541</u>	<u>\$26,541,238</u>	<u>\$ 5,989,273</u>	<u>\$ 6,717,699</u>	<u>\$33,494,814</u>	<u>\$33,258,937</u>

The largest portion of the City of Henderson's net assets (75.0%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City of Henderson uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available

for future spending. Although the City of Henderson's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Henderson's net assets (0.44%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$8,240,748 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City of Henderson is able to report positive balances in all reported categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City of Henderson's overall net assets increased \$235,877 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

### **Governmental Activities**

Governmental activities: Governmental activities in the fiscal year increased the City of Henderson's net assets by \$964,303. There were two key elements that attributed to the increase. Tax revenues increased by \$936,522 or 5.8% over the prior year. And secondly, the operating and capital grants increased by \$2,843,578 or 74.5%.

### **Business-type Activities**

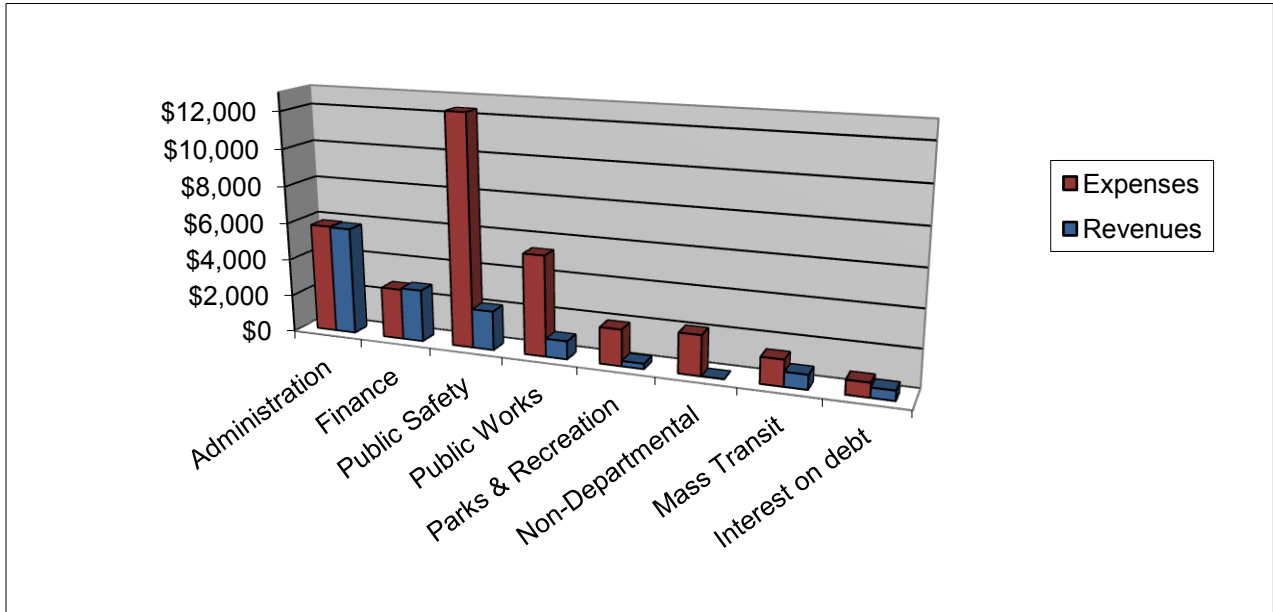
Business-type activities are the enterprise funds; therefore, see the section on enterprise funds for an explanation of these activities.

## City of Henderson – Changes in Net Assets Analysis of the City’s Operations

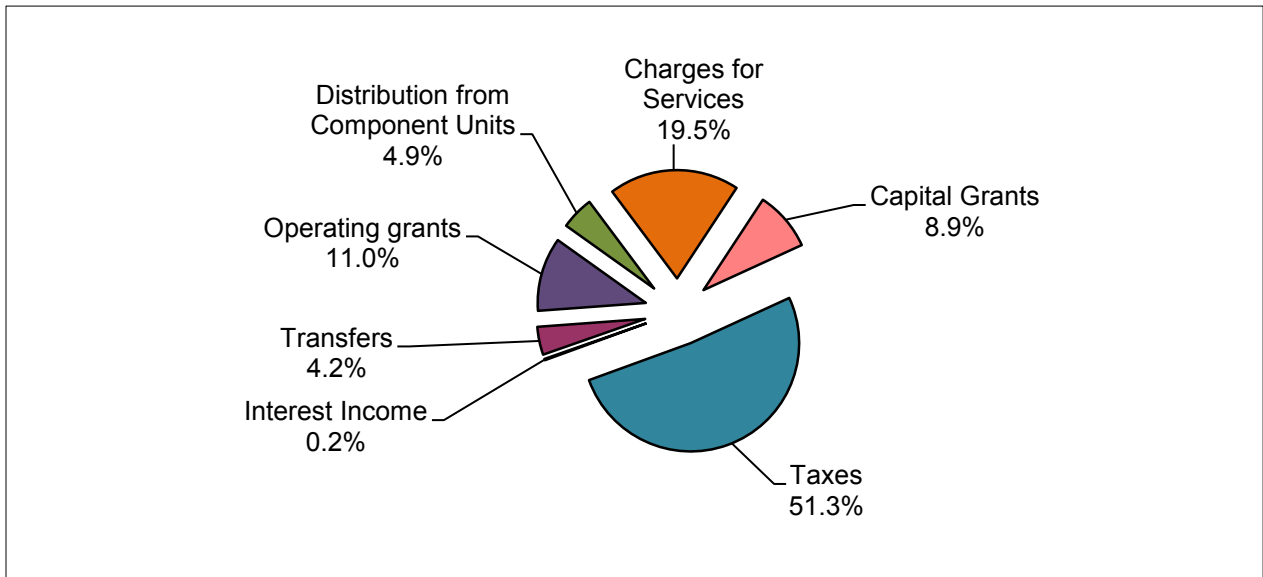
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 6,504,842	\$ 6,610,220	\$17,989,009	\$21,592,960	\$24,493,851	\$28,203,180
Operating grants	3,685,996	3,081,379	91,533	89,300	3,777,529	3,170,679
Capital grants	2,973,862	734,901	-	75,267	2,973,862	810,168
General revenues:						
Taxes	17,134,786	16,198,264	-	-	17,134,786	16,198,264
Investment income	66,039	86,572	84,885	103,022	150,924	189,594
Distributions from component units	1,644,724	1,644,724	-	-	1,644,724	1,644,724
Total revenues	32,010,249	28,356,060	18,165,427	21,860,549	50,175,676	50,216,609
<b>Expenses:</b>						
Administration	5,800,427	4,481,821	-	-	5,800,427	4,481,821
Finance	2,715,668	2,663,586	-	-	2,715,668	2,663,586
Mass transit	1,379,552	1,373,343	-	-	1,379,552	1,373,343
Parks & recreation	1,931,317	1,827,515	-	-	1,931,317	1,827,515
Public safety	12,380,137	12,171,884	-	-	12,380,137	12,171,884
Public works	5,359,904	5,342,349	-	-	5,359,904	5,342,349
Nondepartmental	2,128,359	2,024,182	-	-	2,128,359	2,024,182
Interest on long-term debt	750,582	439,480	-	-	750,582	439,480
Gas	-	-	14,531,170	18,002,896	14,531,170	18,002,896
Sanitation	-	-	2,962,683	2,816,642	2,962,683	2,816,642
Total expenses	32,445,946	30,324,160	17,493,853	20,819,538	49,939,799	51,143,698
Increase/(Decrease) before transfers	(435,697)	(1,968,100)	671,574	1,041,011	235,877	(927,089)
Transfers	1,400,000	1,206,000	(1,400,000)	(1,206,000)	-	-
Increase (Decrease) in net assets	964,303	(762,100)	(728,426)	(164,989)	235,877	(927,089)
Net assets, beginning	26,541,238	27,303,338	6,717,699	6,882,688	33,258,937	34,186,026
Net assets, ending	\$27,505,541	\$26,541,238	\$ 5,989,273	\$ 6,717,699	\$33,494,814	\$33,258,937



## Expenses and Program Revenues – Governmental Activities (Thousands)

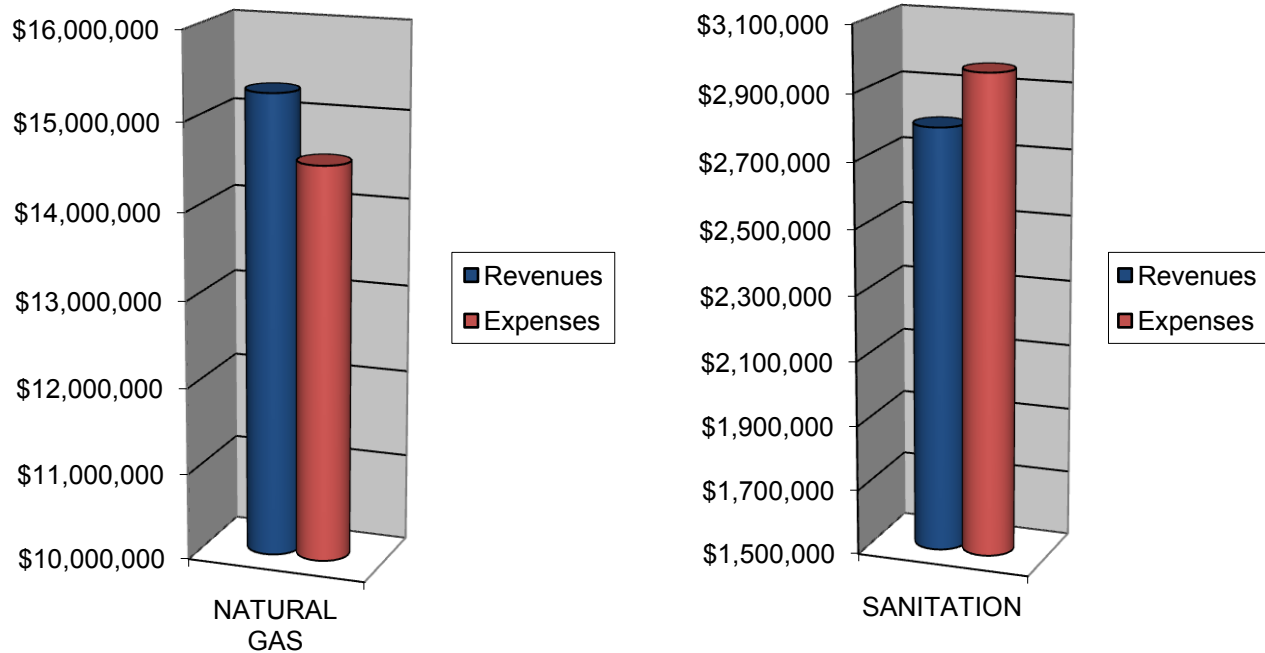


## Revenue by Source – Governmental Activities



## **Business-Type Activities**

### Expenses and Revenues – Business-Type Activities



## **Financial Analysis of Governmental Funds**

The City of Henderson uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

## **Governmental Funds**

The focus of the City of Henderson'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 of Henderson's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City of Henderson itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City of Henderson's Board of Commissioners.

At the end of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$28.5 million. Of this total, \$4.9 million (17.2%) was unassigned and available to be used in future years. Over 74.7% or \$21.3 million of the fund balance was restricted for debt, capital projects and other special purposes. There was also \$63,939 that was classified as "nonspendable" because it is for inventories. A total of \$1.1 million was committed for long-term debt payments and another \$787,000 assigned to fill the fiscal 2013 budget deficit.

The General Fund was the primary operating fund of the City of Henderson. At the end of the fiscal year, the General Fund unassigned fund balance was \$5,592,998. As a measure of liquidity, a comparison of the unassigned fund balance to total fiscal 2013 general fund expenditures and transfers net of capital outlays placed the fund balance at 22.1% of total expenditures which is an increase from the 15.7% in fiscal 2012.

For 2012, the committed fund balance in the general fund was \$1,130,781. These funds will be used to make debt payments on major building projects that include general obligation bonds series 2011A and other improvements.

The General Fund's balance increased by \$601,768 during the fiscal year. Factors contributing to this increase include:

- Property taxes that exceeded budget by \$284,000 or 4.1%.
- Franchise taxes that exceeded budget by \$162,000 or 31.5%.
- Capital expenses in the amount of \$205,000 were deferred until fiscal 2013. Police cars were ordered but not delivered until October 2012.
- Transfers to the Public Ways Improvement Funds were \$295,000 under budget.

The Capital Projects Fund ended the fiscal year with a fund balance of \$20,519,762 which is an improvement of \$9,197,197 from the prior year. During fiscal 2012, the City issued \$12,080,000 in general obligation bonds. The City received federal funding on the riverfront project in the amount of \$2,854,332 during the fiscal year which included the reimbursement of capital expenditures.

The Debt Service Fund had a fund balance increase of \$68,500. The fund did have higher interest costs of \$348,070 with most of the increase due to the 2010 general obligation bonds.

## **Enterprise Funds**

The City's enterprise funds provide the same information found in the government-wide financial statements, but in more detail.

Unrestricted net assets (liabilities) of the respective enterprise funds are as follows:

Natural Gas	\$4,229,019
Sanitation	(\$1,151,380)

Total net assets decreased by \$593,253 in the Gas Fund and by \$135,173 in the Sanitation Fund. The decrease in net assets in the Gas Fund can largely be attributable to a much milder winter. Heating degree days were down 1,065 or 23.4% when compared to the 30 year average. Gross profit decreased from approximately \$4,174,800 in the prior year to \$3,663,000 in the current year. Personnel expenses decreased by approximately \$97,000, maintenance costs decreased by nearly \$70,000, services decreased by \$33,172, and sundry expense increased by only \$40,700. Overall, net of depreciation and cost of natural gas, operating expenses decreased \$202,680 or 6.6% from the prior year.

Before the payment in lieu of tax (PILOT) transfer of \$1,400,000 from the Gas Fund to the General Fund, the Gas Fund had income of \$806,747 compared to \$1,152,220 last year. The Gas Fund had a \$486,379 net decrease in cash due to the payment in lieu of tax (PILOT) compared to a decrease of \$592,751 in the prior year.

Due to an increase in the estimated landfill closure costs, higher fuel prices, vehicle repairs, and disposal costs, the Sanitation Fund recognized a decrease in net assets of \$135,173. The second of three \$1.00 increases in the residential monthly sanitation rate took effect July 1, 2012. The final increase will be effective July 1, 2013. These increases along with some changes to the recycling program will enable the fund to be self sufficient.

The Sanitation Fund's statement of net assets reflects the landfill closure and post closure costs of \$3,450,000. Of this total, approximately \$2.38 million is for landfill closure costs that will include placing a low-permeability cap on the landfill. The City has investments in the amount of approximately \$2.25 million in a trust account that will be used for the landfill closure.

It is also estimated that approximately \$1.07 million will be needed for post closure costs that will involve monitoring, inspecting, and maintaining the landfill and its protective systems for at least 30 years. This includes extensive groundwater monitoring, inspection, and repair of the cap and other protective systems. The City will be able to fund the monitoring costs on an annual basis through the normal revenue flow.

## **General Fund Budgetary Highlights**

The amended fiscal 2012 budget was approved with anticipated expenses exceeding anticipated revenue by \$1,190,000. The difference was to come from reserves. The General Fund's actual revenue and transfers were \$24,916,528 or 100.9% of the approved budget of \$24,685,000 or a difference of \$231,528. The General Fund's actual expenses, transfers, and loss on sale of land were \$24,314,760 or 94.0% of approved budget of \$25,875,000 or a difference of \$1,560,240.

The Fund did not need any of the appropriated reserves. When the original fiscal 2012 budget was adopted, it included the use of \$935,000 of reserves. This included the expected use of \$875,000 of unassigned fund balance and \$60,000 of committed fund balance. At the end of the fiscal year \$601,768 was added to fund balance. The General Fund ended the year with \$1,130,781 in committed funds for long term debt payments for capital projects.

Health insurance and pension costs continue to be major factors in annual budgetary increases. Even with major changes to the health insurance plan that were effective January 1, 2012, the General Fund spent \$3.5 million for health care compared to the same amount in fiscal 2011. However, the \$3.5 million for fiscal 2012 was \$195,508 under budget. Pension expense increased \$160,859 or 6.3% over the prior year with the General Fund spending \$2.73 million on pensions compared to \$2.57 million in the prior year.

On a positive note, overtime and workers compensation expenses decreased a combined \$116,098 from the prior year. Due to several open positions, salaries came in \$209,388 under budget. Overall, personnel expenses came in \$540,130 below budget.

Transfers to other funds came in \$356,655 or 11.4% below budget. Several of the street overlay projects in the Public Way Improvement Fund were not completed until late June. The General Fund did not have to transfer \$295,000, that was included in the fiscal 2012 budget and would have been used to pay the invoices, until the current fiscal year.

When the fiscal 2012 budget was adopted it included the issuance of \$473,000 in promissory notes to fund the purchase of police vehicles and heavy equipment. Since the General Fund was able to fund current operations without having to use the appropriated reserves, the City opted to purchase the capital assets without having to issue new debt.

## **Capital Asset and Debt Administration**

### **Capital Assets**

As of June 30, 2012 the City's investment in capital assets for governmental and business-type activities was \$33.1 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, gas system improvements, park facilities, vehicles, sculptures, and infrastructure. A summary is as follows:

	Governmental Activities		Business-Type Activities		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 3,502,408	\$ 3,502,408	\$ 114,815	\$ 114,815	\$ 3,617,223	\$ 3,617,223
Artwork	196,500	196,500	-	-	196,500	196,500
Buildings	8,571,000	6,113,115	176,047	197,079	8,747,047	6,310,194
Improvements	2,778,371	1,558,793	-	-	2,778,371	1,558,793
Vehicles	944,308	1,075,505	193,359	276,572	1,137,667	1,352,077
Natural Gas System	-	-	2,293,402	2,293,487	2,293,402	2,293,487
Equipment	808,097	730,747	134,011	163,752	942,108	894,499
Infrastructure	13,346,185	14,789,844	-	-	13,346,185	14,789,844
Total	<u>\$ 30,146,869</u>	<u>\$ 27,966,912</u>	<u>\$ 2,911,634</u>	<u>\$ 3,045,705</u>	<u>\$ 33,058,503</u>	<u>\$ 31,012,617</u>

Additional information on the City of Henderson's capital assets may be found in Note 4 in the notes to the financial statements.

Major capital events during the current fiscal year including the following:

- Construction of a new Fire Station No. 4 at a cost of approximately \$1,816,000 with funds provided by a general obligation bond issue.
- Complete reconstruction of Doc Hosbach Tennis Complex at a total cost of approximately \$1,734,000 with subsidies coming from federal funds.
- New restrooms at Sunset Park at a cost of approximately \$248,000 with subsidies coming from federal funds.

## **Long-Term Debt**

The City incurs debt to fund capital improvement projects and purchase major capital equipment. Total debt at June 30, 2012 was \$29,125,000 compared to \$18,000,000 the prior year. The debt consists of long-term bonds.

### **City of Henderson Debt**

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Long-term bonds	<u>\$29,125,000</u>	<u>\$18,000,000</u>

## **Debt Description**

Fire Station and Riverfront Property – During fiscal 2007, the City issued \$5,230,000 in general obligation bonds for the construction of a new fire station and for the purchase of riverfront property that will be used for park development. Approximately \$1,950,000 of bond proceeds were used for the advance refunding of a capital lease used in 2000 for the purchase of an office building that houses the Police Department, Code Enforcement Division, Planning Commission, and the Emergency Management Agency.

Henderson Water Utility Downtown Project - During the year ended June 30, 2011, the City issued \$10,125,000 Build America Bonds to pay a portion of the costs of acquisition, construction, and installation of additions and improvements to the City’s combined and consolidated municipal water, sanitary sewer, and storm sewer system, including the installation of new water and sanitary sewer lines and the conversion of existing sanitary sewer lines to storm sewer lines in downtown Henderson, Kentucky and to pay other allowable expenditures including issuance costs.

Refunding of Prior Debt - During the year ended June 30, 2011, the City issued \$3,605,000 to currently refund and redeem the outstanding City of Ewing, Kentucky, Kentucky Area Development Districts Financing Trust, Lease Acquisition Program Revenue Bonds, Fixed Rate Series 2000H (funding for the City of Henderson, Kentucky), dated July 20, 2000 (the “2000H Obligations”), being bonds maturing on December 1, 2011 – 2016 and term bonds maturing on December 1, 2022, in the total

principal amount of \$1,310,000, by providing for the City's prepayment of its lease rental payments pursuant to two lease agreements between the Kentucky Area Development Districts Financing Trust and the City securing the 2000H Obligations, in order to derive debt service savings. This debt was recorded in the records of the City as KADD-Riverfront lease payable and KADD-Police Station lease payable.

Proceeds were also used to advance refund and redeem the outstanding City of Ewing, Kentucky, Kentucky Area Development Districts Financing Trust, Lease Acquisition Program Revenue Bonds, Fixed Rate Series 2000Y (funding for the City of Henderson, Kentucky), dated July 20, 2000 (the "2000Y Obligations"), being bonds maturing on December 1, 2015 and term bonds maturing on December 1, 2012, 2014, 2017, 2019, and 2023, in the principal amount of \$1,470,000, by providing for the City's prepayment of its lease rental payments pursuant to a lease agreement dated December 31, 2003, between the Kentucky Area Development Districts Financing Trust and the City securing the 2000Y Obligations, in order to derive debt service savings. This debt was recorded in the records of Henderson Water Utility as KADD 2002-Canoe Creek lease payable.

Proceeds in the amount of \$650,000 were also used to reimburse the City for its payment on December 15, 2010, of the City's General Obligation Bond Anticipation Note Series 2008C (the "2008C Note"), which was outstanding in the principal amount of \$1,583,737 and which matured on December 15, 2010 and to pay other allowable expenditures including issuance costs.

Fire Station - During the year ended June 30, 2012, the City issued \$2,085,000 non-taxable bonds to pay costs of the acquisition, construction and equipping of a new municipal fire station within the City, including the costs of the land upon which the fire station is to be located, architectural fees, and other allowable expenditures.

Combined and Consolidated Municipal Water, Sanitary Sewer and Storm Sewer System - During the year ended June 30, 2012, the City issued \$9,995,000 non-taxable bonds to pay a portion of the costs of the acquisition, construction and installation of additions and improvements to the City's combined and consolidated municipal water, sanitary sewer and storm sewer system (the "System"), including (1) the renovation and upgrading of the City's North Wastewater Treatment Plant and (2) the construction of a new 12 MGD North Fork Pump Station and approximately 2,400 feet of related 42" gravity sewer lines.

The City of Henderson's total debt increased by \$11,125,000, (61.8%) during the current fiscal year. The reason for the increase was the new debt issuance for the new fire station and the combined and consolidated municipal water, sanitary sewer and storm sewer system. The new issuances were general obligation bonds with a total face value of \$12,080,000.

The City of Henderson has maintained an Aa3 rating from Moody's Investors Service for general obligation debt.

Kentucky statutes limit the amount of general obligation debt a governmental entity may issue to 10% of the value of the taxable property therein, to be estimated by the last assessment previous to the incurring of the indebtedness, unless in case of emergency, the public health or safety should so require. The current debt limit for the City of Henderson is \$109,530,000, which is significantly in excess of the current outstanding general obligation debt of \$29,125,000.

Additional information on the City's long-term debt may be found in Note 5 in the notes to the financial statements.

### **Economic Factors and Next Year's Budget and Rates**

The City of Henderson was able to fund the fiscal 2013 Budget with existing resources and the use of reserves from the General and Gas Funds. Modest growth in property tax receipts and holding increases in operating expenses to a minimum will enable the City to continue to meet its needs.

For fiscal 2012, there were 274 construction permits issued with a total value of \$12,040,486. There were 9 single family units, 11 duplexes (22 units), and 2 multi-family (9 units) for a total of 40 units approved. The total value for new housing was \$1,491,000.

Including the new fire station, there were 5 new commercial developments with a total value of \$2,981,000.

There were 30 permits issue for demolition of substandard residential structures.

### **Requests for Information**

This financial report is designed to provide a general financial overview for citizens, taxpayers, and customers of the City of Henderson. Questions or requests for additional financial information may be sent to Robert Gunter, Finance Director, City of Henderson, 222 First Street, PO Box 716, Henderson, KY 42419-0716, or visit our website at: [www.cityofhendersonky.org](http://www.cityofhendersonky.org).



## **Basic Financial Statements**

**City of Henderson, Kentucky**  
**Statement of Net Assets**  
**June 30, 2012**

	<b>Primary Government</b>			<b>Component Units</b>	
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Henderson Municipal Power &amp; Light</b>	<b>Henderson Water Utility</b>
<b>ASSETS</b>					
Cash	\$ 8,134,261	\$ 1,667,510	\$ 9,801,771	\$ 1,385,733	\$ 3,552,752
Investments	1,842,495	4,498,447	6,340,942	16,742,179	4,077,317
Receivables	3,336,556	1,007,212	4,343,768	7,252,843	2,095,631
Internal balances	(565,466)	565,466	-	-	-
Inventories	63,939	157,559	221,498	7,451,690	882,729
Prepaid expenses	25,104	-	25,104	57,499	22,267
Restricted assets:					
Cash	9,481,051	-	9,481,051	-	188,702
Investments	-	-	-	8,736,801	1,440,609
Receivable from HWU:					
Due in one year	943,887	-	943,887	-	-
Due after one year	10,939,681	-	10,939,681	-	-
Land and other nondepreciable capital assets	3,698,908	114,815	3,813,723	1,235,451	862,879
Capital assets, net of accumulated depreciation	26,447,961	2,796,819	29,244,780	63,753,419	56,983,762
Other assets	270,708	-	270,708	489,510	426,838
<b>Total assets</b>	<b>\$ 64,619,085</b>	<b>\$ 10,807,828</b>	<b>\$ 75,426,913</b>	<b>\$ 107,105,125</b>	<b>\$ 70,533,486</b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 2,981,257	\$ 864,792	\$ 3,846,049	\$ 10,792,140	\$ 1,824,220
Deposits payable	-	280,463	280,463	622,585	68,059
Due to component units	3,198,514	-	3,198,514	-	-
Gas storage liability	-	223,300	223,300	-	-
Noncurrent liabilities:					
Due in one year	2,260,000	-	2,260,000	570,000	2,343,236
Due after one year	28,673,773	3,450,000	32,123,773	14,450,000	20,122,681
<b>Total liabilities</b>	<b>37,113,544</b>	<b>4,818,555</b>	<b>41,932,099</b>	<b>26,434,725</b>	<b>24,358,196</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	22,194,236	2,911,634	25,105,870	49,968,870	36,041,369
Restricted for:					
Debt service	69,424	-	69,424	8,736,801	577,302
Law enforcement	78,772	-	78,772	-	-
Unrestricted	5,163,109	3,077,639	8,240,748	21,964,729	9,556,619
<b>Total net assets</b>	<b>27,505,541</b>	<b>5,989,273</b>	<b>33,494,814</b>	<b>80,670,400</b>	<b>46,175,290</b>
<b>Total liabilities and net assets</b>	<b>\$ 64,619,085</b>	<b>\$ 10,807,828</b>	<b>\$ 75,426,913</b>	<b>\$ 107,105,125</b>	<b>\$ 70,533,486</b>

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky  
Statement of Activities  
For the Fiscal Year Ended June 30, 2012**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-type Activities	Total	Henderson Municipal Power & Light	Henderson Water Utility
<b>Primary government</b>									
Governmental activities:									
Administration	\$ 5,800,427	\$ 2,378,914	\$ 525,182	\$ 2,854,332	\$ (41,999)	\$ -	\$ (41,999)		
Finance	2,715,668	2,792,566	-	-	76,898	-	76,898		
Mass transit	1,379,552	49,456	682,560	33,794	(613,742)	-	(613,742)		
Parks and recreation	1,931,317	280,165	-	-	(1,651,152)	-	(1,651,152)		
Police	6,967,663	905,513	851,212	15,736	(5,195,202)	-	(5,195,202)		
Fire	5,412,474	7,000	239,364	70,000	(5,096,110)	-	(5,096,110)		
Public works	5,359,904	91,228	874,842	-	(4,393,834)	-	(4,393,834)		
Nondepartmental	2,128,359	-	-	-	(2,128,359)	-	(2,128,359)		
Interest on long-term debt	750,582	-	512,836	-	(237,746)	-	(237,746)		
Total governmental activities	<u>32,445,946</u>	<u>6,504,842</u>	<u>3,685,996</u>	<u>2,973,862</u>	<u>(19,281,246)</u>	<u>-</u>	<u>(19,281,246)</u>		
Business-type activities:									
Gas	14,531,170	15,287,287	-	-	-	756,117	756,117		
Sanitation	2,962,683	2,701,722	91,533	-	-	(169,428)	(169,428)		
Total business-type activities	<u>17,493,853</u>	<u>17,989,009</u>	<u>91,533</u>	<u>-</u>	<u>-</u>	<u>586,689</u>	<u>586,689</u>		
Total primary government	<u>\$ 49,939,799</u>	<u>\$ 24,493,851</u>	<u>\$ 3,777,529</u>	<u>\$ 2,973,862</u>	<u>(19,281,246)</u>	<u>586,689</u>	<u>(18,694,557)</u>		
<b>Component units</b>									
Henderson Municipal Power & Light	\$ 64,725,750	\$ 60,032,627	\$ -	\$ -			\$ (4,693,123)	\$ -	
Henderson Water Utility	16,032,719	15,756,587	-	1,653,140			-	1,377,008	
Total component units	<u>\$ 80,758,469</u>	<u>\$ 75,789,214</u>	<u>\$ -</u>	<u>\$ 1,653,140</u>			<u>(4,693,123)</u>	<u>1,377,008</u>	
General revenues:									
Taxes:									
Property					7,177,659	-	7,177,659	-	
Payroll and net profits					4,942,815	-	4,942,815	-	
Insurance					4,203,745	-	4,203,745	-	
Franchise					677,159	-	677,159	-	
Bank deposits					133,408	-	133,408	-	
Distributions from component units					1,644,724	-	1,644,724	-	
Investment income					66,039	84,885	150,924	6,872	
Transfers					1,400,000	(1,400,000)	-	-	
Total general revenues and transfers					<u>20,245,549</u>	<u>(1,315,115)</u>	<u>18,930,434</u>	<u>6,872</u>	
Change in net assets					964,303	(728,426)	235,877	(4,686,251)	
Net assets, beginning of year					26,541,238	6,717,699	33,258,937	85,356,651	
Net assets, end of year					<u>\$ 27,505,541</u>	<u>\$ 5,989,273</u>	<u>\$ 33,494,814</u>	<u>\$ 80,670,400</u>	

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky  
Balance Sheet  
Governmental Funds  
June 30, 2012**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash	\$ 7,731,001	\$ -	\$ 2,883	\$ 142,767	\$ 7,876,651
Investments	1,842,495	-	-	-	1,842,495
Receivables	1,044,734	-	1,790,632	501,145	3,336,511
Due from other funds	982,463	-	-	-	982,463
Inventories	39,087	-	-	24,852	63,939
Restricted assets:					
Cash	-	69,424	9,288,799	122,828	9,481,051
Receivable from HWU:					
Due in one year	-	-	943,887	-	943,887
Due after one year	-	-	10,939,681	-	10,939,681
Total assets	<u>\$ 11,639,780</u>	<u>\$ 69,424</u>	<u>\$ 22,965,882</u>	<u>\$ 791,592</u>	<u>\$ 35,466,678</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 930,526	\$ -	\$ 655,488	\$ 283,707	\$ 1,869,721
Accrued wages	298,292	-	-	37,104	335,396
Due to other funds	565,466	-	837,748	144,715	1,547,929
Due to component units	<u>2,245,630</u>	<u>-</u>	<u>952,884</u>	<u>-</u>	<u>3,198,514</u>
Total liabilities	<u>4,039,914</u>	<u>-</u>	<u>2,446,120</u>	<u>465,526</u>	<u>6,951,560</u>
<b>FUND BALANCES</b>					
Nonspendable	39,087	-	-	24,852	63,939
Restricted	-	69,424	21,172,367	78,772	21,320,563
Committed	1,130,781	-	-	300,913	1,431,694
Assigned	837,000	-	-	-	837,000
Unassigned	<u>5,592,998</u>	<u>-</u>	<u>(652,605)</u>	<u>(78,471)</u>	<u>4,861,922</u>
Total fund balances	<u>7,599,866</u>	<u>69,424</u>	<u>20,519,762</u>	<u>326,066</u>	<u>28,515,118</u>
Total liabilities and fund balances	<u>\$ 11,639,780</u>	<u>\$ 69,424</u>	<u>\$ 22,965,882</u>	<u>\$ 791,592</u>	<u>\$ 35,466,678</u>

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**To the Statement of Net Assets**  
**June 30, 2012**

Total fund balances of governmental funds per balance sheet \$ 28,515,118

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. 30,146,869

Other assets in governmental activities, which consist of negative net pension obligations for the City's two pension plans, are not current financial resources and, therefore, are not reported in the governmental funds. 270,708

The Health Insurance Fund, an internal service fund, is used to charge health insurance costs to individual funds and other entities. The assets and liabilities of this internal service fund are included in governmental activities in the statement of net assets. (493,381)

Long-term debt and other liabilities were not currently due and payable in the fiscal year ended June 30, 2012, and, therefore, were not reported in the governmental funds.

Long-term debt payable	\$ (29,125,000)	
Accrued compensated absences	(1,324,773)	
HRA Fund unfunded obligation	(484,000)	
	(30,933,773)	(30,933,773)

Total net assets of governmental activities per statement of net assets \$ 27,505,541

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2012**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Taxes:					
Property	\$ 7,177,133	\$ 526	\$ -	\$ -	\$ 7,177,659
Payroll and net profits	4,942,815	-	-	-	4,942,815
Insurance	4,203,745	-	-	-	4,203,745
Franchise	677,159	-	-	-	677,159
Bank deposits	133,408	-	-	-	133,408
Intergovernmental	3,776,101	512,836	2,854,332	2,061,643	9,204,912
Distributions from component units	1,644,724	-	-	-	1,644,724
Service charges and fees	551,847	-	-	836,916	1,388,763
Rents, concessions, and other services	129,122	-	-	-	129,122
Licenses and permits	77,643	-	-	-	77,643
Investment income	37,613	874	22,283	3,942	64,712
Fines, finance charges, and penalties	62,851	-	-	-	62,851
Miscellaneous	70,740	-	3,104	9,828	83,672
Total revenues	<u>23,484,901</u>	<u>514,236</u>	<u>2,879,719</u>	<u>2,912,329</u>	<u>29,791,185</u>
<b>EXPENDITURES</b>					
Current:					
Administration	2,267,568	-	6,387	287,405	2,561,360
Finance	2,620,612	-	-	-	2,620,612
Mass transit	-	-	-	1,295,020	1,295,020
Parks and recreation	1,347,327	-	-	383,105	1,730,432
Police	5,871,007	-	-	970,294	6,841,301
Fire	5,233,757	-	49,402	-	5,283,159
Public works	2,078,496	-	-	1,398,359	3,476,855
Nondepartmental	2,128,359	-	-	-	2,128,359
Debt service:					
Principal	-	955,000	-	-	955,000
Interest	-	750,582	-	-	750,582
Bond issuance costs	-	-	72,175	-	72,175
Capital outlays	510,289	-	3,891,501	301,571	4,703,361
Capital contributions to HWU	-	-	1,363,929	-	1,363,929
Total expenditures	<u>22,057,415</u>	<u>1,705,582</u>	<u>5,383,394</u>	<u>4,635,754</u>	<u>33,782,145</u>
Excess (deficiency) of revenues over expenditures	<u>1,427,486</u>	<u>(1,191,346)</u>	<u>(2,503,675)</u>	<u>(1,723,425)</u>	<u>(3,990,960)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	1,431,627	1,259,846	177,745	1,234,000	4,103,218
Transfers out	(2,146,345)	-	(556,873)	-	(2,703,218)
Bond issuance	-	-	12,080,000	-	12,080,000
Sale of land	(111,000)	-	-	-	(111,000)
Total other financing sources (uses)	<u>(825,718)</u>	<u>1,259,846</u>	<u>11,700,872</u>	<u>1,234,000</u>	<u>13,369,000</u>
Net change in fund balances	601,768	68,500	9,197,197	(489,425)	9,378,040
Fund balances, beginning of year	<u>6,998,098</u>	<u>924</u>	<u>11,322,565</u>	<u>815,491</u>	<u>19,137,078</u>
Fund balances, end of year	<u>\$ 7,599,866</u>	<u>\$ 69,424</u>	<u>\$ 20,519,762</u>	<u>\$ 326,066</u>	<u>\$ 28,515,118</u>

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of Governmental Funds  
To the Statement of Activities  
For the Fiscal Year Ended June 30, 2012**

Net change in fund balances of governmental funds	\$ 9,378,040
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlays	4,703,361
Depreciation expense	(2,523,404)
<p>Governmental funds report the repayment of the principal on long-term debt as an expenditure, while the statement of activities does not report such repayment as an expense.</p>	
Principal paid on long-term debt	955,000
<p>Governmental funds report the issuance of long-term debt as other financing sources, while the statement of activities does not report such issuance as revenues.</p>	
Bond issuance	(12,080,000)
<p>Expenses or revenues in the statement of activities that do not affect current financial resources are not reported as expenditures or revenues in the governmental funds.</p>	
Decrease in accrued compensated absences	48,493
Increase in negative net civil service pension obligation	105,896
Increase in negative net police & fire pension obligation	24,726
Increase in HRA Fund unfunded obligation	(239,000)
<p>The Health Insurance Fund, an internal service fund, is used to charge health insurance costs to individual funds and other entities. The statement of activities includes the net income of this fund.</p>	
Net income of Health Insurance Fund	591,191
Change in net assets of governmental activities	\$ 964,303

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky**  
**Statement of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2012**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes:				
Property	\$ 6,892,300	\$ 6,892,300	\$ 7,177,133	\$ 284,833
Payroll and net profits	4,790,000	4,790,000	4,942,815	152,815
Insurance	4,200,000	4,200,000	4,203,745	3,745
Franchise	515,000	515,000	677,159	162,159
Bank deposits	135,000	135,000	133,408	(1,592)
Intergovernmental	3,530,800	3,775,800	3,776,101	301
Distributions from component units	1,644,700	1,644,700	1,644,724	24
Service charges and fees	511,300	511,300	551,847	40,547
Rents, concessions, and other services	132,400	132,400	129,122	(3,278)
Licenses and permits	85,000	85,000	77,643	(7,357)
Investment income	52,300	52,300	37,613	(14,687)
Fines, finance charges, and penalties	61,200	61,200	62,851	1,651
Miscellaneous	17,000	17,000	70,740	53,740
Total revenues	<u>22,567,000</u>	<u>22,812,000</u>	<u>23,484,901</u>	<u>672,901</u>
<b>EXPENDITURES</b>				
Current:				
Administration	2,361,800	2,361,800	2,267,568	94,232
Finance	2,707,090	2,707,090	2,620,612	86,478
Parks and recreation	1,375,410	1,391,910	1,347,327	44,583
Police	6,071,210	6,071,210	5,871,007	200,203
Fire	5,278,680	5,278,680	5,233,757	44,923
Public works	2,094,820	2,120,820	2,078,496	42,324
Nondepartmental	2,183,400	2,186,900	2,128,359	58,541
Debt service:				
Principal	157,640	157,640	-	157,640
Interest	15,770	15,770	-	15,770
Capital outlays	885,180	1,104,180	510,289	593,891
Total expenditures	<u>23,131,000</u>	<u>23,396,000</u>	<u>22,057,415</u>	<u>1,338,585</u>
Excess (deficiency) of revenues over expenditures	<u>(564,000)</u>	<u>(584,000)</u>	<u>1,427,486</u>	<u>2,011,486</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,400,000	1,400,000	1,431,627	31,627
Transfers out	(2,244,000)	(2,479,000)	(2,146,345)	332,655
Loan proceeds	473,000	473,000	-	(473,000)
Sale of land	-	-	(111,000)	(111,000)
Total other financing sources (uses)	<u>(371,000)</u>	<u>(606,000)</u>	<u>(825,718)</u>	<u>(219,718)</u>
Net change in fund balance	(935,000)	(1,190,000)	601,768	1,791,768
Fund balance, beginning of year	<u>6,998,098</u>	<u>6,998,098</u>	<u>6,998,098</u>	<u>-</u>
Fund balance, end of year	<u>\$ 6,063,098</u>	<u>\$ 5,808,098</u>	<u>\$ 7,599,866</u>	<u>\$ 1,791,768</u>

The accompanying notes are an integral part of the financial statements.



**City of Henderson, Kentucky**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2012**

	<b>Business-type Activities Enterprise Funds</b>			<b>Governmental Activities- Internal Service Fund</b>
	<b>Gas Fund</b>	<b>Sanitation Fund</b>	<b>Total Enterprise Funds</b>	<b>Health Insurance Fund</b>
<b>ASSETS</b>				
Current assets:				
Cash	\$ 1,592,844	\$ 74,666	\$ 1,667,510	\$ 257,610
Investments	2,244,391	-	2,244,391	-
Receivables	870,840	136,372	1,007,212	45
Due from other funds	523,146	42,320	565,466	-
Inventories	157,559	-	157,559	-
Prepaid insurance	-	-	-	25,104
Total current assets	<u>5,388,780</u>	<u>253,358</u>	<u>5,642,138</u>	<u>282,759</u>
Noncurrent assets:				
Investments, designated for landfill closure costs	-	2,254,056	2,254,056	-
Land	-	114,815	114,815	-
Capital assets, net of accumulated depreciation	<u>2,485,319</u>	<u>311,500</u>	<u>2,796,819</u>	<u>-</u>
Total noncurrent assets	<u>2,485,319</u>	<u>2,680,371</u>	<u>5,165,690</u>	<u>-</u>
Total assets	<u>\$ 7,874,099</u>	<u>\$ 2,933,729</u>	<u>\$ 10,807,828</u>	<u>\$ 282,759</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 629,118	\$ 194,521	\$ 823,639	\$ 776,140
Deposits payable	280,463	-	280,463	-
Accrued wages	26,880	14,273	41,153	-
Gas storage liability	<u>223,300</u>	<u>-</u>	<u>223,300</u>	<u>-</u>
Total current liabilities	<u>1,159,761</u>	<u>208,794</u>	<u>1,368,555</u>	<u>776,140</u>
Noncurrent liabilities:				
Estimated landfill closure costs	-	3,450,000	3,450,000	-
Total noncurrent liabilities	<u>-</u>	<u>3,450,000</u>	<u>3,450,000</u>	<u>-</u>
Total liabilities	<u>1,159,761</u>	<u>3,658,794</u>	<u>4,818,555</u>	<u>776,140</u>
<b>NET ASSETS</b>				
Invested in capital assets	2,485,319	426,315	2,911,634	-
Unrestricted	<u>4,229,019</u>	<u>(1,151,380)</u>	<u>3,077,639</u>	<u>(493,381)</u>
Total net assets (liabilities)	<u>6,714,338</u>	<u>(725,065)</u>	<u>5,989,273</u>	<u>(493,381)</u>
Total liabilities and net assets	<u>\$ 7,874,099</u>	<u>\$ 2,933,729</u>	<u>\$ 10,807,828</u>	<u>\$ 282,759</u>

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2012**

	<b>Business-type Activities</b>			<b>Governmental</b>
	<b>Enterprise Funds</b>			<b>Activities- Internal Service Fund</b>
	<b>Gas Fund</b>	<b>Sanitation Fund</b>	<b>Total Enterprise Funds</b>	<b>Health Insurance Fund</b>
<b>OPERATING REVENUES</b>				
Gas sales	\$ 15,104,974	\$ -	\$ 15,104,974	\$ -
Sanitation fees	-	2,762,113	2,762,113	-
Other income	182,313	31,142	213,455	-
Health insurance premiums:				
City of Henderson	-	-	-	4,799,650
Henderson Municipal Power & Light	-	-	-	621,329
Henderson Water Utility	-	-	-	1,324,996
Other	-	-	-	271,412
Total operating revenues	<u>15,287,287</u>	<u>2,793,255</u>	<u>18,080,542</u>	<u>7,017,387</u>
<b>OPERATING EXPENSES</b>				
Gas administration	1,444,224	-	1,444,224	-
Gas distribution	12,872,908	-	12,872,908	-
Sanitation expenses	-	2,818,933	2,818,933	-
Landfill closure cost	-	50,000	50,000	-
Depreciation	214,038	93,750	307,788	-
HRA Fund contributions	-	-	-	160,000
Health insurance administration	-	-	-	589,047
Health insurance claims	-	-	-	5,678,476
Total operating expenses	<u>14,531,170</u>	<u>2,962,683</u>	<u>17,493,853</u>	<u>6,427,523</u>
Income (loss) from operations	756,117	(169,428)	586,689	589,864
<b>NONOPERATING REVENUES</b>				
Investment income	<u>50,630</u>	<u>34,255</u>	<u>84,885</u>	<u>1,327</u>
Income (loss) before transfers	806,747	(135,173)	671,574	591,191
Transfers out to General Fund	<u>(1,400,000)</u>	<u>-</u>	<u>(1,400,000)</u>	<u>-</u>
Change in net assets	(593,253)	(135,173)	(728,426)	591,191
Net assets (liabilities), beginning of year	<u>7,307,591</u>	<u>(589,892)</u>	<u>6,717,699</u>	<u>(1,084,572)</u>
Net assets (liabilities), end of year	<u>\$ 6,714,338</u>	<u>\$ (725,065)</u>	<u>\$ 5,989,273</u>	<u>\$ (493,381)</u>

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2012**

	<b>Business-type Activities Enterprise Funds</b>			<b>Governmental Activities- Internal Service Fund</b>
	<b>Gas Fund</b>	<b>Sanitation Fund</b>	<b>Total Enterprise Funds</b>	<b>Health Insurance Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 15,749,096	\$ 2,780,067	\$ 18,529,163	\$ 6,498,877
Payments for goods and services	(13,320,189)	(1,682,603)	(15,002,792)	(614,151)
Payments for employees	(1,654,412)	(1,027,000)	(2,681,412)	-
Payments for HRA Fund contributions	-	-	-	(160,000)
Payments for health insurance claims	-	-	-	(5,842,696)
Net cash provided (used) by operating activities	<u>774,495</u>	<u>70,464</u>	<u>844,959</u>	<u>(117,970)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers from (to) General Fund	(1,400,000)	-	(1,400,000)	-
Net cash provided (used) by noncapital financing activities	<u>(1,400,000)</u>	<u>-</u>	<u>(1,400,000)</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchases of capital assets	(173,717)	-	(173,717)	-
Net cash provided (used) by capital and related financing activities	<u>(173,717)</u>	<u>-</u>	<u>(173,717)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments	1,694,767	1,884,332	3,579,099	-
Purchases of investments	(1,429,483)	(1,917,667)	(3,347,150)	-
Investment fees paid	(1,764)	(1,645)	(3,409)	-
Interest received	49,323	35,330	84,653	1,327
Net cash provided (used) by investing activities	<u>312,843</u>	<u>350</u>	<u>313,193</u>	<u>1,327</u>
Net increase (decrease) in cash	(486,379)	70,814	(415,565)	(116,643)
Cash, beginning of year	<u>2,079,223</u>	<u>3,852</u>	<u>2,083,075</u>	<u>374,253</u>
Cash, end of year	<u>\$ 1,592,844</u>	<u>\$ 74,666</u>	<u>\$ 1,667,510</u>	<u>\$ 257,610</u>
<b>Reconciliation of income (loss) from operations to net cash provided (used) by operating activities</b>				
Income (loss) from operations	\$ 756,117	\$ (169,428)	\$ 586,689	\$ 589,864
Reconciling items:				
Depreciation expense	214,038	93,750	307,788	-
Landfill closure cost	-	50,000	50,000	-
Receivables (increase) decrease	278,542	(3,727)	274,815	155
Due from other funds (increase) decrease	289,402	42,707	332,109	-
Inventories (increase) decrease	17,897	-	17,897	-
Prepaid insurance (increase) decrease	-	-	-	(25,104)
Accounts and deposits payable increase (decrease)	(581,449)	78,038	(503,411)	(164,220)
Accrued wages increase (decrease)	(42,602)	(20,876)	(63,478)	-
Deferred revenue increase (decrease)	-	-	-	(518,665)
Gas storage liability increase (decrease)	(157,450)	-	(157,450)	-
Net cash provided (used) by operating activities	<u>\$ 774,495</u>	<u>\$ 70,464</u>	<u>\$ 844,959</u>	<u>\$ (117,970)</u>
<b>Noncash investing activities:</b>				
(Increase) in fair value of investments	<u>\$ (3,195)</u>	<u>\$ (2,606)</u>	<u>\$ (5,801)</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2012**

	<b>Pension Trust Funds</b>
<b>ASSETS</b>	
Cash	\$ 130,403
	130,403
<b>LIABILITIES</b>	
Accounts payable	22,194
	22,194
<b>NET ASSETS</b>	
Held in trust for pension benefits	(9,620)
Held in trust for health care benefits	117,829
	108,209
Total net assets	\$ 108,209

The accompanying notes are an integral part of the financial statements.

**City of Henderson, Kentucky**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2012**

	<b>Pension Trust Funds</b>
<b>ADDITIONS</b>	
Property taxes	\$ 929
Contributions:	
Employer	797,143
Employee	2,143
Total contributions	799,286
Interest income	497
Total additions	800,712
<b>DEDUCTIONS</b>	
Benefits paid	871,688
Professional services	5,564
Total deductions	877,252
Change in net assets	(76,540)
Net assets, beginning of year	184,749
Net assets, end of year	\$ 108,209

The accompanying notes are an integral part of the financial statements.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Henderson, Kentucky (City) is a municipal corporation governed by a five-member board of commissioners and operates under a city manager form of government. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

The discretely presented component units consist of Henderson Municipal Power & Light (HMPL) that provides electric utility services and Henderson Water Utility (HWU) that provides water and sewer services. Both HMPL and HWU have separate governing commissions the members of which are appointed by the Mayor and approved by the Board of Commissioners of the City. The Board of Commissioners must approve all rates and bond issues of HMPL and HWU. The City is contingently liable for the debt of the component units. HMPL has a fiscal year end of May 31<sup>st</sup>, and HWU has a fiscal year end of June 30<sup>th</sup>. The City's financial statements include certain financial information obtained from the audited financial statements of the component units. Complete audited financial statements may be obtained from HMPL and HWU.

Henderson Municipal Power & Light  
100 Fifth Street  
Henderson, Kentucky 42420

Henderson Water Utility  
111 Fifth Street  
Henderson, Kentucky 42420

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. 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 certain legally separate component units 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 revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

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 revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the 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 funds 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 they are collected within 60 days of the end of the current fiscal period. 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.

Certain receipts from government agencies, utility service charges, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary funds 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 City has elected not to follow subsequent private-sector guidance.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**D. Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: 1) Governmental, 2) Proprietary, and 3) Fiduciary.

**1) Governmental Funds**

Governmental funds are those through which most governmental functions are typically financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds.

**General Fund**

The General Fund is the general operating fund of the City. It is used to account for all general tax revenues and other revenues not allocated by law, ordinance, or other agreement to another fund. From this fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs, not paid by other funds.

**Debt Service Fund**

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

**Capital Projects Fund**

The Capital Projects Fund accounts for the acquisition and construction of major capital facilities and other capital projects of the City.

In addition, the City has nine other governmental funds that collectively are called nonmajor governmental funds because, individually, these nine funds are not financially significant enough to be classified as major governmental funds. The nonmajor governmental funds are collectively included together in one column of the financial statements of the governmental funds. Detailed financial information about each of these nonmajor governmental funds can be found in a separate section of this report.



**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**2) Proprietary Funds**

Proprietary fund reporting focuses on the changes in net assets, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service.

**Enterprise Funds**

Enterprise funds are used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing goods and or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determinations of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The major enterprise funds of the City of Henderson are as follows:

- **Gas Fund**

The Gas Fund is used to account for gas department utility operations.

- **Sanitation Fund**

This fund is used to account for the City's sanitation collection and disposal operations, and for the operation of the City's commercial demolition and debris landfill.

**Internal Service Fund**

The Health Insurance Fund accounts for the financing of services of the self-insured accident and health care plan maintained for the benefit of City employees and others, on a cost reimbursement basis.

**3) Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The City's fiduciary funds consist of two pension trust funds and one health care benefits trust fund. These funds are as follows:

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Civil Service Pension Fund**

The City of Henderson Civil Service Pension Fund (a contributory defined benefit plan) was created by ordinance. It covers City employees, other than those in the police and fire departments, who elected not to transfer into the County Employees Retirement System (CERS) plan.

**Police and Fire Pension Fund**

The City of Henderson Police and Fire Pension Fund (a contributory defined benefit plan) was created by state statute. It covers all of the employees of the police and fire departments who elected not to transfer to the CERS plan.

**Health Reimbursement Arrangement (HRA) Plan Fund**

The City of Henderson HRA Plan Fund was created by ordinance. It covers all employees enrolled in the City's health insurance plan. The HRA Fund reimburses participants for health insurance plan deductible and co-insurance expenses up to the amount in an individual participant's account balance.

**E. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, department, and division. Transfers of appropriations between departments require the approval of the Board of Commissioners. The legal level of budgetary control is the department level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are allowed to lapse and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**F. Deposits and Investments**

Cash consists of demand deposit accounts with commercial banks.

City ordinance requires that all City bank deposit accounts be secured by bonds or other securities of the United States Government or its agencies, or by other certificates of indebtedness of cities or corporations, which shall have a fair value equal to or greater than the amount on deposit.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

Investments are reflected at fair value based on quoted market prices in all funds. The market quotations are obtained from national security exchanges or other published sources.

Kentucky Revised Statutes Chapter 66.480 permits the City to invest in U. S. Treasury obligations, U. S. Agency obligations, certain federal instruments, repurchase agreements, commercial banks' certificates of deposit, and savings and loan deposits, among other investments.

**G. Restricted Assets**

Restricted assets consist of cash of the Debt Service Fund, which is restricted to the uses mandated by bond indentures; cash and a receivable of the Capital Projects Fund, which funds came from the issuance of general obligations bonds of the City, which were loaned or to be loaned to Henderson Water Utility for capital projects; and cash of certain nonmajor governmental funds subject to legal restrictions.

**H. Short-term Interfund Balances**

On the fund financial statements, short-term interfund advances are classified as “due to/from other funds” on the balance sheet. These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets. 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.

**I. Interfund Activity**

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues. Exchange transactions between funds are reported as revenues in the seller's funds and as expenditures/expenses in the purchaser funds, and are not eliminated in the process of consolidation. Flows of goods from one fund to the other without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in the proprietary funds.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**J. Inventories**

Inventories in the Gas Fund are valued at cost, using the average cost method. Inventories in the Governmental Funds are valued at cost, using the first-in/first-out (FIFO) method. Inventories of Governmental Funds are recorded as expenditures when consumed rather than when purchased.

**K. Capital Assets**

All capital assets are capitalized at cost, or estimated historical cost, and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City’s infrastructure consists of bridges, roads, culverts, curbs, sidewalks, and streets. Improvements are capitalized; the cost of normal maintenance and repairs that do not add value to the asset, or materially extend the useful life of the asset, are not. Interest costs incurred during the construction of capital assets of business-type activities are also capitalized.

All reported capital assets are depreciated, with the exception of land and artwork. Depreciation is computed using the straight-line method over the following useful lives:

<u>Item</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Improvements	20 years	20 years
Machinery and equipment	5-10 years	5-10 years
Buildings	25-50 years	25-50 years
Gas system	N/A	33 years
Vehicles	5 years	5 years
Infrastructure	40 years	N/A

**L. Compensated Absences**

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are recorded as long-term debt and an expense in the government-wide financial statements. In the fund financial statements, the governmental funds report the liability for compensated absences only if it has matured, for example, as a result of employee resignations and retirements. Proprietary funds report the liability as incurred since it is

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

immaterial. In accordance with the provisions of Governmental Accounting Statement No. 16, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as terminal leave upon retirement.

**M. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities, once incurred, are paid in a timely manner and in full from current financial obligations of the funds. However, claims and judgments, and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statement only to the extent that they are due for payment during the current year. Capital leases and long-term loans are recognized as a liability in the fund financial statements when due.

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the balance of any borrowings related to the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**O. Property Taxes**

Property taxes are levied as of the beginning of the fiscal year on property values assessed as of the preceding January 1<sup>st</sup>. Property tax bills are mailed in the Fall of the year. The property tax bills are considered past due at the end of the first business day following the New Year, at which time the applicable property is subject to lien, and penalties and interest are assessed.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**P. Operating Revenues and Expenses**

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

**Q. Use of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**2. INVESTMENTS**

As of June 30, 2012, the City had the following investments:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Investment Maturities (in Years)</b>			
		<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>
U.S. Government Agencies	\$ 830,664	\$ 5,477	\$ 231,948	\$ 216,466	\$ 376,773
U.S. Government Money Market	1,785,972	1,785,972	-	-	-
Bank Certificates of Deposit	3,724,306	762,707	2,961,599	-	-
Total	<u>\$ 6,340,942</u>	<u>\$ 2,554,156</u>	<u>\$ 3,193,547</u>	<u>\$ 216,466</u>	<u>\$ 376,773</u>

Investments by Funds:

General Fund	\$ 1,842,495
Gas Fund	2,244,391
Sanitation Fund	<u>2,254,056</u>
Total per Statement of Net Assets	<u>\$ 6,340,942</u>

**Interest rate risk.** The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits the types of investments in which the City may invest its funds. The City believes it is in compliance with the law in this matter and has no investment policy that would further limit its investment choices. The City's investments in the bonds of U.S. Government Agencies are all rated Aaa by Moody's.

**Concentration of credit risk.** The City places no limit on the amount it may invest in any one investment. More than five percent of the City's investments are in bonds issued by the Federal National Mortgage Association (FNMA), which are 8.81% of the City's total investments.

**Custodial credit risk.** Custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments of the City, with the exception of certificates of deposit, consist of unregistered and uninsured securities held by the City's fiscal agent in their trust department, not in the name of the City.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**3. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

As of June 30, 2012, interfund receivables and payables and the composition of internal balances shown on the statement of net assets consist of the following:

	Due From Other Funds	Due To Other Funds	Internal Balances
<u>Governmental Activities:</u>			
General Fund	\$ 982,463	\$ (565,466)	\$ 416,997
Capital Projects Fund	-	(837,748)	(837,748)
Nonmajor Governmental Funds	-	(144,715)	(144,715)
Total Governmental Activities	<u>\$ 982,463</u>	<u>\$ (1,547,929)</u>	<u>\$ (565,466)</u>
<u>Business-type Activities:</u>			
Gas Fund	\$ 523,146	\$ -	\$ 523,146
Sanitation Fund	42,320	-	42,320
Total Business-type Activities	<u>\$ 565,466</u>	<u>\$ -</u>	<u>\$ 565,466</u>
 Total all funds	 <u>\$ 1,547,929</u>	 <u>\$ (1,547,929)</u>	

As of June 30, 2012, interfund transfers consist of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>		
	Totals	General Fund	Capital Projects Fund	Gas Fund
General Fund	\$ 1,431,627	\$ -	\$ (31,627)	\$ (1,400,000)
Debt Service Fund	1,259,846	(734,600)	(525,246)	-
Capital Projects Fund	177,745	(177,745)	-	-
Nonmajor Governmental Funds	1,234,000	(1,234,000)	-	-
Totals	<u>\$ 4,103,218</u>	<u>\$ (2,146,345)</u>	<u>\$ (556,873)</u>	<u>\$ (1,400,000)</u>

The Gas Fund transfers to the General Fund were to subsidize general fund operations. Transfers from the General Fund and Capital Projects Fund to various other funds were to subsidize the operations of those funds.



**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

**4. CAPITAL ASSETS**

**Capital asset activity for the fiscal year ended June 30, 2012 was as follows:**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Primary Government</b>				
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 3,502,408	\$ -	\$ -	\$ 3,502,408
Artwork	196,500	-	-	196,500
Total	<u>3,698,908</u>	<u>-</u>	<u>-</u>	<u>3,698,908</u>
<u>Capital assets being depreciated:</u>				
Buildings	9,029,609	2,663,439	-	11,693,048
Improvements	4,240,815	1,372,047	-	5,612,862
Vehicles, machinery, and equipment	11,295,249	489,770	(594,248)	11,190,771
Infrastructure	64,781,509	178,105	-	64,959,614
Total	<u>89,347,182</u>	<u>4,703,361</u>	<u>(594,248)</u>	<u>93,456,295</u>
<u>Less accumulated depreciation for:</u>				
Buildings	(2,916,494)	(205,554)	-	(3,122,048)
Improvements	(2,682,022)	(152,469)	-	(2,834,491)
Vehicles, machinery, and equipment	(9,488,997)	(543,617)	594,248	(9,438,366)
Infrastructure	(49,991,665)	(1,621,764)	-	(51,613,429)
Total	<u>(65,079,178)</u>	<u>(2,523,404)</u>	<u>594,248</u>	<u>(67,008,334)</u>
Total governmental activities, net	<u>\$ 27,966,912</u>	<u>\$ 2,179,957</u>	<u>\$ -</u>	<u>\$ 30,146,869</u>
<b>Business-type Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 114,815	\$ -	\$ -	\$ 114,815
<u>Capital assets being depreciated:</u>				
Buildings	561,065	-	-	561,065
Vehicles, machinery, and equipment	1,556,732	-	(8,104)	1,548,628
Gas system, vehicles, and equipment	8,380,668	173,717	(16,413)	8,537,972
Total	<u>10,498,465</u>	<u>173,717</u>	<u>(24,517)</u>	<u>10,647,665</u>
<u>Less accumulated depreciation for:</u>				
Buildings	(363,986)	(21,032)	-	(385,018)
Vehicles, machinery, and equipment	(1,348,561)	(72,718)	8,104	(1,413,175)
Gas system, vehicles, and equipment	(5,855,028)	(214,038)	16,413	(6,052,653)
Total	<u>(7,567,575)</u>	<u>(307,788)</u>	<u>24,517</u>	<u>(7,850,846)</u>
Total business-type activities, net	<u>\$ 3,045,705</u>	<u>\$ (134,071)</u>	<u>\$ -</u>	<u>\$ 2,911,634</u>

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

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

**Governmental activities:**

Administration	\$ 12,618
Finance	22,881
Mass transit	106,528
Parks and recreation	207,170
Police	145,215
Fire	129,315
Public works	<u>1,899,677</u>
Total depreciation expense, governmental activities	<u><u>\$ 2,523,404</u></u>

**Business-type activities**

Gas	\$ 214,038
Sanitation	<u>93,750</u>
Total depreciation expense, business-type activities	<u><u>\$ 307,788</u></u>

Component units' capital asset activity was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Henderson Municipal Power &amp; Light</b>				
Utility plant and equipment	\$ 223,303,481	\$ 3,929,815	\$ (314,526)	\$ 226,918,770
Less accumulated depreciation	<u>(157,119,287)</u>	<u>(5,020,277)</u>	<u>209,664</u>	<u>(161,929,900)</u>
Capital assets, net	<u><u>\$ 66,184,194</u></u>	<u><u>\$ (1,090,462)</u></u>	<u><u>\$ (104,862)</u></u>	<u><u>\$ 64,988,870</u></u>
<b>Henderson Water Utility</b>				
Utility plant and equipment	\$ 92,303,052	\$ 10,269,767	\$ (3,059,623)	\$ 99,513,196
Less accumulated depreciation	<u>(40,906,351)</u>	<u>(2,546,946)</u>	<u>1,786,742</u>	<u>(41,666,555)</u>
Capital assets, net	<u><u>\$ 51,396,701</u></u>	<u><u>\$ 7,722,821</u></u>	<u><u>\$ (1,272,881)</u></u>	<u><u>\$ 57,846,641</u></u>

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

**5. LONG-TERM DEBT**

The following is a summary of long-term debt activity for the City for the fiscal year ended June 30, 2012:

<b>Governmental Activities:</b>	<b>Balance June 30, 2011</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2012</b>	<b>Amounts due in One Year</b>
G. O. Bonds Series 2007	\$ 4,290,000	\$ -	\$ (260,000)	\$ 4,030,000	\$ 265,000
G. O. Bonds Series 2010A	10,125,000	-	(420,000)	9,705,000	420,000
G. O. Bonds Series 2010B	3,585,000	-	(275,000)	3,310,000	275,000
G.O. Bonds Series 2011A	-	2,085,000	-	2,085,000	85,000
G.O. Bonds Series 2012A	-	9,995,000	-	9,995,000	415,000
<b>Total bonds payable</b>	<b>18,000,000</b>	<b>12,080,000</b>	<b>(955,000)</b>	<b>29,125,000</b>	<b>1,460,000</b>
Compensated absences	1,373,266	750,612	(799,105)	1,324,773	800,000
Net civil service pension obligation	34,540	115,391	(149,931)	-	-
HRA Fund unfunded obligation	245,000	239,000	-	484,000	-
<b>Total governmental activities</b>	<b>\$ 19,652,806</b>	<b>\$ 13,185,003</b>	<b>\$ (1,904,036)</b>	<b>\$ 30,933,773</b>	<b>\$ 2,260,000</b>

As of June 30, 2012 governmental long-term debt of the City consisted of the following:

**A. General Obligation Bonds – Series 2007**

During the year ended June 30, 2007, the City issued \$5,230,000 to advance refund the outstanding KADD loan dated March 9, 2000, to pay costs of construction of a new fire station, acquisition and development of additional riverfront property near downtown, and other allowable expenditures. This obligation matures in April 2027. Interest rates range from 3.63 % to 4.00%. Interest is due in semi-annual installments. The obligation is secured by property taxes. The following is a summary of scheduled payments as of June 30, 2012:

<b>June 30th:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Interest Rates</b>
2013	\$ 265,000	\$ 154,656	\$ 419,656	3.63%
2014	275,000	145,050	420,050	3.65%
2015	285,000	135,013	420,013	3.70%
2016	300,000	124,467	424,467	3.75%
2017	310,000	113,217	423,217	3.75%
2018 to 2022	1,555,000	379,298	1,934,298	3.80% to 4.00%
2023 to 2027	1,040,000	127,400	1,167,400	4.00%
<b>Totals</b>	<b>\$ 4,030,000</b>	<b>\$ 1,179,101</b>	<b>\$ 5,209,101</b>	

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**B. General Obligation Bonds – Series 2010A**

During the year ended June 30, 2011, the City issued \$10,125,000 Build America Bonds to pay a portion of the costs of acquisition, construction, and installation of additions and improvements to the City’s combined and consolidated municipal water, sanitary sewer, and storm sewer system, including the installation of new water and sanitary sewer lines and the conversion of existing sanitary sewer lines to storm sewer lines in downtown Henderson, Kentucky and to pay other allowable expenditures including issuance costs. This obligation matures in November 2030. Interest rates range from 1.00 % to 5.50%. Interest is due in semi-annual installments. The net interest reflected below is net of the actual interest payment and the subsidy payment from the federal government which is equal to 35% of the amount of each interest payment. The obligation is secured by property taxes. The following is a summary of scheduled payments as of June 30, 2012:

<u>June 30th:</u>	<u>Principal</u>	<u>Interest</u>	<u>IRS Direct Pay</u>	<u>Net Interest</u>	<u>Total</u>	<u>Interest Rates</u>
2013	\$ 420,000	\$ 391,915	\$ (137,170)	\$ 254,745	\$ 674,745	1.10%
2014	425,000	386,630	(135,320)	251,310	676,310	1.40%
2015	430,000	380,108	(133,038)	247,070	677,070	1.65%
2016	435,000	372,210	(130,274)	241,936	676,936	2.00%
2017	440,000	362,800	(126,980)	235,820	675,820	2.30%
2018 to 2022	2,340,000	1,606,935	(562,427)	1,044,508	3,384,508	2.80% to 4.1%
2023 to 2027	2,690,000	1,064,857	(372,700)	692,157	3,382,157	4.40% to 5.50%
2028 to 2031	2,525,000	283,663	(99,282)	184,381	2,709,381	5.50%
Totals	<u>\$ 9,705,000</u>	<u>\$ 4,849,118</u>	<u>\$ (1,697,191)</u>	<u>\$ 3,151,927</u>	<u>\$ 12,856,927</u>	

**C. General Obligation Bonds – Series 2010B**

During the year ended June 30, 2011, the City issued \$3,605,000 to currently refund and redeem the outstanding City of Ewing, Kentucky, Kentucky Area Development Districts Financing Trust, Lease Acquisition Program Revenue Bonds, Fixed Rate Series 2000H (funding for the City of Henderson, Kentucky), dated July 20, 2000 (the “2000H Obligations”), being bonds maturing on December 1, 2011 – 2016 and term bonds maturing on December 1, 2022, in the total principal amount of \$1,310,000, by providing for the City’s prepayment of its lease rental payments pursuant to two lease agreements between the Kentucky Area Development Districts Financing Trust and the City securing the 2000H Obligations, in order to derive debt service savings. This debt was recorded in the records of the City as KADD-Riverfront lease payable and KADD-Police Station lease payable.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

Proceeds were also used to advance refund and redeem the outstanding City of Ewing, Kentucky, Kentucky Area Development Districts Financing Trust, Lease Acquisition Program Revenue Bonds, Fixed Rate Series 2000Y (funding for the City of Henderson, Kentucky), dated July 20, 2000 (the “2000Y Obligations”), being bonds maturing on December 1, 2015 and term bonds maturing on December 1, 2012, 2014, 2017, 2019, and 2023, in the principal amount of \$1,470,000, by providing for the City’s prepayment of its lease rental payments pursuant to a lease agreement dated December 31, 2003, between the Kentucky Area Development Districts Financing Trust and the City securing the 2000Y Obligations, in order to derive debt service savings. This debt was recorded in the records of Henderson Water Utility as KADD 2002-Canoe Creek lease payable.

Proceeds in the amount of \$650,000 were also used to reimburse the City for its payment on December 15, 2010, of the City’s General Obligation Bond Anticipation Note Series 2008C (the “2008C Note”), which was outstanding in the principal amount of \$1,583,737 and which matured on December 15, 2010 and to pay other allowable expenditures including issuance costs.

This obligation matures in November 2023. Interest rates range from 2.00 % to 3.50%. Interest is due in semi-annual installments. The obligation is secured by property taxes. The following is a summary of scheduled payments as of June 30, 2012:

<u>June 30th:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Interest Rates</u>
2013	\$ 275,000	\$ 80,274	\$ 355,274	2.00%
2014	285,000	74,674	359,674	2.00%
2015	285,000	68,974	353,974	2.00%
2016	295,000	63,174	358,174	2.00%
2017	300,000	57,223	357,223	2.00%
2018 to 2022	1,470,000	169,677	1,639,677	2.20% to 3.25%
2023 to 2024	400,000	14,053	414,053	3.38% to 3.50%
Totals	<u>\$ 3,310,000</u>	<u>\$ 528,049</u>	<u>\$ 3,838,049</u>	

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**D. General Obligation Bonds – Series 2011A**

During the year ended June 30, 2012, the City issued \$2,085,000 non-taxable bonds to pay costs of the acquisition, construction and equipping of a new municipal fire station within the City, including the costs of the land upon which the fire station is to be located, architectural fees, and other allowable expenditures.

This obligation matures in December 2031. Interest rates range from 0.70% to 4.00%. Interest is due in semi-annual installments. The obligation is secured by the full taxing authority of the City of Henderson. The following is a summary of scheduled payments as of June 30, 2012:

<b>June 30th:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Interest Rates</b>
2013	\$ 85,000	\$ 61,989	\$ 146,989	0.70%
2014	85,000	61,266	146,266	1.00%
2015	85,000	60,331	145,331	1.20%
2016	85,000	58,971	143,971	2.00%
2017	85,000	57,271	142,271	2.00%
2018 to 2022	470,000	255,364	725,364	2.00% to 3.00%
2023 to 2027	540,000	179,920	719,920	3.00% to 4.00%
2028 to 2032	650,000	67,000	717,000	4.00%
Totals	\$ 2,085,000	\$ 802,112	\$ 2,887,112	

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**E. General Obligation Bonds – Series 2012A**

During the year ended June 30, 2012, the City issued \$9,995,000 non-taxable bonds to pay a portion of the costs of the acquisition, construction and installation of additions and improvements to the City’s combined and consolidated municipal water, sanitary sewer, and storm sewer system, including (1) the renovation and upgrading of the City’s North Wastewater Treatment Plant and (2) the construction of a new 12 MGD North Fork Pump Station and approximately 2,400 feet of related 42” gravity sewer lines.

This obligation matures in November 2031. Interest rates range from 1.00% to 3.40%. Interest is due in semi-annual installments. The obligation is secured by the full taxing authority of the City of Henderson. The following is a summary of scheduled payments as of June 30, 2012:

<b>June 30th:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Interest Rates</b>
2013	\$ 415,000	\$ 236,558	\$ 651,558	1.00%
2014	415,000	232,407	647,407	1.00%
2015	420,000	228,233	648,233	1.00%
2016	425,000	223,370	648,370	1.30%
2017	435,000	216,257	651,257	2.00%
2018 to 2022	2,300,000	946,238	3,246,238	2.00% to 2.13%
2023 to 2027	2,580,000	664,426	3,244,426	2.38% to 3.00%
2028 to 2032	3,005,000	249,227	3,254,227	3.00% to 3.30%
<b>Totals</b>	<b>\$ 9,995,000</b>	<b>\$2,996,716</b>	<b>\$ 12,991,716</b>	

The following is an aggregate summary of debt service requirements for the City of Henderson as of June 30, 2012:

<b>June 30th:</b>	<b>Principal</b>	<b>Interest</b>	<b>IRS Direct Pay</b>	<b>Net Interest</b>	<b>Total</b>
2013	\$ 1,460,000	\$ 925,392	\$ (137,170)	\$ 788,222	\$ 2,248,222
2014	1,485,000	900,027	(135,320)	764,707	2,249,707
2015	1,505,000	872,659	(133,038)	739,621	2,244,621
2016	1,540,000	842,192	(130,274)	711,918	2,251,918
2017	1,570,000	806,768	(126,980)	679,788	2,249,788
2018 to 2022	8,135,000	3,357,512	(562,427)	2,795,085	10,930,085
2023 to 2027	7,250,000	2,050,656	(372,700)	1,677,956	8,927,956
2028 to 2032	6,180,000	599,890	(99,282)	500,608	6,680,608
<b>Totals</b>	<b>\$ 29,125,000</b>	<b>\$ 10,355,096</b>	<b>\$ (1,697,191)</b>	<b>\$ 8,657,905</b>	<b>\$ 37,782,905</b>

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Henderson Municipal Power & Light (HMPL)**

The City is contingently liable for the long-term debt of its component unit, Henderson Municipal Power & Light. The long-term debt of Henderson Municipal Power & Light consists of the following for its fiscal year ended May 31, 2012:

	<u>Balance May 31, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance May 31, 2012</u>	<u>Amounts due in One Year</u>
Revenue Bonds Series 2011A	\$ -	\$ 11,350,000	\$ -	\$ 11,350,000	\$ 420,000
Revenue Bonds Series 2011B	-	3,670,000	-	3,670,000	150,000
Total bonds payable	<u>\$ -</u>	<u>\$ 15,020,000</u>	<u>\$ -</u>	<u>\$ 15,020,000</u>	<u>\$ 570,000</u>

During HMPL's fiscal year ended May 31, 2012, the City on behalf of HMPL issued revenue bonds for the purpose of financing electric system capital improvements. The revenue bonds were Electric System Revenue Bonds Series 2011A in the amount of \$11,350,000 and Electric System Revenue Bonds Series 2011B in the amount of \$3,670,000. Both bond series have a final maturity date of December 1, 2031, with interest rates ranging from 2.5% to 4.5%, and secured by a pledge of electric system revenues and a non-foreclosable statutory mortgage lien on the electric system.

The following is a summary of the debt service requirements for Henderson Municipal Power & Light for its fiscal year ended May 31, 2012:

<u>May 31st:</u>	<u>Series 2011A</u>		<u>Series 2011B</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2013	\$ 420,000	\$ 407,306	\$ 150,000	\$ 108,606	\$ 1,085,912
2014	435,000	396,806	150,000	106,731	1,088,537
2015	445,000	385,931	150,000	104,856	1,085,787
2016	455,000	374,806	155,000	102,981	1,087,787
2017	465,000	363,431	155,000	101,044	1,084,475
2018 to 2022	2,525,000	1,620,232	825,000	458,209	5,428,441
2023 to 2027	2,975,000	1,160,932	950,000	331,525	5,417,457
2028 to 2032	3,630,000	496,839	1,135,000	141,240	5,403,079
Totals	<u>\$ 11,350,000</u>	<u>\$ 5,206,283</u>	<u>\$ 3,670,000</u>	<u>\$ 1,455,192</u>	<u>\$ 21,681,475</u>



**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

**Henderson Water Utility (HWU)**

The City is contingently liable for the long-term debt of its component unit, Henderson Water Utility. The long-term debt of Henderson Water Utility consists of the following as of June 30, 2012:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts due in One Year
Series 2004A Water and Sewer	\$ 2,240,000	\$ -	\$ (530,000)	\$ 1,710,000	\$ 550,000
Series 2006A Water and Sewer	4,095,000	-	(180,000)	3,915,000	190,000
Due to City of Henderson-2010A	6,125,949	3,999,051	(420,000)	9,705,000	420,000
Due to City of Henderson-2010B	1,577,613	-	(105,246)	1,472,367	108,887
Due to City of Henderson-2012A	-	706,201	-	706,201	415,000
Kentucky Infrastructure Authority Assistance Agreement	2,512,796	-	(117,895)	2,394,901	122,899
Total	<u>16,551,358</u>	<u>4,705,252</u>	<u>(1,353,141)</u>	<u>19,903,469</u>	<u>1,806,786</u>
Less: Unamortized deferred loss on defeasance of bonds	(148,524)	-	40,327	(108,197)	
Total long-term debt	<u>\$ 16,402,834</u>	<u>\$ 4,705,252</u>	<u>\$ (1,312,814)</u>	<u>\$ 19,795,272</u>	

Principal and interest requirements to retire Henderson Water Utility's long-term obligations as of June 30, 2012 were as follows:

<u>Fiscal year ended June 30th:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,806,786	\$ 838,176	\$ 2,644,962
2014	1,716,596	796,007	2,512,603
2015	1,474,023	522,576	1,996,599
2016	902,713	490,240	1,392,953
2017	926,276	467,226	1,393,502
2018-2022	5,068,310	1,911,840	6,980,150
2023-2027	5,483,765	980,999	6,464,764
2028-2031	2,525,000	184,381	2,709,381
Totals	<u>\$ 19,903,469</u>	<u>\$ 6,191,445</u>	<u>\$ 26,094,914</u>

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

Other information on Henderson Water Utility’s long-term indebtedness is summarized below:

	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Principal Balance</u>	<u>Security</u>
Water and Sewer Refunding Revenue Bonds, Series 2004A	3.50% - 3.75%	11/1/2014	\$1,710,000	Utility Revenue
Water and Sewer Refunding Revenue Bonds, Series 2006A	3.70% - 4.375%	11/1/2026	\$3,915,000	Utility Revenue
Kentucky Infrastructure Authority Assistance Agreement B94-03	4.20%	12/1/2026	\$2,394,901	Utility Revenue
Due to City of Henderson-2010A	1.40% - 5.50%	11/1/2030	\$9,705,000	Unsecured
Due to City of Henderson-2010B	2.00% - 3.50%	11/1/2023	\$1,472,367	Unsecured
Due to City of Henderson-2012A	1.00% - 3.40%	11/1/2031	\$706,201	Unsecured

Henderson Water Utility entered into a lease agreement to finance the Stormwater project. This lease qualifies as capital lease for accounting purposes and, therefore, the related assets have been recorded at the present value of the future minimum lease payments as of the date of the agreement, which totaled \$2,475,000. The capitalized amount of the lease is being amortized over the life of the assets and is reported as depreciation expense.

The following is a summary of future lease payments required as of June 30, 2012:

<u>For the fiscal year ending June 30</u>	<u>KADD 2005-Stormwater</u>
2013	\$ 164,974
2014	171,600
2015	163,113
2016	169,513
2017	170,575
2018 to 2022	838,475
2023 to 2027	849,750
2028 to 2030	494,500
Total minimum lease payments*	\$ 3,022,500
Less amount representing interest	<u>(1,012,500)</u>
Present value of future minimum lease payments	<u>\$ 2,010,000</u>

\* Interest rates on the capital lease range from 4.50% to 5.00% and is imputed based on the lower of Henderson Water Utility’s incremental borrowing rate at the inception of the lease or the lessor’s implicit rate of return.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Restricted Assets Applicable To HWU**

In the Capital Projects Fund of the City are restricted assets applicable to HWU.

The City issued General Obligation Bonds Series 2010A in the face amount of \$10,125,000, which proceeds were loaned to HWU to fund a capital sewer project.

The City issued General Obligation Bonds Series 2010B in the face amount of \$3,605,000. Of that amount, \$1,591,251 was loaned to HWU, which was applied to advance refund a KADD 2002-Canoe Creek lease payable.

The City issued General Obligation Bonds Series 2012A in the face amount of \$9,995,000, which proceeds were to be loaned to HWU to fund capital projects. As of June 30, 2012, \$706,201 had been loaned to HWU. The remaining balance of \$9,288,799 was held in a restricted cash bank account and will be subsequently loaned to HWU after fiscal year end.

HWU will repay the loans from the City by paying the City the underlying G.O. Bonds debt service payments until the bonds are retired.

The following is a summary of restricted assets applicable to HWU for the fiscal year ended June 30, 2012, as recorded in the Capital Projects Fund:

<u>Restricted Assets</u>	<u>G.O. Bonds Payable Series 2010A</u>	<u>G.O. Bonds Payable Series 2010B</u>	<u>G.O. Bonds Payable Series 2012A</u>	<u>Total</u>
Cash	\$ -	\$ -	\$ 9,288,799	\$ 9,288,799
Receivable from HWU:				
Due in one year	420,000	108,887	415,000	943,887
Due after one year	9,285,000	1,363,480	291,201	10,939,681
Total	<u>\$ 9,705,000</u>	<u>\$ 1,472,367</u>	<u>\$ 9,995,000</u>	<u>\$ 21,172,367</u>

**6. CONDUIT DEBT**

From time to time the City has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The Bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the City of Henderson, nor any of its political subdivisions are obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2012, there were three series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$105,267,500.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**7. COMPENSATED ABSENCES**

**Vacation Leave**

City employees, other than police department employees and fire department shift employees, generally earn vacation leave at the rate of 10/12 of a working day per month for the first four years of employment.

Police department employees get 15 working days per year vacation after one year's service. Fire department shift employees get 5 24-hour shifts of vacation after one year's service.

At the end of four years an additional working day per year is accumulated up to a maximum vacation leave of 40 working days; fire department shift employees accumulate an additional half shift per year up to a maximum vacation leave of 10 24-hour shifts. One hundred percent of unused vacation leave is paid at retirement, formal resignation, or death.

**Sick Leave**

City employees accumulate sick leave at the rate of one day per month up to a maximum of two hundred forty days. Unused sick leave is forfeited upon termination or death. At retirement, individuals are paid one day's pay for each four days of unused sick leave.

Accumulated unpaid vacation pay and sick pay are not accrued in the proprietary funds (accrual basis) since they are not significant at year-end.

Such compensated absences are not accrued in governmental funds (unless they have matured), which use the modified accrual basis of accounting, but instead are recorded in the (accrual basis) government-wide Statement of Net Assets. At June 30, 2012 these governmental activities liabilities included \$1,324,773 of vacation pay and sick pay, and are included in the Statement of Net Assets as noncurrent liabilities. Compensated absences are liquidated primarily by the General Fund.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**8. PUBLIC ENERGY AUTHORITY OF KENTUCKY (PEAK)**

PEAK is a Natural Gas Acquisition Authority created under the laws of the Commonwealth of Kentucky. It was created for the purpose of providing natural gas acquisition, delivery, and other related services for its members, which includes the City. PEAK is not a component unit of the City because 1) it is a separate legal entity, 2) PEAK is fiscally independent from the City, and 3) the board of directors of PEAK is structured in a manner that the City cannot exercise majority control over the organization.

PEAK has issued gas revenue bonds to finance the cost of acquisition by PEAK of prepaid supplies of natural gas. PEAK is solely responsible for repayment of the gas revenue bonds. The City has no liability for repayment of the gas revenue bonds issued by PEAK.

The City has entered into long term natural gas supply contracts with PEAK whereby the City is obligated to purchase specified quantities of natural gas from PEAK. The City purchases all of its natural gas supplies from PEAK.

PEAK issues audited financial statements, which are available through its administrative offices at the following address:

Public Energy Authority of Kentucky  
516 Highland Avenue  
Carrollton, Kentucky 41008

Summarized totals for PEAK for its fiscal year ended June 30, 2011, from its last audited financial statements made available to the City are:

Assets	\$ 1,615,957,994
Costs recoverable from members	\$ 112,716,561
Liabilities	\$ 1,613,230,744
Net assets	\$ 2,727,250

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**9. GAS STORAGE LIABILITY**

The City has the right to withdraw 300,000 MMBtu's of natural gas from the gas storage reserves belonging to the City's gas transmission pipeline company. Any gas so withdrawn by the City must be replaced by November 1<sup>st</sup>, the beginning of the operating year of the Gas Fund. As of June 30, 2012, the estimated amount of this gas storage liability was \$223,300.

**10. CONCENTRATION OF SALES**

**Henderson Municipal Gas**

For the fiscal year ended June 30, 2012, five industrial customers accounted for \$7,578,656 in gas sales, which represents 49.6% of the operating revenues of the Gas Fund.

**Henderson Municipal Power and Light**

All of the sales generated by Station Two (\$21,737,258 for fiscal 2012) are exclusively to the Station Two Operator per the contract in force. Three industrial customers from the Existing System accounted for sales in the amount of \$9.9 million (27% of Existing System sales) for the fiscal year ended May 31, 2012.

**Henderson Water Utility**

For the fiscal year ended June 30, 2012, three industrial customers accounted for \$6,935,148 in sales and surcharges for approximately 44% of HWU's total operating revenues.

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**11. LANDFILL CLOSURE AND POST CLOSURE COSTS**

On July 1, 1998, the City Commission transferred the primary responsibility for operations of the City’s solid waste landfill from the General Fund to the Sanitation Fund, and the related liability for landfill closure and post closure costs. As of June 30, 2012, the Sanitation Fund was in a deficit position because its assets were inadequate to cover estimated landfill closure costs. The deficit will be recovered from future revenues.

The City temporarily terminated its landfill operations on June 30, 1995 due to the increased costs mandated by federal regulations. However, during the year ended June 30, 1997, the City was awarded a permit to accept commercial construction debris only. The City will continue to accept construction debris until the space allotted for this operation is used up in its entirety.

State and federal laws and regulations require that the City of Henderson place a final cover on its landfill site and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Post closure care costs will be incurred from the point in time that the landfill ceases to accept any further waste.

The liability reported in the statement of net assets of the Sanitation Fund of \$3,450,000 at June 30, 2012, consists of \$2,380,000 in closure costs, and \$1,070,000 for post closure costs. The amounts are based on engineering estimates and actual costs may be higher due to inflation and technological changes, or changes in state and federal regulations. The cost of landfill closure and postclosure care is allocated based on landfill capacity used to date. The percentage of the landfill’s total capacity that has been used to date is 57.9%. The estimated remaining life of the landfill is 16.3 years.

No costs were incurred towards the related liability; however, a revision was needed for the closure costs estimate as determined by the City’s consulting engineers.

The estimated liability consists of the following at June 30, 2012:

	<u>Estimated Closure Liability</u>	<u>Estimated Post-Closure Liability</u>	<u>Total</u>
June 30, 2011	\$ 2,230,000	\$ 1,170,000	\$ 3,400,000
Costs applied	-	-	-
Revision to estimate	<u>150,000</u>	<u>(100,000)</u>	<u>50,000</u>
June 30, 2012	<u>\$ 2,380,000</u>	<u>\$ 1,070,000</u>	<u>\$ 3,450,000</u>

**CITY OF HENDERSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

---

**12. CONTINGENCIES**

The City is a defendant or plaintiff in lawsuits, which have arisen in the normal course of operations. While certain lawsuits involve substantial amounts, it is the opinion of management based on the advice of legal counsel, that the ultimate resolution of such litigation will not have a material adverse effect on the financial position of the City.

Under the terms of certain Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under terms of the grants. Such audits may lead to reimbursement of the grant monies to the respective grantor agency. Management of the City believes that any disallowance would be immaterial.

**13. RISK MANAGEMENT**

The City of Henderson 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. The City carries commercial insurance for these types of risks of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.