

FERC Approved Standards

Part 1 – Applicable NERC Standards for BA and TOP Registered Entities

TOP-001-4	R7.	Each Transmission Operator shall assist other Transmission Operators within its Reliability Coordinator Area, if requested and able, provided that the requesting Transmission Operator has implemented its comparable Emergency procedures, unless such assistance cannot be physically implemented or would violate safety, equipment, regulatory, or statutory requirements.	HIGH	None	Normal	Normal	TOP
TOP-001-4	R8.	Each Transmission Operator shall inform its Reliability Coordinator, known impacted Balancing Authorities, and known impacted Transmission Operators of its actual or expected operations that result in, or could result in, an Emergency.	HIGH	None	Normal	Normal	TOP
TOP-001-4	R9.	Each Balancing Authority and Transmission Operator shall notify its Reliability Coordinator and known impacted interconnected entities of all planned outages, and unplanned outages of 30 minutes or more, for telemetering and control equipment, monitoring and assessment capabilities, and associated communication channels between the affected entities.	MEDIUM	Normal See CFR000001	Normal	Normal	TOP
TOP-001-4	R10.	R10. Each Transmission Operator shall perform the following for determining System Operating Limit (SOL) exceedances within its Transmission Operator Area: 10.1. Monitor Facilities within its Transmission Operator Area; 10.2. Monitor the status of Remedial Action Schemes within its Transmission Operator Area; 10.3. Monitor non-BES facilities within its Transmission Operator Area identified as necessary by the Transmission Operator; 10.4. Obtain and utilize status, voltages, and flow data for Facilities outside its Transmission Operator Area identified as necessary by the Transmission Operator; 10.5. Obtain and utilize the status of Remedial Action Schemes outside its Transmission Operator Area identified as necessary by the Transmission Operator; and 10.6. Obtain and utilize status, voltages, and flow data for non-BES facilities outside its Transmission Operator Area identified as necessary by the Transmission Operator.	HIGH	None	Normal	None	TOP
TOP-001-4	R11.	Each Balancing Authority shall monitor its Balancing Authority Area, including the status of Remedial Action Schemes that impact generation or load, in order to maintain generation-load-interchange balance within its Balancing Authority Area and support interconnection frequency.	HIGH	Normal See CFR000001	Normal	Normal	BA
TOP-001-4	R12.	Each Transmission Operator shall not operate outside any identified interconnection Reliability Operating Limit (IROL) for a continuous duration exceeding its associated IROL. T.v.	HIGH	None	Normal (if applicable)	Normal (if applicable)	TOP
TOP-001-4	R13.	Each Transmission Operator shall ensure that a Real-time Assessment is performed at least once every 30 minutes.	HIGH	None	Normal	Normal	TOP
TOP-001-4	R14.	Each Transmission Operator shall initiate its Operating Plan to mitigate a SOL exceedance identified as part of its Real-time monitoring or Real-time Assessment.	HIGH	None	Normal	Normal	TOP
TOP-001-4	R15.	Each Transmission Operator shall inform its Reliability Coordinator of actions taken to return the System to within limits when a SOL has been exceeded.	MEDIUM	None	Normal	Normal	TOP
TOP-001-4	R16.	Each Transmission Operator shall provide its System Operators with the authority to approve planned outages and maintenance of its telemetering and control equipment, monitoring and assessment capabilities, and associated communication channels between affected entities.	HIGH	None	Normal	Normal	TOP
TOP-001-4	R17.	Each Balancing Authority shall provide its System Operators with the authority to approve planned outages and maintenance of its telemetering and control equipment, monitoring and assessment capabilities, and associated communication channels between affected entities.	HIGH	Normal See CFR000001	Normal	Normal	BA
TOP-001-4	R18.	Each Transmission Operator shall operate to the most limiting parameter in instances where there is a difference in SOLs.	HIGH	None	Normal	Normal	TOP
TOP-001-4	R19.	Each Transmission Operator shall have data exchange capabilities with the entities it has identified it needs data from in order to perform its Operational Planning Analyses.	MEDIUM	None	Normal	None	TOP
TOP-001-4	R20.	Each Transmission Operator shall have data exchange capabilities, with redundant and diversely routed data exchange infrastructure within the Transmission Operator's primary Control Center, for the exchange of Real-time data with its Reliability Coordinator, Balancing Authority, and the entities it has identified it needs data from in order for it to perform its Real-time monitoring and Real-time Assessments.	HIGH	None	Normal	None	TOP
TOP-001-4	R21.	Each Transmission Operator shall test its primary Control Center data exchange capabilities specified in Requirement R20 for redundant functionality at least once every 90 calendar days. If the test is unsuccessful, the Transmission Operator shall initiate action within two hours to restore redundant functionality.	MEDIUM	None	Normal	None	TOP
TOP-001-4	R22.	Each Balancing Authority shall have data exchange capabilities with the entities it has identified it needs data from in order to develop its Operating Plan for next-day operations.	MEDIUM	Full See CFR000001	None	None	BA
TOP-001-4	R23.	Each Balancing Authority shall have data exchange capabilities, with redundant and diversely routed data exchange infrastructure within the Balancing Authority's primary Control Center, for the exchange of Real-time data with its Reliability Coordinator, Transmission Operator, and the entities it has identified it needs data from in order for it to perform its Real-time monitoring and analysis functions.	HIGH	Full See CFR000001	None	None	BA

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Standard ID	Description	Severity	Reference	Impact	Consequence	Category
TOP-001-4	R24. Each Balancing Authority shall test its primary Control Center data exchange capabilities specified in Requirement R23 for redundant functionality at least once every 90 calendar days. If the test is unsuccessful, the Balancing Authority shall initiate action within two hours to restore redundant functionality.	MEDIUM	Full See CFR00001	None	None	BA
TOP-002-4	R1. Each Transmission Operator shall have an Operational Planning Analysis that will allow it to assess whether its planned operations for the next day within its Transmission Operator Area will exceed any of its System Operating Limits (SOLs).	MEDIUM	None	Normal	None	TOP
TOP-002-4	R2. Each Transmission Operator shall have an Operating Plan(s) for next-day operations to address potential System Operating Limit (SOL) exceedances identified as a result of its Operational Planning Analysis as required in Requirement R1.	MEDIUM	See CFR00132	Normal	None	TOP
TOP-002-4	R3. Each Transmission Operator shall notify entities identified in the Operating Plan(s) cited in Requirement R2 as to their role in those plan(s).	MEDIUM	None	Normal	None	TOP
TOP-002-4	R4. Each Balancing Authority shall have an Operating Plan(s) for the next-day that addresses:	MEDIUM	See CFR00132 Full Responsibility	None	None	BA
TOP-002-4	R4.1. Expected generation resource commitment and dispatch	MEDIUM	See CFR00001	None	None	BA
TOP-002-4	R4.2. Interchange scheduling	MEDIUM	See CFR00001 Full Responsibility	None	None	BA
TOP-002-4	R4.3. Demand patterns	MEDIUM	See CFR00001 Full Responsibility	None	None	BA
TOP-002-4	R4.4. Capacity and energy reserve requirements, including deliverability capability	MEDIUM	See CFR00001 Full Responsibility	None	None	BA
TOP-002-4	R5. Each Balancing Authority shall notify entities identified in the Operating Plan(s) cited in Requirement R4 as to their role in those plan(s).	MEDIUM	See CFR00001 Full Responsibility	None	None	BA
TOP-002-4	R6. Each Transmission Operator shall provide its Operating Plan(s) for next-day operations identified in Requirement R2 to its Reliability Coordinator.	MEDIUM	None	Normal	None	TOP
TOP-002-4	R7. Each Balancing Authority shall provide its Operating Plan(s) for next-day operations identified in Requirement R4 to its Reliability Coordinator.	MEDIUM	See CFR00132 Full Responsibility	None	None	BA
TOP-003-3	R1. Each Transmission Operator shall maintain a documented specification for the data necessary for it to perform its Operational Planning Analyses, Real-time monitoring, and Real-time Assessments. The data specification shall include, but not be limited to:	LOWER	None	Normal	None	TOP
TOP-003-3	R1.1. A list of data and information needed by the Transmission Operator to support its Operational Planning Analyses, Real-time monitoring, and Real-time Assessments including non-BES data and external network data as deemed necessary by the Transmission Operator.	LOWER	See CFR00132	Normal	None	TOP
TOP-003-3	R1.2. Provisions for notification of current Protection System and Special Protection System status or degradation that impacts System reliability.	LOWER	See CFR00132	Normal	None	TOP
TOP-003-3	R1.3. A periodicity for providing data.	LOWER	None	Normal	None	TOP
TOP-003-3	R1.4. The deadline by which the respondent is to provide the indicated data.	LOWER	See CFR00132	Normal	None	TOP
TOP-003-3	R2. Each Balancing Authority shall maintain a documented specification for the data necessary for it to perform its analysis functions and Real-time monitoring. The data specification shall include, but not be limited to:	LOWER	See CFR00132 Full Responsibility	None	None	BA
TOP-003-3	R2.1. A list of data and information needed by the Balancing Authority to support its analysis functions and Real-time monitoring.	LOWER	See CFR00001	None	None	BA
TOP-003-3	R2.2. Provisions for notification of current Protection System and Special Protection System status or degradation that impacts System reliability.	LOWER	See CFR00001 Full Responsibility	None	None	BA
TOP-003-3	R2.3. A periodicity for providing data.	LOWER	See CFR00001 Full Responsibility	None	None	BA
TOP-003-3	R2.4. The deadline by which the respondent is to provide the indicated data.	LOWER	See CFR00001 Full Responsibility	None	None	BA
TOP-003-3	R3. Each Transmission Operator shall distribute its data specification to entities that have data required by the Transmission Operator's Operational Planning Analyses, Real-time monitoring, and Real-time Assessment.	LOWER	None	Normal	None	TOP
			See CFR00132			

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Standard ID	Description	Priority	Responsibility	Impact	BA	TOP
TOP-003-3	R4. Each Balancing Authority shall distribute its data specification to entities that have data required by the Balancing Authority's analysis functions and Real-time monitoring.	LOWER	Full Responsibility See CFR00001	None	None	BA
TOP-003-3	R5. Each Transmission Operator, Balancing Authority, Generator Owner, Generator Operator, Load-Serving Entity, Transmission Owner, and Distribution Provider receiving a data specification in Requirement R3 or R4 shall satisfy the obligations of the documented specifications using:	MEDIUM	Full Responsibility See CFR00001	Normal	Normal	BA TO TOP
TOP-003-3	R5.1. A mutually agreeable format	MEDIUM	None See CFR00132	Normal	Normal	BA TO TOP
TOP-003-3	R5.2. A mutually agreeable process for resolving data conflicts	MEDIUM	Full Responsibility See CFR00001	Normal	Normal	BA TO TOP
TOP-003-3	R5.3. A mutually agreeable security protocol	MEDIUM	None See CFR00132	Normal	Normal	BA TO TOP
TOP-010-1(0)	R1. Each Transmission Operator shall implement an Operating Process or Operating Procedure to address the quality of the Real-time data necessary to perform its Real-time monitoring and Real-time Assessments. The Operating Process or Operating Procedure shall include: 1.1. Criteria for evaluating the quality of Real-time data; 1.2. Provisions to indicate the quality of Real-time data to the System Operator; and 1.3. Actions to address Real-time data quality issues with the entity(ies) responsible for providing the data when data quality affects Real-time Assessments.	HIGH	None See CFR00132	Normal	Normal	TOP
TOP-010-1(0)	R2. Each Balancing Authority shall implement an Operating Process or Operating Procedure to address the quality of the Real-time data necessary to perform its analysis functions and Real-time monitoring. The Operating Process or Operating Procedure shall include: 2.1. Criteria for evaluating the quality of Real-time data; 2.2. Provisions to indicate the quality of Real-time data to the System Operator; and 2.3. Actions to address Real-time data quality issues with the entity(ies) responsible for providing the data when data quality affects its analysis functions.	HIGH	Full Responsibility See CFR00001	None	None	BA
TOP-010-1(0)	R3. Each Transmission Operator shall implement an Operating Process or Operating Procedure to address the quality of analysis used in its Real-time Assessments. The Operating Process or Operating Procedure shall include: 3.1. Criteria for evaluating the quality of analysis used in its Real-time Assessments; 3.2. Provisions to indicate the quality of analysis used in its Real-time Assessments; and 3.3. Actions to address analysis quality issues affecting its Real-time Assessments.	MEDIUM	None See CFR00132	Normal	Normal	TOP
TOP-010-1(0)	R4. Each Transmission Operator and Balancing Authority shall have an alarm process monitor that provides notification(s) to its System Operators when a failure of its Real-time monitoring alarm processor has occurred	MEDIUM	Full Responsibility See CFR00001	Normal	None	BA TO TOP
TPL-007-1	R6. Each Transmission Owner and Generator Owner shall conduct a thermal impact assessment for its solely and jointly owned applicable BES power transformers where the maximum effective GIC value provided in Requirement R5 Part 5.1 is 75 A, per phase or greater. The thermal impact assessment shall: (please see standard for sub-req's)	MEDIUM	None See CFR00132	None	Normal	TO
VAR-001-4.2	R1. Each Transmission Operator shall specify a system voltage schedule (which is either a range or a target value with an associated tolerance band) as part of its plan to operate within System Operating Limits and Interconnection Reliability Operating Limits.	HIGH	None	None	Normal	TOP
VAR-001-4.2	1.1. Each Transmission Operator shall provide a copy of the voltage schedules (which is either a range or a target value with an associated tolerance band) to its Reliability Coordinator and adjacent Transmission Operators within 30 calendar days of a request.	HIGH	None See CFR00132	Normal	None	TOP

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VAR-001-4.2	R2.	Each Transmission Operator shall schedule sufficient reactive resources to regulate voltage levels under normal and contingency conditions. Transmission Operators can provide sufficient reactive resources through various means including, but not limited to, reactive generation scheduling, transmission line and reactive resource switching, and using controllable load.	HIGH	None See CFR00132	None	None	Normal		TOP
VAR-001-4.2	R3.	Each Transmission Operator shall operate or direct the Real-time operation of devices to regulate transmission voltage and reactive flow as necessary.	HIGH	None See CFR00132	None	Normal	Normal		TOP
VAR-001-4.2	R4.	Each Transmission Operator shall specify the criteria that will exempt generators: 1) from following a voltage or Reactive Power schedule, 2) from having its automatic voltage regulator (AVR) in service or from being in voltage control mode, or 3) from having to make any associated notifications.	LOWER	None See CFR00132	None	None	Normal (if applicable)		TOP
VAR-001-4.2	4.1.	If a Transmission Operator determines that a generator has satisfied the exemption criteria, it shall notify the associated Generator Operator.	LOWER	None See CFR00132	None	None	Normal (if applicable)		TOP
VAR-001-4.2	R5.	Each Transmission Operator shall specify a voltage or Reactive Power schedule (which is either a range or a target value with an associated tolerance band) at either the high voltage side or low voltage side of the generator step-up transformer at the Transmission Operator's discretion.	MEDIUM	None See CFR00132	None	None	Normal		TOP
VAR-001-4.2	5.1.	The Transmission Operator shall provide the voltage or Reactive Power schedule (which is either a range or a target value with an associated tolerance band) to the associated Generator Operator and direct the Generator Operator to comply with the schedule in automatic voltage control mode (the AVR is in service and controlling voltage).	MEDIUM	None See CFR00132	None	Normal (if applicable)	None		TOP
VAR-001-4.2	5.2.	The Transmission Operator shall provide the Generator Operator with the notification requirements for deviations from the voltage or Reactive Power schedule (which is either a range or a target value with an associated tolerance band).	MEDIUM	None See CFR00132	None	Normal (if applicable)	None		TOP
VAR-001-4.2	5.3.	The Transmission Operator shall provide the criteria used to develop voltage schedules or Reactive Power schedule (which is either a range or a target value with an associated tolerance band) to the Generator Operator within 30 days of receiving a request.	MEDIUM	None See CFR00132	None	None	Normal (if applicable)		TOP
VAR-001-4.2	R6.	After consultation with the Generator Owner regarding necessary step-up transformer tap changes and the implementation schedule, the Transmission Operator shall provide documentation to the Generator Owner specifying the required tap changes, a timeframe for making the changes, and technical justification for these changes.	LOWER	None See CFR00132	None	None	Normal (if applicable)		TOP



## **Part 2 – Specific NERC Standards to Which Gridforce will Partner with HMP&L**

The following is how Gridforce plans to partner with HMP&L to meet the listed NERC standards.

### **BAL-005**

R7. If HMPL dynamically transfers generation from a Balancing Authority outside of MISO's BA, using a pseudo-tie or a dynamic schedule, HMPL must ensure that a common source is used by the affected entities to provide real-time information that could impact MISO's Reporting ACE and the agreed-upon hourly integration (MWh) values.

### **BAL-006**

R3., R4.1.2. LBAs with metered points of interconnection with BAs adjacent to the MISO BA Area are responsible for ensuring that all of the applicable interconnection points are equipped with common megawatt-hour meters, with readings provided hourly to the control centers of those BAs adjacent to the MISO BA Area.

The Gridforce LBA will not be connected to a BA external to the MISO BA and will therefore not have a Tie Line. The Gridforce LBA will interconnect with BREC and both LBAs will receive the telemetry for the instantaneous MW, and hourly accumulator MWh values at the LBA tie lines, from a common agreed upon source, with common time synchronization. Gridforce retains the integration and the MWh readings in the Gridforce energy accounting system. Gridforce will verify hourly integrations of the instantaneous MW reading and the MWh value telemetered to the Gridforce Control Center to monitor the accuracy of metering equipment. Upon identification of a meter error Gridforce will use a meter error offset until equipment can be repaired. HMPL shall have personnel available to perform required repairs to meters owned by HMPL upon identification of a meter error. HMPL will provide Gridforce access to HMPL owned meters or ensure Gridforce has access to meters owned by BREC to obtain these instantaneous MW and MWh readings.

R4.3. Not Applicable. LBAs with metered points of interconnection with BAs adjacent to the MISO BA Area will be responsible for this requirement with the respect to Actual Interchange. The MISO BA will be responsible for this requirement with respect to Scheduled Interchange.

The Gridforce LBA will not be connected to a BA external to the MISO BA and will therefore not have a Tie Line.

### **CIP-002 to CIP-011**

MISO BA is individually responsible for all requirements per the CFR-0001

Gridforce will have individual responsibility for having and maintaining its CIP Programs as applicable to the Gridforce Control Centers (and associated data centers) and the field devices installed at HMPL to interface with the systems and applications used by Gridforce System Operators.

HMPL will have individual responsibility for having and maintaining its CIP Programs as applicable to the HMPL facility.

#### **CIP-014**

HMPL is responsible as the TO for performing risk assessments of its substations. HMPL prior to finalizing an assessment identifying Gridforce's control center as having primary control of a substations that if rendered inoperable or damaged could result in instability, uncontrolled separation or Cascading within an Interconnection will coordinate with Gridforce to coordinate on updates to the responsibilities matrix for CIP-014.

#### **COM-001**

Gridforce will maintain IC and AIC with BREC, MISO and HMPL.

HMPL shall provide Gridforce with the contact information required for emergency and normal communications and participate in testing initiated by Gridforce.

#### **COM-002**

Gridforce's communication protocols will be shared with HMPL personnel, who will undergo training periodically on three-part communications specifically as potential recipients of Operating Instructions from Gridforce.

#### **EOP-004**

HMPL will provide information to Gridforce relating to damage, destructions, sabotage, local control room evacuation or loss of communications / control.

Gridforce will communicate with MISO upon the occurrence of an event reporting condition to ensure MISO can submit required reports. Gridforce will also provide information requested by MISO to assist with their reporting obligations.

#### **EOP-005-3**

HMPL will provide appropriate contacts that will coordinate with Gridforce on developing and periodic review of the restoration plans for HMPL facilities. HMPL designated contacts will be responsible for distributing the approved restoration plan to appropriate personnel and ensuring they are trained periodically on their roles and responsibilities. At minimum, HMPL field personnel will undergo training periodically, every 2 years if there are unique tasks, on the restoration plan

HMPL will provide information about how field personnel are qualified and maintain records of qualified switchman and any training.

HMPL will keep Gridforce informed of any physical changes at the facilities that need to be addressed in the restoration plan.

During a restoration condition HMPL will implement the restoration plan activities and implemented Operating Instructions provided by Gridforce, who is coordinating directly with the MISO RC.

HMPL shall be responsible for communicating information to Gridforce about and Blackstart Resources that will be used in a system restoration event and scheduling appropriate testing of those resources to validate performance during restoration if applicable.

HMPL is responsible for establishing any required agreements with a Blackstart Resources, if applicable.

### **EOP-010**

HMPL will communicate regularly about system conditions upon receipt from Gridforce of GMD conditions warranting close communication and coordination.

Gridforce and HMPL will coordinate on development of GMD Operating Procedures and completion of the MISO GMD checklist to mitigate the effects of a GMD event on the reliable operation of the HMPL facilities, if applicable. Currently Transmission Operators with a transformer 200 kV or higher are responsible for developing and maintaining and implementing a procedure.

### **EOP-011**

Gridforce and HMPL will define roles and responsibilities for activating emergency plans, including communications about current and projected conditions, outages, system reconfiguration, behind the meter generation, load shedding, extreme weather response, and coordination with BREC and MISO.

During a restoration condition HMPL will implement the emergency plan activities and implemented Operating Instructions provided by Gridforce, who is coordinating directly with the MISO RC.

### **FAC-014**

HMPL shall establish the system operating limits for the HMPL facilities that will be used by Gridforce and providing the information to Gridforce.

HMPL will coordinate with Gridforce on the distribution of the limits to appropriate entities.

### **INT-009-2.1**

LBAs with Pseudo-Ties with external BAs shall be responsible for using dynamic values emanating from an agreed upon common source. The MISO BA (MBA) shall use the dynamic values for use in the Actual Net Interchange (NIA) term in their control ACE (or alternate control process).

HMPL shall be responsible for ensuring proper coordination with Gridforce for implementation of dynamic transfers if applicable.

### **IRO-001**

Gridforce will be the primary contact for MISO and BREC. Upon receipt of an Operating Instruction that requires action by HMPL, Gridforce will communicate the Operating Instruction to HMPL personnel who will implement the Operating Instruction, unless a permitted exception applies.

HMPL will notify Gridforce as soon as possible when an Operating Instruction cannot be implemented and the basis, so MISO and / or BREC can be notified.

### **IRO-010 and TOP-003**

HMPL will work with Gridforce to obtain data that must be submitted to MISO and / or BREC.

### **IRO-017**

HMPL will provide outage information to Gridforce in accordance with MISOs outage coordination procedure.

**PER-005**

Gridforce has responsibility for the PER-005 requirements as applicable to the Transmission Operator function. HMPL has responsibility for the PER-005 requirements as applicable to the Transmission Owner function.

**PRC-001**

HMPL will provide Gridforce information about protection systems on the HMPL facilities and ensure HMPL personnel are trained and familiar with purpose and limitations of the protection systems.

HMPL shall notify Gridforce upon identification of a protective relay or equipment failure that reduces system reliability on HMPL facilities.

HMPL shall be responsible for coordination of any modification, changes or updates to protection systems.

HMPL shall notify Gridforce of any special protection systems (SPS) that affect the HMPL facilities and ensure status information is provided.

**TOP-001**

HMPL grants and recognizes Gridforce's authority to act to maintain the reliability of the HMPL facilities via its own actions or by issuing Operating Instructions that must be implemented by HMPL.

HMPL shall notify Gridforce as soon as possible if HMPL is unable to implement an Operating Instruction with the reason for not being able to implement the Operating Instruction.

HMPL shall notify Gridforce of actual or expected operations that could result in an emergency on HMPL facilities.

HMPL shall notify Gridforce of any planned or unplanned communication outages that could impact Gridforce ability to monitor the HMPL facilities. Gridforce has authority to approve or deny a planned communication outage that could impact Gridforce's ability to monitor HMPL facilities.

HMPL shall work with Gridforce to restore communications to support Gridforce monitoring the HMPL facilities.

During loss of communications HMPL will provide status information to Gridforce to support monitoring the HMPL facilities until communications are restored.

**TOP-002**

HMPL shall ensure Gridforce received the following information to support performance of an Operational Planning Analysis in accordance with established planning procedures, such as outages, load forecasts, protection system status changes, operating limit changes, voltage control equipment status changes.

HMPL will implement Operating Instructions issued by Gridforce based on planning assessments or real-time assessments.

HMPL will notify Gridforce as soon as possible of the inability to implement an Operating Instruction.



**TOP-010**

HMPL will work with Gridforce to resolve data quality issues identified by Gridforce on HMPL facilities.

**VAR-001-4.2**

HMPL shall specify a generator voltage schedule, reactive power criteria, and voltage limits that will be used on HMPL facilities, which have been coordinated with BREC. Voltage information shall be provided to Gridforce.

HMPL shall operate voltage control devices (if applicable) as instructed by Gridforce

HMPL will implement Operating Instructions issued by Gridforce

HMPL will notify Gridforce as soon as possible of the inability to implement an Operating Instruction.

HMPL shall be responsible for acquiring/scheduling and maintaining any required voltage control if required for the HMPL facilities.

**EXHIBIT B**  
**NOTICES AND INVOICE ADDRESSES;**  
**OPERATING REPRESENTATIVES;**  
**FACILITY SERVICES COMMITTEE REPRESENTATIVES**

<p><b>GEM:</b></p> <p><u>NOTICES &amp; CORRESPONDENCE:</u></p> <p>Gridforce Energy Management, LLC Attn: President, CJ Ingersoll 1331 Lamar St., Suite 560 Houston, TX 77010</p> <p>Telephone No.: (713) 332-2906 Email.: <a href="mailto:CJI@Grid4ce.net">CJI@Grid4ce.net</a></p> <p><u>FACILITY SERVICES COMMITTEE REPRESENTATIVE:</u></p> <p><u>Antonio Franco</u> Gridforce Energy Management, LLC 1331 Lamar St., Suite 560 Houston, TX 77010</p> <p>Telephone No.: (713) 332-2912 E-mail: <a href="mailto:AntonioF@Grid4ce.net">AntonioF@Grid4ce.net</a></p> <p><u>FACILITY SERVICES COMMITTEE ALTERNATE:</u></p> <p><u>David Jones</u> Gridforce Energy Management, LLC 1331 Lamar St., Suite 560 Houston, TX 77010</p> <p>Telephone No.: (713) 332-2995 E-mail: <a href="mailto:davidj@Grid4ce.net">davidj@Grid4ce.net</a></p>	<p><u>INVOICES &amp; PAYMENTS:</u></p> <p>Gridforce Energy Management, LLC Attn: Vice President, Denise Ayers 1331 Lamar St., Suite 560 Houston, TX 77010</p> <p>Tel: 713-332-2902 E-mail: <a href="mailto:DeniseA@Grid4ce.net">DeniseA@Grid4ce.net</a></p>
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**CUSTOMER:**

NOTICES, & CORRESPONDENCE:

Attn:

Telephone No.:

Email.:

FACILITY SERVICES COMMITTEE  
REPRESENTATIVE:

Attn:

Telephone No.:

Email.:

FACILITY SERVICES COMMITTEE  
ALTERNATE:

Attn:

Telephone No.:

Email.:

INVOICES & PAYMENTS:

Telephone No.:

Email.:

**EXHIBIT C**

**FEE SCHEDULE**

(a) Charges and Payments.

Customer shall be responsible for payments to Gridforce and Gridforce shall be responsible for payments to Customer as follows:

1. Implementation Services Fee.

One (1) Site Surveys	\$20,000
Two (2) Routers	\$20,000
One (1) Remote Terminal Units	\$20,000
Two (2) Power Distribution Units	\$1,800
Two Uninterruptible Power Supply	\$1,800
One Secure Encasement of Power Equipment (Rack)	\$1,800
Equipment Installation	\$20,000
Systems Modeling	\$30,000
Energy Accounting	\$10,000
ICCP Data Exchange	\$20,000
Testing	\$20,000
Procedures Modification	\$20,000
Training	\$10,000
Project Management	\$20,000



2. Annual Facility Maintenance Charges.

Customer shall pay Gridforce an Annual Facility Maintenance Charge of ten thousand (\$10,000) dollars for maintenance of communications equipment and software owned or controlled by Gridforce to provide Services under this Agreement. Such payments shall be made at the beginning of the month in which the Contract Term begins and annually thereafter in January.

3. Monthly Services Fee.

Customer shall pay Gridforce a Monthly Services fee (the "Monthly Services Fee") in the amount of fifty thousand (\$50,000) dollars per month for each month. In addition, Customer shall pay Facility communication circuit costs each month. Monthly Service Fees shall commence at the beginning of the month in which the Services Term begins and each month thereafter during which Gridforce provides Services to Customer. The Monthly Services Fee and any Optional Services Fee(s) shall be adjusted annually according to the CPI Index as published by the Bureau of Labor Statistics.

The Monthly Services Fee shall be prorated for any partial month on the basis of the actual number of days in such month, and, as necessary, in accordance with Section 12.4 of this Agreement.

The Monthly Services Fee shall be adjusted for any period in which Gridforce is providing Continuation Assistance after a Customer Event of Default or a Section 2.5(g) Termination notice by Gridforce as follows:

(i) For the month beginning with the date which is 1 month after a Customer Event of Default or a Section 2.5(g) Termination notice by Gridforce, the Monthly Fee will be increased by 100% of the monthly services fee.

(ii) For the month beginning with the date which is 2 months after a Customer Event of Default or a Section 2.5(g) Termination notice by Gridforce, the Monthly Fee will be increased by 150% of the monthly services fee.

(iii) For each month beginning with the date which is 3 months after a Customer Event of Default or a Section 2.5(g) Termination notice by Gridforce, the Monthly Fee will be increased by 200% of the monthly services fee.

The Monthly Services Fee shall be adjusted for any period in which Gridforce is providing Continuation Assistance as set forth in Section 2.6

#### 4. Termination Fee

In accordance with the Agreement, Customer shall pay Gridforce an "Implementation Term Termination Fee" equal to one hundred and twenty thousand (\$120,000) dollars

In accordance with the Agreement, Customer shall pay GEM a "Services Term Termination Fee" equal to the lesser of (i) the Monthly Fee times twelve (12); and (ii) the Monthly Fee times the number of months remaining in the Contract Term from the effective date of such termination.

(b) Additional Amounts Payable by Customer Under Agreement. The amounts payable by Customer and Gridforce under Exhibit C, Section (a) above are in addition and not in lieu of any other amounts payable by Customer and Gridforce under any other provisions of this Agreement.

- (i) Customer shall also be responsible for any costs of an extraordinary nature not contemplated as of the signing of this Agreement which have been mutually agreed to and are required for the performance of the Services, including but not limited to, any costs associated with membership dues, cyber security, Regional Entity and NERC unplanned compliance enforcement activities for the Facility (which costs may include but not be limited to gathering documents and operations protocols, responding to Regional Entity questionnaires, preparing for demonstrations of equipment operation and Emergency procedures, and obtaining historical data and electronic tags) or fees or annual payments assessed by a third party.
- (ii) Customer shall also pay Gridforce an hourly rate of \$200 per hour for the following services:
  - (A) Development of procedure or programs that are not covered under this Agreement
  - (B) Other activities mutually agreed upon by the Parties

## **Section 6.0: Attachment 1 – Bid Clarification and/or Exceptions Form**

Gridforce has included Attachment 1 on the following page.



## Attachment 1 – Bid Clarification and/or Exceptions Form

### BID CLARIFICATIONS AND/OR EXCEPTIONS

UB #18-11-14

Bidder offers the following clarifications and/or exceptions taken to any requirement or provision of this Invitation to Bid and any proposed modifications or replacement language for each clarification or exception. (If none, so state.)

None.

Gridforce does not have any clarifications or exceptions other than HMP&L's desire to have the project start date for services on February 1, 2019. Gridforce has provided a schedule within the proposal and will use its best efforts to meet the schedule.

Bidder understands that unless itemized above, no other clarifications or exceptions to this Invitation to Bid are taken by this Bidder.

Gridforce Energy Management, LLC

---

Bidder

*Alan Bull*

---

Signature of Executing Party



## Section 7.0: Attachment 2 – Reciprocal Preference Form

Gridforce has included Attachment 2 on the following pages.

NAES Corporation, the parent company of Gridforce, has provided operations and maintenance services in Kentucky for the following electrical generation facilities:

Plant	Location	MW	Number of Employees	Service Dates
Riverside Generating Plant	Catlettsburg, KY	888	8	12/1/2009 – 12/31/2017
Bluegrass Generation Plant	LaGrange, KY	531	5	11/1/2009 – 3/31/2016

During the period of the above service dates, NAES has filed Kentucky corporate income taxes, made unemployment insurance payments to Kentucky, and maintained a Kentucky workers' compensation policy. NAES will file 2018 income taxes with the State of Kentucky.

NAES currently maintains a business license in Kentucky, organization number: 0589760 (foreign corporation in good standing).



## Attachment 2 – Reciprocal Preference Form

Bid #: 18-11-14

### RECIPROCAL PREFERENCE: (Effective February 4, 2011)

In accordance with Kentucky Revised Statutes (KRS) 45A.490 to 45A.494, prior to a contract being awarded to a bidder on a public agency contract, a resident bidder of the Commonwealth of Kentucky shall be given a preference over a nonresident bidder registered in any state that gives or requires a preference over bidders from the other state. The preference shall be equal to the preference given or required by the state of the nonresident bidder.

Any individual, partnership, association, corporation, or other business entity claiming resident bidder status shall submit along with its bid response a notarized affidavit (form attached) that affirms that it meets the criteria to be considered a resident bidder as set forth in KRS 45A.494(2). A nonresident bidder shall submit to HMPL, along with its bid response, a copy of its Certificate of Authority to transact business in the Commonwealth of Kentucky as filed with the Kentucky, Secretary of State. The location of the principal office identified therein shall be deemed the state of residency for that bidder. If the bidder is not required by law to obtain said Certificate, the state of residency for that bidder shall be deemed to be that which is identified in its mailing address as provided in its bid.

**Bidders must select and check one option below and return this document with bid.**

<input type="checkbox"/>	<p>This company is a resident bidder of the Commonwealth of Kentucky <b>or</b> this company is a nonresident bidder meeting the following requirements:</p> <ol style="list-style-type: none"> <li>1. Is authorized to transact business in the Commonwealth; and</li> <li>2. Has for one year prior to and through the date of advertisement <ol style="list-style-type: none"> <li>a. Filed Kentucky corporate income taxes; and</li> <li>b. Made payments to the Kentucky unemployment insurance fund established in KRS 341.49; and</li> <li>c. Maintained a Kentucky workers' compensation policy in effect.</li> </ol> </li> </ol> <p>The <u>Required Affidavit for Bidders, Offerors and Contractors Claiming Resident Bidder Status</u> form attached must be completed and returned with bid.</p>
<input checked="" type="checkbox"/>	<p>This company is not a resident bidder nor does it meet the requirements as listed in Items 1 and 2 above for nonresident bidders claiming resident status in the Commonwealth.</p> <p>What is your state of residency? <u>Texas</u></p> <p>Does your state grant "Contract Bid Preference? (circle one) <u>No</u> / Yes</p> <p>What is the Preference Percentage for your state? _____ %</p>

Gridforce Energy Management, LLC  
 Company  
11/29/2018  
 Date

Alan Bull  
 Signature  
Alan Bull  
 Printed Name



Bid #: 18-11-14

**REQUIRED AFFIDAVIT FOR BIDDERS, OFFERORS AND CONTRACTORS**  
**CLAIMING RESIDENT BIDDER STATUS**

**FOR BIDS AND CONTRACTS IN GENERAL:**

The bidder or offeror hereby swears and affirms under penalty of perjury that, in accordance with KRS 45A.494(2), the entity bidding is an individual, partnership, association, corporation, or other business entity that, on the date the contract is first advertised or announced as available for bidding:

1. Is authorized to transact business in the Commonwealth; and
2. Has for one year prior to and through the date of advertisement
  - a. Filed Kentucky corporate income taxes; and
  - b. Made payments to the Kentucky unemployment insurance fund established in KRS 341.49; and
  - c. Maintained a Kentucky workers' compensation policy in effect.

Henderson Municipal Power & Light reserves the right to request documentation supporting a bidder's claim of Resident Bidder Status. Failure to provide such documentation upon request may result in disqualification of the bidder or contract termination.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

Company Name \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Subscribed and sworn to before me by:

\_\_\_\_\_  
(Affiant)

\_\_\_\_\_  
(Title)

of \_\_\_\_\_  
(Company Name)

this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_

\_\_\_\_\_  
Notary Public

My commission expires: \_\_\_\_\_

[seal of notary]

## **Section 8.0: Attachment 6 – Non-Disclosure Agreement**

Gridforce has included Attachment 6 on the following page.





## Attachment 6 – Nondisclosure Agreement

### CONFIDENTIAL INFORMATION NON-DISCLOSURE AGREEMENT

---

This NON-DISCLOSURE AGREEMENT is made by the undersigned (“Vendor”) and Henderson Municipal Power & Light (“HMP&L”), with its primary address located at 100 5<sup>th</sup> street, Henderson, Kentucky 42420.

The Vendor has requested that HMP&L disclose to the Vendor certain information, all or a portion of which may be classified by HMP&L as Bulk Electric System Cyber System Information (BCSI); and

The North American Electric Reliability Corporation Critical Infrastructure Protection Standards (NERC CIP), has defined BCSI as “information about the BES Cyber System that could be used to gain unauthorized access or pose a security threat to the BES Cyber System. BES Cyber System Information does not include individual pieces of information that by themselves do not pose a threat or could not be used to allow unauthorized access to BES Cyber Systems;” and,

The Vendor is working on Transmission Operator (TOP) and Local Balancing Authority (LBA) Services requiring access to certain information classified as BCSI.

For purposes of this Agreement, “BCSI” shall mean: (i) all information designated as such by HMP&L, whether furnished before or after the date hereof, whether oral, written or recorded/electronic, and regardless of the manner in which it is furnished; and (ii) all reports, summaries, compilations, analyses, notes or other information which contain such information. Written information containing BCSI furnished by HMP&L shall be considered classified information and labeled “**Confidential BCSI**”.

Information labeled “**Confidential BCSI**” shall be kept in a secure place. The Vendor shall exercise reasonable care to maintain the confidentiality and secrecy of the classified information, and shall not divulge classified information to any third party without the prior written consent of HMP&L. The Vendor shall use all classified information disclosed by HMP&L only for the referenced work above.

AGREED (Vendor): Alan Bull

## **Section 9.0: Attachment 7 – Operating Protocols**

Gridforce has included Attachment 7 - Operating Protocols between MISO Reliability Coordinator and the Transmission Operators on the following pages.

**OPERATING PROTOCOLS**  
**BETWEEN**  
**MISO RELIABILITY COORDINATOR AND**  
**THE TRANSMISSION OPERATORS**

**October 31<sup>ST</sup>, 2018**

**Rev2**

## Table of Contents

<b>Background</b>	<b>3</b>
<b>1. Operating Planning Analysis</b>	<b>6</b>
<b>2. Real-time Analysis</b>	<b>8</b>
<b>3. Operational Reliability Data</b>	<b>13</b>
<b>4. Real-time Reliability Monitoring and Analysis Capabilities</b>	<b>15</b>
<b>Revision History</b>	<b>20</b>
<b>Appendix A: SOL Exceedance Definition</b>	<b>21</b>
<b>Appendix B: Applicable Standards</b>	<b>23</b>

1       **Background**

2       The revised IRO and TOP standards effective 4-1-17 require the conducting of Operational Planning Analysis  
3       and Real time Assessment by both the Transmission Operator (TOP) and Reliability Coordinator (RC). In  
4       addition, these new standards require the TOP and RC to develop Operating Plans to prevent and mitigate  
5       System Operating Limit (SOL) Exceedances and Interconnection Reliability Operating Limit (IROL)  
6       Exceedances, and required the RC Operating Plan to be coordinated with the TOP.

7  
8       NERC Standard revisions to TOP-001 that became effective 7-1-18 requires including the impact of internal and  
9       external system’s non-BES Facility overload and/or potential tripping influence on BES facility SOL exceedances  
10      and RC determination of IROL’s (IRO-002) as determined necessary by the entities.

11  
12      MISO developed a white paper on the process for determining non-BES Facilities necessary to monitor for the  
13      determination of SOL and IROL exceedances on the BES.

14  
15      MISO, as the RC, BA and Market Operator have the tools for determining SOL Exceedances including the  
16      impact of non-BES Facilities and have the means to direct and coordinate with a TOP or to take/coordinate  
17      corrective actions to mitigate such exceedances.

18  
19      These Operating Protocols allow the TOP to utilize the MISO tools, processes and authority to identify and  
20      mitigate SOL Exceedances and are consistent with the contractual obligations MISO has under Module F of  
21      the Tariff. The TOP may continue to use their own tools and processes in coordination with the MISO RC.

22  
23      MISO is required by the ISO Agreement (Transmission Owner Agreement) and Module F of the MISO  
24      tariff to provide reliability coordination service to the TOP and to support their NERC compliance  
25      obligations.

26  
27      Note: In regard to the ISO Agreement (Transmission Owner Agreement) and Module F of the MISO  
28      tariff,

- 29      • ISO Agreement (Transmission Owner Agreement) existed before NERC compliance to provide  
30      reliability coordination services and market services to its members.
- 31      • Module F of the MISO tariff was created after NERC compliance to provide 7 members in the  
32      western portion of the MISO footprint that did not want market services with only with reliability  
33      coordination services.
- 34      • So, Module F provides an accurate description of the reliability coordination services that MISO  
35      should provide all of its members under the ISO Agreement (Transmission Owner Agreement).

36  
37      **Module F**

38  
39      MISO Tariff – Preamble: *The Transmission Provider provides reliability coordination services for the*  
40      *Balancing Authorities and Transmission Operators that are Transmission Owners in accordance with the ISO*  
41      *Agreement, the Balancing Authority Agreement and other applicable tariffs. Pursuant to this Part I of Module*  
42      *F, the Transmission Provider shall provide comparable Reliability Coordination Service to entities that are*  
43      *not Transmission Owners on the terms and conditions set forth.*

44      Some of the comparable services are

45      Section 72.3.2



- Provide on-line network modeling using state estimation and real-time contingency analysis in the operating time frame;
- Provide operations engineering services, such as analyses of the Combined Reliability Systems' adequacy and security for day-ahead operations, conducting voltage collapse studies when requested, and support for Operating Guides as needed;

#### Section 72.3.6

- Monitor the Reliability Coordination Customer's compliance requirements with applicable NERC and Regional Entity standards and support such compliance with data as required.
- For the purposes of mitigating an IROL or SOL violation so as to return the Combined Reliability Systems to a reliable state, the Transmission Provider shall have authority to direct the Reliability Coordination Customer to Redispatch generating facilities interconnected to the Combined Reliability Systems to the same extent that the Reliability Coordination Customer is entitled to redispatch such facilities under its transmission tariff and other applicable agreements;

#### Section 72.12

- To ensure that the Transmission Provider has the ability to direct the actions described in Section 72.10 of this Tariff, the Reliability Coordination Customer and the Transmission Provider will develop detailed Operating Guides for all existing known Flowgates and any future identified Flowgates that specify the division of reliability-related functions and the procedures for coordinating these functions.

### **ISO Agreement (Transmission Owner Agreement) and Module F**

MISO and TOPs are in agreement that Module F and Transmission Owners Agreement are the agreements requiring the service to be performed and these Operating Protocols are documentation to describe how these services are applied to comply with several IRO and TOP standards that relate to managing SOL Exceedances and IROL Exceedances.

MISO and TOPs will annually review the Operating Protocols and anytime the SOL Exceedance definition is changed. The review will take into account workload impacts, efficiency, and effectiveness of the Operating Protocols.

### **MISO Rating Utilization in the RC processes**

Note: This section will be removed once confirmed to be included in other MISO documents.

MISO utilizes 3 different sets of ratings in the Reliability Coordination processes in conjunction with the operation of the MISO market.

For reliability reasons it is important to have consistent timeframes for the utilization of these ratings. Difference in timeframes may cause delays in activation in congestion management and Operating Plans to prevent or mitigate SOL Exceedances.

MISO's utilization of these ratings is not intended to circumvent the Transmission Owner's authority to develop normal and emergency ratings under the FAC-008 standard. MISO defined utilization is meant to provide guidance to the Transmission Owner and its applicable Transmission Operators in their submission



94 of the normal and emergency rating data based on how MISO will treat the ratings in their operation.

95  
96 Normal rating (Rate A) - MISO will treat this Facility Rating as a continuous rating. When exceeded in  
97 real-time. MISO will initiate congestion management and its coordinated Operating Plan to reduce the real-  
98 time flow to less than the normal rating.

99  
100 Long term emergency rating (Rate B) – MISO will treat this Facility Rating based on the time frame defined  
101 by TO. The rating is generally at least a one hour rating. When the Real-time Assessment shows the projected  
102 post-contingent flow exceeding Rate B, MISO will initiate congestion management prior to the contingency  
103 to reduce the predicted post-contingent flow to less than Rate B. MISO will develop an agreed-to post  
104 contingent action plan with the TOP that will mitigate the overload with the timeframe of Rate C, if the  
105 contingency were to occur prior to reducing the flow below Rate B. In general, MISO initiates its congestion  
106 management process, as outlined in its Congestion Management Procedure, prior to a Real-time Assessment  
107 predicting post-contingent flow above Rate B. Rate B ratings are utilized for market binding for predicted  
108 post-contingent flow.

109  
110 **Note: Transmission Owner may submit a Rate B rating that can be utilized longer than one hour, but**  
111 **should consider not submitting a Rate B rating less than thirty minutes.**

112  
113 Short term emergency rating (Rate C) – MISO will treat this Facility Rating as a 30 minute rating or the  
114 timeframe specified by TO. When the Real-time Assessment shows the projected post-contingent flow  
115 exceeding Rate C, MISO will initiate congestion management prior to the contingency to reduce the  
116 predicted post-contingent flow to less than Rate B. MISO will develop an agreed-to post contingent action  
117 plan with the TOP that will mitigate the overload as soon as possible, if the contingency were to occur prior  
118 to reducing the flow below Rate C.

119  
120 **Note: Transmission Owner may submit a Rate C rating that can be utilized longer than 30 minutes, but**  
121 **should consider not submitting a rating less than 30 minutes. TOPs must notify MISO of any Rate C**  
122 **less than 30 minutes.**

123  
124 **Recommendation: The Transmission Owners are recommended to consider a separation between Rate**  
125 **A, Rate B and Rate C. A separation will allow actions by MISO congestion management and other**  
126 **control actions to reduce the projected post-contingent flow before reaching a level requiring an SOL**  
127 **Exceedance declaration.**

## 1. Operating Planning Analysis

### RC obligation:

- Perform an Operational Planning Analysis<sup>1</sup> that will allow it to assess whether the planned operations for the next-day will exceed SOLs and IROLs.<sup>2</sup>
- Have a coordinated Operating Plan(s)<sup>3</sup> for next-day operations to address potential SOL IROL exceedances identified as a result of its Operational Planning while considering the Operating Plans for the next-day provided by its TOPs and BAs.<sup>4</sup>
- Notify impacted entities identified in its Operating Plan(s) cited as to their role in such plan(s).<sup>5</sup>
- Validate all TOPs have access the Extranet, since Extranet is their primary communication means.

### TOP obligation

- Have an Operational Planning Analysis that will allow it to assess whether its planned operations for the next day within its TOP Area will exceed any of its SOLs.<sup>6</sup>
- Have an Operating Plan(s) for next-day operations to address potential SOL exceedances identified as a result of its Operational Planning Analysis.<sup>7</sup>
- Notify impacted entities identified in the Operating Plan(s).<sup>8</sup>
- Provide Operating Plan to the RC as to their role in such plan(s).<sup>9</sup>

### RC Actions

MISO performs and posts to the Extranet an Operational Planning Analysis that identifies:

- Base-flows above normal rating (Rate A)
- Post-contingent flows above the long term emergency rating (Rate B) rating
- Voltages exceeding then emergency voltage limits for base case
- Voltages less than the emergency low limits for post contingent voltages
- Flows greater than or equal established Stability Limit (IROL and non-IROL)

MISO annotates Operational Planning Analysis with mitigating actions to address potential SOL Exceedances and IROL Exceedances. Mitigating actions include references to standing procedures and operating guides. The standing procedures and operating guides collectively form MISO's Operating Plan for operations and is coordinated in advance with impacted TOPs.

MISO will directly notify TOPs with any potential SOL Exceedances that cannot be alleviate with mitigation actions. All other TOPs are notified via Extranet posting.

MISO performs and posts to the Extranet an Operational Planning Analysis that identifies and post results to Extranet

### TOP Actions

---

<sup>1</sup> Module F

<sup>2</sup> IRO-008-2 R1 (RC perform Operational Planning Analysis ...)

<sup>3</sup> Module F

<sup>4</sup> IRO-008-2 R2 (RC shall have coordinated Operating Plans ...)

<sup>5</sup> IRO-008-2 R3 (RC shall notify impacted entities identified in the Operating Plans ...)

<sup>6</sup> TOP-002-4 R1 (TOP shall have an Operational Planning Analysis ...)

<sup>7</sup> TOP-002-4 R2 (TOP shall have an Operating Plans ...)

<sup>8</sup> TOP-002-4 R3 (TOP shall notify entities identified in the Operating Plans ...)

<sup>9</sup> TOP-002-4 R6 (TOP shall provide its Operating Plans ... to its RC)

168 TOPs may either conduct their own Operational Planning Analysis or utilize the MISO Next Day Security  
169 Assessment as their Operational Planning Analysis.

170  
171 TOPs utilizing the MISO Next Day Security Assessment should

- 172 • Download the assessment and validate study inputs and outputs are reflective of their system.
- 173 • Confirm to MISO if the results are not reflective of their operation. The review should include  
174 validation of<sup>10</sup>:
  - 175 ✓ Load forecasts
  - 176 ✓ Generation output levels
  - 177 ✓ Interchange
  - 178 ✓ Known Protection Systems and Special Protection System status or degradation
  - 179 ✓ Transmission outages
  - 180 ✓ Generator outages
  - 181 ✓ Facility ratings
  - 182 ✓ Identified phase angle and equipment limitations Outages
  - 183 ✓ Noted flow patterns or predict flows on defined interfaces
  - 184 ✓ Validate any mitigating actions
  - 185 ✓ Past experience
- 186 • Assist MISO as requested to communicate roles to impacted entities within their operating area.

187  
188 TOPs utilizing the MISO Next Day Security Assessment should concur with MISO's Next Day Security  
189 Assessment, or propose changes necessary for concurrence.

190  
191 TOP utilizing their own next day assessment should review and coordinate results with MISO for any  
192 differences.

193  
194 **Evidence:**

195 MISO will:

- 196 • Post their Next Day Security assessments as their Operational Planning Analysis on the Extranet.
- 197 • Provide attestation of their Coordinated Operating Plan upon request

198  
199 TOP should:

- 200 • Either capture the MISO Next Day Security assessments or use their own as the Operational  
201 Planning Analysis results.
- 202 • Document their analysis of the MISO Next Day Security assessments
- 203 • Document the MISO Coordinated Operating Plan if there are identified SOL exceedances

204  
205

---

<sup>10</sup> Elements of the Operational Planning Analysis Definition



## 2. Real-time Analysis

### RC obligation:

- Determine non-BES Facilities to be monitored<sup>11</sup> in the RTCA process.
- Utilize the RTCA's RAS function to model the identified non-BES Facilities in order to determine any potential SOL Exceedances from non-BES contingency. The identification may result from MISO's Low Voltage study (annual or bi-annual), OPA studies by the RC or TOP, or technically sound analysis.
- Monitor Facilities, the status of Remedial Action Schemes, and non-BES Facilities identified as necessary by the Reliability Coordinator, within its RC Area and neighboring RC Areas to identify any SOL exceedances and to determine any IROL exceedances within its RC Area
- <sup>12</sup>
- Ensure that a Real-Time Assessment is performed at least once every 30 minutes.<sup>13</sup>
- Notify impacted TOPs and BAs within its RC Area, and other impacted RCs as indicated in its Operating Plan, when the results of a Real-time Assessment indicate an actual or expected condition that results in, or could result in, a SOL or IROL exceedance within its Wide Area.<sup>14</sup>
- Notify impacted TOPs and BAs within its RC Area, and other impacted RCs as indicated in its Operating Plan, when the SOL or IROL) exceedance has been prevented or mitigated.<sup>15</sup>
- Ensure read-only version Citrix available to the TOPs for communication of SOL Exceedance mitigation.<sup>16</sup>

### TOP obligation:

- Review the non-BES Facilities identified by MISO to be monitored and provide feedback.
- Monitor Facilities, the status of Remedial Action Schemes, and non-BES Facilities within TOP Area and outside area determined as necessary by the TOP.<sup>17</sup>
- Ensure that a Real-time Assessment is performed at least once every 30 minutes.<sup>18</sup>
- Initiate its Operating Plan to mitigate a SOL Exceedance identified as part of its Real-time monitoring or Real-time Assessment.<sup>19</sup>
- Inform its RC of actions taken to return the System to within limits when a SOL has been exceeded.<sup>20</sup>

### RC Actions

MISO utilizes their State Estimator (SE) and Real-Time contingency analysis (RTCA) to perform a Real-time Assessment. Contingency Analysis<sup>3</sup> is ran periodically, but at least once every 30 minutes<sup>4</sup>. RTCA is

<sup>11</sup> MRO clarification the term "monitor" is not a NERC defined term, the Commission was clear in its intent of "monitoring" in FERC Order No. 817, paragraph 35, "...to ensure that all facilities that can adversely impact BPS reliability are either designated as part of the BES or otherwise incorporated into planning and operations studies and actively monitored and alarmed in [real-time contingency analysis] systems."

<sup>12</sup> IRO-002-5 R5 (RC shall monitor ...)

<sup>13</sup> IRO-008-2 R4 (Perform Real-time Assessments every 30 minutes ...) and Module F

<sup>14</sup> IRO-008-2 R5 (RC shall notify impacted TOPs and BAs ... SOL or IROL exceedance)

<sup>15</sup> IRO-008-2 R6 (RC shall notify impacted TOPs and BAs ... SOL or IROL exceedance has been prevented)

<sup>16</sup> IRO-008-2 R6 (RC shall notify impacted TOPs and BAs ... SOL or IROL exceedance has been prevented)

<sup>17</sup> TOP-001-4 R10 (TOP shall preform the following for determining ...)

<sup>18</sup> TOP-001-4 R13 (TOP shall ensure Real-time Assessment is performed at least every 30 minutes )

<sup>19</sup> TOP-001-4 R14 (TOP shall initiate its Operating Plan to mitigate a SOL exceedance ...)

<sup>20</sup> TOP-001-4 R15 (TOP shall inform its RC of actions taken ...)

240 designed to run approximately once every two minutes. MISO will communicate to the TOP when RTCA  
241 has failed to provide a valid solution for at least 20 minutes.

242  
243 **Note: MISO's communication under IRO-008 standard may satisfy the TOP requirement under**  
244 **TOP- 001-4 R14 to initiate their Operating Plan to mitigate SOL Exceedances.**

245  
246 MISO will perform the following steps based on pre and post contingent conditions. Along with this  
247 notification MISO notifies all potentially impacted TOPs by providing the MISO SE and RTCA results for  
248 the TOPs system via a read only version of our EMS that accessible via Citrix.

249  
250 Non-BES overloads that do not create post-contingency BES SOL Exceedances will be the sole  
251 responsibility of the TOP, unless functional control of the non-BES Facility has been transferred to MISO.

252  
253 For non-BES pre or post-contingent overloads that impact the BES; MISO will - mitigate the impact on  
254 the BES by the most effective means. Any residual overload of the non-BES will be the responsibility of  
255 the TOP, unless functional control of the non-BES Facility has been transferred to MISO.

#### 256 Pre-contingent conditions

257  
258 When MISO identifies actual steady state flow on a BES Facility is greater than the Facility's normal rating  
259 (Rate A), the steady state voltage on a BES Facility is outside of the normal voltage range or actual flow  
260 exceeding established Stability Limit (IROL and non-IROL); MISO will contact the TOP to:

- 261 a. Confirm the operating conditions and ratings (both in magnitude and length of time to be applied)
- 262 with the TOP.
- 263 b. Communicate any Congestion Management or operating steps being performed.
- 264 c. Develop a coordinated action plan when needed. If the BES SOL/IROL exceedance is the result of a
- 265 non-BES overload, the action plan will mitigate the BES SOL/IROL exceedance by the most effective
- 266 means.

267 When MISO determines actual steady state flow on a BES Facility has been reduced to less than the  
268 Facility's normal rating (Rate A), the steady state voltage on a BES Facility is within the normal voltage  
269 range or actual flow less than or equal established Stability Limit (IROL and non-IROL), MISO will  
270 notify the TOP.

#### 271 Post-contingent conditions

272  
273 When MISO identifies projected post contingent flow on a BES Facility greater than the short term  
274 emergency rating (Rate C) or projected post contingent voltage on a BES Facility less than emergency low  
275 voltage limit, MISO will contact the TOP to:

- 276 a. Confirm the operating conditions and ratings (both in magnitude and length of time to be applied)
- 277 with the TOP.
- 278 b. Communicate any Congestion Management or operating steps being performed.
- 279 c. If the projected post contingent flow is above the short term emergency rating (Rate C) or the post
- 280 contingent voltage is below emergency voltage range, MISO and TOP must develop an agreed-to
- 281 post contingency action plan within 30 minutes. The plan should be implementable in 30 minutes if
- 282 the contingency occurs. If the BES SOL exceedance is the result of a non-BES overload, the action
- 283 plan will mitigate the BES SOL exceedance by the most effective means.

284  
285 For TOPs that have implemented defined actions in the agreed-to post contingent action plan, MISO will  
286 directly notify those TOPs when MISO declares the SOL Exceedance prevented and/or mitigated. For  
287 other TOPs with no post contingent actions, MISO will notify by providing MISO SE and RTCA results  
288 via a read only version of our EMS that is accessible to them via Citrix.



289  
290 When MISO determines projected post contingent flow on a BES Facility is reduced to within the long  
291 term emergency rating (Rate B) or projected post contingent voltage on a BES Facility is within  
292 emergency low voltage limit, MISO will notify the TOP.  
293

#### 294 TOP Actions

295 TOPs may utilize their SCADA system and may use their own RTCA or MISO's RTCA for Real-time  
296 Assessment. If the TOP is relying on MISO to fulfill Real-time Assessment requirements, the TOP  
297 should have a process to conduct Real-time Assessment of their system when notified by the RC of the  
298 RTCA failure, which can include utilizing their own RTCA if they have one or running offline studies as  
299 needed when the system changes.  
300

301 TOPs that use their RTCA should establish a process when their RTCA fails to be performed in 30  
302 minutes. TOP may utilize MISO Real-time Assessment as a backup in the event TOP loses capability  
303 to perform Real-time Assessment.  
304

305 When TOP identifies or MISO communicates the actual steady state flow on a BES Facility is greater  
306 than the Facility's normal rating (Rate A), the steady state voltage on a BES Facility is outside of the  
307 normal voltage range or actual flow exceeding established Stability Limit (IROL and non-IROL). TOP to  
308 take following actions:

- 309 a. Confirm the operating conditions and ratings (both in magnitude and length of time to be applied)  
310 with MISO.
- 311 b. Develop and implement a coordinated action plan with MISO to mitigate the condition.
- 312 c. For non-BES Facilities that impact BES Facilities; retain responsibility for any remaining non-BES  
313 Facility overload after the implementation of the action plan to mitigate the BES Facility SOL/IROL  
314 exceedance.  
315

316 When TOP determines or MISO notifies the actual steady state flow on a BES Facility is less than or  
317 equal to the Facility's normal rating (Rate A), the steady state voltage on a BES Facility is within the  
318 normal voltage range or actual flow is less than or equal to established Stability Limit (IROL and non-  
319 IROL). TOP will confirm the operating conditions.  
320

#### 321 Post-contingent conditions

322 When TOP determines or MISO communicates the projected post contingent flow on a BES Facility is  
323 reduced to within the long term emergency rating (Rate B) or projected post contingent voltage on a BES  
324 Facility is within the emergency low voltage limit, TOP to take following actions:

- 325 a. Confirm ratings (both in magnitude and length of time to be applied) with MISO.
- 326 b. Validate MISO results with any available RTCA results of their own, operating guides or  
327 operating studies as available or past experience.
- 328 c. Review and determine agreement with MISO's post contingency action plan or alternative steps or  
329 reason why agreement cannot be reached.
- 330 d. Implement any agreed to pre-contingent action(s) deemed necessary.

331 When TOP determines or MISO notifies the projected post contingent flow on a BES Facility is reduced  
332 to within the long term emergency rating (Rate B) or projected post contingent voltage on a BES Facility  
333 within the emergency low voltage limit, TOP will confirm the operating conditions.  
334

335 **Note:** MISO may notify the TOP if the projected post contingent flow is above the long term emergency  
336 rating (Rate B) to confirm the ratings and operating conditions before initiating congestion management



337 and other control actions. This communication is not required by this standard but is a business practice  
338 outlined in MISO Congestion Management procedure. In addition, MISO and the TOP may develop a  
339 post contingency action plan if the contingency occurs before the normal congestion management  
340 processes is able to return the post contingent flow below the long term emergency rating (Rate B).  
341

#### 342 RC/TOP Actions

343  
344 Post event, MISO and the TOP should discuss whether the event met any of the SOL Exceedance criteria  
345 set forth in MISO's SOL/IROL Methodology and if so then declare the event a SOL Exceedance.

- 346 a. Actual flow is above short term emergency rating (Rate C)
- 347 b. Actual flow is above long term emergency rating (Rate B) and not reduced to below Rate A within the  
348 time frame associated with Rate C.
- 349 c. Actual flow is above normal rating (Rate A) and not reduced to the normal rating within the time  
350 frame associated with Rate B.
- 351 d. Actual voltage was below Emergency Voltage limit.
- 352 e. Actual flow on a stability limit (non-IROL) is not reduced to within the limit in 30 minutes or time  
353 frame established by an Operating Plan.
- 354 f. Projected post contingent flow was greater than short term emergency rating (Rate C) longer than 30  
355 minutes without an agreed-to post contingency action plan.
- 356 g. Projected post contingent voltage was less than emergency low voltage limit longer than 30  
357 minutes without an agreed-to post contingency action plan.

358  
359 MISO and the TOP to jointly develop an SOL Exceedance report.  
360

#### 361 Evidence:

362 MISO will:

- 363 • Maintain computer logs showing the timing of the RTCA solution, per the NERC Regional  
364 Guidance for 30 minute assessment evidence and provide to TOP upon request.
- 365 • Maintain computer alarm logs showing the actual condition exceeding the limits.
- 366 • Maintain computer reports showing the RTCA results exceeding the limits.
- 367 • Document the post contingency action plans
- 368 • Document Mitigation of the SOL Exceedance, including starting conditions, mitigation actions  
369 and end time.
- 370 • Jointly develop SOL Exceedance report with the TOP

371  
372 TOP should:

- 373 • Use MISO-provided evidence on the MISO RTCA solutions, per the NERC Regional guidance  
374 for 30 minute assessment evidence, if using MISO RTCA as primary.
- 375 • The evidence provided by MISO and from MISO MCS notifications of SE and RTCA failures and  
376 System Status Levels issued per MISO procedures for compliance to TOP-001-R13
- 377 • Use their own evidence if they are performing their own Real-time Assessment and relying on  
378 MISO for backup functionality only.
- 379 • Provide their own evidence of performing their own Real-time Assessment when the MISO RTCA  
380 has failed for 30 minutes if TOP is relying on MISO for Real-time Assessment requirement.
- 381 • Establish their own evidence of the communication with MISO on the actual condition exceeding  
382 the limits.
- 383 • Establish their own evidence of the communication with MISO regarding the reasonability of the  
384 RTCA results.

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- Utilize the post contingency action plans jointly developed with MISO.

### 3. Operational Reliability Data

#### RC obligation:

- Maintain a documented specification for the data necessary for it to perform its Operational Planning Analyses, Real-time monitoring, and Real-time Assessments. The data specification shall include:
  - ✓ A list of data and information needed by the RC to support its Operational Planning Analyses, Real-time monitoring, and Real-time Assessments including non-BES data and external network data, including non-BES data, as deemed necessary by the Reliability Coordinator.
  - ✓ Provisions for notification of current Protection System and Remedial Action Schemes status or degradation that impacts System reliability.
- Distribute its data specification to entities that have data required by the Reliability Coordinators.

#### TOP obligation:

- Maintain a documented specification for the data necessary for it to perform its Operational Planning Analyses, Real-time monitoring, and Real-time Assessments. The data specification shall include, but not be limited to:
  - ✓ A list of data and information needed by the Transmission Operator to support its Operational Planning Analyses, Real-time monitoring, and Real-time Assessments including non-BES data and external network data, including non-BES data, as deemed necessary by the Transmission Operator.
  - ✓ Provisions for notification of current Protection System and Remedial Action Schemes status or degradation that impacts System reliability.
- Distribute its data specification to entities that have data required by the Reliability Coordinators.

#### TOP Actions

TOP (Data Spec owner) to evaluate their data specification for missing reliability data required for Operational Planning Analyses, Real-time monitoring, and Real-time Assessment. For missing data, the TOP may provide a request for the specific data to the data owner and a copy of their data specification. If the data is adequate, the TOP should issue an attestation to the data provider.

TOP (Data Spec receiver) as recipient of a data specification:

- Acknowledge receipt of this data specification.
- Indicate agreement or disagreement with TOP's default data submission format, security protocols and process for resolving data conflicts. If disagreeing, please add comments to aid further discussion with TOP.
- Supply a contact name, phone number and email address for discussing any concerns or questions regarding TOP's data specification or to resolve any disagreement with TOP's default data submission format, security protocol and/or process for resolving data conflicts..

TOP utilizing their own next day assessment should review and coordinate results with MISO for any differences.

#### Evidence:

TOP should:

- Maintain dated data specification.

- 437 • Maintain evidence of distributing its data specification to entities that have data required by the
- 438 Transmission Operator's Operational Planning Analyses, Real-time monitoring, and Real-time
- 439 Assessment.
- 440 • Attestation of a sufficient data
- 441
- 442

443 **4. Real-time Reliability Monitoring and Analysis Capabilities**

444 **4.1 Addressing Quality Issues of Necessary Real-time Data to perform Real-time Monitoring and**

445 **Real-time Assessments**

447 RC obligation:

- 448 • Develop and implement an Operating Process or Operating Procedure to address the quality of
- 449 the Real-time data necessary to perform its Real-time Monitoring and Real-time Assessments
- 450 for the RC Area that includes:<sup>21</sup>
- 451 ○ Criteria for evaluating the quality of Real-time data
- 452 ○ Provisions to indicate the quality of Real-time data to the RC
- 453 ○ Actions to address Real-time data quality issues with entities responsible for providing the
- 454 data when quality affects Real-time Assessments
- 455
- 456 • Notify RC's Wide Area entities, by MCS, of data quality issues that impact the ability to
- 457 perform Real-time Monitoring and Real-time Assessments by issuing System Status Level
- 458 Alerts
- 459
- 460 • Document data quality issues that impact the ability to perform Real-time Monitoring and
- 461 Real-time Assessments in the ROWG Monthly Operations Report

462 TOP obligation:

- 463 • Shall develop and implement an Operating Process or Operating Procedure to address the
- 464 quality of the Real-time Data necessary to perform its Real-time monitoring and Real-time
- 465 Assessments the Process or Procedure shall include:<sup>22</sup>
- 466 ○ Criteria for evaluating the quality of Real-time data
- 467 ○ Provisions to indicate the quality of Real-time data to the System Operators
- 468 ○ Actions to address Real-time data quality issues with entities responsible for providing the
- 469 data when quality affects Real-time Assessments
- 470
- 471 • Maintain evidence necessary for TOP compliance

472 **RC Actions**

473 MISO will:

- 474 • Develop an Operating Process or Operating Procedure to address quality of the Real-time data
- 475 issues for data that is necessary for MISO perform its Real-time monitoring and Real-time
- 476 Assessments.
- 477
- 478 • Develop provisions to indicate the quality of Real-time data to MISO RC operators and TOPs.
- 479
- 480 • Implement its Operating Process or Operating Procedure to address any quality of the Real-
- 481 time data issues for data that is necessary for MISO perform its Real-time monitoring and
- 482 Real-time Assessments.
- 483
- 484 • Provide TOP access to MISO's Operating Process or Operating Procedure that address Real-
- 485 time data quality issues.
- 486
- 487 • MISO provide displays used in monitoring quality of Real-time data used for Real-time
- 488 Assessments by CITRIX.
- Notify Entities within the MISO RC footprint of data quality issues that impact the ability to
- perform Real-time Monitoring and Real-time Assessments by System Status Level Alerts
- using the MCS.

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<sup>21</sup> IRO-018-1(j) R1

<sup>22</sup> TOP-010-1(i) R1



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- Provide documentation that MISO implemented its Operating Process or Operating Procedure to address the quality of data used for Real-time Assessments in the ROWG Monthly Operations Report.
  - Provide Real-time data quality information to the MISO RC and make available to TOPs that use MISO Assessment as their primary Real-time Assessment.

495 **TOP Actions**

496 TOPs will:

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- Develop an Operating Process or Operating Procedure to address quality issues of data used for Real-time monitoring and Assessment including data requested by the RC's for their Monitoring and Real-time Assessments. Develop provisions to indicate the quality of Real-time data to the System Operators.
  - Implement the TOP's Operating Process or Operating Procedure when data issues are detected
  - Notify MISO of data quality issues that might affect MISO's Real-time Assessments. TOPs might use voice communication for ICCP or blocks or RTU failures and Data Quality Codes passed with the ICCP point, as outlined in the SO-P-NOP-00424 MISO Member Data Communication Outages.
  - For those TOPs using MISO Real-time Assessment as their process, develop TOP's own process that will be used for overall compliance when notified by MISO of failure of MISO EMS/SE/RTCA.
  - Develop documentation on TOP's own Operating Process that specifies criteria for evaluating quality of real-time data and actions to address Real-time data quality issues.
  - If MISO identifies data quality issues impacting MISO's Real-Time Assessments, MISO will communicate with affected TOPs. Affected TOPs will coordinate with MISO to address Real-Time data quality issues.

517 **Evidence**

518 MISO will:

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- Maintain an Operating Process or Operating Procedure addressing data quality issues that impact the ability to perform Real-time Monitoring and Real-time Assessments
  - Provide documentation in the ROWG Monthly Operating Report of data quality issues that impact the ability to perform Real-time Monitoring and Real-time Assessments.
  - Maintain records that Operating Processes or Procedures were implemented to address the quality issues that impact the ability to perform Real-Time Monitoring and Real-Time assessments.

528 TOP should:

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- Maintain Operating Process or Operating Procedure in electronic or hard copy format
  - For TOPs utilizing MISO assessment tools, maintain a copy of MISO's Operating Process or Operating Procedure in electronic or hard copy format
  - Use MISO evidence for IRO-018-1 R1, or its own evidence, or in conjunction with MISO evidence, to confirm that it implemented its Operating Process or Operating Procedure that addresses the quality of the Real-time data. This also includes provisions to indicate the quality of Real-time data to the System Operator and actions taken to address Real-time data quality issues when data quality affects Real-time Assessments. This evidence could include dated operator logs, dated checklist, voice recordings, voice transcripts, or other evidence.



- 538 • TOPs using MISO Real-time assessments request evidence that Operating Processes or  
539 Operating Procedures to address the quality of data used for Real-time Assessments were  
540 implemented. Evidence may include:
  - 541 ○ Dated Operating Logs
  - 542 ○ Dated Checklist
  - 543 ○ Dated Repair Request
  - 544 ○ Voice recordings
  - 545 ○ ROWG Monthly Operations Report

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548 **4.2 Addressing Quality of Analysis used in Real-time Assessments**

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550 RC obligation:

- 551 • Implement an Operating Process or Operating Procedure to address quality of analysis used in  
552 Real-time Assessments which includes:<sup>23</sup>
  - 553 ○ Criteria for evaluating the quality of analysis
  - 554 ○ Provisions to indicate the quality of analysis
  - 555 ○ Action to address analysis quality issues affecting Real-time Assessments
- 556 • Provide documentation of uses of MISO Process and Procedures for addressing the quality of  
557 analysis used in Real-time Assessments in the ROWG Monthly Operations Report

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559 TOP obligation:

- 560 • Implement an Operating Process or Procedure to address quality of analysis used in Real-time  
561 Assessments which includes:
  - 562 ○ Criteria for evaluating the quality of analysis
  - 563 ○ Provisions to indicate the quality of analysis
  - 564 ○ Action to address analysis quality issues affecting Real-time Assessments<sup>24</sup>
- 565 • TOPs using MISO Real-time Assessments should monitor MISO's Real-time Assessment  
566 quality information. When Assessment quality is suspect, assist MISO when requested to  
567 determine if TOP's data or communications is involved
- 568 • For TOPs using MISO Real-time Assessments for their primary Assessment tool, the TOP's  
569 Operating Process or Operating Procedure shall include a process for addressing the quality of  
570 analysis used in the tool used to back up the MISO process when MISO Real-time Assessment  
571 is unavailable.

572  
573 **RC Actions**

- 574 • Develop an Operating Process or Operating Procedure to address the quality of the analysis  
575 used in Real-time Assessments and provide indication of the quality of the analysis to the  
576 MISO Staff and to TOPs within the RC footprint. (via Citrix) The Assessment tools may  
577 include:
  - 578 ○ State Estimator
  - 579 ○ Real-time Contingency Analysis
- 580 • Provide documentation to TOPs on MISO's Operating Process that specifies criteria for  
581 evaluating quality of the analysis used in Real-time Assessments.

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<sup>23</sup> IRO-018-1(i) R2

<sup>24</sup> TOP-010-1(i) R3

- 582 • Provide MISO SE and RTCA displays to TOPs (via Citrix and with capability to be filtered on
- 583 TOP's Area basis) that indicate the quality of the analysis used in Real-time Assessments,
- 584 such as:
  - 585 ○ Convergence status of SE and last successful time/date of RTCA execution
  - 586 ○ Solution tolerances for SE and RTCA
  - 587 ○ Ranked SE residuals or ranked Normalized Residuals (difference between measured and
  - 588 estimated values), on (filtered) TOP area basis
  - 589 ○ Largest Bus MW/MVAR mismatches on (filtered) TOP area basis
  - 590 ○ Results of SE Bad Data Detection and Identification algorithm and SE Rejected
  - 591 measurements
  - 592 ○ List of Unsolved (Non-Converged) RTCA contingencies
- 593 • Take Actions to address issues affecting quality of the analysis used in Real-time Assessment
- 594 may include such as:
  - 595 ○ Manually rerunning/initiating Real-time sequence
  - 596 ○ Eliminating bad data from Estimator either automatically by SE algorithm or manually, by
  - 597 User
  - 598 ○ Manually replacing failed data points
  - 599 ○ Checking mismatch and iteration tables to determine area causing non convergence
- 600 • Provide above-mentioned Real-time Assessment quality information to the MISO RC and
- 601 make available to TOPs that use MISO Assessment as their primary Real-time Assessment (via
- 602 Citrix, MCS, or other means).
- 603 • Provide access to MISO's Operating Process or Operating Procedures for addressing the
- 604 quality of analysis used in Real-time Assessments.
- 605 • Provide documentation in the ROWG Monthly Operations Report that MISO implemented its
- 606 Operating Process or Operating Procedure to address issues affecting the quality of the analysis
- 607 used in Real-time Assessment.

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609 **TOP Actions (Utilizing MISO Real-time Assessments as their primary tool/process)**

- 610 • Develop an Operating Process or Operating Procedure to address the quality of the analysis
- 611 used in Real-time Assessments utilizing MISO Real-Time Assessment Tools and provide
- 612 indication of the quality of the analysis to their System Operators
- 613 • Monitor the quality of the MISO analysis used in Real-time Assessments
- 614 • If MISO identifies Real-time Assessment quality issues, MISO will communicate with
- 615 applicable TOPs. Applicable TOPs will coordinate with MISO to address Real-Time
- 616 Assessment quality issues.

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618 **TOP Actions (TOP using their own Real-time Assessments)**

- 619 • Develop and implement an Operating Process or Operating Procedure for to address the
- 620 quality of analysis results used for Real-time Assessments. The Assessment tools include such
- 621 as:
  - 622 ○ State Estimator
  - 623 ○ Real-time Contingency Analysis
- 624 • Specify criteria for evaluating the quality of analysis used in its Real-time Assessments. The
- 625 criteria support the identification of applicable analysis quality issues, may include items such
- 626 as:
  - 627 ○ Solution tolerances
  - 628 ○ Mismatch with Real-time data
  - 629 ○ Convergences

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**Evidence**

MISO will:

- Maintain an Operating Process or Operating Procedure addressing the quality of analysis used in its Real-time Assessment in electronic or hard copy format.
- Provide documentation that it implemented its Operating Process or Operating Procedure to address the quality of analysis used in its Real-time Assessment in the ROWG Monthly Operations Report.

TOP should:

- Maintain TOP's Operating Process or Operating Procedure in electronic or hard copy format
- Maintain a copy of MISO's Operating Process or Operating Procedure in electronic or hard copy format
- Use MISO documentation from the ROWG Monthly Operations Reports, or the TOPs own evidence, to confirm that it implemented its Operating Process or Operating Procedure that addresses the quality of the analysis used in Real-time Assessments.
- TOPs using MISO Real-time assessments request evidence that Operating Processes or Operating Procedures to address the analysis quality issues affecting for Real-time Assessments were implemented. Evidence may include:
  - Dated Operating Logs
  - Dated Checklist
  - Dated Repair Request
  - Voice recordings

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### Revision History

Document	Revision	Reason for Issue	Revised by:	Issue Date	Effective Date
Operating Protocols of The MISO RC and Entity TOPs for the IRO and TOP Standards	0	Original Document: Approved by ROWG On 3/24/2017	ROWG	3/27/2017	4/1/2017
Minor reviews or original Operating Protocols, and added TOP-010-1 and IRO-018-1 to these Operating Protocols	1	New Standards TOP-010-1 and IRO-018-1 become enforceable on 4-1-18.	ROWG	4/1/2018	TOP-010-1 and IRO-018-1 become effective on 4-1-18. All other protocols become effective on the Issue Date.
MISO RC TOP Operating Protocols	2	Updated Protocol to include Changes to NERC Standards IRO-002-4 and TOP-001-4 to include detail of Low Voltage impact on BES SOL's and IROL's	ROWG	10/31/2018	10/31/2018

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## Appendix A: SOL Exceedance Definition

There are two different types of SOL exceedances in Real-time.

1. SOL exceedance identified in Real-time monitoring based on actual flows
2. SOL exceedance identified in Real-time Assessment/ Contingency analysis based on projected post contingent flows

### Proposed Actual SOL Exceedance definition(s)

#### **A. SOL exceedance identified in real-time monitoring (pre-contingency) based on real time system conditions**

- Actual steady state flow on a BES Facility is greater than the Facility's highest Emergency Rating for any time period.
- Actual steady state flow on a BES Facility is above the Normal Rating but below the next Emergency Rating for longer than the time frame of the next Emergency Rating.
- Actual steady state voltage on a BES Facility is greater than the emergency high voltage limit for time frame identified by the TOP.
- Actual steady state voltage on a BES Facility is less than the defined emergency low voltage limit for time frame identified by the TOP.
- Any established Stability Limit (non-IROL) is exceeded for longer than 30 minutes or defined by Operating Plan.

#### **B. SOL exceedance identified in the real-time assessment based on Post Contingent system conditions**

- Projected Post Contingent Flow on a BES Facility is greater than short term emergency rating (RATE C) for longer than 30 minutes with no agreed-to Post Contingency Action Plan.

Note: for Projected Post Contingent Flow on a BES Facility is greater than the long term emergency rating (RATE B), MISO will begin market action to reduce the projected post contingent flow to less than the long term emergency rating. While the projected post contingent flow is being reduced, MISO and the TOP may develop an agreed-to specific post-contingency action plan should the contingency occur before the reduction is completed.

If the Projected Post Contingent Flow on a BES Facility is greater than the short term emergency rating (RATE C), MISO and the TOP must develop an agreed-to specific post-contingency action within 30 minutes. The plan should be implementable within 30 minutes if the contingency occurs.

- Projected Post Contingent voltage on a BES Facility is less than emergency low voltage limit for longer than 30 minutes with no agreed-to Post Contingency Action Plan

### Proposed Potential SOL Exceedance definition(s) – Operational Planning Analysis

#### There are two different types of potential SOL Exceedances for Operational Planning Assessment

1. Potential SOL exceedances identified in Operational Planning Assessments based on anticipated (Pre-contingency) flows
2. Potential SOL exceedances identified in Operational Planning Assessments based on potential (post-contingent) flows

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706 The following become an SOL exceedance only if the conditions are not mitigated or TOP enters the  
707 next day operations without an operating plan to mitigate the identified exceedances.

708 **A. Potential SOL exceedance identified in the Operating Planning Analysis (OPA) based on**  
709 **anticipated (Pre-contingency) conditions**

- 710 • OPA identifies the anticipated pre-contingency flow on a BES Facility to be higher than the  
711 Normal Rating.
- 712 • OPA identifies anticipated pre contingent voltage on a BES Facility is lower than the  
713 emergency low voltage limit.
- 714 • OPA identifies that pre-contingent system conditions exceed established Stability Limits. An  
715 operating plan should be implemented to prevent such exceedances.

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717 **B. Potential SOL Exceedance Operational Planning Assessment based on potential (post-**  
718 **contingent) conditions**

- 719 • OPA identifies potential post contingent flows on a BES Facility higher than the Emergency  
720 Rating used in the Planning Assessment.
- 721 • OPA identifies the potential (post contingent) voltage on a BES Facility is lower than the  
722 emergency low voltage limited.
- 723 • OPA identifies that potential post contingent system conditions exceed established Stability  
724 Limits.

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## **Appendix B: Applicable Standards**

### ***IRO-002-5 Reliability Coordination — Monitoring and Analysis***

#### **Requirement 5:**

Each Reliability Coordinator shall monitor Facilities, the status of Remedial Action Schemes and non-BES Facilities identified as necessary by the Reliability Coordinator, within its Reliability Coordinator Area and neighboring Reliability Coordinator Areas to identify any System Operating Limit exceedances and to determine any Interconnection Reliability Operating Limit exceedances within its Reliability Coordinator Area.

**Measurement 5:** Each Reliability Coordinator shall have, and provide upon request, evidence that could include but is not limited to Energy Management System description documents, computer printouts, SCADA data collection, or other equivalent evidence that will be used to confirm that it has monitored Facilities, the status of Remedial Action Schemes, and non-BES Facilities identified as necessary by the Reliability Coordinator, within its Reliability Coordinator Area and neighboring Reliability Coordinator Areas to identify any System Operating Limit exceedances and to determine any Interconnection Reliability Operating Limit exceedances within its Reliability Coordinator Area.

**RSAW Audit Guidance:** For all, or a sample of, Facilities, Remedial Action Schemes, and non-BES Facilities identified as necessary by the entity, within its Reliability Coordinator Area and neighboring Reliability Coordinator Areas, review evidence and determine if the entity monitored them to identify any System Operating Limit exceedances and to determine any Interconnection Reliability Operating Limit exceedances within its area.

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### ***IRO-008-2 Reliability Coordinator Operational Analyses and Real-time Assessments***

**Requirement 1:** Each Reliability Coordinator shall perform an Operational Planning Analysis that will allow it to assess whether the planned operations for the next-day will exceed System Operating Limits (SOLs) and Interconnection Operating Reliability Limits (IROLs) within its Wide Area.

**Measurement 1:** Each Reliability Coordinator shall have evidence of a completed Operational Planning Analysis. Such evidence could include but is not limited to dated power flow study results.

**RSAW Audit Guidance:** Determine if the RC performs an Operational Planning Analysis, which determines if the planned operations for the next-day will exceed System Operating Limits (SOLs) or Interconnection Operating Reliability Limits (IROLs) within its RC Wide Area.

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**Requirement 2:** Each Reliability Coordinator shall have a coordinated Operating Plan(s) for next-day operations to address potential System Operating Limit (SOL) and Interconnection Reliability Operating Limit (IROL) exceedances identified as a result of its Operational Planning Analysis as performed in Requirement R1 while considering the Operating Plans for the next-day

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provided by its Transmission Operators and Balancing Authorities.

**Measurement 2:** Each Reliability Coordinator shall have evidence that it has a coordinated Operating Plan for next-day operations to address potential System Operating Limit (SOL) and Interconnection Reliability Operating Limit (IROL) exceedances identified as a result of the Operational Planning Analysis performed in Requirement R1 while considering the Operating Plans for the next-day provided by its Transmission Operators and Balancing Authorities. Such evidence could include but is not limited to plans for precluding operating in excess of each SOL and IROL that were identified as a result of the Operational Planning Analysis.

**RSAW Audit Guidance:** Review a sample of Operating Plans provided by the entity to verify that it has a coordinated plan for next-day operations that addresses potential System Operating Limit (SOL) and Interconnection Reliability Operating Limit (IROL) exceedances.

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**Requirement 3:** Each Reliability Coordinator shall notify impacted entities identified in its Operating Plan(s) cited in Requirement R2 as to their role in such plan(s).

**Measurement 3:** Each Reliability Coordinator shall have evidence that it notified impacted entities identified in its Operating Plan(s) cited in Requirement R2 as to their role in such plan(s). Such evidence could include but is not limited to dated operator logs, or email records.

**RSAW Audit Guidance:** During the audit period, did the entity, per its OPA and development of its Operating Plan, identify impacted entities within its area? Ensure that during the audit period, the entity, per its next-day analysis and development of its Operating Plan, did notify impacted entities.

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**Requirement 4:** Each Reliability Coordinator shall ensure that a Real-time Assessment is performed at least once every 30 minutes.

**Measurement 4:** Each Reliability Coordinator shall have, and make available upon request, evidence to show it ensured that a Real-time Assessment is performed at least once every 30 minutes. This evidence could include but is not limited to dated computer logs showing times the assessment was conducted, dated checklists, or other evidence.

**RSAW Audit Guidance:** For a sample of, BES events selected by the auditor, review evidence (dates and times in the audit period) and determine if the entity ensured a Real-time Assessment was performed at least once every 30 minutes. Auditors can obtain a population of events for sampling from NERC's, or the Regional Entity's, records of mandatory event reports, other information available at the Regional Entities, or a query of the entity. Auditors are encouraged to monitor compliance during the most critical events on the entity's system occurring during the compliance monitoring period.



760 **Requirement 5:** Each Reliability Coordinator shall notify impacted Transmission Operators and  
761 Balancing Authorities within its Reliability Coordinator Area, and other impacted Reliability  
762 Coordinators as indicated in its Operating Plan, when the results of a Real-time Assessment indicate an  
763 actual or expected condition that results in, or could result in, a System Operating Limit (SOL) or  
764 Interconnection Reliability Operating Limit (IROL) exceedance within its Wide Area.  
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**Measurement 5:** Each Reliability Coordinator shall make available upon request, evidence that it informed impacted Transmission Operators and Balancing Authorities within its Reliability Coordinator Area, and other impacted Reliability Coordinators as indicated in its Operating Plan, of its actual or expected operations that result in, or could result in, a System Operating Limit (SOL) or Interconnection Reliability Operating Limit (IROL) exceedance within its Wide Area. Such evidence could include but is not limited to dated operator logs, voice recordings or transcripts of voice recordings, electronic communications, or other equivalent evidence. If such a situation has not occurred, the Reliability Coordinator may provide an attestation.

**RSAW Audit Guidance:** Review evidence that the entity informed impacted Transmission Operators and Balancing Authorities within its Reliability Coordinator Area, and other impacted Reliability Coordinators as indicated in its Operating Plan when the results of a Real-time Assessment indicate actual or expected conditions that of its actual or expected operations that results in, or could result in, a System Operating Limit (SOL) or Interconnection Reliability Operating Limit (IROL) exceedance. Review a sample of evidence that supports entity's assertion that it informed Transmission Operators and, Balancing Authorities within its Reliability Coordinator Area, and other impacted Reliability Coordinators of its actual or expected operations that result in, or could result in, a System Operating Limit (SOL) or Interconnection Reliability Operating Limit (IROL) exceedance.

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767 **Requirement 6:** Each Reliability Coordinator shall notify impacted Transmission Operators and  
768 Balancing Authorities within its Reliability Coordinator Area, and other impacted Reliability  
769 Coordinators as indicated in its Operating Plan, when the System Operating Limit (SOL) or  
770 Interconnection Reliability Operating Limit (IROL) exceedance identified in Requirement R5 has been  
771 prevented or mitigated.

**Measurement 6:** Each Reliability Coordinator shall make available upon request, evidence that it informed impacted Transmission Operators and Balancing Authorities within its Reliability Coordinator Area, and other impacted Reliability Coordinators as indicated in its Operating Plan, when the System Operating Limit (SOL) or Interconnection Reliability Operating Limit (IROL) exceedance identified in Requirement R5 has been prevented or mitigated. Such evidence could include but is not limited to dated operator logs, voice recordings or transcripts of voice recordings, electronic communications, or other equivalent evidence. If such a situation has not occurred, the Reliability Coordinator may provide an attestation.

**RSAW Audit Guidance:** When the SOL or IROL exceedance has been prevented or mitigated, provide documentation that the entity informed impacted Transmission Operator's and, Balancing Authorities within its Reliability Coordinator Area, and other impacted Reliability Coordinators. Such evidence could include, but is not limited to, dated operator logs, voice recordings or transcripts of voice recordings, electronic communications, or other equivalent evidence. When the SOL or IROL exceedance has been prevented or mitigated, review sample(s) of Requirement R5 evidence for supporting documentation that the entity notified impacted Transmission Operators and Balancing Authorities within its Reliability Coordinator Area, and other impacted Reliability Coordinators (if appropriate).

***IRO-018-1 (i) Reliability Coordinator Real-time Monitoring and Analysis Capabilities***

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**Requirement 1:** Each Reliability Coordinator shall implement an Operating Process or Operating Procedure to address the quality of the Real-time data necessary to perform its Real-time monitoring and Real-time Assessments. The Operating Process or Operating Procedure shall include:

1.1. Criteria for evaluating the quality of Real-time data;

1.2. Provisions to indicate the quality of Real-time data to the System Operator; and

1.3. Actions to address Real-time data quality issues with the entity(ies) responsible for providing the data when data quality affects Real-time Assessments

**Measurement 1:** Each Reliability Coordinator shall have evidence it implemented its Operating Process or Operating Procedure to address the quality of the Real-time data necessary to perform its Real-time monitoring and Real-time Assessments. This evidence could include, but is not limited to: 1) an Operating Process or Operating Procedure in electronic or hard copy format meeting all provisions of Requirement R1; and 2) evidence Reliability Coordinator implemented the Operating Process or Operating Procedure as called for in the Operating Process or Operating Procedure, such as dated operator or supporting logs, dated checklist, voice recordings, voice transcripts, or other evidence.

**RSAW Audit Guidance 1:** Review and verify the entity's Operating Process or Operating Procedure addresses the Real-time data necessary to perform Real-time monitoring and Real-time Assessments. Review and verify the entity's Operating Process or Operating Procedure addresses the quality of the Real-time data necessary to perform Real-time monitoring and Real-time Assessments includes; (Part 1.1) Criteria for evaluating the quality of Real-time data; (Part 1.2) Provisions to indicate the quality of Real-time data to the System Operator; and (Part 1.3) Actions to address Real-time data quality issues with the entity(ies) responsible for providing the data when data quality affects Real-time Assessments. Verify implementation of the Operating Process or Operating Procedure which addresses the quality of the Real-time data necessary to perform Real-time monitoring and Real-time Assessments.

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785 **Requirement 2:** Each Reliability Coordinator shall implement an Operating Process or Operating  
786 Procedure to address the quality of analysis used in its Real-time Assessments. The Operating Process or  
787 Operating Procedure shall include:  
788 2.1. Criteria for evaluating the quality of analysis used in its Real-time Assessments;  
789 2.2. Provisions to indicate the quality of analysis used in Real-time Assessments; and  
790 2.3. Actions to address analysis issues affecting its Real-time Assessments.  
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**Measurement 2:** Each Reliability Coordinator shall have evidence it implemented its Operating Process or Operating Procedure to address the quality of analysis used in its Real-time Assessments as specified in Requirement R2. This evidence could include, but is not limited to: 1) an Operating Process or Operating Procedure in electronic or hard copy format meeting all provisions of Requirement R2; and 2) evidence the Reliability Coordinator implemented the Operating Process or Operating Procedure as called for in the Operating Process or Operating Procedure, such as dated operator logs, dated checklists, voice recordings, voice transcripts, or other evidence.

**RSAW Audit Guidance 2:** Review and verify the entity's Operating Process or Operating Procedure addresses the quality of analysis used in its Real-time Assessment includes: (Part 2.1) Criteria for evaluating the quality of analysis used in its Real-time Assessment; (Part 2.2) Provisions to indicate the quality of analysis used in its Real-time Assessments; and (Part 2.3) Actions to address analysis quality issues affecting its Real-time Assessments. Verify implementation of the Operating Process or Operating Procedure which addresses the quality of analysis used in its Real-time Assessments.

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### ***TOP-001-4 Transmission Operations***

- Requirement 10:** Each Transmission Operator shall perform the following for determining System Operating Limit (SOL) exceedances within its Transmission Operator Area:
- 10.1. Monitor Facilities within its Transmission Operator Area;
  - 10.2. Monitor the status of Remedial Action Schemes within its Transmission Operator Area;
  - 10.3. Monitor non-BES Facilities within its Transmission Operator Area identified as necessary by the Transmission Operator;
  - 10.4. Obtain and utilize status, voltages, and flow data for Facilities outside its Transmission Operator Area identified as necessary by the Transmission Operator;
  - 10.5. 10.5 Obtain and utilize the status of Remedial Action Schemes outside its Transmission Operator Area identified as necessary by the Transmission Operator; and
  - 10.6. 10.6 Obtain and utilize status, voltages, and flow data for non-BES Facilities outside its Transmission Operator Area identified as necessary by the Transmission Operator.



**Measurement 10:** Each Transmission Operator shall have, and provide upon request, evidence that could include but is not limited to Energy Management System description documents, computer printouts, ~~Supervisory Control~~ and Data Acquisition (SCADA) data collection, or other equivalent evidence that will be used to confirm that it monitored or obtained and utilized data as required to determine any System Operating Limit (SOL) exceedances within its Transmission Operator Area.

**RSAW Audit Guidance:** (10.1) Verify the entity monitored Facilities within its Transmission Operator Area for determining SOL exceedances within its Transmission Operator Area.

(10.2) Verify the entity monitored the status of Remedial Action Schemes within its Transmission Operator Area for determining SOL exceedances within its Transmission Operator Area.

(10.3) Verify the entity monitored non-BES Facilities within its Transmission Operator Area identified by the entity as necessary for determining SOL exceedances within its Transmission Operator Area.

(10.4) Verify the entity obtained and utilized status, voltages, and flow data for Facilities outside its Transmission Operator Area identified by the entity as necessary for determining SOL exceedances within its Transmission Operator Area.

(10.5) Verify the entity obtained and utilized the status of Remedial Action Schemes outside its Transmission Operator Area identified by the entity as necessary for determining SOL exceedances within its Transmission Operator Area.

(10.6) Verify the entity obtained and utilized status, voltages, and flow data for non-BES Facilities outside its Transmission Operator Area identified by the entity as necessary for determining SOL exceedances within its Transmission Operator Area.

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**Requirement 13:** Each Transmission Operator shall ensure that a Real-time Assessment is performed at least once every 30 minutes.

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**Requirement 14:** Each Transmission Operator shall initiate its Operating Plan to mitigate a SOL Exceedance identified as part of its Real-time monitoring or Real-time Assessment.

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**Measurement 14:** Each Transmission Operator shall have evidence that it initiated its Operating Plan for mitigating SOL exceedances identified as part of its Real-time monitoring or Real-time Assessments. This evidence could include but is not limited to dated computer logs showing times the Operating Plan was initiated, dated checklists, or other evidence.

**RSAW Audit Guidance:** Did the entity have any SOL exceedances during the compliance monitoring period? Yes / No. If Yes, provide a list of such exceedances. If No, describe how this was ascertained. Documentary evidence (as outlined in Measure M14) that demonstrates that the entity initiated its Operating Plan to mitigate an SOL exceedance identified as part of its Real-time monitoring or Real-time Assessment. For all, or a sample of, SOL exceedances, review documentary evidence that demonstrates that the entity initiated its Operating Plan to mitigate an SOL exceedance identified as part of its Real-time monitoring or Real-time Assessment.

**Requirement 15:** Each Transmission Operator shall inform its Reliability Coordinator of actions taken to return the System to within limits when a SOL has been exceeded.

**Measurement 15:** Each Transmission Operator shall make available evidence that it informed its Reliability Coordinator of actions taken to return the System to within limits when a SOL was exceeded. Such evidence could include but is not limited to dated operator logs, voice recordings or transcripts of voice recordings, or dated computer printouts. If such a situation has not occurred, the Transmission Operator may provide an attestation.

**RSAW Audit Guidance:** Did the entity have any SOL exceedances during the compliance monitoring period? Yes / No. If No, describe how this was ascertained. If Yes, provide a list of such exceedances and evidence of having informed the Reliability Coordinator of actions to return the system to within limits. Documentary evidence (such as outlined in Measure M15) that demonstrates that the entity informed its Reliability Coordinator of its actions to return the system to within limits when an SOL has been exceeded. For all, or a sample of, SOL exceedances, review documentary evidence that demonstrates the entity informed its RC of its actions to return the system to within limits when an SOL has been exceeded.

**TOP-002-4 Operations Planning**

**Requirement 1:** Each Transmission Operator shall have an Operational Planning Analysis that will allow it to assess whether its planned operations for the next day within its Transmission Operator Area will exceed any of its System Operating Limits (SOLs).

**Measurement 1:** Each Transmission Operator shall have evidence of a completed Operational Planning Analysis. Such evidence could include but is not limited to dated power flow study results.

**RSAW Audit Guidance:** Review documentary evidence that demonstrates that the entity has an Operational Planning Analysis that will allow it to assess whether its planned operations for the next-day within its TOP Area will exceed any of its System Operating Limits (SOLs). Walkthrough a sample of OPAs with the entity.



848 **Requirement 2:** Each Transmission Operator shall have an Operating Plan(s) for next-day  
849 operations to address potential System Operating Limit (SOL) exceedances identified as a  
850 result of its Operational Planning Analysis as required in Requirement R1  
851

**Measurement 2:** Each Transmission Operator shall have evidence that it has an Operating Plan to address potential System Operating Limits (SOLs) exceedances identified as a result of the Operational Planning Analysis performed in Requirement R1. Such evidence could include but it is not limited to plans for precluding operating in excess of each SOL that was identified as a result of the Operational Planning Analysis.

**RSAW Audit Guidance:** Review evidence demonstrating that the entity's Operating Plan addressed potential SOLs that were identified as a result of the Operational Planning Analysis it performed in Requirement R1. Walkthrough a sample of Operating Plans to verify they addressed SOL exceedances as described in Requirement R2.

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853 **Requirement 3:** Each Transmission Operator shall notify impacted entities identified in  
854 the Operating Plan(s) cited in Requirement R2 as to their role in those plan(s).  
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**Measurement 3:** Each Transmission Operator shall have evidence that it notified impacted entities identified in the Operating Plan(s) cited in Requirement R2 as to their role in the plan(s). Such evidence could include but is not limited to dated operator logs, or e-mail records.

**RSAW Audit Guidance:** Dated operator logs, email, correspondence, or other evidence, that demonstrates that the entity notified impacted entities identified in the Operating Plan(s) cited in Requirement R2 as to their role in those plan(s).

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857 **Requirement 6:** Each Transmission Operator shall provide its Operating Plan(s) for next day  
858 operations identified in Requirement R2 to its Reliability Coordinator.  
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**Measurement 6:** Each Transmission Operator shall have evidence that it provided its Operating Plan(s) for next-day operations identified in Requirement R2 to its Reliability Coordinator. Such evidence could include but is not limited to dated operator logs or e-mail records.

**RSAW Audit Guidance:** Dated operator logs or e-mail correspondence that demonstrates that the entity provided its Operating Plan(s) for next-day operations identified in Requirement R2 to its Reliability Coordinator.

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861 ***TOP-003-3 Operational Reliability Data***

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863 **Requirement 1:**

864 Each Transmission Operator shall maintain a documented specification for the data  
865 necessary for it to perform its Operational Planning Analyses, Real-time monitoring, and  
866 Real-time Assessments. The data specification shall include, but not be limited to:

- 867 1.1. A list of data and information needed by the Transmission Operator to support its  
868 Operational Planning Analyses, Real-time monitoring, and Real-time Assessments

- 869 including non-BES data and external network data as deemed necessary by the  
870 Transmission Operator.
- 871 1.2. Provisions for notification of current Protection System and Special Protection  
872 System status or degradation that impacts System reliability.
- 873 1.3. A periodicity for providing data.
- 874 1.4. The deadline by which the respondent is to provide the indicated data.  
875

**Measurement 1:** Each Transmission Operator shall make available its dated, current, in force documented specification for data.

**RSAW Audit Guidance:** Documented specification for the data necessary for the entity to perform its Operational Planning Analyses, Real-time monitoring, and Real-time Assessments. In addition to a review of the documentary evidence, the auditor may interview entity representatives to determine if it maintained a documented specification for the data necessary for it to perform its Operational Planning Analyses, Real-time monitoring, and Real-time Assessments.

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- 877 **Requirement 3:** Each Transmission Operator shall distribute its data specification to entities  
878 that have data required by the Transmission Operator’s Operational Planning Analyses, Real-  
879 time monitoring, and Real-time Assessment.  
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**Measurement 3:** Each Transmission Operator shall make available evidence that it has distributed its data specification to entities that have data required by the Transmission Operator’s Operational Planning Analyses, Real-time monitoring, and Real-time Assessments. Such evidence could include but is not limited to web postings with an electronic notice of the posting, dated operator logs, voice recordings, postal receipts showing the recipient, date and contents, or e-mail records.

**RSAW Audit Guidance:** Data specification(s) received by entity. Electronic or hard copies of data transmittals showing satisfaction of the entity’s obligations for the data specifications received.

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- 882 **Requirement 5:** Each Transmission Operator, Balancing Authority, Generator Owner, Generator  
883 Operator, Load-Serving Entity, Transmission Owner, and Distribution Provider  
884 receiving a data specification in Requirement R3 or R4 shall satisfy the obligations of  
885 the documented specifications using:  
886 5.1. A mutually agreeable format  
887 5.2. A mutually agreeable process for resolving data conflicts  
888 5.3. A mutually agreeable security protocol.  
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**Measurement 5:** Each Transmission Operator, Balancing Authority, Generator Owner, Generator Operator, Load Serving Entity, Transmission Owner, and Distribution Provider receiving a data specification in Requirement R3 or R4 shall make available evidence that it has satisfied the obligations of the documented specifications. Such evidence could include, but is not limited to, electronic or hard copies of data transmittals or attestations of receiving entities.

**RSAW Audit Guidance:** Data specification(s) received by entity. Electronic or hard copies of data transmittals showing satisfaction of the entity’s obligations for the data specifications received.



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**Requirement 1:** Each Transmission Operator shall implement an Operating Process or Operating Procedure to address the quality of the Real-time data necessary to perform its Real-time monitoring and Real-time Assessments. The Operating Process or Operating Procedure shall include:

- 1.1. Criteria for evaluating the quality of Real-time data;
- 1.2. Provisions to indicate the quality of Real-time data to the System Operator; and
- 1.3. Actions to address Real-time data quality issues with the entity(ies) responsible for providing the data when data quality affects Real-time Assessments

**Measurement 1:** Each Reliability Coordinator shall have evidence it implemented its Operating Process or Operating Procedure to address the quality of the Real-time data necessary to perform its Real-time monitoring and Real-time Assessments. This evidence could include, but is not limited to: 1) an Operating Process or Operating Procedure in electronic or hard copy format meeting all provisions of Requirement R1; and 2) evidence Reliability Coordinator implemented the Operating Process or Operating Procedure as called for in the Operating Process or Operating Procedure, such as dated operator or supporting logs, dated checklist, voice recordings, voice transcripts, or other evidence.

**RSAW Audit Guidance 1:** Review and verify the entity's Operating Process or Operating Procedure addresses the Real-time data necessary to perform Real-time monitoring and Real-time Assessments. Review and verify the entity's Operating Process or Operating Procedure addresses the quality of the Real-time data necessary to perform Real-time monitoring and Real-time Assessments includes; (Part 1.1) Criteria for evaluating the quality of Real-time data; (Part 1.2) Provisions to indicate the quality of Real-time data to the System Operator; and (Part 1.3) Actions to address Real-time data quality issues with the entity(ies) responsible for providing the data when data quality affects Real-time Assessments. Verify implementation of the Operating Process or Operating Procedure which addresses the quality of the Real-time data necessary to perform Real-time monitoring and Real-time Assessments.

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**Requirement 3:** Each Transmission Operator shall implement an Operating Process or Operating Procedure to address the quality of analysis used in its Real-time Assessments. The Operating Process or Operating Procedure shall include:

- 3.1. Criteria for evaluating the quality of analysis used in its Real-time Assessments;
- 3.2. Provisions to indicate the quality of analysis used in Real-time Assessments; and
- 3.3. Actions to address analysis issues affecting its Real-time Assessments.

**Measurement 3:** Each Transmission Operator shall have evidence it implemented its Operating Process or Operating Procedure to address the quality of analysis used in its Real-time Assessments as specified in Requirement R3. This evidence could include, but is not limited to: 1) an Operating Process or Operating Procedure in electronic or hard copy format meeting all provisions of Requirement R3; and 2) evidence the Transmission Operator implemented the Operating Process or Operating Procedure as called for in the Operating Process or Operating Procedure, such as dated operator logs, dated checklists, voice recordings, voice transcripts, or other evidence.

**RSAW Audit Guidance 3:** Verify that the Operating Process or Operating Procedure addresses the quality of analysis used in its Real-time Assessment includes: (Part 3.1) Criteria for evaluating the quality of analysis used in its Real-time Assessment; (Part 3.2) Provisions to indicate the quality of analysis used in its



Real-time Assessments; and (Part 3.3) Actions to address analysis quality issues affecting its Real-time Assessments. Verify implementation of the Operating Process or Operating Procedure which addresses the quality of analysis used in its Real-time Assessments.

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## **Section 10.0: Addendum 1 – Revised Scope and Attachment 7**

Gridforce has included Addendum 1 on the following page and Attachment 7 on the previous pages in Section 8.0 of this proposal.



**ADDENDUM 1**  
**RFP FOR TOP AND LBA SERVICES**  
**UB #18-11-14**

**Proposed Scope of Work (revised)**

In addition to the requirements specified in the RFP for Transmission Operator Services (TOP and Load Balancing Authority Services (LBA), the following NERC requirements apply. Bidders shall include compliance with the applicable requirements of these standards.

TOP-001-4 - Transmission Operations (BA, TO, TO,GO)  
<https://www.nerc.com/pa/Stand/Reliability%20Standards/TOP-001-4.pdf>

Standard TOP-002-4 — Operations Planning (TO, BA)  
<https://www.nerc.com/pa/Stand/Reliability%20Standards/TOP-002-4.pdf>

Standard TOP-003-3 — Operational Reliability Data (BA, TO, TOP, GO, GOP, LSE DP)  
<https://www.nerc.com/pa/Stand/Reliability%20Standards/TOP-003-3.pdf>

TOP-010-1(i) – Real-time Reliability Monitoring and Analysis Capabilities (TOP, BA)  
[https://www.nerc.com/pa/Stand/Reliability%20Standards/TOP-010-1\(i\).pdf](https://www.nerc.com/pa/Stand/Reliability%20Standards/TOP-010-1(i).pdf)

**Attachment 7 (added)**

MISO, as signatory to the ISO Agreement (Transmission Owner Agreement), is required to provide certain reliability functions as prescribed in Module F of the MISO Tariff. Attachment 7 to the RFP entitled “Operating Protocols Between MISO Reliability Coordinator and the Transmission Operators” provides bidders with the specific roles of MISO and the TOPs with respect to how the TOP will utilize MISO tools, processes and authority to identify and mitigate SOL Exceedances and are consistent with the contractual obligations MISO has under Module F of the MISO Tariff.

All Respondents are asked to submit a signed copy of this Addendum as part of their RFP bid package to acknowledge receipt of the updated information.

Gridforce Energy Management, LLC

\_\_\_\_\_  
Respondent

\_\_\_\_\_  
Signature of Executing Party

11/12/18

\_\_\_\_\_  
Date

1 **Item 20) Please refer to the Direct Testimony of Brad Bickett, page 8, lines 17-19. Mr.**  
2 **Bickett states that “Big Rivers voluntarily passed up an opportunity to gain potential**  
3 **revenue of up to six-hundred thousand dollars (\$600,000) per year.”**

4 **a. Provide all correspondence or other Documents where Henderson offered to**  
5 **pay Big Rivers \$600,000 per year to provide Transmission Operator and Local Balancing**  
6 **Authority services after the retirement of Station Two.**

7 **Response) a.** Henderson advertised for Transmission Operator (TO) and Local  
8 Balancing Authority (LBA) services in accordance with competitive-bidding requirements and,  
9 as stated in the Bickett Testimony, currently pays the successful bidder approximately \$600,000  
10 per year for those services. Henderson did not offer to pay Big Rivers \$600,000 per year for  
11 those services, as Big Rivers submitted a bid to perform those services for four months at a cost  
12 of \$3.2 million (or \$9.6 million per year). Henderson can only surmise that the submission of  
13 such an exorbitant bid reflects a business decision on the part of Big Rivers to forgo revenue in  
14 line with the current market price for those services.

15 **Witness) Brad Bickett**

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1 **Item 21) Please refer to the Direct Testimony of Brad Bickett, page 5, lines 14-17. Mr.**  
2 **Bickett states that “Henderson advised Big Rivers on a number of occasions that**  
3 **Henderson was negotiating with a third party to register the Station Two units on**  
4 **Henderson’s behalf and to act as Henderson’s market participant in MISO.”**

5 **a. Explain why Henderson was negotiating with a third party to register the**  
6 **Station Two units in MISO prior to December 2010.**

7 **b. Describe all costs and benefits that would or could have resulted from**  
8 **Henderson having a third party register the Station Two units in MISO on Henderson’s**  
9 **behalf prior to December 2010. Provide all analyses, workpapers, correspondence, and**  
10 **other Documents evidencing, evaluating, or relating to such costs and benefits, including**  
11 **Excel files in Excel format with formulas and links intact.**

12 **c. Explain why Henderson was negotiating with a third party to act as**  
13 **Henderson’s Market Participant in MISO prior to December 2010?**

14 **d. Describe all costs and benefits that would or could have resulted from**  
15 **Henderson having a third party act as its Market Participant prior to December 2010.**  
16 **Provide all analyses, workpapers, correspondence, and other Documents evidencing,**  
17 **evaluating, or relating to such costs and benefits, including Excel files in Excel format with**  
18 **formulas and links intact.**

19 **e. Explain whether Henderson pursued registering the Station Two units in**  
20 **MISO on Henderson’s behalf between 2010 and the retirement of the Station Two units.**  
21 **Provide all analyses, workpapers, correspondence, or other Documents relating to your**  
22 **response, including Excel files in Excel format with formulas and links intact.**



1           **f. Explain whether Henderson pursued having a third party act as its market**  
2 **Participant between 2010 and the retirement of the Station Two units. Provide all analyses,**  
3 **workpapers, correspondence, or other Documents relating to your response, including**  
4 **Excel files in Excel format with formulas and links intact.**

5           **g. Describe and quantify all MISO fees or charges Henderson would have been**  
6 **responsible for (directly or indirectly) if Henderson had a third party register the Station**  
7 **Two units in MISO on its behalf prior to the retirement of Station Two.**

8           **h. Describe and quantify all MISO fees or charges Henderson would have been**  
9 **responsible for (directly or indirectly) if Henderson had a third party act as Henderson's**  
10 **Market Participant prior to the retirement of Station Two.**

11 **Response)**    a.       Big Rivers notified Henderson on February 8, 2010, that Big Rivers had  
12 applied for MISO membership in December 2009 (see Attachment 1 to this response).  
13 Henderson decided at that time to explore the feasibility of MISO membership and the  
14 independent registration of Henderson load and the Station Two units. MISO subsequently  
15 learned that Henderson would have to either become a Market Participant or authorize an  
16 existing Market Participant to register the Station Two generation assets. For this reason,  
17 Henderson began negotiations with a third party to potentially act as Henderson's Market  
18 Participant in the event Henderson elected to register the Station Two units in MISO.

19           b.       If Henderson had been properly represented by a Market Participant in  
20 MISO, Henderson would have been entitled to receive all MISO revenue associated with  
21 Henderson's share of reserved capacity from Station Two, including but not necessarily limited  
22 to revenue associated with the sale of surplus energy and revenue associated with capacity,  
23 operating reserves, ancillary services, reactive power, and make-whole payments. Big Rivers

1 states in response to Item 40 of Henderson’s Supplemental Request for Information that Big  
2 Rivers received approximately \$18,000 in MISO ancillary services market revenues in  
3 connection with Station Two between 2010 and 2013. Based upon Big Rivers’ filings with the  
4 Federal Energy Regulatory Commission (FERC), Big Rivers also requested compensation for  
5 Reactive Supply Service, using a cost-based revenue requirement for Big Rivers’ allocated share  
6 of Station Two capacity, in the amount of \$124,452 per year. Based upon the Station Two  
7 capacity split, Henderson had rights to the same cost-based revenue requirement in the amount of  
8 \$72,649.64 per year. Had Big Rivers acted as the Market Participant for Henderson, then  
9 Henderson’s reserved share of Station Two capacity should have been represented in Big Rivers’  
10 FERC filings.

11 c. See response to Item 21(a).

12 d. See response to Item 21(b).

13 e. Yes. See response to Item 17(b).

14 f. Yes. See response to Item 17(b).

15 g. Henderson does not have this information because Henderson ultimately  
16 did not pursue MISO membership until after Station Two retired. However, Henderson  
17 understands that any fees Henderson would have incurred would have been offset to some degree  
18 by revenue.

19 h. See response to Item 21(g).

20 **Witness) Brad Bickett**

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# HMP&L

HENDERSON MUNICIPAL POWER & LIGHT

January 28, 2010

Mr. Mark A. Bailey  
President  
Big Rivers Electric Corporation  
201 Third Street  
Henderson, Kentucky 42420

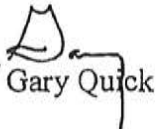
Dear Mark:

I wanted to get back to you concerning our December 3 meeting when you explained that Big Rivers may have a future interest in formally joining MISO. Subsequent to our discussion I read a December 17 news release that indicated Big Rivers may be fully integrated into MISO by September 2010.

I recall during our discussion in December you suggested several options, including joining MISO, in order to address the operating reserves issue. Are you now in a position to know how HMP&L and Station Two would be affected if Big Rivers joins MISO?? Would the MISO membership have any affect on Station Two unit dispatch, operations, planning, expenses, or other repercussions to HMP&L?? Also, are you aware of any possible changes in transmission scheduling or rates?

In advance, thank you for keeping us informed.

Sincerely,

  
Gary Quick

cc: Wayne Thompson

Case No. 2019-00269  
Attachment 1 to BREC 1-21  
Page 1 of 2



201 Third Street  
P.O. Box 24  
Henderson, KY 42419-0024  
270-827-2561  
www.bigrivers.com

February 8, 2010

Mr. Gary Quick  
Henderson Municipal Power & Light  
P. O. Box 8  
Henderson, KY 42419-0008

Dear Gary:

This is in response to your letter of January 28, 2010, asking for an update on Big Rivers' efforts to comply with the NERC Contingency Reserve requirement. As I had told you to expect, Big Rivers did apply in December for membership in Midwest ISO because that was the only feasible option available for Big Rivers to comply with the NERC Contingency Reserve requirement after December 31, 2009. For that reason, Big Rivers does have an interest in joining Midwest ISO, and has filed an application with the Kentucky Public Service Commission ("Commission") seeking the necessary authority to do so if no better option for meeting the NERC Contingency Reserve requirement is found. Our arrangements with Midwest ISO allow us to withdraw from the membership process prior to full integration (scheduled for September 1, 2010), and the Commission would not approve Midwest ISO membership if there is a better alternative available for satisfying the NERC requirement.

We are engaged in due diligence to fully understand the implications of Midwest ISO membership for the entire Big Rivers Control Area, including all the subjects you mention in your letter. When we are satisfied that we have answers to these questions, we will meet with you to go over the details. If helpful, I can probably arrange for someone from Midwest ISO to attend. In the meantime, do not hesitate to contact me with any other questions.

Sincerely yours,

BIG RIVERS ELECTRIC CORPORATION

A handwritten signature in cursive script that reads "Mark".

Mark A. Bailey  
President and CEO

Case No. 2019-00269  
Attachment 1 to BREC 1-21  
Page 2 of 2

1 **Item 22) Describe all costs and benefits that will or could result from Henderson's**  
2 **integration into MISO as a Market Participant. Provide all studies, workpapers,**  
3 **correspondence, and other Documents evidencing, evaluating, or relating to such costs and**  
4 **benefits or relating to any alternatives to MISO, including Excel files in Excel format with**  
5 **formulas and links intact.**

6 **Response)** Henderson objects to this request on the grounds the request seeks information  
7 which is not relevant to this proceeding.

8 **Witness) Brad Bickett**

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1 **Item 23) What was or is the MISO planning reserve requirement applicable to**  
2 **Henderson for each of the MISO Planning Years 2019 and 2020?**

3 **Response)** The planning reserve requirement applicable to Henderson for the Planning Year  
4 2019 was 113 MW. The planning reserve requirement applicable to Henderson for the Planning  
5 Year 2020 was 114.6 MW.

6 **Witness) Brad Bickett**

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- 1 **Item 24) Please refer to the Direct Testimony of Brad Bickett, page 10, line 1.**
- 2 **a. Provide all calculations, workpapers, correspondence, and other Documents**
- 3 **relating to the planning reserve calculation in the referenced May 16, 2018, email.**
- 4 **b. Explain how the 2018-2019 peak demand forecast was derived.**
- 5 **c. Provide the source of the “Industry Average EFord for comparable**
- 6 **generators” of 6.85%.**
- 7 **d. Provide the source and the rationale for the formula used to apply the**
- 8 **Industry Average EFord to the Station two reservation.**
- 9 **e. Please provide the NERC Mandatory Reliability Standard(s), MISO tariff,**
- 10 **or MISO Business Practices Manual sections supporting the calculation used by**
- 11 **Henderson.**

12 **Response) a.** Big Rivers has mischaracterized the referenced email I sent to Mark

13 Eacret on May 16, 2018. The information in my email to him was not intended to satisfy MISO

14 resource adequacy rules, and I told him as much. Prior to sending the email to Mark Eacret on

15 May 16, 2018, I had a conversation with him by phone. I told Mark that Henderson maintained

16 planning reserves in accordance with the NERC recommendation for our region, and that it was

17 the same older method that was used by Big Rivers prior to joining MISO.

18 See “Attachment 8 of Response to HMPL 2-43 Witness: Mark J. Eacret”, where an email from

19 Mark Eacret to Bob Berry describes details of this phone conversation. During our call, he also

20 said that Big Rivers had developed the planning reserve calculation on behalf of Henderson per

21 the MISO Resource Adequacy rules. I then asked Mark if the Big Rivers calculation had been

22 approved by MISO and he said, “No.”

23

1 I explained to Mark that Henderson was not being represented as a Market Participant for Station  
2 Two generation, and furthermore, Henderson was not a Load Serving Entity in MISO. It was  
3 absurd to me that Big Rivers would suddenly attempt to apply MISO Resource Adequacy rules  
4 to Henderson without any benefit from the Station Two generation in MISO, especially after  
5 giving notice that the Station Two contracts had been terminated. During the call, I also stated  
6 that Henderson was not subject to the MISO planning requirements and did not agree with Big  
7 Rivers' exerting undue authority over Henderson's capacity requirement. At the end of our  
8 phone discussion, Mark asked me to email him my numbers for his record of Henderson's  
9 planning requirements. While I was not aware of Big Rivers ever having requested this  
10 information in the past and was also not aware of any regulatory requirement to do so, I  
11 complied with his request via the email on May 16, 2018.

12 b. See attached 2017 document forecasting load for 2018-2019.

13 c. See attached spreadsheet titled "Generating Unit Statistical Brochure."

14 d. To apply a factor to determine unforced capacity for planning purposes,  
15 the Demand Equivalent Forced Outage Rate (EFORD) for comparable sized coal generators was  
16 used. The purpose of the formula used was to apply the EFORD to the Station Two reservation  
17 and account for unit redundancy.

18 e. None of the referenced materials were used as a basis for the calculation  
19 contained in the email to Mark Eacret dated May 16, 2018.

20 **Witness) Brad Bickett**

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23

# **DRAFT**

# **2017 LOAD FORECAST**

Prepared for:

**HENDERSON MUNICIPAL POWER & LIGHT**

August 31, 2017

Prepared By:



**GDS Associates, Inc.**  
ENGINEERS & CONSULTANTS  
gdsassociates.com

**Case No. 2019-00269**  
**Attachment 1 to BREC 1-24(b)**  
**Pages 15**





# Table of Contents

<b>1</b>	<b>SUMMARY OF LOAD FORECAST</b> .....	<b>1</b>
<b>2</b>	<b>FORECAST ASSUMPTIONS</b> .....	<b>4</b>
2.1	Weather .....	4
2.2	Economy .....	4
2.3	System Specific Assumption.....	5
<b>3</b>	<b>MODEL SPECIFICATION AND METHODOLOGY</b> .....	<b>6</b>
<b>APPENDIX A</b>	<b>- MONTHLY FORECAST TABLES AND CHARTS</b>	

# Summary of Load Forecast

GDS Associates, Inc. (“GDS”) prepared a Load Forecast for Henderson Municipal Power & Light (“HMPL”) in August 2017. GDS prepared annual and monthly projections of total energy requirements (inclusive of distribution line losses) and total demand requirements for 2017 through 2027. This report presents the load forecast, describes the methodology employed by GDS to project energy and peak demand, and describes the major assumptions and data sources used.

Energy requirements are projected to increase at an average compound rate of 0.1% per year from 2017 through 2027. Low energy growth is attributed to no expectation of customer growth, the fact that residential household consumption has declined in recent years throughout the United States due to energy efficiency and conservation efforts, and that we assume no growth of industrial energy sales.<sup>1</sup> Low to even negative growth projections are not uncommon in the industry today.

Summer internal system demands are projected to decline slightly for the next ten years. Summer demands have been declining over the last ten years, resulting in a rising load factor. GDS projects load factor to rise slightly over the forecast horizon, resulting in a peak demand that declines by 1 MW through 2027, reaching 106 MW. Winter peak demands, conversely, are projected to rise at a pace higher than energy requirements growth, increasing by 0.4% per year from 2017 to 2027, to a level of 97 MW. Growth in winter demand is due primarily to continued increases in the market shares of electric heating<sup>2</sup> and electric water heating. Over the last 20 years, winter peak demand has increased at 0.2% per year, as indicated by data from the US Census Bureau.

HMPL has historically been a summer peaking system with summer peaks being approximately 25% higher than winter peaks. The system is projected to remain a summer peaking system throughout the next ten years. However, by 2027 the summer peak demand is expected to only be 10% higher than the winter peak demand.

**Table 1: Summary of Load Forecast**

Year	Energy Requirements (MWh)	Compound Growth Rate	Summer Peak Demand (MW)	Compound Growth Rate	Summer Load Factor	Winter Peak Demand (MW)	Compound Growth Rate	Winter Load Factor
2007	690,270		125.0		63.0%	101.0		78.0%
2012	622,254	-2.1%	115.0	-1.7%	61.8%	89.0	-2.5%	79.8%
2017	626,016	0.1%	107.3	-1.4%	66.6%	93.0	0.9%	76.8%
2022	627,384	0.0%	106.7	-0.1%	67.1%	95.7	0.6%	74.8%
2027	630,441	0.1%	106.4	-0.1%	67.6%	96.8	0.2%	74.4%

Detailed tables and charts depicting the load forecast are provided in the following pages. Monthly projections of energy and demand are provided in the Appendix.

<sup>1</sup> With a high percentage of industrial energy sales, HMP&L’s forecast is particularly sensitive to the assumption of no industrial growth. See Section 2 regarding assumptions for further information.

<sup>2</sup> US Census Bureau



**2017 LOAD FORECAST  
ANNUAL ENERGY & PEAK DEMAND REQUIREMENTS**

Year	Energy Requirements (MWh)	% Change	Summer Peak Demand (MW)	% Change	Summer Load Factor	Winter Peak Demand (MW)	% Change	Winter Load Factor
1997	603,213		114.7		60.0%	89.0		77.4%
1998	634,060	5.1%	118.0	2.9%	61.3%	88.0	-1.1%	82.3%
1999	660,258	4.1%	123.0	4.2%	61.3%	92.0	4.5%	81.9%
2000	659,001	-0.2%	123.0	0.0%	61.2%	96.0	4.3%	78.4%
2001	643,295	-2.4%	119.0	-3.3%	61.7%	95.0	-1.0%	77.3%
2002	673,932	4.8%	124.0	4.2%	62.0%	93.0	-2.1%	82.7%
2003	628,572	-6.7%	121.0	-2.4%	59.3%	92.0	-1.1%	78.0%
2004	679,204	8.1%	120.0	-0.8%	64.6%	96.0	4.3%	80.8%
2005	687,000	1.1%	124.0	3.3%	63.2%	98.0	2.1%	80.0%
2006	673,114	-2.0%	122.0	-1.6%	63.0%	98.0	0.0%	78.4%
2007	690,270	2.5%	125.0	2.5%	63.0%	101.0	3.1%	78.0%
2008	658,517	-4.6%	119.0	-4.8%	63.2%	100.0	-1.0%	75.2%
2009	588,663	-10.6%	111.0	-6.7%	60.5%	95.0	-5.0%	70.7%
2010	643,103	9.2%	117.0	5.4%	62.7%	95.0	0.0%	77.3%
2011	622,844	-3.2%	113.0	-3.4%	62.9%	94.0	-1.1%	75.6%
2012	622,254	-0.1%	115.0	1.8%	61.8%	89.0	-5.3%	79.8%
2013	617,149	-0.8%	108.0	-6.1%	65.2%	90.0	1.1%	78.3%
2014	639,296	3.6%	108.0	0.0%	67.6%	102.0	13.3%	71.5%
2015	625,083	-2.2%	109.0	0.9%	65.5%	100.0	-2.0%	71.4%
2016	624,347	-0.1%	107.0	-1.8%	66.6%	94.0	-6.0%	75.8%
2017*	622,299	-0.3%				93.0	-1.1%	76.4%
2017 Norm**	626,016	0.6%	107.3		66.6%	93.0	0.0%	76.8%
2018	626,383	0.1%	107.3	0.1%	66.6%	95.0	2.2%	75.2%
2019	626,864	0.1%	107.2	-0.1%	66.7%	95.2	0.2%	75.1%
2020	626,765	0.0%	107.0	-0.2%	66.9%	95.4	0.1%	75.0%
2021	627,012	0.0%	106.8	-0.1%	67.0%	95.5	0.2%	74.9%
2022	627,384	0.1%	106.7	-0.1%	67.1%	95.7	0.2%	74.8%
2023	627,835	0.1%	106.6	-0.1%	67.2%	95.9	0.2%	74.7%
2024	628,348	0.1%	106.5	-0.1%	67.3%	96.1	0.2%	74.6%
2025	628,950	0.1%	106.5	-0.1%	67.4%	96.3	0.2%	74.5%
2026	629,666	0.1%	106.4	0.0%	67.5%	96.5	0.2%	74.5%
2027	630,441	0.1%	106.4	0.0%	67.6%	96.8	0.2%	74.4%

AVERAGE COMPOUND GROWTH RATES		
97-02	2.2%	1.6%
02-07	0.5%	0.2%
07-12	-2.1%	-1.7%
12-17	0.1%	-1.4%
17-22	0.0%	-0.1%
22-27	0.1%	-0.1%
17-27	0.1%	-0.1%

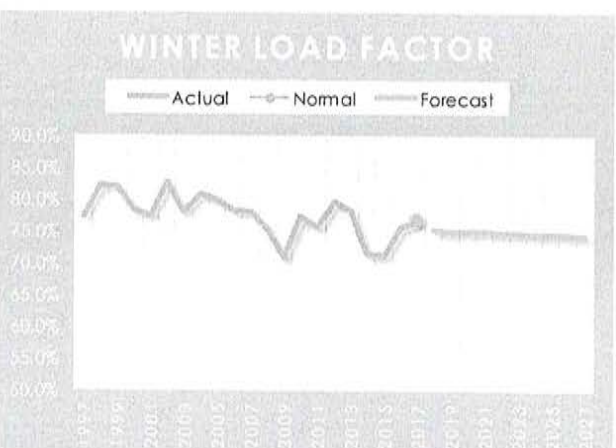
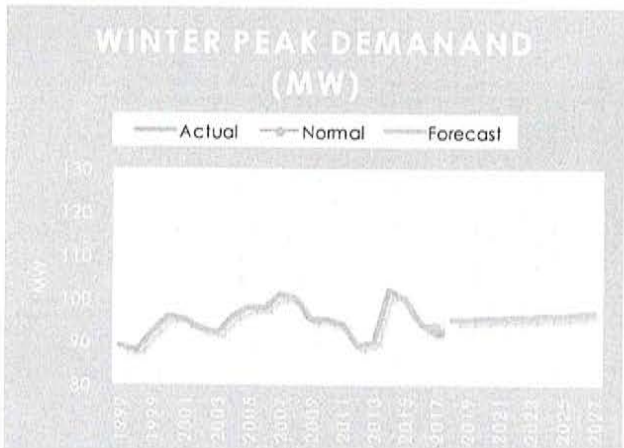
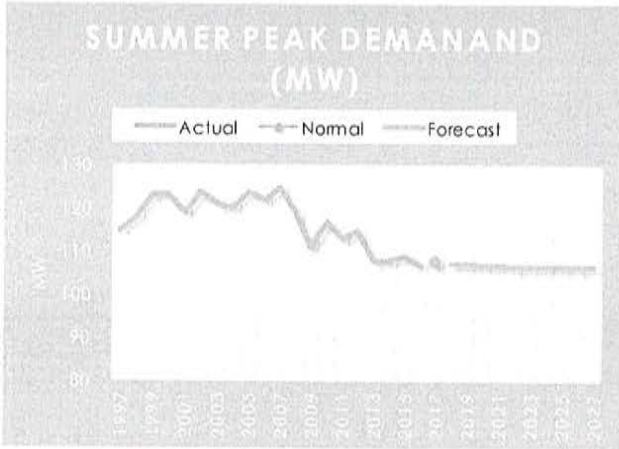
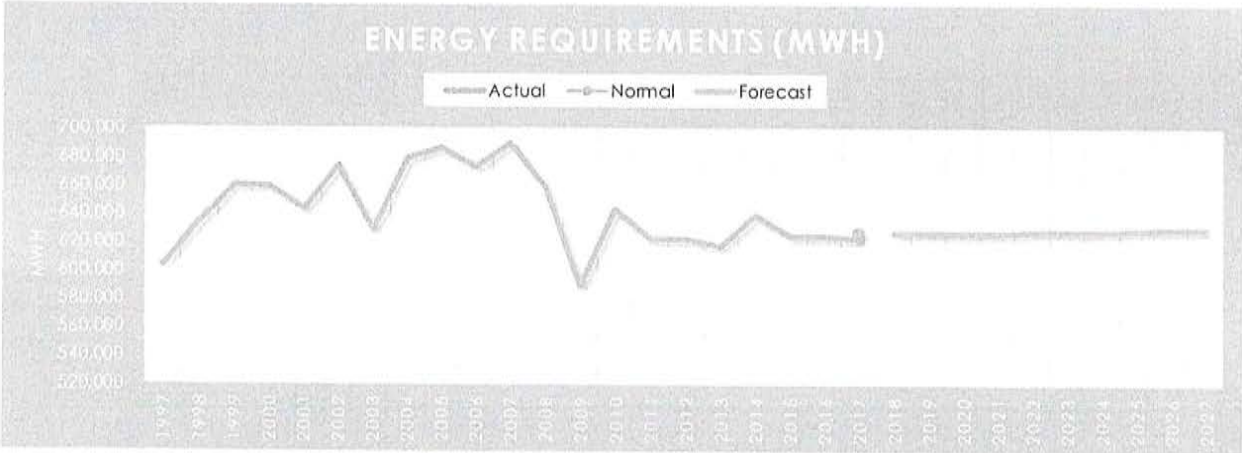
\* 2017 represents actual data for January through June and projected data for July through December.

\*\* Represents weather normalized 2017 projections.





**2017 LOAD FORECAST  
ANNUAL ENERGY & PEAK DEMAND REQUIREMENTS**





## Forecast Assumptions

The forecast is based on a series of assumptions and inputs including assumptions about weather, economic activity, and assumptions specific to the HMPL system including household equipment characteristics, residential price, and industrial activity. This section of the report provides the major assumptions included in the models prepared by GDS to project energy and demand requirements for HMPL.

### 2.1 WEATHER

Henderson is located in northwest Kentucky, situated along the Ohio River. The area is in a humid subtropical climate characterized by hot, humid summers and generally mild to cool winters. Average annual rainfall in the Henderson area, 45 inches, is slightly higher than the US average of 39 inches. Sunny days comprise about 55% of days in a typical year, with high temperatures in July averaging 88°. The January low temperature averages 25°, and the city averages 6" of snowfall per year.

To represent weather conditions in the area, GDS used Heating Degree Days ("HDD") and Cooling Degree Days ("CDD") from Evansville, Indiana. Henderson is located 10 miles south of Evansville. The degree days are computed on a base average temperature of 65°. The forecast assumes normal weather based on twenty-year average degree days ending June 2017.

**Table 2: Weather Data (Evansville, IN)**

Year	HDD	CDD
1997	4,901	1,119
1998	3,863	1,629
1999	4,149	1,284
2000	4,710	1,289
2001	4,233	1,377
2002	4,410	1,737
2003	4,529	1,143
2004	4,253	1,269
2005	4,320	1,544
2006	4,044	1,342
2007	4,159	1,888
2008	4,690	1,421
2009	4,413	1,281
2010	4,676	1,904
2011	4,195	1,616
2012	3,666	1,845
2013	4,712	1,467
2014	4,930	1,477
2015	4,067	1,579
2016	3,870	1,775
Normal	4,288	1,519

### 2.2 ECONOMY

Economic projections were obtained from Woods & Poole Economics, Inc ("W&P"). Economic projections are provided by W&P for each county in Kentucky, but not for the Henderson city limits itself. Caution must be used when using county-level economic projections to represent economic activity for a city with defined boundaries. Often, cities are more developed than outlying county territories, meaning household and population growth might be driven more by rural parts of the county rather than the major cities in the county. However, for the HMPL forecast, GDS only used household income, people per household, and retail sales as key economic drivers in the model. These growth rates for these variables are likely to be consistent enough between the county and city that GDS did not adjust the W&P projections. The following summarizes the economic projections:

- Real household income is projected to grow by 1.5% per year from 2017 through 2027. This is higher than the average growth rate of the prior ten years of 1.2% per year.
- People per household will remain consistent over the forecast horizon, dropping from 2.32 to 2.31 persons per household. This metric has been declining in the last ten to twenty years throughout the country due to generational patterns in marriage and starting families. In Henderson, the average people per household declined from 2.37 to 2.32 from 2007 to 2017.



- Real retail sales in the county grew by an average rate of 0.7% per year from 2007 to 2017. The forecast shows a slight uptick in growth, projecting growth of 0.9% per year for the next ten years.
- Inflation, as measured by the Purchase Consumption Expenditure deflator, is expected to average 1.4% per year over the next ten years.
- Residential price elasticity of demand is assumed to be -0.2%, consistent with studies GDS has performed for distribution cooperative utilities in and around Kentucky.
- Residential household income elasticity is assumed to be 0.1%.
- Residential household size elasticity is assumed to be 0.2%.

### 2.3 SYSTEM SPECIFIC ASSUMPTION

Several assumptions are made specific to the HMPL system specifically.

- The total number of customers served by HMPL has been flat since 2013. The GDS model projects total energy sales, and the model specification implicitly assumes little to no customer growth over the next ten years.
- Nominal residential price of electricity will grow at the rate of inflation.
- Average electric heating and air conditioning efficiencies will track the projections made by the Energy Information Administration (“EIA”) in their Annual Energy Outlook. The EIA performs a detailed evaluation of average equipment efficiencies in service throughout the United States and models changes in efficiency due to vintaging of equipment and Federal standards and codes.
  - Average system heating HSPF will increase from 8.58 to 9.39 from 2017 to 2027.
  - Average cooling SEER will increase from 14.37 to 16.31 from 2017 to 2027.
- Air conditioning market share is consistent with end-use saturation data that GDS has collected for areas in and around Henderson. Central AC saturation is assumed to be just over 90% and remain fairly constant for the next ten years.
- Electric heating saturation is based on American Community Survey (“ACS”) data collected by the US Census Bureau. The ACS indicates that 40% of homes has electric heat as the primary heating fuel in Henderson in 2010. The percentage increased to 52% by in 2015, according to the same data source.<sup>3</sup> GDS assumes a slower rate of growth in electric heating market share, reaching 53% by 2027.
- GDS assumes that approximately 22% of energy requirements will be sold to residential consumers and 21% to commercial consumers.
- We assume no growth in industrial energy sales into the future. Our forecasting practice is to only include industrial growth for known and measurable changes for existing customers, or new customers that have contracts or have requested service.

<sup>3</sup> The 2015 estimate based on ACS data compares favorably to a 2017 estimate based on data provided by HMPL.





## Model Specification and Methodology

Statistically adjusted end-use (“SAE”) models were developed to forecast total system energy and peak demand requirements. SAE models combine the benefits of end-use models and multiple regression based econometric models.

A single model was developed to forecast total system energy sales; however, weighting techniques were used to represent the residential, commercial, and industrial components of total requirements. Factors impacting residential sales were quantified through three indices representing the impacts on heating, cooling, and base load consumption. A retail sales parameter was included to quantify impacts on commercial energy sales, and historical industrial sales were included to measure the impacts of that class on total system sales. The model developed to forecast peak demand was based on the same model specification.

The variables specified in both models are described below. The models are based on 20 years of history and were developed using monthly data.

- Residential Cooling Index – this variable represents the impacts of air conditioning on residential consumption. It incorporates AC market share, AC efficiency, CDD, home size, household size, household income, and price of electricity. The variable is also weighted by the assumed share of total energy expected to be derived from the residential class.
- Residential Heating Index - this variable represents the impacts of electric heating on residential consumption. It incorporates electric heat market share, appliance efficiency, HDD, home size, household size, household income, and price of electricity. The variable is also weighted by the assumed share of total energy expected to be derived from the residential class.
- Residential Base Index – this variable represents the impacts of all other appliances on residential consumption. It incorporates assumed impacts from water heating, refrigeration, washing and drying, dishwashers, TVs, computers and other miscellaneous electric devices.
- Commercial Weighted Retail Sales – this variable represents growth in commercial energy and demand requirements as being driven by changes in retail sales in the area. The variable is simple the retail sales projection from W&P weighted by the assumed share of commercial sales.
- Industrial Index – the industrial index is simply the industrial energy sales expressed on a monthly basis. In the future, the variable is held constant to reflect no growth in industrial sales.



**Table 3: Energy Model Regression Output**

<i>Regression Statistics</i>	
Multiple R	0.9988
R Square	0.9975
Adjusted R Square	0.9933
Standard Error	2,710.3
Mean Absolute % Error (MAPE)	3.8%
Observations	246

**ANOVA**

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	5	711,844,990,669	142,368,998,134	19,381	0
Residual	241	1,770,378,308	7,345,968		
Total	246	713,615,368,977			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
R_COOL	25,456.7888	982.55	25.91	1.301E-71	23,521.3	27,392.3
R_HEAT	12,267.8951	1,119.77	10.96	6.242E-23	10,062.1	14,473.7
R_BASE	9,735.9704	1,831.58	5.32	2.422E-07	6,128.0	13,343.9
C_RETSALE	98.8002	3.14	31.43	3.217E-87	92.6	105.0
IND	0.8004	0.05	15.60	2.197E-38	0.7	0.9

**Table 4: Demand Model Regression Output**

<i>Regression Statistics</i>	
Multiple R	0.9978
R Square	0.9955
Adjusted R Square	0.9913
Standard Error	6.6
Mean Absolute Percent Error (MAPE)	5.3%
Observations	246

**ANOVA**

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	5	2,370,094	474,019	10,744	5.9405E-280
Residual	241	10,632	44		
Total	246	2,380,726			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
R_COOL	47.0067	2.41	19.52	1.542E-51	42.3	51.7
R_HEAT	7.7170	2.74	2.81	5.327E-03	2.3	13.1
R_BASE	17.3805	4.49	3.87	1.390E-04	8.5	26.2
C_RETSALE	0.1843	0.01	23.93	1.337E-65	0.2	0.2
IND	0.0016	0.00	12.38	1.448E-27	0.0	0.0





APPENDIX A  
MONTHLY ENERGY & PEAK DEMAND REQUIREMENTS



**2017 LOAD FORECAST  
MONTHLY ENERGY & PEAK DEMAND REQUIREMENTS**

Year	Month	Energy Requirements (MWh)	% of Annual	Demand Requirements (MW)	% of Annual Peak
2016	1	54,102	8.7%	94.0	87.9%
2016	2	49,321	7.9%	91.0	85.0%
2016	3	48,876	7.8%	81.0	75.7%
2016	4	47,124	7.5%	85.0	79.4%
2016	5	49,283	7.9%	91.0	85.0%
2016	6	57,962	9.3%	106.0	99.1%
2016	7	57,429	9.2%	107.0	100.0%
2016	8	60,323	9.7%	105.0	98.1%
2016	9	53,426	8.6%	103.0	96.3%
2016	10	49,147	7.9%	91.0	85.0%
2016	11	45,679	7.3%	80.0	74.8%
2016	12	51,675	8.3%	93.0	86.9%
2017	1	52,256	8.4%	92.0	85.8%
2017	2	45,844	7.4%	85.0	79.2%
2017	3	49,549	8.0%	85.0	79.2%
2017	4	46,048	7.4%	83.0	77.4%
2017	5	50,829	8.2%	94.0	87.6%
2017	6	55,428	8.9%	105.0	97.9%
2017	7	59,529	9.6%	107.3	100.0%
2017	8	58,844	9.5%	106.1	98.9%
2017	9	52,336	8.4%	94.3	87.9%
2017	10	49,019	7.9%	86.6	80.7%
2017	11	49,931	8.0%	85.6	79.8%
2017	12	52,685	8.5%	91.3	85.1%
2018	1	52,756	8.4%	95.0	88.5%
2018	2	50,838	8.1%	93.0	86.6%
2018	3	49,901	8.0%	93.4	87.0%
2018	4	48,138	7.7%	86.2	80.3%
2018	5	50,295	8.0%	91.5	85.2%
2018	6	55,653	8.9%	101.8	94.8%
2018	7	58,765	9.4%	107.3	100.0%
2018	8	58,099	9.3%	106.2	98.9%
2018	9	51,774	8.3%	94.6	88.1%
2018	10	48,561	7.8%	87.0	81.0%
2018	11	49,456	7.9%	86.0	80.1%
2018	12	52,147	8.3%	95.1	88.6%

**2017 LOAD FORECAST  
MONTHLY ENERGY & PEAK DEMAND REQUIREMENTS**

Year	Month	Energy Requirements (MWh)	% of Annual	Demand Requirements (MW)	% of Annual Peak
2019	1	52,813	8.4%	95.2	88.8%
2019	2	50,914	8.1%	93.2	87.0%
2019	3	49,988	8.0%	93.6	87.3%
2019	4	48,239	7.7%	86.4	80.6%
2019	5	50,355	8.0%	91.6	85.5%
2019	6	55,620	8.9%	101.7	94.9%
2019	7	58,683	9.4%	107.2	100.0%
2019	8	58,028	9.3%	106.0	98.9%
2019	9	51,806	8.3%	94.6	88.3%
2019	10	48,657	7.8%	87.2	81.3%
2019	11	49,548	7.9%	86.2	80.4%
2019	12	52,210	8.3%	95.2	88.8%
2020	1	52,823	8.4%	95.4	89.1%
2020	2	50,946	8.1%	93.4	87.3%
2020	3	50,026	8.0%	93.8	87.6%
2020	4	48,290	7.7%	86.6	80.9%
2020	5	50,365	8.0%	91.7	85.7%
2020	6	55,543	8.9%	101.6	94.9%
2020	7	58,557	9.3%	107.0	100.0%
2020	8	57,912	9.2%	105.8	98.9%
2020	9	51,790	8.3%	94.6	88.4%
2020	10	48,700	7.8%	87.3	81.6%
2020	11	49,589	7.9%	86.3	80.7%
2020	12	52,223	8.3%	95.4	89.1%
2021	1	52,861	8.4%	95.5	89.4%
2021	2	51,003	8.1%	93.6	87.6%
2021	3	50,091	8.0%	94.0	87.9%
2021	4	48,367	7.7%	86.7	81.2%
2021	5	50,405	8.0%	91.7	85.9%
2021	6	55,499	8.9%	101.5	95.0%
2021	7	58,467	9.3%	106.8	100.0%
2021	8	57,832	9.2%	105.7	98.9%
2021	9	51,803	8.3%	94.7	88.6%
2021	10	48,769	7.8%	87.4	81.9%
2021	11	49,654	7.9%	86.5	80.9%
2021	12	52,261	8.3%	95.6	89.4%



**2017 LOAD FORECAST  
MONTHLY ENERGY & PEAK DEMAND REQUIREMENTS**

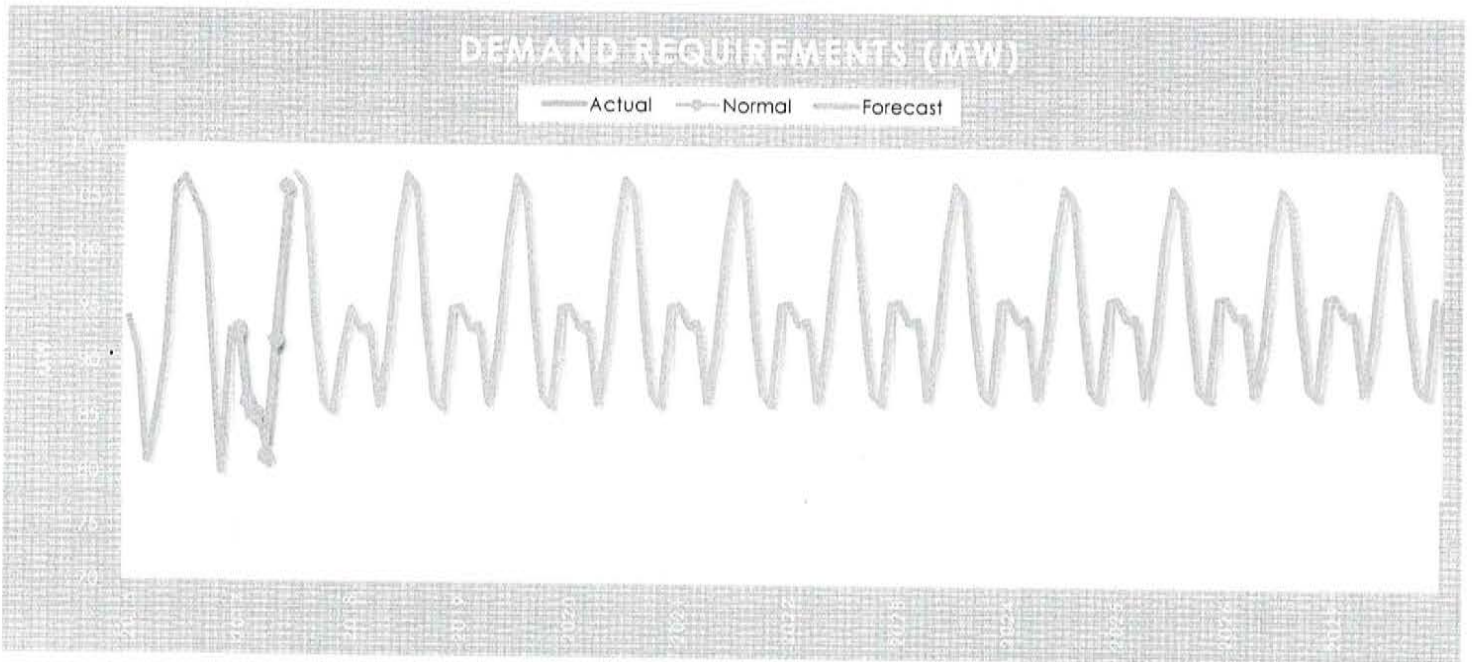
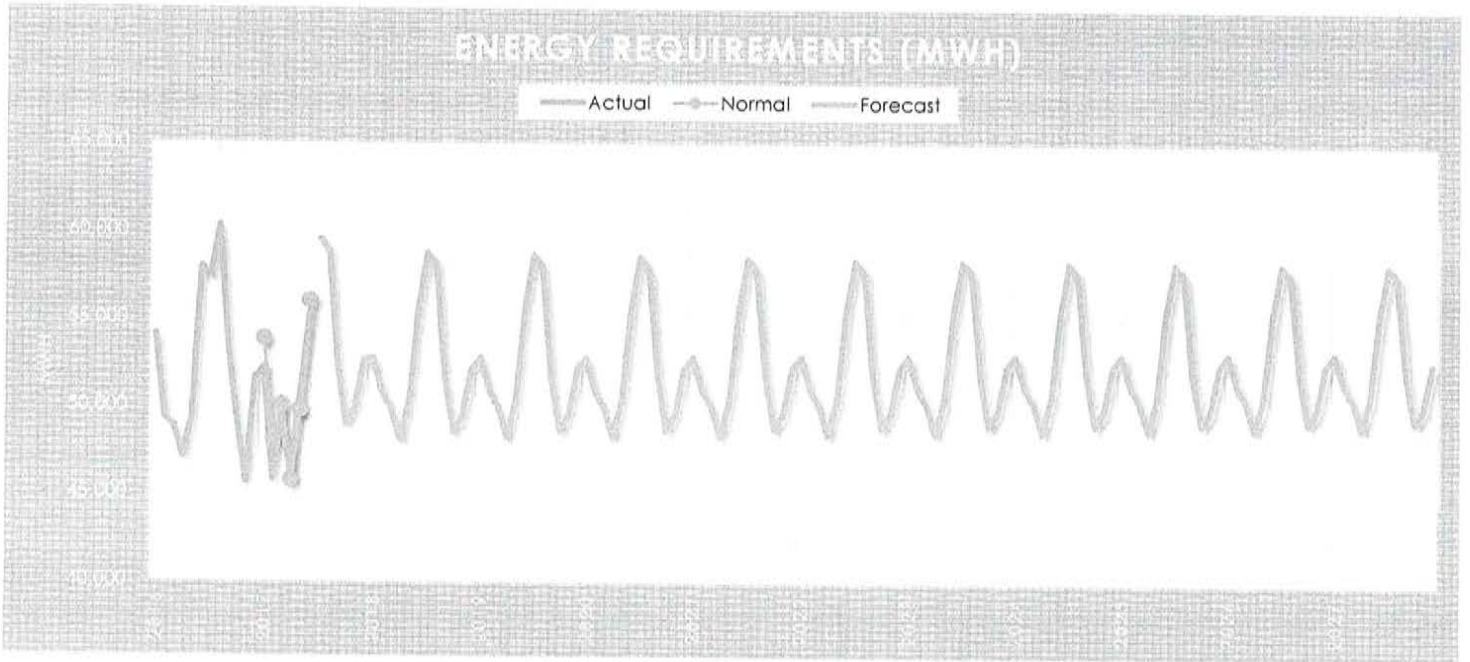
Year	Month	Energy Requirements (MWh)	% of Annual	Demand Requirements (MW)	% of Annual Peak
2022	1	52,908	8.4%	95.7	89.7%
2022	2	51,066	8.1%	93.8	87.9%
2022	3	50,163	8.0%	94.2	88.2%
2022	4	48,452	7.7%	86.9	81.4%
2022	5	50,455	8.0%	91.8	86.1%
2022	6	55,469	8.8%	101.5	95.1%
2022	7	58,394	9.3%	106.7	100.0%
2022	8	57,768	9.2%	105.6	98.9%
2022	9	51,828	8.3%	94.7	88.8%
2022	10	48,847	7.8%	87.6	82.1%
2022	11	49,727	7.9%	86.7	81.2%
2022	12	52,308	8.3%	95.7	89.7%
2023	1	52,959	8.4%	95.9	90.0%
2023	2	51,132	8.1%	94.0	88.2%
2023	3	50,239	8.0%	94.4	88.5%
2023	4	48,540	7.7%	87.1	81.7%
2023	5	50,511	8.0%	92.0	86.3%
2023	6	55,448	8.8%	101.4	95.1%
2023	7	58,333	9.3%	106.6	100.0%
2023	8	57,715	9.2%	105.5	99.0%
2023	9	51,860	8.3%	94.8	88.9%
2023	10	48,929	7.8%	87.8	82.3%
2023	11	49,805	7.9%	86.9	81.5%
2023	12	52,363	8.3%	95.9	90.0%
2024	1	53,013	8.4%	96.1	90.2%
2024	2	51,201	8.1%	94.2	88.4%
2024	3	50,318	8.0%	94.6	88.8%
2024	4	48,630	7.7%	87.3	81.9%
2024	5	50,570	8.0%	92.1	86.4%
2024	6	55,436	8.8%	101.4	95.2%
2024	7	58,282	9.3%	106.5	100.0%
2024	8	57,673	9.2%	105.4	99.0%
2024	9	51,898	8.3%	94.9	89.0%
2024	10	49,016	7.8%	88.0	82.6%
2024	11	49,888	7.9%	87.0	81.7%
2024	12	52,423	8.3%	96.1	90.2%



**2017 LOAD FORECAST  
MONTHLY ENERGY & PEAK DEMAND REQUIREMENTS**

Year	Month	Energy Requirements (MWh)	% of Annual	Demand Requirements (MW)	% of Annual Peak
2025	1	53,073	8.4%	96.3	90.5%
2025	2	51,275	8.2%	94.4	88.7%
2025	3	50,402	8.0%	94.8	89.0%
2025	4	48,725	7.7%	87.5	82.2%
2025	5	50,636	8.1%	92.2	86.6%
2025	6	55,433	8.8%	101.4	95.3%
2025	7	58,243	9.3%	106.5	100.0%
2025	8	57,642	9.2%	105.4	99.0%
2025	9	51,943	8.3%	94.9	89.2%
2025	10	49,109	7.8%	88.2	82.8%
2025	11	49,977	7.9%	87.3	82.0%
2025	12	52,490	8.3%	96.4	90.5%
2026	1	53,143	8.4%	96.5	90.7%
2026	2	51,358	8.2%	94.6	88.9%
2026	3	50,496	8.0%	95.0	89.3%
2026	4	48,828	7.8%	87.7	82.4%
2026	5	50,712	8.1%	92.4	86.8%
2026	6	55,442	8.8%	101.4	95.3%
2026	7	58,217	9.2%	106.4	100.0%
2026	8	57,624	9.2%	105.3	99.0%
2026	9	51,999	8.3%	95.0	89.3%
2026	10	49,209	7.8%	88.4	83.0%
2026	11	50,073	8.0%	87.5	82.2%
2026	12	52,565	8.3%	96.6	90.8%
2027	1	53,219	8.4%	96.8	91.0%
2027	2	51,445	8.2%	94.9	89.2%
2027	3	50,593	8.0%	95.2	89.5%
2027	4	48,935	7.8%	87.9	82.6%
2027	5	50,792	8.1%	92.5	87.0%
2027	6	55,458	8.8%	101.5	95.4%
2027	7	58,199	9.2%	106.4	100.0%
2027	8	57,614	9.1%	105.3	99.0%
2027	9	52,059	8.3%	95.2	89.5%
2027	10	49,313	7.8%	88.6	83.2%
2027	11	50,172	8.0%	87.7	82.4%
2027	12	52,643	8.4%	96.6	90.8%

2017 LOAD FORECAST  
MONTHLY ENERGY & PEAK DEMAND REQUIREMENTS



1 **Item 25) Please refer to the Direct Testimony of Brad Bickett, page 15, line 3.**

2 **a. Provide a detailed listing of the MISO Fees that Henderson has paid (either**  
3 **directly or indirectly) since February 1, 2019.**

4 **b. Provide all communications concerning the ending of the MISO Contingency**  
5 **Reserve Sharing Group Agreement, and any plans Henderson was making to meet its**  
6 **contingency reserve requirements in anticipation of the MCRSG dissolving.**

7 **Response)** Henderson objects to this request on the grounds the referenced testimony does  
8 not provide a basis for the subparts and Henderson is unable to determine with certainty the  
9 information Big Rivers is requesting. Henderson further objects to this request on the grounds it  
10 requests information not relevant to this proceeding and not reasonably calculated to lead to the  
11 discovery of admissible evidence. The MISO fees applicable to Henderson since the retirement  
12 of Station Two are unrelated to the fees that would have been applicable to Henderson prior to  
13 plant retirement if Henderson had been properly registered in MISO and/or had been a MISO  
14 Market Participant. Without waiving these objections, Henderson confirms that Henderson has  
15 paid all MISO fees properly invoiced to Henderson since February 1, 2019. Additionally,  
16 Henderson does not possess any of the communications requested in Item 25(b) and did not have  
17 plans to meet a contingency reserve requirement, as Henderson was not registered as a Balancing  
18 Authority at the time and thus no contingency reserve requirement applied to Henderson.

19 **Witness) Brad Bickett**

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1 **Item 26) Regarding the registration of Station Two as a MISO generation resource in**  
2 **2010:**

3 a. **Confirm that Henderson did not object to Big Rivers registering the Station**  
4 **Two units in MISO but that Henderson’s preference was to register Station Two as a split**  
5 **facility rather than as a single facility.**

6 b. **Quantify the difference in cost to Henderson of registering Station Two as a**  
7 **split facility rather than as a single facility for each year from 2010 through 2019.**

8 **Response) a.** Please see email from Gary Quick to Cheryl A. Bredenbeck dated May 27,  
9 2010, and attached to Henderson’s response to Item 1 of the Commission Staff’s First Request  
10 for Information to Henderson.

11 b. Henderson does not have information pertaining to any difference between  
12 the cost of registering a “split facility” in MISO and the cost of registering a “single facility” in  
13 MISO. However, Henderson is aware that Market Participants for properly registered generation  
14 assets receive various forms of MISO revenue in connection with those generation assets.

15 **Witness) Brad Bickett**

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1 **Item 27) Please refer to the Direct Testimony of Brad Bickett, page 6, lines 2-3.**  
2 **Specifically identify each and every MISO-related issue Big Rivers did not bring to**  
3 **Henderson’s attention until 2017. For each issue identified, provide all correspondence,**  
4 **studies, analyses, and other Documents related to such issue.**

5 **Response)** As a point of clarification, my reference to 2017 was intended to communicate the  
6 approximate date when Henderson initially learned Big Rivers was in possession of data  
7 concerning the past and future value of profitable Excess Henderson Energy in MISO.  
8 Documentation concerning this issue is attached as Attachment 1 to this response in the form of a  
9 series of emails between me and Mark Eacret regarding the profitable, or “in the money,” energy  
10 which was the subject of a dispute then pending before the Henderson Circuit Court in Civil  
11 Action No. 09-CI-00693. Henderson is not aware of which, if any, other issues related to Station  
12 Two - as opposed to Henderson’s load – were not brought to Henderson’s attention.

13 **Witness) Brad Bickett**

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## Brad Bickett

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**From:** Brad Bickett  
**Sent:** Wednesday, May 3, 2017 4:01 PM  
**To:** Eacret, Mark J  
**Subject:** RE: Contact Information

Mark,

We have looked at the forward pricing curves, but have not performed an analysis at this point.

Brad Bickett  
Reliability Compliance Manager  
Henderson Municipal Power & Light (HMP&L)  
100 Fifth Street, Henderson, KY 42420  
Phone: (270) 826-2726 Fax: (270) 826-9650

---

**From:** Eacret, Mark J [mailto:Mark.Eacret@bigrivers.com]  
**Sent:** Wednesday, May 03, 2017 3:34 PM  
**To:** Brad Bickett  
**Subject:** RE: Contact Information

Brad,

I meant to ask you about the forward-looking part of your analysis:

1. Bob mentioned that you had an IndyHub forward curve. Is that what you used, or did you adjust it to get to Station Two prices?
2. How did you shape the monthly forward prices to get to daily or hourly prices?
3. Did you use "Reservation – Load" as opposed to "Exhibit A"?
4. Did you use the same "in-the-money day" approach that you used for the historical?

We did the forward-looking part using a production cost model called Plexos. If you could give me your production cost estimates, we could try to run it with those numbers and "Reservation – Load".

**From:** Eacret, Mark J  
**Sent:** Wednesday, May 03, 2017 3:17 PM  
**To:** 'bbickett@hmpl.net' <[bbickett@hmpl.net](mailto:bbickett@hmpl.net)>  
**Subject:** Contact Information


Brad,

Here is my contact information.

**Case No. 2019-00269**  
**Attachment 1 to BREC 1-27**  
**Pages 20**

Mark J. Eacret  
Vice President Energy Services  
Big Rivers Electric Corporation  
Office – 270.844.6126  
Cell – 636.579.8740



Your Tristone Energy Cooperative 

## Brad Bickett

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**From:** Brad Bickett  
**Sent:** Friday, May 5, 2017 1:20 PM  
**To:** Eacret, Mark J  
**Subject:** RE: July09-Feb17 DA HMPL vs DA MISO System Avg.xlsx

Mark,

On another subject, I am looking for information about the requirements for generation capacity and reserve margin pertaining to HMP&L demand in MISO. Would you be able to discuss this information or direct me to someone?

Brad

---

**From:** Eacret, Mark J [mailto:Mark.Eacret@bigrivers.com]  
**Sent:** Friday, May 05, 2017 10:54 AM  
**To:** Brad Bickett  
**Subject:** FW: July09-Feb17 DA HMPL vs DA MISO System Avg.xlsx

Brad,

One of the differences between our calculations and yours for 2009-2017 was the market price used. We used the Station Two price while you used a MISO system average. We compared the two and found that they are pretty close. The Station Two price is a little over 1% higher on average over the period that we examined.

I've attached the raw data.

**From:** Tutor, Elizabeth  
**Sent:** Friday, May 05, 2017 10:14 AM  
**To:** Eacret, Mark J <Mark.Eacret@bigrivers.com>  
**Subject:** July09-Feb17 DA HMPL vs DA MISO System Avg.xlsx

Here is the price comparison. HMP1 DA LMPs are slightly higher than the MISO system Average. I have a separate file of the Hub prices that make up the system average if you want to see that let me know.

Thanks,  
Elizabeth



## Brad Bickett

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**From:** Eacret, Mark J <Mark.Eacret@bigrivers.com>  
**Sent:** Monday, May 8, 2017 7:04 AM  
**To:** Brad Bickett  
**Cc:** Berry, Bob  
**Subject:** Book3 (002).xlsx  
**Attachments:** Book3 (002).xlsx

Brad,

Attached is BREC's calculation of the value of in-the-money EHE from July of 2009 through February of 2017. There are a few differences from your approach:

1. BREC tested each hour against variable cost, as opposed to your approach testing against each day.
2. BREC used the MISO market price at Station Two, rather than the MISO system average price that you used. (I sent you a comparison of the two price points last week).
3. The BREC spreadsheet values all EHE in columns A-E and in-the-money EHE in columns F-K.

This is a summary page. There will be someone available at Wednesday's meeting to discuss in more detail.

Mark

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## Brad Bickett

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**From:** Eacret, Mark J <Mark.Eacret@bigrivers.com>  
**Sent:** Monday, May 8, 2017 7:08 AM  
**To:** Brad Bickett  
**Cc:** Berry, Bob  
**Subject:** Book2 (003).xlsx  
**Attachments:** Book2 (003).xlsx

Brad,

Attached is BREC's calculation of the value of in-the-money EHE from April '17 through December of 2023. There are a couple of differences between the approach here and the approach in the 2009-2017 calculation:

1. We are using an estimate of BREC's production cost, rather than Henderson's
2. We are using the "Exhibit A" approach, rather than the "Reservation – Load" approach

This is a summary spreadsheet. We will have someone available to discuss the detail on Wednesday.

Mark

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## Brad Bickett

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**From:** Eacret, Mark J <Mark.Eacret@bigrivers.com>  
**Sent:** Monday, May 8, 2017 9:45 AM  
**To:** Brad Bickett  
**Cc:** Berry, Bob; Parsley, Marlene  
**Subject:** FW: HMPL Issues briefing book chapter on Capacity Shortage  
**Attachments:** Station Two Capacity Sales Revenue PY 13\_14 thru 17\_18.xlsx; HMPL Capacity Requirements summary as of 2017\_2018.docx

Brad,

Attached are some documents addressing your question from last week on MISO capacity requirements.

The spreadsheet compares Henderson's MISO capacity requirements and its capacity resources beginning with the 2013 planning year. There was no MISO capacity auction prior to that planning year, so determining a market price for the 2011 and 2012 planning years would be subjective.

The word document walks through the MISO requirements and calculations associated with the 2017/2018 planning year as an example.

We'll have someone at our Wednesday meeting that can walk through the detail and any questions that you have,

Mark

## Brad Bickett

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**From:** Brad Bickett  
**Sent:** Tuesday, May 9, 2017 3:24 PM  
**To:** Eacret, Mark J  
**Cc:** Ken Brooks  
**Subject:** RE: 2009 to 2017 EHE Calculations and 2017-2023 EHE Calculations  
**Attachments:** Station two energy - July 17 2009 Feb 2017 4-24-17.pdf

Mark,

Attached is a PDF copy of the data that I put together. If you need anything else, just let me know.

Brad

---

**From:** Eacret, Mark J [mailto:Mark.Eacret@bigrivers.com]  
**Sent:** Tuesday, May 09, 2017 3:09 PM  
**To:** Brad Bickett  
**Cc:** Ken Brooks  
**Subject:** RE: 2009 to 2017 EHE Calculations and 2017-2023 EHE Calculations

Brad,

Ken is welcome to participate. Please forward the invite to him.

Could you bring copies of your calculation of the 2009-2017 EHE in-the-money value? I only have one and I've got notes all over it.

---

**From:** Brad Bickett [mailto:bbickett@hmpl.net]  
**Sent:** Tuesday, May 09, 2017 10:38 AM  
**To:** Eacret, Mark J <Mark.Eacret@bigrivers.com>  
**Cc:** Ken Brooks <kbrooks@hmpl.net>  
**Subject:** RE: 2009 to 2017 EHE Calculations and 2017-2023 EHE Calculations

Mark,

I think it may be helpful if Ken Brooks would also attend this meeting. He is the Interim Power Production Director for Henderson and I talked to him about it earlier. He is available.

Thanks,  
Brad

-----Original Appointment-----

**From:** Vickie.King@bigrivers.com [mailto:Vickie.King@bigrivers.com] **On Behalf Of** Eacret, Mark J  
**Sent:** Tuesday, May 09, 2017 8:33 AM  
**To:** Tutor, Elizabeth; Braunecker, Duane; Brad Bickett; Parsley, Marlene  
**Cc:** Berry, Bob; Jones, Charles  
**Subject:** 2009 to 2017 EHE Calculations and 2017-2023 EHE Calculations



**When:** Wednesday, May 10, 2017 9:00 AM-11:00 AM (UTC-06:00) Central Time (US & Canada).

**Where:** HQ Conference Room 4A Between Production & Fuels Area

All,

The intent of the meeting is to review each of the approaches:

Brad – Henderson calculations of 2009-2017

Elizabeth – BREC calculations of 2009-2017

Duane – BREC calculations of 2017-2023

Please prepare whatever materials you think would be helpful for the others to see/understand. A computer projection screen will be available.

Brad, we'll be sending you summary sheets for Elizabeth and Duane's work later today.

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## Brad Bickett

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**From:** Eacret, Mark J <Mark.Eacret@bigrivers.com>  
**Sent:** Tuesday, May 16, 2017 7:32 AM  
**To:** Brad Bickett  
**Cc:** Tutor, Elizabeth; Chris Heimgartner; Berry, Bob  
**Subject:** RE: Henderson excess energy data - economic hourly data

Thanks, Brad

Elizabeth dropped your production costs into her model, which resulted in 1,224,292 MWh and margins of \$9,755,013. The \$470K difference between her margins and yours was driven by:

Volume – (\$80K)  
Price - 630K  
VOM - (\$80K)

Your average price is \$37.15/MWh and Elizabeth's is \$36.63/MWh. We aren't going to tie exactly, but we might want to give the prices some thought so that we understand what is driving the difference in the modeling. Elizabeth will send you her summary.

**From:** Brad Bickett [mailto:bbickett@hmpl.net]  
**Sent:** Monday, May 15, 2017 3:25 PM  
**To:** Eacret, Mark J <Mark.Eacret@bigrivers.com>  
**Cc:** Tutor, Elizabeth <Elizabeth.Tutor@bigrivers.com>; Chris Heimgartner <cheimgartner@hmpl.net>  
**Subject:** Henderson excess energy data - economic hourly data

Mark,

From our discussion last Wednesday, see revised historical figures attached in excel and PDF. Changes include the following:

- MISO system Day Ahead prices were replaced by the provided Day Ahead ExPost LMP prices at Station Two generators.
- Henderson variable cost increased due to addition of average expenses for disposal, landfill, and FGD (Fiscal year 2016 amounts used for current year)

Let me know if there are any comments or questions.

Brad

## Brad Bickett

---

**From:** Brad Bickett  
**Sent:** Thursday, May 18, 2017 2:18 PM  
**To:** Tutor, Elizabeth  
**Cc:** Eacret, Mark J  
**Subject:** RE: Henderson excess energy data - economic hourly data  
**Attachments:** Station two energy - July 17 2009 March 2017 5-18-17 economic hours.xlsx

Elizabeth,

Attached is my updated summary...

- March 2017 data has been added
- Energy market administration fees are included

Note: All energy is valued at Day Ahead price and market admin fees are included with energy production cost for the hourly test against market value.

Brad

---

**From:** Tutor, Elizabeth [mailto:Elizabeth.Tutor@bigrivers.com]  
**Sent:** Thursday, May 18, 2017 10:16 AM  
**To:** Brad Bickett  
**Cc:** Eacret, Mark J; Chris Heimgartner  
**Subject:** RE: Henderson excess energy data - economic hourly data

Hi Brad,

Attached are the MISO Market Admin Rates as well as the March DA/RT LMPs and the Generation Awards for Station Two.

Please let me know if you have any questions or need anything further.

Thank you,

*Elizabeth R Tutor; MISO Settlement Supervisor; Big Rivers Corporation; 201 3<sup>rd</sup> Street Henderson, KY 42420; (p) 270-844-6177, (c) 270-577-3243, (f) 270-827-2101*

**From:** Brad Bickett [mailto:bbickett@hmpl.net]  
**Sent:** Wednesday, May 17, 2017 9:22 AM  
**To:** Tutor, Elizabeth <Elizabeth.Tutor@bigrivers.com>  
**Cc:** Eacret, Mark J <Mark.Eacret@bigrivers.com>; Chris Heimgartner <cheimgartner@hmpl.net>  
**Subject:** RE: Henderson excess energy data - economic hourly data

Elizabeth,

Henderson production cost for March 2017 averaged \$29.85 per MWh, and includes variable expenses for coal, emissions, reagent lime, disposal, landfill, and FGD.

It will help if you can send the LMP data for March because I will not have to access each MISO daily report. Also, if you send the MISO admin fee data, I will include that expense in my calculations.

Thank you,

Brad

---

**From:** Brad Bickett  
**Sent:** Tuesday, May 16, 2017 1:05 PM  
**To:** Tutor, Elizabeth  
**Cc:** Eacret, Mark J  
**Subject:** Re: Henderson excess energy data - economic hourly data

Elizabeth,

You are correct; I did not include admin fee. I am out of office today but will send you data for march when I get back tomorrow.

Thank you,

Brad B

On May 16, 2017, at 11:06 AM, Tutor, Elizabeth <[Elizabeth.Tutor@bigrivers.com](mailto:Elizabeth.Tutor@bigrivers.com)> wrote:

Attached is my calculation summary. I think one of our price differences is that I am removing the MISO admin fees from the MISO revenue. If you would like me to send you the MISO Admin Rates, please let me know.

Also, since the future value of EHE analysis starts with April 2017. Could we add March 2017 so that they line up? Please send me your Variable Cost numbers for March and I can send you the Station Two LMPs.

Thank you,

*Elizabeth R Tutor; MISO Settlement Supervisor; Big Rivers Corporation; 201 3<sup>rd</sup> Street  
Henderson, KY 42420; (p) 270-844-6177, (c) 270-577-3243, (f) 270-827-2101*

**From:** Eacret, Mark J  
**Sent:** Tuesday, May 16, 2017 7:32 AM  
**To:** Brad Bickett <[bbickett@hmpl.net](mailto:bbickett@hmpl.net)>  
**Cc:** Tutor, Elizabeth <[Elizabeth.Tutor@bigrivers.com](mailto:Elizabeth.Tutor@bigrivers.com)>; Chris Heimgartner <[cheimgartner@hmpl.net](mailto:cheimgartner@hmpl.net)>; Berry, Bob <[Bob.Berry@bigrivers.com](mailto:Bob.Berry@bigrivers.com)>  
**Subject:** RE: Henderson excess energy data - economic hourly data

Thanks, Brad



Elizabeth dropped your production costs into her model, which resulted in 1,224,292 MWh and margins of \$9,755,013. The \$470K difference between her margins and yours was driven by:

Volume – (\$80K)

Price - 630K

VOM - (\$80K)

Your average price is \$37.15/MWh and Elizabeth's is \$36.63/MWh. We aren't going to tie exactly, but we might want to give the prices some thought so that we understand what is driving the difference in the modeling. Elizabeth will send you her summary.

**From:** Brad Bickett [<mailto:bbickett@hmpl.net>]

**Sent:** Monday, May 15, 2017 3:25 PM

**To:** Eacret, Mark J <[Mark.Eacret@bigrivers.com](mailto:Mark.Eacret@bigrivers.com)>

**Cc:** Tutor, Elizabeth <[Elizabeth.Tutor@bigrivers.com](mailto:Elizabeth.Tutor@bigrivers.com)>; Chris Heimgartner <[cheimgartner@hmpl.net](mailto:cheimgartner@hmpl.net)>

**Subject:** Henderson excess energy data - economic hourly data

Mark,

From our discussion last Wednesday, see revised historical figures attached in excel and PDF. Changes include the following:

- MISO system Day Ahead prices were replaced by the provided Day Ahead ExPost LMP prices at Station Two generators.
- Henderson variable cost increased due to addition of average expenses for disposal, landfill, and FGD (Fiscal year 2016 amounts used for current year)

Let me know if there are any comments or questions.

Brad

<July 2009-Feb2017 Economic EHE Resv-Load using HMPL variable cost v2 - Summary Only.xlsx>

## Brad Bickett

---

**From:** Tutor, Elizabeth <Elizabeth.Tutor@bigrivers.com>  
**Sent:** Thursday, May 18, 2017 10:16 AM  
**To:** Brad Bickett  
**Cc:** Eacret, Mark J; Chris Heimgartner  
**Subject:** RE: Henderson excess energy data - economic hourly data  
**Attachments:** July 2009 - March 2017 MISO Market Admin and Schedule 24 Rates.xlsx; March 2017 DA RT LMPs and Gen Awards.xlsx

Hi Brad,

Attached are the MISO Market Admin Rates as well as the March DA/RT LMPs and the Generation Awards for Station Two.

Please let me know if you have any questions or need anything further.

Thank you,

*Elizabeth R Tutor; MISO Settlement Supervisor; Big Rivers Corporation; 201 3<sup>rd</sup> Street Henderson, KY 42420; (p) 270-844-6177, (c) 270-577-3243, (f) 270-827-2101*

**From:** Brad Bickett [mailto:bbickett@hmpl.net]  
**Sent:** Wednesday, May 17, 2017 9:22 AM  
**To:** Tutor, Elizabeth <Elizabeth.Tutor@bigrivers.com>  
**Cc:** Eacret, Mark J <Mark.Eacret@bigrivers.com>; Chris Heimgartner <cheimgartner@hmpl.net>  
**Subject:** RE: Henderson excess energy data - economic hourly data

Elizabeth,

Henderson production cost for March 2017 averaged \$29.85 per MWh, and includes variable expenses for coal, emissions, reagent lime, disposal, landfill, and FGD.

It will help if you can send the LMP data for March because I will not have to access each MISO daily report. Also, if you send the MISO admin fee data, I will include that expense in my calculations.

Thank you,

Brad

---

**From:** Brad Bickett  
**Sent:** Tuesday, May 16, 2017 1:05 PM  
**To:** Tutor, Elizabeth  
**Cc:** Eacret, Mark J  
**Subject:** Re: Henderson excess energy data - economic hourly data

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---

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**Cc:** Tutor, Elizabeth <[Elizabeth.Tutor@bigrivers.com](mailto:Elizabeth.Tutor@bigrivers.com)>; Chris Heimgartner <[cheimgartner@hmpl.net](mailto:cheimgartner@hmpl.net)>; Berry, Bob <[Bob.Berry@bigrivers.com](mailto:Bob.Berry@bigrivers.com)>  
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VOM - (\$80K)

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**Sent:** Monday, May 15, 2017 3:25 PM

**To:** Eacret, Mark J <[Mark.Eacret@bigrivers.com](mailto:Mark.Eacret@bigrivers.com)>

**Cc:** Tutor, Elizabeth <[Elizabeth.Tutor@bigrivers.com](mailto:Elizabeth.Tutor@bigrivers.com)>; Chris Heimgartner <[cheimgartner@hmpl.net](mailto:cheimgartner@hmpl.net)>

**Subject:** Henderson excess energy data - economic hourly data

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- MISO system Day Ahead prices were replaced by the provided Day Ahead ExPost LMP prices at Station Two generators.
- Henderson variable cost increased due to addition of average expenses for disposal, landfill, and FGD (Fiscal year 2016 amounts used for current year)

Let me know if there are any comments or questions.

Brad

<July 2009-Feb2017 Economic EHE Resv-Load using HMPL variable cost v2 - Summary Only.xlsx>



## Brad Bickett

---

**From:** Eacret, Mark J <Mark.Eacret@bigrivers.com>  
**Sent:** Monday, June 5, 2017 2:15 PM  
**To:** Brad Bickett  
**Subject:** RE: HMPL Issues briefing book chapter on Capacity Shortage

Understood, thanks

**From:** Brad Bickett [mailto:bbickett@hmpl.net]  
**Sent:** Monday, June 05, 2017 2:09 PM  
**To:** Eacret, Mark J <Mark.Eacret@bigrivers.com>  
**Subject:** RE: HMPL Issues briefing book chapter on Capacity Shortage

Yes.. However, I have not verified any of the capacity figures.

Brad

---

**From:** Eacret, Mark J [mailto:Mark.Eacret@bigrivers.com]  
**Sent:** Monday, June 05, 2017 2:04 PM  
**To:** Brad Bickett  
**Subject:** RE: HMPL Issues briefing book chapter on Capacity Shortage

Thanks, Brad

So the SEPA reference isn't to all years, just the year (Planning Year 14/15) in which MISO didn't allow us to count SEPA for resource adequacy?

**From:** Brad Bickett [mailto:bbickett@hmpl.net]  
**Sent:** Monday, June 05, 2017 1:54 PM  
**To:** Eacret, Mark J <Mark.Eacret@bigrivers.com>  
**Subject:** RE: HMPL Issues briefing book chapter on Capacity Shortage

Mark,

Sorry for the delayed response. In regard to the spreadsheet comment on capacity cost, (Bilateral Agreement) that was a reference to Section 2.2 of the System Reserves Agreement. On the question about SEPA capacity, although it was not compensated by MISO in the voluntary annual planning resource auction, SEPA was firm capacity available to and used by HMP&L for the purpose of resource adequacy. Let me know if you have any other questions, and feel free to give me a call if you want to discuss.

Brad  
270-724-0850

---

**From:** Eacret, Mark J [mailto:Mark.Eacret@bigrivers.com]  
**Sent:** Wednesday, May 31, 2017 8:30 AM  
**To:** Brad Bickett  
**Subject:** RE: HMPL Issues briefing book chapter on Capacity Shortage

Sure, enjoy your time off.

I know that Bob and Chris want to get these issues finalized, so if you could get back with me as soon as you could on Monday, I would appreciate it.

**From:** Brad Bickett [<mailto:bbickett@hmpl.net>]  
**Sent:** Wednesday, May 31, 2017 8:25 AM  
**To:** Eacret, Mark J <[Mark.Eacret@bigrivers.com](mailto:Mark.Eacret@bigrivers.com)>  
**Subject:** Re: HMPL Issues briefing book chapter on Capacity Shortage

Mark,

I am out of the office this week on vacation. I would like to get back to you on Monday about this question if that will work for you.

Brad B

On May 31, 2017, at 8:14 AM, Eacret, Mark J <[Mark.Eacret@bigrivers.com](mailto:Mark.Eacret@bigrivers.com)> wrote:

Brad,

We are working on reconciling some HMPL numbers that Chris gave to Bob last Friday to ours. I'm working on the MISO capacity issue.

BREC had calculated a cost of \$203K to cover HMPL's MISO capacity requirements since 2013. HMPL's number is zero. In the spreadsheet that Chris gave Bob, there is a note that says "Bilateral Agreement". Bob told me that Chris said that the BREC calculations didn't properly account for HMPL's SEPA allocation.

The spreadsheets that we reviewed in our meeting (attached) reflected HMPL's SEPA allocation. Can you help me with this?

Mark

**From:** Eacret, Mark J  
**Sent:** Monday, May 08, 2017 9:45 AM  
**To:** '[bbickett@hmpl.net](mailto:bbickett@hmpl.net)' <[bbickett@hmpl.net](mailto:bbickett@hmpl.net)>  
**Cc:** Berry, Bob <[Bob.Berry@bigrivers.com](mailto:Bob.Berry@bigrivers.com)>; Parsley, Marlene <[Marlene.Parsley@bigrivers.com](mailto:Marlene.Parsley@bigrivers.com)>  
**Subject:** FW: HMPL Issues briefing book chapter on Capacity Shortage

Brad,

Attached are some documents addressing your question from last week on MISO capacity requirements.

The spreadsheet compares Henderson's MISO capacity requirements and its capacity resources beginning with the 2013 planning year. There was no MISO capacity auction prior to that planning year, so determining a market price for the 2011 and 2012 planning years would be subjective.

The word document walks through the MISO requirements and calculations associated with the 2017/2018 planning year as an example.

We'll have someone at our Wednesday meeting that can walk through the detail and any questions that you have,

Mark

<Station Two Capacity Sales Revenue PY 13\_14 thru 17\_18.xlsx>

<HMPL Capacity Requirements summary as of 2017\_2018.docx>

## Brad Bickett

---

**From:** Eacret, Mark J <Mark.Eacret@bigrivers.com>  
**Sent:** Wednesday, June 7, 2017 7:01 AM  
**To:** Sebourn, Michael  
**Cc:** Brad Bickett; Tutor, Elizabeth; Berry, Bob  
**Subject:** RE: Henderson Follow-Up Meeting

Mike,

We'll have personnel familiar with the historical view from both BREC and HMPL. Do you want anyone available for questions on the future value?

If you come across any questions on either approach prior to Friday's meeting, please pass them along. We might be able to get you an answer prior to the meeting or will be prepared to answer it by then.

Mark

**From:** Sebourn, Michael [mailto:Michael.Sebourn@lge-ku.com]  
**Sent:** Tuesday, June 06, 2017 4:57 PM  
**To:** Eacret, Mark J <Mark.Eacret@bigrivers.com>  
**Subject:** RE: Henderson Follow-Up Meeting

Hi Mark,

Thanks for your message.

1. Bob Berry sent the files supporting the future value and I just replied with a request for the supporting files for the historical view.
2. Does 9:30 Central time work for you on Friday?
3. It would be great if someone could walk us through the analysis. I think we understand the future value pretty well, so we'll probably want to focus on the historical view. But hopefully, we can get a basic understanding from the supporting files before we come on Friday.

Mike

---

## Michael Sebourn

Manager, Generation Planning | LG&E and KU  
220 W. Main St., Louisville, KY 40202  
O: 502-627-2994 | M: 502-403-8117 | F: 502-217-2020  
[michael.sebourn@lge-ku.com](mailto:michael.sebourn@lge-ku.com)



---

**From:** Eacret, Mark J [mailto:Mark.Eacret@bigrivers.com]  
**Sent:** Tuesday, June 06, 2017 5:15 PM  
**To:** Sebourn, Michael <Michael.Sebourn@lge-ku.com>  
**Subject:** Henderson Follow-Up Meeting

Mike,


I understand that you will be traveling to Henderson this Friday (6/9) to complete your review of some calculations around Henderson Excess Energy. A few questions:

1. Do you need any additional materials for your work prior to Friday?
2. What time would you like to meet on Friday?
3. Would you just like to ask questions, or would you like to have someone walk you through the analysis?

Let me know what would work best for you.

**Mark J. Eacret**  
Vice President Energy Services  
Big Rivers Electric Corporation  
Office – 270.844.6126  
Cell – 636.579.8740



Your Touchstone Energy Cooperative 

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The information contained in this transmission is intended only for the person or entity to which it is directly addressed or copied. It may contain material of confidential and/or private nature. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is not allowed. If you receive this message and the information contained therein by error, please contact the sender and delete the material from your/any storage medium.

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1 **Item 28) Has Henderson ever been involved in or provided oversight of the labor costs**  
2 **allocated to Station Two, including salary levels, annual increases, bargaining unit contract**  
3 **negotiations, bonuses, or benefits? Please provide all Documents supporting your response.**

4 **Response)** All individuals who provided labor for Station Two were Big Rivers employees  
5 subject to the sole discretion of Big Rivers in establishing compensation, benefits, and all other  
6 conditions of employment. Henderson was not involved in establishing any Station Two labor  
7 costs. Henderson’s involvement was limited to paying its proportionate share of costs in  
8 accordance with its obligations under the terms of the Station Two contracts. Big Rivers did not  
9 consult Henderson when considering employee compensation and benefits. Rather, Big Rivers  
10 submitted the costs to Henderson for approval as part of the annual budget-review process.  
11 Henderson did not knowingly approve any Station Two benefit containing severance benefits for  
12 Big Rivers employees.

13 **Witness) Chris Heimgartner, Barbara Moll**

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1 **Item 29) Please explain in detail how Henderson would have satisfied the**  
2 **requirements of the NERC BAL-002 if Henderson had registered Station Two separately**  
3 **from Big Rivers, and provide all studies, analyses, correspondence, and other Documents**  
4 **relating to the cost of satisfying such requirements.**

5 **Response)** Without Balancing Authority certification and functional registration, NERC  
6 BAL-002 requirements did not apply to Henderson. At the time Big Rivers registered  
7 Henderson's generation asset without authorization, Henderson was in the process of  
8 determining whether, and in what manner, to apply for MISO membership. Henderson had not  
9 made a decision concerning the manner in which it would comply with NERC BAL-002  
10 requirements in the event Henderson became a Balancing Authority. **Witness) Brad Bickett**

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1 **Item 30) Please provide a detailed summary of how Henderson would have provided**  
2 **or acquired the following services had Big Rivers not operated Station Two from May 1,**  
3 **2018, through Station Two’s retirement, and all studies, analyses, correspondence, and**  
4 **other Documents relating to the cost of providing or acquiring each service during that**  
5 **period.**

6 **a. Power Supply**

7 **b. LBA Services**

8 **c. Meter Management Services**

9 **d. NERC requirements**

10 **e. Transmission Service**

11 **Response)** Henderson objects to this request on the grounds the request calls for speculation.  
12 Without waiving the objection, Henderson states that it would have followed a course similar or  
13 identical to the course it actually followed in arranging to meet the listed needs, only at a more  
14 accelerated pace (Henderson ultimately made arrangements at a far more accelerated pace than  
15 anticipated, as Big Rivers initially offered to continue operating Station Two through May 31,  
16 2019. Henderson approved early retirement of Station Two only to receive notice from Big  
17 Rivers that Big Rivers was carving Henderson out of its Local Balancing Authority Area,  
18 contravening a course of dealing that had spanned some 50 years, i.e. the duration of the parties’  
19 contractual relationship). Because the request is speculative, Henderson does not possess  
20 documentation concerning the cost of the listed services if Big Rivers had not operated Station  
21 Two until retirement. Specifically:



1           a.       Henderson likely would have acquired an alternate power supply and, if  
2 necessary, would have retained a third party to operate Station Two pending approval of any  
3 related contracts;

4           b.       Henderson likely would have retained a third party to perform Local Balancing  
5 Authority (LBA) services;

6           c.       Henderson likely would have retained a third party to perform Meter Management  
7 services;

8           d.       Henderson would have required the third party performing LBA or TOP services  
9 to remain compliant with all applicable NERC requirements;

10          e.       Henderson owns its transmission facilities and would not have been required to  
11 make alternate arrangements for transmission service.

12 **Witness)     Brad Bickett**

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1 **Item 31) Please provide any and all audited financial statements for HMP&L and for**  
2 **the City of Henderson for each year during the period 2009-2019.**

3 **Response)** See attached.

4 **Witness) Barbara Moll**

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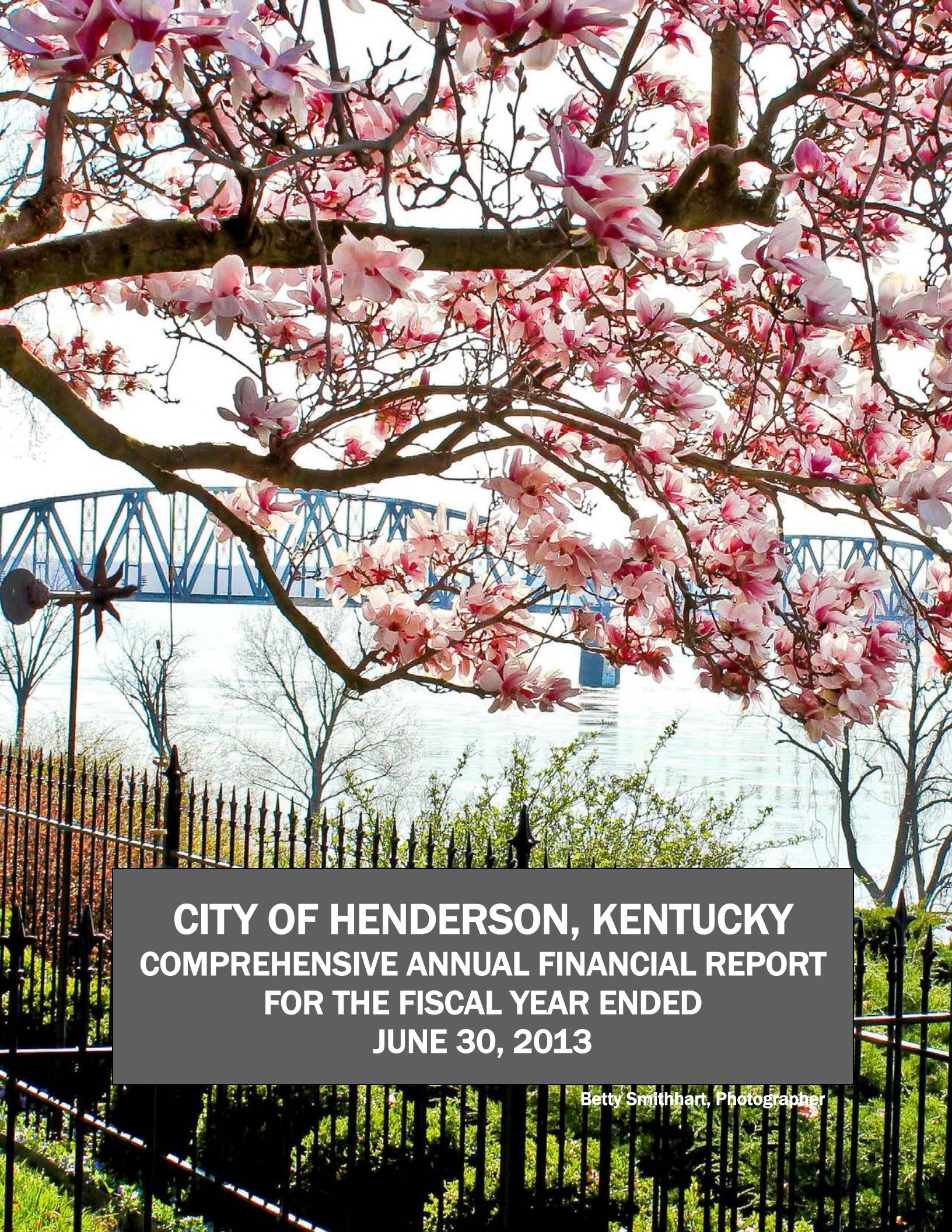
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**Case No. 2019-00269**  
**Attachment 1 to BREC 1-31**  
**Pages 141**





**CITY OF HENDERSON, KENTUCKY  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2013**

Betty Smithhart, Photographer



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

**For the Fiscal Year Ended June 30, 2013**



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

**CITY OF HENDERSON, KENTUCKY**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**For the Fiscal Year Ended June 30, 2013**

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**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 Position .....	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 Position .....	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 Changes in Fund Balance – Budget and Actual – General Fund.....	36
Statement of Net Position – Proprietary Funds.....	37
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds.....	38
Statement of Cash Flows – Proprietary Funds.....	39
Statement of Net Position – Fiduciary Funds .....	40
Statement of Changes in Net Position – Fiduciary Funds .....	41
Notes to the Financial Statements.....	42
Required Supplementary Information:	
Schedules of Funding Progress .....	86
Schedules of Employer Contributions .....	87
Nonmajor Governmental Funds:	
Nonmajor Governmental Funds – Fund Descriptions .....	88
Combining Balance Sheet – Special Revenue Funds .....	89
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Special Revenue Funds .....	90

Continued

Schedules of Revenues, Expenditures, and Changes in Fund

Balances – Budget and Actual:

Cemetery Fund.....	91
Public Way Improvement Fund .....	92
Henderson Area Rapid Transit Fund .....	93
Emergency Communications Fund.....	94
Community Development Block Grant Fund .....	95
HOME Fund.....	96
Police Investigation Fund .....	97
Justice Assistance Grant Fund .....	98
Debt Service Fund.....	99
Capital Projects Fund.....	100

**STATISTICAL SECTION**

Statistical Section Contents.....	101
General Information.....	102
Financial Trends:	
Net Position by Component .....	105
Changes in Net Position.....	106
Fund Balances of Governmental Funds .....	109
Changes in Fund Balances of Governmental Funds .....	110
Revenue Capacity:	
General Governmental Tax Revenue by Source.....	111
Assessed Value and Actual Value of Taxable Property .....	112
Detail of Assessed Value and Estimated Actual Value of Taxable Property .....	113
Property Tax Rates - Direct and Overlapping Governments .....	114
Ad Valorem Tax Rates – Direct and Overlapping Governments .....	115
Top Ten Taxpayers .....	116
Property Tax Levies and Collections .....	117
Natural Gas Volume by Customer Type.....	118
Natural Gas Sold by Customer Type .....	119
Natural Gas Rates – Residential Customers .....	120
Debt Capacity:	
Direct and Overlapping Governmental Activities Debt.....	121
Pledged-Revenue Coverage – Water & Sewer and Electric Commissions ...	122
Ratios of Outstanding Debt by Type .....	123
Ratios of General Bonded Debt Outstanding and Legal Debt Margin .....	124
Demographic and Economic Information:	
Demographic Statistics .....	125
Principal Employers.....	126
Operating Information:	
Full-time Equivalent City Government Employees by Function / Program..	128
Capital Asset Statistics by Function / Program.....	129
Operating Indicators by Function / Program .....	130

## **INTRODUCTORY SECTION**



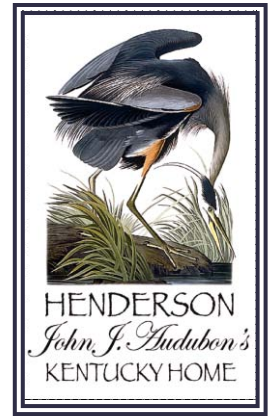


Steve Austin, Mayor

Commissioners:  
Thomas E. Davis  
Jan M. Hite  
Robert M. Mills  
Robert N. Pruitt

# 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

November 26, 2013

Honorable Mayor,  
Members of the Board of Commissioners,  
Citizens of the City of Henderson, Kentucky:

We present to you the Comprehensive Annual Financial Report of the City of Henderson, Kentucky for the fiscal year ended June 30, 2013. Kentucky Revised Statute 91A.040 requires that the City of Henderson publish, before February 1 immediately following the fiscal year, a complete set of audited financial statements. This report is published to fulfill that requirement.

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.

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, 2013. 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.



### *Profile of the government*

The City of Henderson was incorporated as a town in 1810 and as a City in 1867. Henderson currently serves a population of 28,911 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.

The City of Henderson 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. Henderson 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)*

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.

### *Local economy*

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 property 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 2013A 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 35.8% or \$290.2 million from \$811.1 million in fiscal 2004 to \$1,101.3 million in fiscal 2013. Bank deposits have increased 34.2% or \$152.5 million from \$446.3 million to \$598.8 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 \$7.6 million at June 30, 2012 to nearly \$9.5 million at June 30, 2013. The reserves consisted of cash, investments, and receivables. The \$1,852,812 increase in General Fund reserves was primarily the result of an increase in tax collections and the reduction in personnel expenses. Tax collections increased \$1,042,248 or 5.1% with growth in all three areas: property, insurance premium, and occupational taxes. Personnel expenses were down \$1,043,001 with health insurance accounting for \$733,367 of the decrease. The General Fund will have a cash and investment balance, net of cash due to component units, entering the fiscal year equal to 4.6 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 exceeded 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 with a rate increase under consideration by the Board of Commissioners.

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, 2012, and 2013 the losses were \$247,780, \$593,253, and \$75,229 respectively. The average for the last three years was a loss of \$305,421. 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 hope is that the rate increase currently under consideration will reduce the need of using Gas reserves.

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. As a result of the annual consumption during the fiscal year, \$275,121 was returned to Henderson which is an increase of \$6,362 from the \$268,759 that was returned in fiscal 2012.

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 \$6.8 million, \$6.6 million, and \$6.4 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.



Finally, in July of 2012, the City changed the third party administrator to UMR which is owned by United Healthcare. The City moved from a regional discounter to a national discounter with the potential of better pricing on health care. The changes to the health insurance plan seem to have worked. For fiscal 2013, the total health care cost dropped from \$6.4 million to \$5.6 million. The \$801,255 equates to a savings of 12.5%.

From a capital projects aspect, 2013 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 in fiscal 2012. 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 the year.

Fiscal 2013 included the completion of the extension of the existing Riverwalk from Red Banks Park to 12<sup>th</sup> Street. The project included beautiful overlooks of the Ohio River, charming seating, and attractive passive lighting. The Kentucky Chapter of the American Public Works Association named the Henderson Riverwalk as the “Project of the Year”. The Riverwalk also won the “Enterprise Cities Award” from the Kentucky League of Cities for 2013. The project was recognized for its “entrepreneurship, innovation, and excellence in local government.”

Future projects for the remaining funds will be considered and then submitted to the State of Kentucky in fiscal 2014.

*Streets and Sidewalk Improvements:*

North Green River Road is currently under a rehabilitation to widen the road in order to make it safer. This project is being done by the City of Henderson with proceeds coming from the State of Kentucky. Preliminary engineering was done in fiscal 2013 with construction starting in fiscal 2014.

*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. For fiscal 2013, \$129,847 was spent on flood prevention projects.

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. For fiscal 2013, the County contribution was \$93,820. The term of the agreement was for an initial period of five years beginning July 1, 2008 and ending June 30, 2013. After the recent renewal, the agreement has three five year automatic renewal options remaining.

The City of Henderson and Henderson County are also working together on the recycling programs throughout Henderson County. The Tri-County Recycling Center handles cardboard, aluminum, and the mulching of leaves, branches, and yard clippings. This joint venture won the “Spirit of Kentucky Award” at the Governors’ Local Issues Conference. The project was noted for its “use of creative, collaborative, and cost effective thinking to plan and implement a highly successful project.” The Tri-County Recycling Alliance utilized \$1.4 million in federal, state, and local funds for the construction of the center.

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. For fiscal 2014, the committee is pushing for an increase in the state fee for cellular service that is collected by the State and then remitted back to the local 911 center.

The City and County are working together to develop a new park in the East-end. Property was purchased in fiscal 2013. The City has applied for a state grant to help with the development.

#### *Capital Building Projects:*

Fiscal 2013 was the first full year that the City occupied the newly constructed 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.

*Downtown Infrastructure Rehabilitation:*

Henderson Water Utility (HWU) continues with its massive \$42.9 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. From 1996 through 2009, HWU spent an estimated \$20 million on capital improvements to its combined sewer system. The completion of all projects, as mandated by Consent Judgment, is required to be no later than December 21, 2017.

*Other Developments:*

During fiscal 2013, the City successfully completed a ninth year of the World Changers program, in conjunction with the North American Mission Board, which provided exterior renovations to 20 homes in the community.

Two new homes were constructed with CDBG and private funds. CDBG funds were also provided to the Shelter for Women and Children and police public services for enhanced patrols.

As part of the budget process, the staff identifies and quantifies the operational costs associated with its capital projects and budgets resources accordingly. In addition, the budget committee monitors the condition of all government equipment and vehicles and makes recommendations on their replacement.

The City of Henderson maintains a vehicle replacement schedule which serves as its fleet replacement guide over a five-year period. The fiscal year 2014 budget includes \$4.6 million in capital projects which includes \$431,000 in rolling stock replacement.

During the last fiscal year, HMP&L spent \$906,036 in capital improvements and replacements in the existing system and \$3,070,255 in capital improvements and replacements of Station Two.

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.

With all of the award-winning downtown improvements, the City/County collaborations, and East end redevelopment, it is a very exciting time for the community. 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.

### ***Relevant financial policies***

The City of Henderson uses a comprehensive set of financial policies. During the current year, two of these policies were particularly relevant. The City of Henderson has a policy that requires the adoption of a balanced annual operating budget where operating expenses may not exceed anticipated revenues plus available unassigned fund balance. The fiscal 2013 budget was adopted using \$787,000 of unassigned fund balance. However, these funds were not needed. The unassigned fund balance actually increased by \$435,140. The reserve policy also designates that 20% of annual surpluses be set aside for short-term payments on large vehicles and equipment; 40% of annual surpluses be set aside for long-term payments on major building projects or improvements; and the remaining 40% be placed in the unassigned fund balance.

Having these funds set aside has enabled the City to reserve funds for a new fire truck in fiscal 2015 and have funds available to make payments on the G.O. Series Bonds 2011A.

The second involves the reserve policy where the goal of maintaining a minimum general fund reserve of at least one-quarter (three months) of the General Fund's operating budget was exceeded.

### ***Awards and Acknowledgements***


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 (CAFR) for the fiscal year ended June 30, 2012. This was the fourteenth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable program 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 CAFR 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, 2012 and ending June 30, 2013. 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. The preparation of this report would not have been possible without the skill, effort, and dedication of the entire staff of the Finance and Administration Department. We wish to thank all government departments for their assistance in providing the data necessary to prepare this report. Credit also is due to the Board of Commissioners for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Henderson's finances.

Respectfully submitted,



Russell R. Sights  
City Manager



Robert Gunter  
Finance Director



Government Finance Officers Association

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Presented to

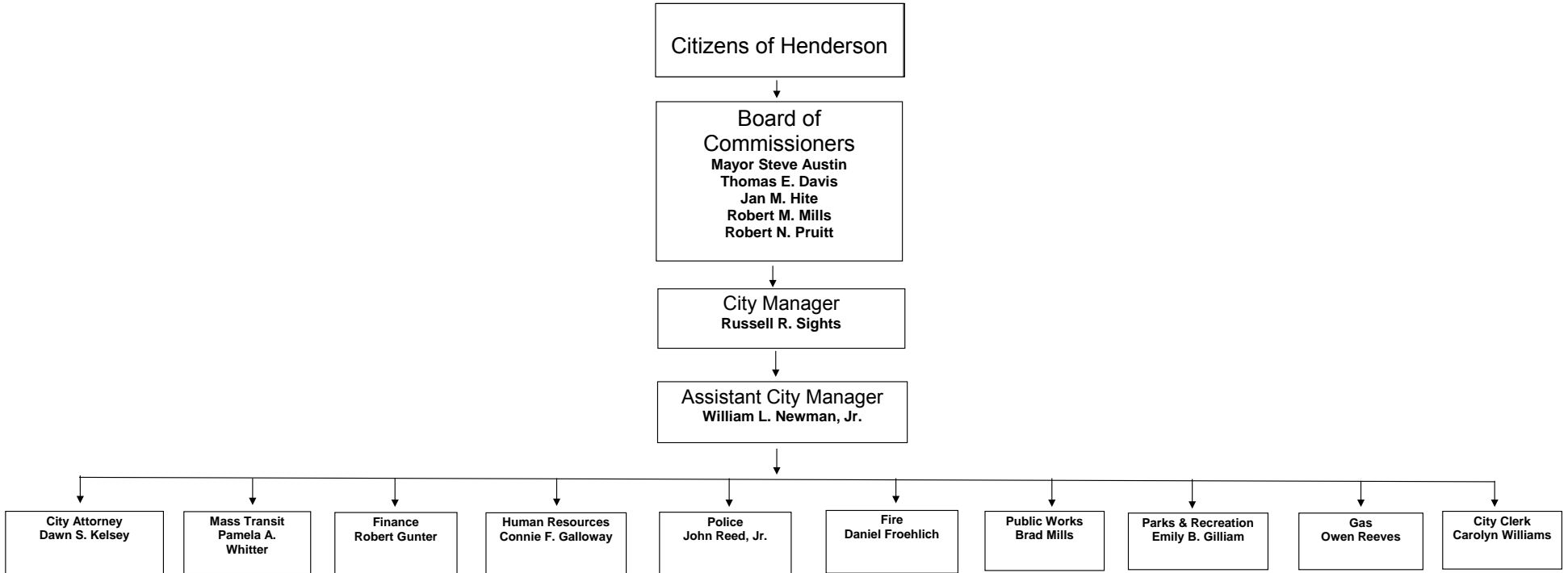
**City of Henderson  
Kentucky**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**

Executive Director/CEO

**CITY OF HENDERSON, KENTUCKY  
Organizational Chart**



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

**Elected Officials**

Mayor	Steve Austin
Commissioner	Thomas E. Davis
Commissioner	Jan M. Hite
Commissioner	Robert M. Mills
Commissioner	Robert N. Pruitt

**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	Brad Mills



## **FINANCIAL SECTION**



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## **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Steve Austin, Mayor  
and the Board of Commissioners of the City  
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 City of Henderson, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, 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, 2013, and the respective changes in financial position

and, where applicable, cash flows thereof or the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information on pages 15 to 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Henderson, Kentucky’s basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Henderson, Kentucky  
November 11, 2013

**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, 2013. 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 \$37.4 million at the close of fiscal 2013. Of this amount, \$10.8 million (unrestricted net position) may be used to meet the City's ongoing obligations.
- City governmental funds reported combined ending fund balances of \$39.5 million. Of this total, \$5.7 million is unassigned.
- In the City's business-type activities, income from operations increased from \$586,689 in fiscal 2012 to \$1,431,954 in fiscal 2013.
- The City's General Fund ended the year with a fund balance of \$9,462,886, an increase of \$1,852,812 or 24.4% from fiscal year 2012's balance of \$7,610,074.
- In the past four years, the General Fund's fund balance has increased 79.3% from \$5.3 million in 2009 to \$9.5 million in 2013.

### Overview of Financial Statements

This discussion and analysis provided here are intended to serve as an introduction to the City of Henderson's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

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

The *statement of activities* presents information showing how the City of Henderson's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., taxes, grants, and earned but unused vacation leave).

Both of the governmental-wide financial statements distinguish functions of the City of Henderson that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant



portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Henderson include administration, finance, mass transit, parks and recreation, police, fire, public works, and nondepartmental. The business-type activities of the City of Henderson include the natural gas and sanitation operations.

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

The government-wide financial statements can be found on pages 30-31 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Henderson, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Henderson can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the 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 eleven (11) 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 from the other eight (8) governmental funds is 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 the form of combining statements in the combining and individual fund statements and schedules section of 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.

The basic governmental fund financial statements can be found on pages 32-36 of this report.

**Proprietary Funds.** The City of Henderson maintains two different types of proprietary funds. Enterprise fund are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Henderson uses enterprises funds to account for its natural gas and sanitation operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Henderson's various functions. The City of Henderson uses internal service funds to account for the management of its self-funded health insurance. Because this service predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same kind of information as government-wide financial statements, only in greater detail. The proprietary fund financial statements provide separate information for the natural gas and sanitation operations, both of which are considered to be major funds of the City of Henderson. The internal service fund is presented in the proprietary fund financial statements.

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.

The basic proprietary fund financial statements can be found on pages 37-39 of this report.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because those resources are not available to support the City of Henderson's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City of Henderson maintains three different types of fiduciary funds. The Civil Service Pension fund is used to report resources held in trust for non-hazardous retirees and beneficiaries that elected to participate in 1987. Police & Fire Pension fund is used to report resources held in trust for hazardous retirees and beneficiaries that elected to participate in 1987. The Health Reimbursement Arrangement Plan is used to help employees pay for health care expenses.

The fiduciary fund financial statements can be found on pages 40-41 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 42-85 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the City of Henderson's progress in funding its obligations to provide pension and other post-employment benefits to its employees. Required supplementary information can be found on pages 86-87 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions and other post employment benefits. Combining and individual fund statements and schedules can be found on pages 88-100 of this report.

## Government-Wide Overall Financial Analysis

As noted earlier, net position 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 \$37,347,993 at the close of the most recent fiscal year.

The tables and charts on the next few pages provide a summary of the City of Henderson's operations for the fiscal year ended June 30, 2013.

### City of Henderson's – Net Position

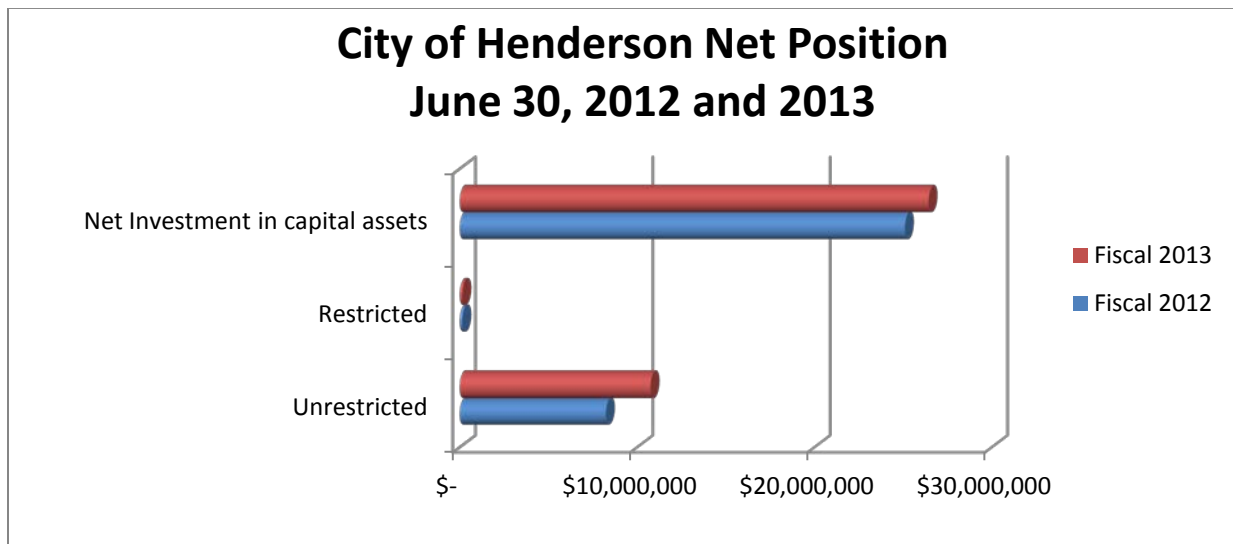
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 44,241,815	\$ 34,472,216	\$ 8,448,443	\$ 7,896,194	\$ 52,690,258	\$ 42,368,410
Capital assets	30,963,595	30,146,869	3,096,911	2,911,634	34,060,506	33,058,503
Total assets	<u>\$ 75,205,410</u>	<u>\$ 64,619,085</u>	<u>\$ 11,545,354</u>	<u>\$ 10,807,828</u>	<u>\$ 86,750,764</u>	<u>\$ 75,426,913</u>
Long-term liabilities	\$ 39,203,876	\$ 30,933,773	\$ 3,450,000	\$ 3,450,000	\$ 42,653,876	\$ 34,383,773
Other liabilities	4,689,125	6,179,771	2,059,770	1,368,555	6,748,895	7,548,326
Total liabilities	<u>\$ 43,893,001</u>	<u>\$ 37,113,544</u>	<u>\$ 5,509,770</u>	<u>\$ 4,818,555</u>	<u>\$ 49,402,771</u>	<u>\$ 41,932,099</u>
Net position:						
Net investment in capital assets	\$ 23,527,075	\$ 22,194,236	\$ 2,911,911	\$ 2,911,634	\$ 26,438,986	\$ 25,105,870
Restricted for:						
Debt Service	69,605	69,424	-	-	69,605	69,424
Law enforcement	79,824	78,772	-	-	79,824	78,772
Unrestricted	7,635,905	5,163,109	3,123,673	3,077,639	10,759,578	8,240,748
Total net position	<u>\$ 31,312,409</u>	<u>\$ 27,505,541</u>	<u>\$ 6,035,584</u>	<u>\$ 5,989,273</u>	<u>\$ 37,347,993</u>	<u>\$ 33,494,814</u>

By far, the largest portion of the City of Henderson's net position (70.8%) 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 position (0.40%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$10,759,578 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 position, 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 position increased \$3,853,179 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.** During the current fiscal year, net position for governmental activities increased \$3,806,868 from the prior year for an ending balance of \$31,312,409. There were three key elements that attributed to the increase. Tax revenues increased by \$1,017,323 or 5.9% over the prior year. Secondly, the governmental activities expenses decreased by \$1,730,771 or 5.6%, and capital grants increased by \$673,400 or 22.6%.

The governmental funds had an increase in fund balance of \$10,956,394 with the capital projects fund increasing \$9,172,762. 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 \$3,239,773 spent in Capital Projects Fund, \$2,799,131 or 86.4% was related to the riverfront. Another \$264,547 or 8.2% was distributed to Henderson Water Utility for system improvements.

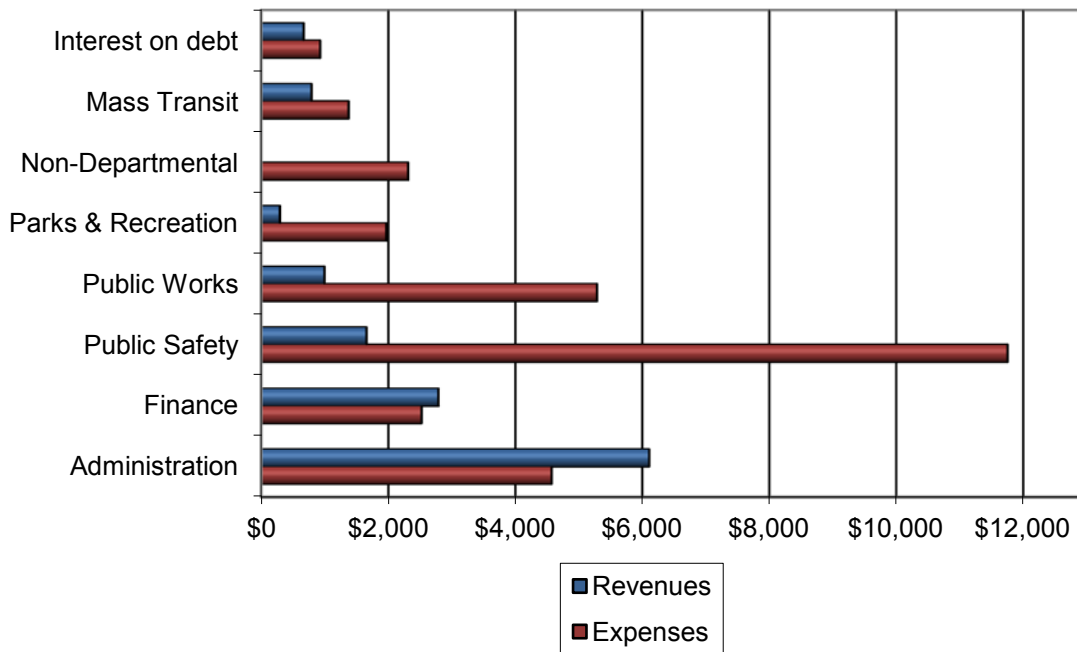
The General Fund added to its reserves in the amount of \$1,852,812. Since fiscal 2009, the fund's balance has increased 79.3%. Based on the fiscal 2014 budgeted expenditures of \$26.5 million, the General Fund has approximately 4.3 months worth of reserves. The City has assigned \$1,296,300 of the fiscal 2013 fund balance with \$1,246,300 of that amount to fill the fiscal 2014 budget deficit leaving \$6,038,346 unassigned. If the City adopts a fiscal 2015 budget in the same amount as fiscal 2014, it would equate to 3.7 months worth of reserves.

### City of Henderson – Changes in Net Position Analysis of the City's Operations

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 6,218,137	\$ 6,504,842	\$19,758,282	\$17,989,009	\$25,976,419	\$24,493,851
Operating grants	3,427,690	3,685,996	93,820	91,533	3,521,510	3,777,529
Capital grants	3,647,262	2,973,862	-	-	3,647,262	2,973,862
General revenues:						
Taxes	18,152,109	17,134,786	-	-	18,152,109	17,134,786
Investment income	32,121	66,039	14,357	84,885	46,478	150,924
Distributions from component units	1,644,724	1,644,724	-	-	1,644,724	1,644,724
Total revenues	33,122,043	32,010,249	19,866,459	18,165,427	52,988,502	50,175,676
<b>Expenses:</b>						
Administration	4,571,652	5,800,427	-	-	4,571,652	5,800,427
Finance	2,522,369	2,715,668	-	-	2,522,369	2,715,668
Mass transit	1,373,897	1,379,552	-	-	1,373,897	1,379,552
Parks & recreation	1,968,902	1,931,317	-	-	1,968,902	1,931,317
Public safety	11,755,095	12,380,137	-	-	11,755,095	12,380,137
Public works	5,286,706	5,359,904	-	-	5,286,706	5,359,904
Nondepartmental	2,311,163	2,128,359	-	-	2,311,163	2,128,359
Interest on long-term debt	925,391	750,582	-	-	925,391	750,582
Gas	-	-	15,508,629	14,531,170	15,508,629	14,531,170
Sanitation	-	-	2,911,519	2,962,683	2,911,519	2,962,683
Total expenses	30,715,175	32,445,946	18,420,148	17,493,853	49,135,323	49,939,799
Increase/(Decrease) before transfers	2,406,868	(435,697)	1,446,311	671,574	3,853,179	235,877
Transfers	1,400,000	1,400,000	(1,400,000)	(1,400,000)	-	-
Increase (Decrease) in net position	3,806,868	964,303	46,311	(728,426)	3,853,179	235,877
Net position, beginning	27,505,541	26,541,238	5,989,273	6,717,699	33,494,814	33,258,937
Net position, ending	\$31,312,409	\$27,505,541	\$ 6,035,584	\$ 5,989,273	\$37,347,993	\$33,494,814



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



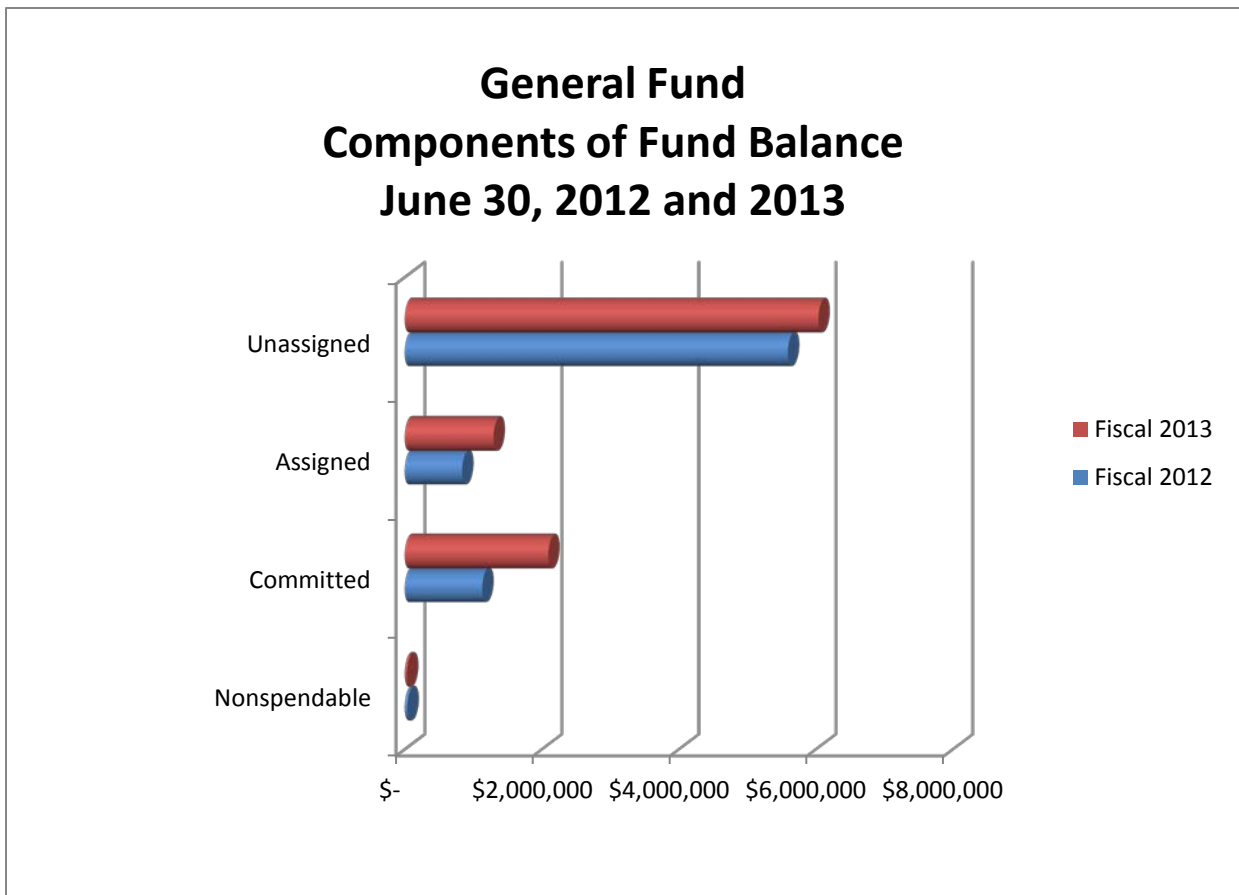
**Business-type Activities.** For the City of Henderson’s business-type activities, the results for the current fiscal year were positive in that overall net position increased to reach an ending balance of \$6,035,584. The total increase in net position for business-type activities (natural gas and sanitation) was \$46,311 or 0.8% from the prior fiscal year. The increase is attributable to growth in the sanitation fund rather than the natural gas fund. Refuse fees were up \$170,159 or 9.2%. The second of three \$1.00 increases in the residential sanitation rates went into effect on July 1, 2012. The rate increase accounting for approximately \$123,000 of the increase in refuse fees with the balance attributed to commercial customers. Landfill fees also had an increase over the prior fiscal with revenue up \$64,120 or 26.5%. An additional cause for the overall increase was the reduction in personnel expenses. These expenses were down \$40,533 or 3.8% with health insurance the largest contributor to the decrease. Health insurance expenses decreased \$53,674.

### Financial Analysis of Governmental Funds

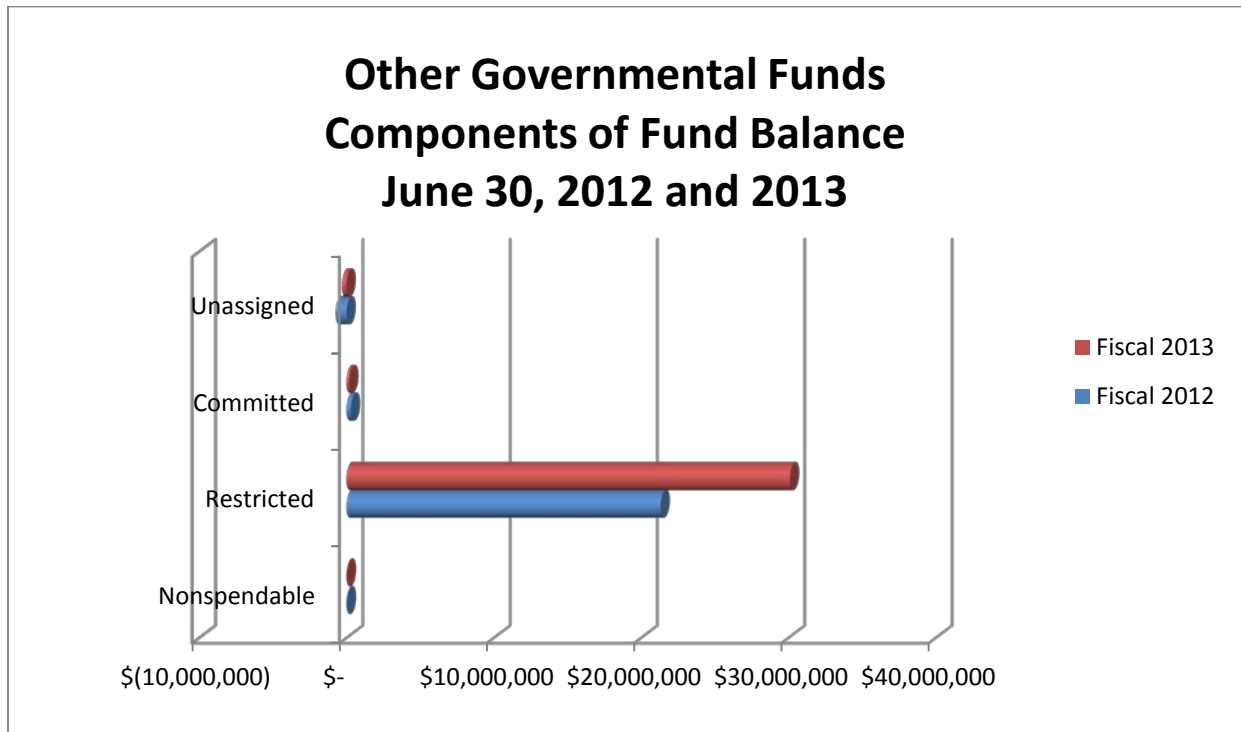
As noted earlier, the City of Henderson uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**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 June 30, 2013, the City of Henderson’s governmental funds reported combined fund balance of \$39,471,512, an increase of \$10,956,394 in comparison with the prior fiscal year. Approximately 14.5% of this amount (\$5,730,881) constitutes unassigned fund balance, which is available for spending at the government’s discretion. Nearly 76.3% or \$30.1 million of the fund balance was restricted for debt, capital projects and other special purposes. There was also \$59,168 that was classified as “nonspendable” because it is for inventories. A total of \$2,277,254 was committed for long-term debt payments and another \$1,296,300 assigned to fill the fiscal 2014 budget deficit (\$1,246,300) and set aside for the future construction of a Newman Park shelter (\$50,000).



The General Fund was the primary operating fund of the City of Henderson. At the end of the current fiscal year, the General Fund unassigned fund balance was \$6,038,346, while total fund balance increased to \$9,462,886. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 22.8 percent of total 2014 fiscal year general fund expenditures, while total fund balance represents approximately 35.7 percent of that same amount.



The fund balance of the City of Henderson's general fund increased by \$1,852,812 during the current fiscal year. Factors contributing to this increase include:

- Taxes increased by \$1,017,323 or 5.9% with property taxes up \$383,542. There was a small increase (\$0.021 per \$100 of fair market assessment) in the real property tax rate due to the City taking the compensating property tax rate. There was also moderate growth in the occupational (\$211,844 or 4.3%) and insurance (\$315,537 or 7.5%) tax collections.
- Personnel expenses decreased by \$1,043,001 or 6.2%. Fiscal 2013 expenses included a cost of living increase of 1% plus a maximum of 1% merit increase based on job performance. The fund benefited from a reduction in health insurance costs of \$733,367 or 21% from the prior fiscal year. The reduction in the health insurance costs are mostly attributable to switching to a new third party administrator that was able to negotiate better discounts with providers.

The Capital Projects Fund ended the fiscal year with a fund balance of \$29,692,524 which is an improvement of \$9,172,762 from the prior year. During fiscal 2013, the City of Henderson issued \$9,730,000 in general obligation bonds. The proceeds from the bond sale will ultimately be used by Henderson Municipal Water for various system improvements. The City received federal funding on the riverfront project in the amount of \$3,464,605 during the fiscal year which included the reimbursement of capital expenditures.

The Debt Service Fund, the remaining major governmental fund, had an increase in fund balance during the current year of \$181 to bring the year end fund balance to \$69,605. The increase essentially resulted from rounding the transfers from the general fund to the nearest \$1,000 minus payments on the general obligation bonds.

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

Unrestricted net position of the Natural Gas Fund at the end of the year was \$4,216,829 and for the Sanitation Fund was (\$1,093,156). The total growth (decrease) in net position for both funds was (\$75,229) and \$121,540, respectively. As noted earlier in the discussion of business-type activities, the increase for the Sanitation Fund was attributed to the second of three \$1.00 increases in the residential sanitation rates that went into effect on July 1, 2012. The rate increase accounting for approximately \$123,000 of the increase in refuse fees with the balance attributed to commercial customers.

The Sanitation Fund's statement of net position 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 \$2.26 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.

Due to a more typical winter, the Gas Fund's income from operations increased \$553,003 or 73.1% from the prior fiscal year. After investment income and transfers to the general fund, the change in net position was (\$75,229). Since 2009, the cumulative change in the net position for the Gas Fund has been a decrease of \$841,124 or 11.2%. Based on the 2014 fiscal year's budgeted expenditures and net of invested in capital assets, the Gas Fund has approximately 2.7 months worth of reserves.

## **General Fund Budgetary Highlights**

**Original budget compared to final budget.** As with most years, there was a need for budget amendments. The original budget was adopted with expenditures set at \$25,825,000. The first amendment increased the general fund budget to \$26,304,000. The fire department received a grant in the amount of \$59,000 for laptops. Another amendment was \$209,000 for police cars

that were ordered in fiscal 2012 but were not delivered until fiscal 2013. There were also major repairs to Kimmel Park play equipment and the water feature on the riverfront. The other amendments were small and varied.

The second amendment was done late in the fiscal year and increased the total general fund appropriation to \$26,418,000. The amendment included \$39,000 in camera and radio equipment for police cars and \$75,000 in additional transfers to the Public Way Fund to cover fiscal 2012 paying projects that did not get paid until early fiscal 2013.

The amended fiscal 2013 budget was approved with anticipated expenses exceeding anticipated revenue by \$1,299,500. The difference was to come from reserves. The General Fund's actual revenue and transfers were \$25,470,913 or 101.4% of the approved budget of \$25,118,500 or a difference of \$352,413. The General Fund's actual expenses and transfers were \$23,618,101 or 89.4% of approved budget of \$26,418,000 or a difference of \$2,799,899.

**Final budget compared to actual results.** The most significant differences between estimated revenues and actual revenues were as follows:

<u>Revenue source</u>	<u>Estimated Revenues</u>	<u>Actual Revenues</u>	<u>Difference</u>
Insurance Premium Tax	\$4,190,000	\$4,519,282	\$ 329,282
Net Profits Tax	\$ 740,000	\$ 889,492	\$ 149,492
Federal Grant	\$ 410,000	\$ 206,497	\$(203,503)
State Grant	\$ 188,500	\$ 40,659	\$(147,841)

The insurance premium tax is a 10% tax on most insurance policies in the City of Henderson. Due to recent natural disasters across the country, insurance companies are increasing premiums and the tax has followed. The net profits tax had a higher than expected increase because the City received a one-time bump from a company that had a large extraordinary item. The City has participated in the federal community oriented policing services (COPS) program and exhausted the funding earlier than budgeted. And finally, the shortfall in state grants was due to requested projects (i.e. a skate park, walking trail project) that were not awarded or spent.

<u>Expense</u>	<u>Estimated Expense</u>	<u>Actual Expense</u>	<u>Difference</u>
Health Insurance	\$3,442,500	\$2,759,125	\$ 683,375
Salaries – Operational	\$6,025,690	\$5,664,046	\$ 361,644
Police & Fire Pension	\$2,117,470	\$1,982,337	\$ 135,133
Special Projects	\$ 569,130	\$ 188,879	\$ 380,251

A review of actual expenditures compared to the appropriation in the final budget yields some rewarding numbers. The City of Henderson has been working diligently to control costs in all departments and across all categories. Health insurance costs that usually had large increases in prior years actually had an impressive improvement. As noted earlier, the City of Henderson switched third party administrator for the health insurance plan. With the City getting bigger discounts, health insurance came in 80.2% of budget. Due to open positions in several departments, operating salaries were \$361,644 below budget or 94.0% of anticipated expenses.



The police and fire pension expense also benefited from several open positions. The costs for this line item were \$135,133 below estimated or 93.6% of budget.

The special projects estimated expense item included \$175,800 for a walking trail that was not able to get state funding and the City opted not to move forward. This account also included the City's match on a state drainage grant that has progressed slower than expected but should be well under way in fiscal 2014.

## Capital Asset and Debt Administration

**Capital Assets.** The City of Henderson's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounts to \$34,060,506 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, gas system improvements, park facilities, vehicles, sculptures, and infrastructure. The total increase in capital assets for the current fiscal year was approximately 3.0%.

### City of Henderson's Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 3,522,408	\$ 3,502,408	\$ 114,815	\$ 114,815	\$ 3,637,223	\$ 3,617,223
Artwork	196,500	196,500	-	-	196,500	196,500
Buildings	8,332,385	8,571,000	179,556	176,047	8,511,941	8,747,047
Improvements	5,306,194	2,778,371	-	-	5,306,194	2,778,371
Vehicles	1,173,134	944,308	276,912	193,359	1,450,046	1,137,667
Natural Gas System	-	-	2,234,807	2,293,402	2,234,807	2,293,402
Equipment	710,779	808,097	290,821	134,011	1,001,600	942,108
Infrastructure	11,722,195	13,346,185	-	-	11,722,195	13,346,185
Total	<u>\$ 30,963,595</u>	<u>\$ 30,146,869</u>	<u>\$ 3,096,911</u>	<u>\$ 2,911,634</u>	<u>\$ 34,060,506</u>	<u>\$ 33,058,503</u>

Major capital asset events during the current fiscal year included the following:

- Construction of an extension of the Riverwalk at a cost of approximately \$2,142,500 with funds provided by a federal grant.
- Completion of the reconstruction of Doc Hosbach Tennis Complex at a cost of approximately \$634,500 with subsidies coming from the same federal grant.
- Nearly \$276,000 spent on 10 new fully equipped police cars.

Additional information on the City of Henderson's capital assets may be found in Note 4 in the notes to the financial statements on pages 54-55 of this report.

**Long-Term Debt.** At the end of the current fiscal year, the City of Henderson had total bonded debt outstanding of \$37,395,000. All of the \$37,395,000 is backed by the full faith and credit of the City.

**City of Henderson’s Outstanding Debt  
(net of depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
General Obligations						
Bonds	\$ 37,395,000	\$ 29,125,000	\$ -	\$ -	\$ 37,395,000	\$ 29,125,000

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 in 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.

Combined and Consolidated Municipal Water, Sanitary Sewer and Storm Sewer System - During the year ended June 30, 2013, the City issued \$9,730,000 in 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 a new headworks structure, a third final clarifier, waste and return activated sludge pumping, ultraviolet disinfection, and internal plant piping at the City's North Wastewater Treatment Plant, such additions and improvements to increase the capacity of the Plant from 15 million to 25.5 million gallons per day.

The City of Henderson's total debt increased by \$8,270,000, (28.4%) during the current fiscal year. The reason for the increase was the new debt issuance for the combined and consolidated municipal water, sanitary sewer and storm sewer system. The new issuance was general obligation bonds with a total face value of \$9,730,000.

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 \$110,129,000, which is significantly in excess of the current outstanding general obligation debt of \$37,395,000.

Additional information on the City of Henderson's long-term debt may be found in Note 5 on pages 56-61 of this report.

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

The City of Henderson was able to fund the fiscal 2014 Budget with existing resources and the use of reserves from the General, Gas, and Sanitation 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.

In September of 2013, the Board of Commissioner passed a modest increase (\$0.019 per \$100 of fair market assessment) in the property tax rate. The increase was the compensating property tax rate that essentially gives the City the same revenue as the prior year plus additions to the tax rolls.

For fiscal 2013, there were 246 construction permits issued with a total value of \$14,355,452. There were 10 single family units, 4 duplexes (8 units), and 10 multi-family (65 units) for a total of 83 units approved. The total value for new housing was \$4,937,500.

There were 8 new commercial developments with a total value of \$3,380,000. There were 31 permits issued for demolition of substandard residential structures.

The unemployment rate for the City of Henderson in June 2013 was 8.1% which was higher than the national rate of 7.6% but lower than the Kentucky rate of 8.4%.

Interest rates are expected to remain at record low levels throughout the 2014 fiscal year. The City of Henderson plans to issue additional general obligation bonds in the amount of \$6.0 million on behalf of Henderson Water Utility.

If suitable property is located and purchased, the City of Henderson will consider the construction of a new public works facility that will include natural gas, sanitation, and city garage operations.

With the passage of Senate Bill 2 by the Kentucky Legislature that addresses the state pension plans, the pension costs should see smaller increases or even slight decreases going forward.

Using the annual surpluses, the City of Henderson has embarked on a Community Betterment Project that includes improving sidewalks, roads, street lights, and overall community appearance.

## **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 Position**  
**June 30, 2013**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Henderson Municipal Power & Light	Henderson Water Utility
<b>ASSETS</b>					
Cash	\$ 8,830,712	\$ 1,568,359	\$ 10,399,071	\$ 905,429	\$ 2,513,571
Investments	4,319,973	4,507,220	8,827,193	17,742,287	2,087,955
Receivables	1,103,565	1,474,762	2,578,327	5,165,823	1,419,700
Internal balances	(737,739)	737,739	-	-	-
Inventories	59,168	160,363	219,531	6,033,216	944,305
Prepaid expenses	-	-	-	57,261	33,232
Restricted assets:					
Cash	10,074,208	-	10,074,208	-	188,842
Investments	-	-	-	6,913,225	1,449,529
Receivable from HWU:					
Due in one year	952,280	-	952,280	-	-
Due after one year	19,276,200	-	19,276,200	-	-
Land and other nondepreciable capital assets	3,718,908	114,815	3,833,723	1,235,451	862,879
Capital assets, net of accumulated depreciation	27,244,687	2,982,096	30,226,783	62,674,869	70,585,746
Other assets	363,448	-	363,448	464,081	370,934
<b>Total assets</b>	<b>\$ 75,205,410</b>	<b>\$ 11,545,354</b>	<b>\$ 86,750,764</b>	<b>\$ 101,191,642</b>	<b>\$ 80,456,693</b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 1,993,946	\$ 1,301,484	\$ 3,295,430	\$ 9,497,474	\$ 2,393,326
Deposits payable	-	278,986	278,986	633,973	73,764
Due to component units	2,695,179	-	2,695,179	-	-
Gas storage liability	-	479,300	479,300	-	-
Noncurrent liabilities:					
Due in one year	2,600,000	-	2,600,000	585,000	2,380,121
Due after one year	36,603,876	3,450,000	40,053,876	13,865,000	27,524,548
<b>Total liabilities</b>	<b>43,893,001</b>	<b>5,509,770</b>	<b>49,402,771</b>	<b>24,581,447</b>	<b>32,371,759</b>
<b>NET POSITION</b>					
Net investment in capital assets	23,527,075	2,911,911	26,438,986	49,460,320	42,200,708
Restricted for:					
Debt service	69,605	-	69,605	6,913,225	561,129
Law enforcement	79,824	-	79,824	-	-
Unrestricted	7,635,905	3,123,673	10,759,578	20,236,650	5,323,097
<b>Total net position</b>	<b>31,312,409</b>	<b>6,035,584</b>	<b>37,347,993</b>	<b>76,610,195</b>	<b>48,084,934</b>
<b>Total liabilities and net position</b>	<b>\$ 75,205,410</b>	<b>\$ 11,545,354</b>	<b>\$ 86,750,764</b>	<b>\$ 101,191,642</b>	<b>\$ 80,456,693</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, 2013**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Henderson Municipal Power & Light	Henderson Water Utility
					Governmental Activities	Business-type Activities		
<b>Primary government</b>								
Governmental activities:								
Administration	\$ 4,571,652	\$ 2,129,121	\$ 362,017	\$ 3,617,381	\$ 1,536,867	\$ -	\$ 1,536,867	
Finance	2,522,369	2,788,812	-	-	266,443	-	266,443	
Mass transit	1,373,897	42,103	716,936	29,881	(584,977)	-	(584,977)	
Parks and recreation	1,968,902	291,143	-	-	(1,677,759)	-	(1,677,759)	
Police	6,332,611	856,244	502,093	-	(4,974,274)	-	(4,974,274)	
Fire	5,422,484	6,000	290,877	-	(5,125,607)	-	(5,125,607)	
Public works	5,286,706	104,714	889,817	-	(4,292,175)	-	(4,292,175)	
Nondepartmental	2,311,163	-	-	-	(2,311,163)	-	(2,311,163)	
Interest on long-term debt	925,391	-	665,950	-	(259,441)	-	(259,441)	
Total governmental activities	<u>30,715,175</u>	<u>6,218,137</u>	<u>3,427,690</u>	<u>3,647,262</u>	<u>(17,422,086)</u>	<u>-</u>	<u>(17,422,086)</u>	
Business-type activities:								
Gas	15,508,629	16,817,749	-	-	-	1,309,120	1,309,120	
Sanitation	2,911,519	2,940,533	93,820	-	-	122,834	122,834	
Total business-type activities	<u>18,420,148</u>	<u>19,758,282</u>	<u>93,820</u>	<u>-</u>	<u>-</u>	<u>1,431,954</u>	<u>1,431,954</u>	
Total primary government	<u>\$ 49,135,323</u>	<u>\$ 25,976,419</u>	<u>\$ 3,521,510</u>	<u>\$ 3,647,262</u>	<u>(17,422,086)</u>	<u>1,431,954</u>	<u>(15,990,132)</u>	
<b>Component units</b>								
Henderson Municipal Power & Light	\$ 68,130,994	\$ 64,041,087	\$ -	\$ -			\$ (4,089,907)	\$ -
Henderson Water Utility	<u>15,491,533</u>	<u>17,116,729</u>	<u>-</u>	<u>264,547</u>			<u>-</u>	<u>1,889,743</u>
Total component units	<u>\$ 83,622,527</u>	<u>\$ 81,157,816</u>	<u>\$ -</u>	<u>\$ 264,547</u>			<u>(4,089,907)</u>	<u>1,889,743</u>
General revenues:								
Taxes:								
Property					7,654,195	-	7,654,195	-
Payroll and net profits					5,154,559	-	5,154,559	-
Insurance					4,519,282	-	4,519,282	-
Franchise					677,113	-	677,113	-
Bank deposits					146,960	-	146,960	-
Distributions from component units					1,644,724	-	1,644,724	-
Investment income					32,121	14,357	46,478	29,702
Transfers					1,400,000	(1,400,000)	-	-
Total general revenues and transfers					<u>21,228,954</u>	<u>(1,385,643)</u>	<u>19,843,311</u>	<u>29,702</u>
Change in net position					3,806,868	46,311	3,853,179	(4,060,205)
Net position, beginning of year					<u>27,505,541</u>	<u>5,989,273</u>	<u>33,494,814</u>	<u>80,670,400</u>
Net position, end of year					<u>\$ 31,312,409</u>	<u>\$ 6,035,584</u>	<u>\$ 37,347,993</u>	<u>\$ 76,610,195</u>
								<u>\$ 48,084,934</u>

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

**City of Henderson, Kentucky  
Balance Sheet  
Governmental Funds  
June 30, 2013**

	<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	\$ 8,504,913	\$ -	\$ 3,022	\$ 2,218	\$ 8,510,153
Investments	4,319,973	-	-	-	4,319,973
Receivables	458,238	-	239,590	370,750	1,068,578
Due from other funds	635,858	-	-	-	635,858
Inventories	32,760	-	-	26,408	59,168
Restricted assets:					
Cash	-	69,605	9,848,183	156,420	10,074,208
Receivable from HWU:					
Due in one year	-	-	952,280	-	952,280
Due after one year	-	-	19,276,200	-	19,276,200
Total assets	<u>\$ 13,951,742</u>	<u>\$ 69,605</u>	<u>\$ 30,319,275</u>	<u>\$ 555,796</u>	<u>\$ 44,896,418</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 736,094	\$ -	\$ 134,208	\$ 193,692	\$ 1,063,994
Accrued wages	253,027	-	-	39,109	292,136
Due to other funds	922,739	-	374,360	76,498	1,373,597
Due to component units	<u>2,576,996</u>	<u>-</u>	<u>118,183</u>	<u>-</u>	<u>2,695,179</u>
Total liabilities	<u>4,488,856</u>	<u>-</u>	<u>626,751</u>	<u>309,299</u>	<u>5,424,906</u>
<b>FUND BALANCES</b>					
Nonspendable	32,760	-	-	26,408	59,168
Restricted	-	69,605	29,958,480	79,824	30,107,909
Committed	2,095,480	-	-	181,774	2,277,254
Assigned	1,296,300	-	-	-	1,296,300
Unassigned	<u>6,038,346</u>	<u>-</u>	<u>(265,956)</u>	<u>(41,509)</u>	<u>5,730,881</u>
Total fund balances	<u>9,462,886</u>	<u>69,605</u>	<u>29,692,524</u>	<u>246,497</u>	<u>39,471,512</u>
Total liabilities and fund balances	<u>\$ 13,951,742</u>	<u>\$ 69,605</u>	<u>\$ 30,319,275</u>	<u>\$ 555,796</u>	<u>\$ 44,896,418</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 Position**  
**June 30, 2013**

Total fund balances of governmental funds per balance sheet	\$ 39,471,512
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Amounts reported for governmental activities in the statement of net position 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.	30,963,595
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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.	363,448
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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 position.	(282,270)
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Long-term debt and other liabilities were not currently due and payable in the fiscal year ended June 30, 2013, and, therefore, were not reported in the governmental funds.

Long-term debt payable	\$ (37,395,000)	
Accrued compensated absences	(1,321,876)	
HRA Fund unfunded obligation	(487,000)	
	(39,203,876)	(39,203,876)

Total net position of governmental activities per statement of net position	<u>\$ 31,312,409</u>
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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, 2013**

	<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	\$ 7,654,195	\$ -	\$ -	\$ -	\$ 7,654,195
Payroll and net profits	5,154,559	-	-	-	5,154,559
Insurance	4,519,282	-	-	-	4,519,282
Franchise	677,113	-	-	-	677,113
Bank deposits	146,960	-	-	-	146,960
Intergovernmental	3,319,013	665,950	3,617,381	1,927,349	9,529,693
Distributions from component units	1,644,724	-	-	-	1,644,724
Service charges and fees	529,074	-	-	850,874	1,379,948
Rents, concessions, and other services	125,723	-	-	-	125,723
Fines, finance charges, and penalties	81,595	-	-	-	81,595
Licenses and permits	81,091	-	-	-	81,091
Investment income	4,859	983	23,026	1,308	30,176
Miscellaneous	110,250	242	-	2,980	113,472
Total revenues	<u>24,048,438</u>	<u>667,175</u>	<u>3,640,407</u>	<u>2,782,511</u>	<u>31,138,531</u>
<b>EXPENDITURES</b>					
Current:					
Administration	2,198,994	-	147,120	246,339	2,592,453
Finance	2,503,295	-	-	-	2,503,295
Mass transit	-	-	-	1,257,386	1,257,386
Parks and recreation	1,255,537	-	-	365,041	1,620,578
Police	5,254,689	-	-	891,283	6,145,972
Fire	5,194,542	-	8,106	-	5,202,648
Public works	1,949,290	-	-	1,464,907	3,414,197
Nondepartmental	2,311,163	-	-	-	2,311,163
Debt service:					
Principal	-	1,460,000	-	-	1,460,000
Interest	-	925,391	-	-	925,391
Capital outlays	515,591	-	2,820,000	278,916	3,614,507
Capital contributions to HWU	-	-	264,547	-	264,547
Total expenditures	<u>21,183,101</u>	<u>2,385,391</u>	<u>3,239,773</u>	<u>4,503,872</u>	<u>31,312,137</u>
Excess (deficiency) of revenues over expenditures	<u>2,865,337</u>	<u>(1,718,216)</u>	<u>400,634</u>	<u>(1,721,361)</u>	<u>(173,606)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	1,422,475	1,718,397	-	1,652,000	4,792,872
Transfers out	(2,435,000)	-	(957,872)	-	(3,392,872)
Bond issuance	-	-	9,730,000	-	9,730,000
Total other financing sources (uses)	<u>(1,012,525)</u>	<u>1,718,397</u>	<u>8,772,128</u>	<u>1,652,000</u>	<u>11,130,000</u>
Net change in fund balances	1,852,812	181	9,172,762	(69,361)	10,956,394
Fund balances, beginning of year	<u>7,610,074</u>	<u>69,424</u>	<u>20,519,762</u>	<u>315,858</u>	<u>28,515,118</u>
Fund balances, end of year	<u>\$ 9,462,886</u>	<u>\$ 69,605</u>	<u>\$ 29,692,524</u>	<u>\$ 246,497</u>	<u>\$ 39,471,512</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, 2013**

Net change in fund balances of governmental funds	\$ 10,956,394
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.	
Capital outlays	3,614,507
Depreciation expense	(2,797,781)
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.	
Principal paid on long-term debt	1,460,000
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	(9,730,000)
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.	
Decrease in accrued compensated absences	2,897
Increase in negative net civil service pension obligation	86,679
Increase in negative net police & fire pension obligation	6,061
Increase in HRA Fund unfunded obligation	(3,000)
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	211,111
Change in net position of governmental activities	\$ 3,806,868

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

**City of Henderson, Kentucky**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2013**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes:				
Property	\$ 7,477,700	\$ 7,477,700	\$ 7,654,195	\$ 176,495
Payroll and net profits	4,940,000	4,940,000	5,154,559	214,559
Insurance	4,190,000	4,190,000	4,519,282	329,282
Franchise	612,000	612,000	677,113	65,113
Bank deposits	135,000	135,000	146,960	11,960
Intergovernmental	3,758,300	3,818,300	3,319,013	(499,287)
Distributions from component units	1,644,700	1,644,700	1,644,724	24
Service charges and fees	531,600	531,600	529,074	(2,526)
Rents, concessions, and other services	130,600	130,600	125,723	(4,877)
Fines, finance charges, and penalties	63,100	63,100	81,595	18,495
Licenses and permits	80,000	80,000	81,091	1,091
Investment income	55,000	55,000	4,859	(50,141)
Miscellaneous	20,000	40,500	110,250	69,750
Total revenues	<u>23,638,000</u>	<u>23,718,500</u>	<u>24,048,438</u>	<u>329,938</u>
<b>EXPENDITURES</b>				
Current:				
Administration	2,357,510	2,407,510	2,198,994	208,516
Finance	2,700,090	2,700,090	2,503,295	196,795
Parks and recreation	1,342,910	1,428,410	1,255,537	172,873
Police	6,020,830	6,031,850	5,254,689	777,161
Fire	5,260,990	5,276,990	5,194,542	82,448
Public works	2,122,290	2,122,290	1,949,290	173,000
Nondepartmental	2,921,300	2,969,800	2,311,163	658,637
Capital outlays	486,080	777,060	515,591	261,469
Total expenditures	<u>23,212,000</u>	<u>23,714,000</u>	<u>21,183,101</u>	<u>2,530,899</u>
Excess (deficiency) of revenues over expenditures	<u>426,000</u>	<u>4,500</u>	<u>2,865,337</u>	<u>2,860,837</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,400,000	1,400,000	1,422,475	22,475
Transfers out	<u>(2,613,000)</u>	<u>(2,704,000)</u>	<u>(2,435,000)</u>	<u>269,000</u>
Total other financing sources (uses)	<u>(1,213,000)</u>	<u>(1,304,000)</u>	<u>(1,012,525)</u>	<u>291,475</u>
Net change in fund balance	(787,000)	(1,299,500)	1,852,812	3,152,312
Fund balance, beginning of year	<u>7,610,074</u>	<u>7,610,074</u>	<u>7,610,074</u>	<u>-</u>
Fund balance, end of year	<u>\$ 6,823,074</u>	<u>\$ 6,310,574</u>	<u>\$ 9,462,886</u>	<u>\$ 3,152,312</u>

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

**City of Henderson, Kentucky**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2013**

	<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	\$ 1,448,006	\$ 120,353	\$ 1,568,359	\$ 320,559
Investments	2,254,949	-	2,254,949	-
Receivables	1,278,876	195,886	1,474,762	34,987
Due from other funds	872,175	50,564	922,739	-
Inventories	160,363	-	160,363	-
Total current assets	<u>6,014,369</u>	<u>366,803</u>	<u>6,381,172</u>	<u>355,546</u>
Noncurrent assets:				
Investments, designated for landfill closure costs	-	2,252,271	2,252,271	-
Land	-	114,815	114,815	-
Capital assets, net of accumulated depreciation	2,422,280	559,816	2,982,096	-
Total noncurrent assets	<u>2,422,280</u>	<u>2,926,902</u>	<u>5,349,182</u>	<u>-</u>
Total assets	<u>\$ 8,436,649</u>	<u>\$ 3,293,705</u>	<u>\$ 11,730,354</u>	<u>\$ 355,546</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 1,013,215	\$ 247,695	\$ 1,260,910	\$ 637,816
Deposits payable	278,986	-	278,986	-
Accrued wages	26,039	14,535	40,574	-
Due to other funds	-	185,000	185,000	-
Gas storage liability	479,300	-	479,300	-
Total current liabilities	<u>1,797,540</u>	<u>447,230</u>	<u>2,244,770</u>	<u>637,816</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>1,797,540</u>	<u>3,897,230</u>	<u>5,694,770</u>	<u>637,816</u>
<b>NET POSITION</b>				
Net investment in capital assets	2,422,280	489,631	2,911,911	-
Unrestricted	4,216,829	(1,093,156)	3,123,673	(282,270)
Total net position	<u>6,639,109</u>	<u>(603,525)</u>	<u>6,035,584</u>	<u>(282,270)</u>
Total liabilities and net position	<u>\$ 8,436,649</u>	<u>\$ 3,293,705</u>	<u>\$ 11,730,354</u>	<u>\$ 355,546</u>

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

**City of Henderson, Kentucky**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2013**

	<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	\$ 16,657,230	\$ -	\$ 16,657,230	\$ -
Sanitation fees	-	2,978,059	2,978,059	-
Other income	160,519	56,294	216,813	-
Health insurance premiums:				
City of Henderson	-	-	-	3,853,867
Henderson Municipal Power & Light	-	-	-	511,982
Henderson Water Utility	-	-	-	1,064,867
Other	-	-	-	404,718
Total operating revenues	<u>16,817,749</u>	<u>3,034,353</u>	<u>19,852,102</u>	<u>5,835,434</u>
<b>OPERATING EXPENSES</b>				
Gas administration	1,417,701	-	1,417,701	-
Gas distribution	13,873,190	-	13,873,190	-
Sanitation expenses	-	2,808,015	2,808,015	-
Depreciation	217,738	103,504	321,242	-
HRA Fund contributions	-	-	-	429,000
Health insurance administration	-	-	-	614,481
Health insurance claims	-	-	-	4,582,787
Total operating expenses	<u>15,508,629</u>	<u>2,911,519</u>	<u>18,420,148</u>	<u>5,626,268</u>
Income from operations	1,309,120	122,834	1,431,954	209,166
<b>NONOPERATING REVENUES</b>				
Investment income (expense)	<u>15,651</u>	<u>(1,294)</u>	<u>14,357</u>	<u>1,945</u>
Income before transfers	1,324,771	121,540	1,446,311	211,111
Transfers out to General Fund	<u>(1,400,000)</u>	<u>-</u>	<u>(1,400,000)</u>	<u>-</u>
Change in net position	(75,229)	121,540	46,311	211,111
Net position, beginning of year	<u>6,714,338</u>	<u>(725,065)</u>	<u>5,989,273</u>	<u>(493,381)</u>
Net position, end of year	<u>\$ 6,639,109</u>	<u>\$ (603,525)</u>	<u>\$ 6,035,584</u>	<u>\$ (282,270)</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, 2013**

	<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	\$ 16,068,235	\$ 2,966,595	\$ 19,034,830	\$ 5,800,492
Payments for goods and services	(13,045,301)	(1,737,082)	(14,782,383)	(589,377)
Payments for employees	(1,618,166)	(1,017,497)	(2,635,663)	-
Payments for HRA Fund contributions	-	-	-	(429,000)
Payments for health insurance claims	-	-	-	(4,721,111)
Net cash provided (used) by operating activities	<u>1,404,768</u>	<u>212,016</u>	<u>1,616,784</u>	<u>61,004</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers 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	(154,699)	(351,820)	(506,519)	-
Loan from General Fund	-	222,000	222,000	-
Loan repayments to General Fund	-	(37,000)	(37,000)	-
Net cash provided (used) by capital and related financing activities	<u>(154,699)</u>	<u>(166,820)</u>	<u>(321,519)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments	609,705	1,708,354	2,318,059	-
Purchases of investments	(643,403)	(1,733,280)	(2,376,683)	-
Investment fees paid	(1,356)	(1,360)	(2,716)	-
Interest received	40,147	26,777	66,924	1,945
Net cash provided (used) by investing activities	<u>5,093</u>	<u>491</u>	<u>5,584</u>	<u>1,945</u>
Net increase (decrease) in cash	(144,838)	45,687	(99,151)	62,949
Cash, beginning of year	<u>1,592,844</u>	<u>74,666</u>	<u>1,667,510</u>	<u>257,610</u>
Cash, end of year	<u>\$ 1,448,006</u>	<u>\$ 120,353</u>	<u>\$ 1,568,359</u>	<u>\$ 320,559</u>
<b>Reconciliation of income from operations to net cash provided (used) by operating activities</b>				
Income from operations	\$ 1,309,120	\$ 122,834	\$ 1,431,954	\$ 209,166
Reconciling items:				
Depreciation expense	217,738	103,504	321,242	-
Receivables (increase) decrease	(408,036)	(59,514)	(467,550)	(34,942)
Due from other funds (increase) decrease	(349,029)	(8,244)	(357,273)	-
Inventories (increase) decrease	(2,804)	-	(2,804)	-
Prepaid insurance (increase) decrease	-	-	-	25,104
Accounts and deposits payable increase (decrease)	382,620	53,174	435,794	(138,324)
Accrued wages increase (decrease)	(841)	262	(579)	-
Gas storage liability increase (decrease)	256,000	-	256,000	-
Net cash provided (used) by operating activities	<u>\$ 1,404,768</u>	<u>\$ 212,016</u>	<u>\$ 1,616,784</u>	<u>\$ 61,004</u>
<b>Noncash investing activities:</b>				
Decrease in fair value of investments	<u>\$ 24,109</u>	<u>\$ 31,106</u>	<u>\$ 55,215</u>	<u>\$ -</u>

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



**City of Henderson, Kentucky  
Statement of Net Position  
Fiduciary Funds  
June 30, 2013**

	<b>Pension Trust Funds</b>
<b>ASSETS</b>	
Cash	\$ 150,695
	150,695
<b>LIABILITIES</b>	
Accounts payable	18,368
	18,368
<b>NET POSITION</b>	
Held in trust for pension benefits	(13,539)
Held in trust for health care benefits	145,866
	\$ 132,327

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

**City of Henderson, Kentucky**  
**Statement of Changes in Net Position**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2013**

	<b>Pension Trust Funds</b>
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ 1,061,154
Employee	2,154
Total contributions	1,063,308
Interest income	422
Miscellaneous	624
Total additions	1,064,354
 <b>DEDUCTIONS</b>	
Benefits paid	1,034,982
Professional services	5,254
Total deductions	1,040,236
Change in net position	24,118
Net position, beginning of year	108,209
Net position, end of year	\$ 132,327

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

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

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**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 position 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.

## **CITY OF HENDERSON, KENTUCKY**

### **NOTES TO FINANCIAL STATEMENTS**

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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 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.

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

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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.

### **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.



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

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### **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 eight other governmental funds that collectively are called nonmajor governmental funds because, individually, these eight 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 position, 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:

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

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- **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 position and changes in net position. 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.

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

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**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.

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.

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

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**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 position. 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.

**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.

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

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**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 immaterial. In accordance with accounting standards, 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.

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

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**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 Position**

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 position is 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.

**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.



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

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**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**

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**2. INVESTMENTS**

As of June 30, 2013, 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>
U.S. Government Agencies	\$1,256,016	\$ -	\$1,143,132	\$ 112,884
U.S. Government Money Market	2,117,793	2,117,793	-	-
Bank Certificates of Deposit	5,453,384	1,559,218	2,939,597	954,569
Total	<u>\$8,827,193</u>	<u>\$3,677,011</u>	<u>\$4,082,729</u>	<u>\$1,067,453</u>

Investments by Funds:

General Fund	\$4,319,973
Gas Fund	2,254,949
Sanitation Fund	2,252,271
Total per Statement of Net Position	<u>\$8,827,193</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 12.95% 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, 2013, interfund receivables and payables and the composition of internal balances shown on the statement of net position consist of the following:

	Due From Other Funds	Due To Other Funds	Internal Balances
<u>Governmental Activities:</u>			
General Fund	\$ 635,858	\$ (922,739)	\$ (286,881)
Capital Projects Fund	-	(374,360)	(374,360)
Nonmajor Governmental Funds	-	(76,498)	(76,498)
Total Governmental Activities	<u>\$ 635,858</u>	<u>\$ (1,373,597)</u>	<u>\$ (737,739)</u>
<u>Business-type Activities:</u>			
Gas Fund	\$ 872,175	\$ -	\$ 872,175
Sanitation Fund	50,564	(185,000)	(134,436)
Total Business-type Activities	<u>\$ 922,739</u>	<u>\$ (185,000)</u>	<u>\$ 737,739</u>
 Total all funds	 <u>\$ 1,558,597</u>	 <u>\$ (1,558,597)</u>	

Interfund balances are due to either payables for services or financing of operations.

As of June 30, 2013, interfund transfers consist of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>		
		General Fund	Capital Projects Fund	Gas Fund
	<u>Totals</u>			
General Fund	\$ 1,422,475	\$ -	\$ (22,475)	\$ (1,400,000)
Debt Service Fund	1,718,397	(783,000)	(935,397)	-
Nonmajor Governmental Funds	1,652,000	(1,652,000)	-	-
Totals	<u>\$ 4,792,872</u>	<u>\$ (2,435,000)</u>	<u>\$ (957,872)</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, 2013 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	\$ 20,000	\$ -	\$ 3,522,408
Artwork	196,500	-	-	196,500
Total	<u>3,698,908</u>	<u>20,000</u>	<u>-</u>	<u>3,718,908</u>
<u>Capital assets being depreciated:</u>				
Buildings	11,693,048	-	-	11,693,048
Improvements	5,612,862	2,815,366	-	8,428,228
Vehicles, machinery, and equipment	11,190,771	779,141	(274,806)	11,695,106
Infrastructure	64,959,614	-	-	64,959,614
Total	<u>93,456,295</u>	<u>3,594,507</u>	<u>(274,806)</u>	<u>96,775,996</u>
<u>Less accumulated depreciation for:</u>				
Buildings	(3,122,048)	(238,615)	-	(3,360,663)
Improvements	(2,834,491)	(287,543)	-	(3,122,034)
Vehicles, machinery, and equipment	(9,438,366)	(647,633)	274,806	(9,811,193)
Infrastructure	(51,613,429)	(1,623,990)	-	(53,237,419)
Total	<u>(67,008,334)</u>	<u>(2,797,781)</u>	<u>274,806</u>	<u>(69,531,309)</u>
Total governmental activities, net	<u>\$ 30,146,869</u>	<u>\$ 816,726</u>	<u>\$ -</u>	<u>\$ 30,963,595</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	25,212	-	586,277
Vehicles, machinery, and equipment	1,548,628	326,608	(337,944)	1,537,292
Gas system, vehicles, and equipment	8,537,972	154,699	(32,952)	8,659,719
Total	<u>10,647,665</u>	<u>506,519</u>	<u>(370,896)</u>	<u>10,783,288</u>
<u>Less accumulated depreciation for:</u>				
Buildings	(385,018)	(21,703)	-	(406,721)
Vehicles, machinery, and equipment	(1,413,175)	(81,801)	337,944	(1,157,032)
Gas system, vehicles, and equipment	(6,052,653)	(217,738)	32,952	(6,237,439)
Total	<u>(7,850,846)</u>	<u>(321,242)</u>	<u>370,896</u>	<u>(7,801,192)</u>
Total business-type activities, net	<u>\$ 2,911,634</u>	<u>\$ 185,277</u>	<u>\$ -</u>	<u>\$ 3,096,911</u>

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

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

Governmental activities:

Administration	\$ 12,572
Finance	19,074
Mass transit	123,944
Parks and recreation	350,585
Police	192,942
Fire	219,836
Public works	<u>1,878,828</u>
Total depreciation expense, governmental activities	<u>\$ 2,797,781</u>

Business-type activities

Gas	\$ 217,738
Sanitation	<u>103,504</u>
Total depreciation expense, business-type activities	<u>\$ 321,242</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	\$ 226,918,770	\$ 3,976,291	\$ -	\$ 230,895,061
Less accumulated depreciation	<u>(161,929,900)</u>	<u>(5,054,841)</u>	-	<u>(166,984,741)</u>
Capital assets, net	<u>\$ 64,988,870</u>	<u>\$ (1,078,550)</u>	<u>\$ -</u>	<u>\$ 63,910,320</u>
<b>Henderson Water Utility</b>				
Utility plant and equipment	\$ 99,513,196	\$ 16,167,120	\$ (147,776)	\$ 115,532,540
Less accumulated depreciation	<u>(41,666,555)</u>	<u>(2,565,136)</u>	<u>147,776</u>	<u>(44,083,915)</u>
Capital assets, net	<u>\$ 57,846,641</u>	<u>\$ 13,601,984</u>	<u>\$ -</u>	<u>\$ 71,448,625</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, 2013:

<b>Governmental Activities:</b>	<b>Balance</b>			<b>Balance</b>	<b>Amounts Due in One Year</b>
	<b>June 30, 2012</b>	<b>Additions</b>	<b>Reductions</b>		
G. O. Bonds Series 2007	\$ 4,030,000	\$ -	\$ (265,000)	\$ 3,765,000	\$ 275,000
G. O. Bonds Series 2010A	9,705,000	-	(420,000)	9,285,000	425,000
G. O. Bonds Series 2010B	3,310,000	-	(275,000)	3,035,000	285,000
G.O. Bonds Series 2011A	2,085,000	-	(85,000)	2,000,000	85,000
G.O. Bonds Series 2012A	9,995,000	-	(415,000)	9,580,000	415,000
G.O. Bonds Series 2013A	-	9,730,000	-	9,730,000	410,000
<b>Total bonds payable</b>	<b>29,125,000</b>	<b>9,730,000</b>	<b>(1,460,000)</b>	<b>37,395,000</b>	<b>1,895,000</b>
Compensated absences	1,324,773	718,019	(720,916)	1,321,876	705,000
HRA Fund unfunded obligation	484,000	3,000	-	487,000	-
<b>Total governmental activities</b>	<b>\$ 30,933,773</b>	<b>\$ 10,451,019</b>	<b>\$ (2,180,916)</b>	<b>\$ 39,203,876</b>	<b>\$ 2,600,000</b>

As of June 30, 2013 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, 2013:

<b>June 30th:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Interest Rates</b>
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	325,000	101,593	426,593	3.80%
2019 to 2023	1,425,000	319,306	1,744,306	3.80% to 4.00%
2024 to 2027	845,000	85,800	930,800	4.00%
<b>Totals</b>	<b>\$ 3,765,000</b>	<b>\$ 1,024,445</b>	<b>\$ 4,789,445</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, 2013:

<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>
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	450,000	351,440	(123,004)	228,436	678,436	2.80%
2019 to 2023	2,395,000	1,521,495	(532,523)	988,972	3,383,972	3.00% to 4.4%
2024 to 2028	2,785,000	921,232	(322,431)	598,801	3,383,801	4.70% to 5.50%
2029 to 2031	1,925,000	161,288	(56,451)	104,837	2,029,837	5.50%
Totals	<u>\$ 9,285,000</u>	<u>\$ 4,457,203</u>	<u>\$ (1,560,021)</u>	<u>\$ 2,897,182</u>	<u>\$ 12,182,182</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**

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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, 2013:

<u>June 30th:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Interest Rates</u>
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	315,000	50,759	365,759	2.20%
2019 to 2023	1,350,000	129,385	1,479,385	2.75% to 3.38%
2024	<u>205,000</u>	<u>3,587</u>	<u>208,587</u>	3.50%
Totals	<u>\$ 3,035,000</u>	<u>\$ 447,776</u>	<u>\$ 3,482,776</u>	

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

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**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, 2013:

<u>June 30th:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Interest Rates</u>
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	57,272	142,272	2.00%
2018	90,000	55,521	145,521	2.00%
2019 to 2023	480,000	242,758	722,758	2.20% to 3.00%
2024 to 2028	560,000	160,604	720,604	3.13% to 4.00%
2029 to 2032	530,000	43,400	573,400	4.00%
Totals	<u>\$ 2,000,000</u>	<u>\$ 740,123</u>	<u>\$ 2,740,123</u>	

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

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**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 3.30%. 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, 2013:

<u>June 30th:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Interest Rates</u>
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	440,000	207,508	647,508	2.00%
2019 to 2023	2,350,000	898,219	3,248,219	2.00% to 2.38%
2024 to 2028	2,655,000	661,540	3,316,540	2.5% to 3.00%
2029 to 2032	<u>2,440,000</u>	<u>92,625</u>	<u>2,532,625</u>	3.13% to 3.30%
Totals	<u>\$ 9,580,000</u>	<u>\$ 2,760,159</u>	<u>\$ 12,340,159</u>	

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

**F. General Obligation Bonds – Series 2013A**

During the year ended June 30, 2013, the City issued \$9,730,000 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 a new headworks structure, a third final clarifier, waste and return activated sludge pumping, ultraviolet disinfection, and internal plant piping at the City’s North Wastewater Treatment Plant, such additions and improvements to increase the capacity of the Plant from 15 million to 25.5 million gallons per day.

This obligation matures in November 2032. Interest rates range from .30% to 2.75%. 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, 2013:

<u>June 30th:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Interest Rates</u>
2014	\$ 410,000	\$ 202,713	\$ 612,713	0.30%
2015	405,000	206,275	611,275	2.00%
2016	410,000	198,125	608,125	2.00%
2017	420,000	189,825	609,825	2.00%
2018	430,000	181,325	611,325	2.00%
2019 to 2023	2,280,000	772,925	3,052,925	2.00% to 2.00%
2024 to 2028	2,525,000	529,018	3,054,018	2.00% to 2.50%
2029 to 2033	2,850,000	199,388	3,049,388	2.50% to 2.75%
Totals	<u>\$ 9,730,000</u>	<u>\$ 2,479,594</u>	<u>\$ 12,209,594</u>	

The following is an aggregate summary of debt service requirements for the City of Henderson as of June 30, 2013:

<u>June 30th:</u>	<u>Principal</u>	<u>Interest</u>	<u>IRS Direct Pay</u>	<u>Net Interest</u>	<u>Total</u>
2014	\$ 1,895,000	\$ 1,102,740	\$ (135,320)	\$ 967,420	\$ 2,862,420
2015	1,910,000	1,078,934	(133,038)	945,896	2,855,896
2016	1,950,000	1,040,317	(130,274)	910,043	2,860,043
2017	1,990,000	996,593	(126,980)	869,613	2,859,613
2018	2,050,000	948,146	(123,004)	825,142	2,875,142
2019 to 2023	10,280,000	3,884,088	(532,523)	3,351,565	13,631,565
2024 to 2028	9,575,000	2,361,781	(322,431)	2,039,350	11,614,350
2029 to 2033	7,745,000	496,701	(56,451)	440,250	8,185,250
Totals	<u>\$ 37,395,000</u>	<u>\$ 11,909,300</u>	<u>\$ (1,560,021)</u>	<u>\$ 10,349,279</u>	<u>\$ 47,744,279</u>

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

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**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, 2013:

	<b>Balance May 31, 2012</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance May 31, 2013</b>	<b>Amounts due in One Year</b>
Revenue Bonds Series 2011A	\$11,350,000	\$ -	\$ (420,000)	\$10,930,000	\$ 435,000
Revenue Bonds Series 2011B	3,670,000	-	(150,000)	3,520,000	150,000
Total bonds payable	<u>\$15,020,000</u>	<u>\$ -</u>	<u>\$ (570,000)</u>	<u>\$14,450,000</u>	<u>\$ 585,000</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, 2013:

<b>May 31st:</b>	<b>Series 2011A</b>		<b>Series 2011B</b>		<b>Total</b>
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	
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	475,000	351,806	155,000	98,719	1,080,525
2019 to 2023	2,605,000	1,543,417	845,000	438,093	5,431,510
2024 to 2028	3,085,000	1,045,332	985,000	298,277	5,413,609
2029 to 2032	2,965,000	337,448	925,000	95,885	4,323,333
Totals	<u>\$ 10,930,000</u>	<u>\$ 4,798,977</u>	<u>\$ 3,520,000</u>	<u>\$ 1,346,586</u>	<u>\$ 20,595,563</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, 2013:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts due in One Year
Series 2004A Water and Sewer	\$ 1,710,000	\$ -	\$ (550,000)	\$ 1,160,000	\$ 565,000
Series 2006A Water and Sewer	3,915,000	-	(190,000)	3,725,000	195,000
Due to City of Henderson-2010A	9,705,000	-	(420,000)	9,285,000	425,000
Due to City of Henderson-2010B	1,472,367	-	(108,887)	1,363,480	112,280
Due to City of Henderson-2012A	706,201	9,995,000	(1,121,201)	9,580,000	415,000
Kentucky Infrastructure Authority Assistance Agreement	2,394,901	-	(122,900)	2,272,001	128,115
Total	<u>19,903,469</u>	<u>9,995,000</u>	<u>(2,512,988)</u>	<u>27,385,481</u>	<u>\$ 1,840,395</u>
Less: Unamortized deferred loss on defeasance of bonds	(108,197)	-	30,633	(77,564)	
Total long-term debt	<u>\$ 19,795,272</u>	<u>\$ 9,995,000</u>	<u>\$ (2,482,355)</u>	<u>\$ 27,307,917</u>	

Principal and interest requirements to retire Henderson Water Utility's long-term obligations as of June 30, 2013 were as follows:

Fiscal year ended June 30th:	Principal	Interest	Total
2014	\$ 1,840,395	\$ 796,007	\$ 2,636,402
2015	1,894,023	750,809	2,644,832
2016	1,327,712	713,610	2,041,322
2017	1,361,275	683,484	2,044,759
2018	1,389,902	649,624	2,039,526
2019-2023	7,586,462	2,647,308	10,233,770
2024-2028	7,620,712	1,373,184	8,993,896
2029-2032	4,365,000	266,994	4,631,994
Totals	<u>\$ 27,385,481</u>	<u>\$ 7,881,020</u>	<u>\$ 35,266,501</u>

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

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

	Interest Rate	Final Maturity	Principal Balance	Security
Water and Sewer Refunding Revenue Bonds, Series 2004A	3.50% - 3.75%	11/1/2014	\$1,160,000	Utility Revenue
Water and Sewer Refunding Revenue Bonds, Series 2006A	3.70% - 4.375%	11/1/2026	\$3,725,000	Utility Revenue
Kentucky Infrastructure Authority Assistance Agreement B94-03	4.20%	12/1/2026	\$2,272,001	Utility Revenue
Due to City of Henderson-2010A	1.40% - 5.50%	11/1/2030	\$9,285,000	Unsecured
Due to City of Henderson-2010B	2.00% - 3.50%	11/1/2023	\$1,363,480	Unsecured
Due to City of Henderson-2012A	1.00% - 3.30%	11/1/2031	\$9,580,000	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.

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

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The following is a summary of future lease payments required as of June 30, 2013:

<u>For the fiscal year ending June 30</u>	<u>KADD 2005- Stormwater</u>
2014	\$ 171,600
2015	163,113
2016	169,512
2017	170,575
2018	166,525
2019 to 2023	839,575
2024 to 2028	851,375
2029 to 2030	<u>325,250</u>
Total minimum lease payments	2,857,525
Less amount representing interest*	<u>(917,525)</u>
Present value of future minimum lease payments	<u>\$ 1,940,000</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.

**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 loaned to HWU to fund capital projects.

The City issued General Obligation Bonds Series 2013A in the face amount of \$9,730,000, which proceeds were to be loaned to HWU to fund capital projects. As of June 30, 2013, the face amount along with net bond premiums totaled \$9,848,183, such amount being held in a restricted cash bank account and will be subsequently transferred to HWU after fiscal year end.

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

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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, 2013, 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>G.O. Bonds Payable Series 2013A</u>	<u>Total</u>
Cash	\$ -	\$ -	\$ -	\$ 9,848,183	\$ 9,848,183
Receivable from HWU:					
Due in one year	425,000	112,280	415,000	-	952,280
Due after one year	8,860,000	1,251,200	9,165,000	-	19,276,200
Total	<u>\$ 9,285,000</u>	<u>\$ 1,363,480</u>	<u>\$ 9,580,000</u>	<u>\$ 9,848,183</u>	<u>\$ 30,076,663</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, 2013, there were three series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$104,812,500.

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

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**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 Position. At June 30, 2013 these governmental activities liabilities included \$1,321,876 of vacation and sick pay, and are included in the Statement of Net Position as noncurrent liabilities. Compensated absences are liquidated primarily by the General Fund.

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

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**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, 2012, from its last audited financial statements made available to the City are:

Assets	\$ 973,297,291
Costs recoverable from members	\$ 69,178,366
Liabilities	\$ 970,311,409
Net position	\$ 2,985,882



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

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**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, 2013, the estimated amount of this gas storage liability was \$479,300.

**10. CONCENTRATION OF SALES**

**Henderson Municipal Gas**

For the fiscal year ended June 30, 2013, five industrial customers accounted for \$7,276,563 in gas sales, which represents 43.3% of the operating revenues of the Gas Fund.

**Henderson Municipal Power and Light**

All of the sales generated by Station Two (\$25,097,121 for fiscal 2013) 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 \$11.7 million (31% of Existing System sales) for the fiscal year ended May 31, 2013.

**Henderson Water Utility**

For the fiscal year ended June 30, 2013, three industrial customers accounted for \$8,164,670 in sales and surcharges for approximately 48% of HWU's total operating revenues.

**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, 2013, 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.

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

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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 position of the Sanitation Fund of \$3,450,000 at June 30, 2013, 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 63.3%. The estimated remaining life of the landfill is 6.9 years.

No costs were incurred towards the related liability, nor were revisions needed for the closure costs estimate because 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, 2013:

	<b>Estimated Closure Liability</b>	<b>Estimated Post-Closure Liability</b>	<b>Total</b>
June 30, 2012	\$ 2,380,000	\$ 1,070,000	\$ 3,450,000
Costs applied	-	-	-
Revision to estimate	-	-	-
June 30, 2013	<u>\$ 2,380,000</u>	<u>\$ 1,070,000</u>	<u>\$ 3,450,000</u>

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

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**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.

**14. 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 \$583,000 and \$547,000, respectively, from HMPL and HWU for such services for the fiscal year ended June 30, 2013.

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, 2013.

The City owns certain real estate used by HMPL.

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

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**15. 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, 2013:

	<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>
<b>2003-2004</b>	\$ 876,684	\$ 4,541,901	\$ (4,719,970)	\$ 698,615
<b>2004-2005</b>	\$ 698,615	\$ 5,121,768	\$ (4,994,685)	\$ 825,698
<b>2005-2006</b>	\$ 825,698	\$ 4,458,456	\$ (4,677,761)	\$ 606,393
<b>2006-2007</b>	\$ 606,393	\$ 4,470,924	\$ (4,464,673)	\$ 612,644
<b>2007-2008</b>	\$ 612,644	\$ 4,617,270	\$ (4,411,052)	\$ 818,862
<b>2008-2009</b>	\$ 818,862	\$ 4,285,935	\$ (4,258,617)	\$ 846,180
<b>2009-2010</b>	\$ 846,180	\$ 6,403,384	\$ (6,175,740)	\$ 1,073,824
<b>2010-2011</b>	\$ 1,073,824	\$ 6,176,637	\$ (6,310,101)	\$ 940,360
<b>2011-2012</b>	\$ 940,360	\$ 5,678,476	\$ (5,842,696)	\$ 776,140
<b>2012-2013</b>	\$ 776,140	\$ 4,582,787	\$ (4,721,111)	\$ 637,816

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, 2013, 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.

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

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

In order to control increasing health care costs 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, effective January 1, 2006, that reimburses employees for health insurance plan expenses up to the amount in an individual participant's account balance. Every year, the HRA Plan credits each employee 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 will be carried forward for use in the subsequent year. As of June 30, 2013, the HRA Plan has an unfunded obligation of \$719,000, of which \$487,000 pertains to the City, and which will be funded in future fiscal periods.

**17. 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. Pension administrative costs are financed by the General Fund, except for actuary fees, which are paid by the respective pension plans. The following is a brief description of each plan, along with required 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.

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

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**C. Plan Summary**

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

	<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



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

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**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	0	0
Fully-vested active members	1	0
Retirees and beneficiaries currently receiving benefits	11	22
Total	<u>12</u>	<u>22</u>

**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, 2013, were as follows:		
Actuarial value of plan assets (a)	\$ -	\$ -
Actuarial accrued liability (AAL) (b)	\$ 1,340,932	\$ 4,408,308
Unfunded actuarial accrued liability (UAAL) (b) - (a)	\$ 1,340,932	\$ 4,408,308
Funded ratio (a) / (b)	0.00%	0.00%
Covered payroll (active plan members)	\$ 43,171	\$ -
UAAL as a percentage of covered payroll	3106.09%	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**

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**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>2011</u>	<u>2012</u>	<u>2013</u>
Actuarially determined contribution	\$ 112,188	\$ 116,436	\$ 127,470
Interest on NPO	3,866	1,727	(3,568)
Adjustment to actuarially determined contribution	<u>(6,203)</u>	<u>(2,772)</u>	<u>5,726</u>
Annual pension costs	109,851	115,391	129,628
Contributions made	<u>(152,624)</u>	<u>(221,287)</u>	<u>(216,307)</u>
Change in NPO	<u>(42,773)</u>	<u>(105,896)</u>	<u>(86,679)</u>
NPO, beginning of year	<u>77,313</u>	<u>34,540</u>	<u>(71,356)</u>
NPO, end of year	<u>\$ 34,540</u>	<u>\$ (71,356)</u>	<u>\$ (158,035)</u>

2) Police and Fire Pension Plan:

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Actuarially determined contribution	\$ 405,070	\$ 384,553	\$ 401,983
Interest on NPO	(6,523)	(6,985)	(7,974)
Adjustment to actuarially determined contribution	<u>14,666</u>	<u>15,706</u>	<u>17,930</u>
Annual pension costs	413,213	393,274	411,939
Contributions made	<u>(424,775)</u>	<u>(418,000)</u>	<u>(418,000)</u>
Change in NPO	<u>(11,562)</u>	<u>(24,726)</u>	<u>(6,061)</u>
NPO, beginning of year	<u>(163,064)</u>	<u>(174,626)</u>	<u>(199,352)</u>
NPO, end of year	<u>\$ (174,626)</u>	<u>\$ (199,352)</u>	<u>\$ (205,413)</u>

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

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**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, 2011	\$ 109,850	138.9 %	\$ 34,540
June 30, 2012	\$ 115,391	191.8 %	\$ (71,356)
June 30, 2013	\$ 129,628	166.9 %	\$ (158,035)

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, 2011	\$ 413,213	102.8 %	\$ (174,626)
June 30, 2012	\$ 393,274	106.3 %	\$ (199,352)
June 30, 2013	\$ 411,939	101.5 %	\$ (205,413)

**H. Actuarial Assumptions**

An actuarial study was performed on each plan of the City as of June 30, 2013. 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, 2013.

**Combining Statement of Net Position - Pension Trust Funds**  
June 30, 2013

	<b>Civil Service Pension Fund</b>	<b>Police &amp; Fire Pension Fund</b>	<b>HRA Fund</b>	<b>Total</b>
<b>ASSETS</b>				
Cash	\$ 277	\$ 361	\$ 150,057	\$ 150,695
Total assets	<u>277</u>	<u>361</u>	<u>150,057</u>	<u>150,695</u>
<b>LIABILITIES</b>				
Accounts payable	<u>8,247</u>	<u>5,930</u>	<u>4,191</u>	<u>18,368</u>
Total liabilities	<u>8,247</u>	<u>5,930</u>	<u>4,191</u>	<u>18,368</u>
<b>NET POSITION</b>				
Held in trust for pension benefits	(7,970)	(5,569)	-	(13,539)
Held in trust for health care benefits	<u>-</u>	<u>-</u>	<u>145,866</u>	<u>145,866</u>
Total net position	<u>\$ (7,970)</u>	<u>\$ (5,569)</u>	<u>\$ 145,866</u>	<u>\$ 132,327</u>

**Combining Statement of Changes in Net Position - Pension Trust Funds**  
For the Fiscal Year Ended June 30, 2013

	<b>Civil Service Pension Fund</b>	<b>Police &amp; Fire Pension Fund</b>	<b>HRA Fund</b>	<b>Total</b>
<b>ADDITIONS</b>				
Contributions:				
Employer	\$ 214,154	\$ 418,000	\$ 429,000	\$ 1,061,154
Employee	<u>2,154</u>	<u>-</u>	<u>-</u>	<u>2,154</u>
Total contributions	<u>216,308</u>	<u>418,000</u>	<u>429,000</u>	<u>1,063,308</u>
Interest income	<u>10</u>	<u>7</u>	<u>405</u>	<u>422</u>
Miscellaneous	<u>193</u>	<u>431</u>	<u>-</u>	<u>624</u>
Total additions	<u>216,511</u>	<u>418,438</u>	<u>429,405</u>	<u>1,064,354</u>
<b>DEDUCTIONS</b>				
Benefits paid	218,006	415,608	401,368	1,034,982
Professional services	<u>2,472</u>	<u>2,782</u>	<u>-</u>	<u>5,254</u>
Total deductions	<u>220,478</u>	<u>418,390</u>	<u>401,368</u>	<u>1,040,236</u>
Change in net position	(3,967)	48	28,037	24,118
Net position, beginning of year	<u>(4,003)</u>	<u>(5,617)</u>	<u>117,829</u>	<u>108,209</u>
Net position, end of year	<u>\$ (7,970)</u>	<u>\$ (5,569)</u>	<u>\$ 145,866</u>	<u>\$ 132,327</u>

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

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**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 19.55% 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%, and the City contributes 37.60% 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, 2013, 2012 and 2011 were equal to the required contributions for each year and were as follows:

(HMPL May 31st)	City of Henderson	Henderson Municipal Power & Light	Henderson Water Utility
Year ended June 30th			
2013	\$ 4,321,702	\$ 539,503	\$ 713,923
2012	\$ 4,218,400	\$ 518,504	\$ 908,102
2011	\$ 3,811,690	\$ 459,118	\$ 794,962

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

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### **18. FUND BALANCE**

For governmental funds, fund balance is 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.

#### **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



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

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.

Governmental fund balances consist of the following classifications as of June 30, 2013:

<b>Fund Balances</b>	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Nonspendable</b>					
Inventories	\$ 32,760	\$ -	\$ -	\$ 26,408	\$ 59,168
	<b>32,760</b>	<b>-</b>	<b>-</b>	<b>26,408</b>	<b>59,168</b>
<b>Restricted</b>					
Debt service	-	69,605	-	-	69,605
HWU capital projects	-	-	29,958,480	-	29,958,480
Law enforcement	-	-	-	79,824	79,824
	<b>-</b>	<b>69,605</b>	<b>29,958,480</b>	<b>79,824</b>	<b>30,107,909</b>
<b>Committed</b>					
Major building projects	1,724,917	-	-	-	1,724,917
Major equipment buys	370,563	-	-	-	370,563
Public works	-	-	-	25,504	25,504
Mass transit	-	-	-	123,712	123,712
Law enforcement	-	-	-	32,558	32,558
	<b>2,095,480</b>	<b>-</b>	<b>-</b>	<b>181,774</b>	<b>2,277,254</b>
<b>Assigned</b>					
2014 Budget deficit	1,246,300	-	-	-	1,246,300
Newman park shelter	50,000	-	-	-	50,000
	<b>1,296,300</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,296,300</b>
<b>Unassigned</b>					
	<b>6,038,346</b>	<b>-</b>	<b>(265,956)</b>	<b>(41,509)</b>	<b>5,730,881</b>
<b>Total fund balances</b>	<b>\$ 9,462,886</b>	<b>\$ 69,605</b>	<b>\$ 29,692,524</b>	<b>\$ 246,497</b>	<b>\$ 39,471,512</b>

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

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

**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) 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 and also provides wholesale electricity to Big Rivers.

HMPL has entered into certain contracts with Big Rivers 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**

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### **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 \$25,097,121 for the fiscal year ended May 31, 2013.

In connection with the negotiations related to the funding and construction of the Flue Gas Desulfurization System (FGD System) Station Two's 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.

## **CITY OF HENDERSON, KENTUCKY**

### **NOTES TO FINANCIAL STATEMENTS**

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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.

#### **Litigation:**

Big Rivers and HMPL are currently involved in litigation concerning the Excess Henderson Energy at Station Two. The litigation was heard in the Henderson County Circuit Court and the judge assigned the dispute to arbitration. On May 30, 2012 the Arbitration Panel issued a final ruling in favor of HMPL. Big Rivers filed a motion with the Kentucky Court of Appeals requesting that the Arbitration Panel's ruling be vacated and set aside. The parties are currently waiting on the Court's ruling. This legal dispute may continue for several years.

In July 2012, HMPL entered into litigation with the Kentucky Department of Labor related to the application of prevailing wage rates at Station Two. The litigation went to trial in December 2012. The Circuit Court ruled in favor of the Labor Cabinet on May 24, 2013. HMPL has filed an appeal in the Kentucky Court of Appeals.

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

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

On August 30, 2007, a Consent Judgment between HWU and the Commonwealth of Kentucky was accepted by the Franklin Circuit Court under Civil Action 07-CI-1250. Under the terms of the Consent Judgment, HWU has committed to complete improvements to its sewer system infrastructure in order to comply with certain regulatory requirements of the Federal Clean Water Act.

The Consent Judgment required the development of a Long Term Control Plan, which would identify sewer system infrastructure improvements that when completed would bring HWU's combined sewer system into regulatory compliance.

The Long Term Control Plan (LTCP) was submitted to the Kentucky Environmental & Public Protection Cabinet and the U.S. Environmental Protection Agency (EPA) in March 2009 and the LTCP was approved by both agencies in April 2012. The projects identified in the LTCP must be completed no later than December 2017 under an Administrative Order issued by the EPA.

Several major components of the LTCP have already been completed and other major components are currently under construction, or are under design. Based upon construction costs for completed projects; currently approved construction budgets; and estimated costs for projects under design; the final estimated cost of the LTCP to satisfy that component of the Consent Judgment is approximately \$42 million dollars. The current estimate of costs remaining as of June 30, 2013 is \$14.65 million dollars.

**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)
6/30/04	\$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	-	1,498,608	1,498,608	0.0 %	36,899	4,061.4 %
6/30/12	-	1,535,747	1,535,747	0.0 %	42,867	3,582.6 %
6/30/13	-	1,340,932	1,340,932	0.0 %	43,171	3,106.1 %

**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)
6/30/04	\$ 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	-	4,671,290	4,671,290	0.0 %	- 0 -	Not applicable
6/30/11	-	4,437,007	4,437,007	0.0 %	- 0 -	Not applicable
6/30/12	-	4,463,789	4,463,789	0.0 %	- 0 -	Not applicable
6/30/13	-	4,408,308	4,408,308	0.0 %	- 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
6/30/04	\$ 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 %
6/30/12	115,391	221,287	191.8 %	(71,356)	116,436	190.1 %
6/30/13	129,628	216,307	166.9 %	(158,035)	127,470	169.7 %

**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
6/30/04	\$ 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 %
6/30/12	393,274	418,000	106.3 %	(199,352)	384,553	108.7 %
6/30/13	411,939	418,000	101.5 %	(205,413)	401,983	103.9 %

## **Nonmajor Governmental Funds**

## Nonmajor Governmental Funds

For fiscal 2013, the nonmajor governmental funds of the City consist of eight 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>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, 2013**

	<b>Cemetery</b>	<b>PWI</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	\$ 60	\$ 960	\$ 314	\$ 884	\$ -	\$ -	\$ -	\$ -	\$ 2,218
Receivables	26	74,646	158,057	50,117	87,904	-	-	-	370,750
Inventories	-	-	26,408	-	-	-	-	-	26,408
Restricted assets:									
Cash	-	-	-	-	-	-	146,520	9,900	156,420
<b>Total assets</b>	<b>\$ 86</b>	<b>\$ 75,606</b>	<b>\$ 184,779</b>	<b>\$ 51,001</b>	<b>\$ 87,904</b>	<b>\$ -</b>	<b>\$ 146,520</b>	<b>\$ 9,900</b>	<b>\$ 555,796</b>
<b>LIABILITIES</b>									
Accounts payable	\$ 7,705	\$ 40,652	\$ 20,590	\$ 6,266	\$ 41,883	\$ -	\$ 76,596	\$ -	\$ 193,692
Accrued wages	3,413	9,450	14,069	12,177	-	-	-	-	39,109
Due to other funds	-	-	-	-	76,498	-	-	-	76,498
<b>Total liabilities</b>	<b>11,118</b>	<b>50,102</b>	<b>34,659</b>	<b>18,443</b>	<b>118,381</b>	<b>-</b>	<b>76,596</b>	<b>-</b>	<b>309,299</b>
<b>FUND BALANCES</b>									
Nonspendable	-	-	26,408	-	-	-	-	-	26,408
Restricted	-	-	-	-	-	-	69,924	9,900	79,824
Committed	-	25,504	123,712	32,558	-	-	-	-	181,774
Unassigned	(11,032)	-	-	-	(30,477)	-	-	-	(41,509)
<b>Total fund balances</b>	<b>(11,032)</b>	<b>25,504</b>	<b>150,120</b>	<b>32,558</b>	<b>(30,477)</b>	<b>-</b>	<b>69,924</b>	<b>9,900</b>	<b>246,497</b>
<b>Total liabilities and fund balances</b>	<b>\$ 86</b>	<b>\$ 75,606</b>	<b>\$ 184,779</b>	<b>\$ 51,001</b>	<b>\$ 87,904</b>	<b>\$ -</b>	<b>\$ 146,520</b>	<b>\$ 9,900</b>	<b>\$ 555,796</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, 2013**

	<b>Cemetery</b>	<b>PWI</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	\$ -	\$ 876,024	\$ 746,817	\$ 74,863	\$ 215,862	\$ -	\$ 13,783	\$ -	\$ 1,927,349
Service charges and fees	233,049	-	39,571	578,254	-	-	-	-	850,874
Investment income	142	410	165	80	-	-	473	38	1,308
Miscellaneous	-	448	2,532	-	-	-	-	-	2,980
Total revenues	<u>233,191</u>	<u>876,882</u>	<u>789,085</u>	<u>653,197</u>	<u>215,862</u>	<u>-</u>	<u>14,256</u>	<u>38</u>	<u>2,782,511</u>
<b>EXPENDITURES</b>									
Administration	-	-	-	-	246,339	-	-	-	246,339
Mass transit	-	-	1,257,386	-	-	-	-	-	1,257,386
Parks and recreation	365,041	-	-	-	-	-	-	-	365,041
Police	-	-	-	878,041	-	-	13,242	-	891,283
Public works	-	1,464,907	-	-	-	-	-	-	1,464,907
Capital outlays	28,916	-	250,000	-	-	-	-	-	278,916
Total expenditures	<u>393,957</u>	<u>1,464,907</u>	<u>1,507,386</u>	<u>878,041</u>	<u>246,339</u>	<u>-</u>	<u>13,242</u>	<u>-</u>	<u>4,503,872</u>
Excess (deficiency) of revenues over expenditures	<u>(160,766)</u>	<u>(588,025)</u>	<u>(718,301)</u>	<u>(224,844)</u>	<u>(30,477)</u>	<u>-</u>	<u>1,014</u>	<u>38</u>	<u>(1,721,361)</u>
<b>OTHER FINANCING SOURCES</b>									
Transfers in from General Fund	46,000	692,000	695,000	219,000	-	-	-	-	1,652,000
Total other financing sources	<u>46,000</u>	<u>692,000</u>	<u>695,000</u>	<u>219,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,652,000</u>
Net change in fund balances	(114,766)	103,975	(23,301)	(5,844)	(30,477)	-	1,014	38	(69,361)
Fund balances, beginning of year	103,734	(78,471)	173,421	38,402	-	-	68,910	9,862	315,858
Fund balances, end of year	<u>\$ (11,032)</u>	<u>\$ 25,504</u>	<u>\$ 150,120</u>	<u>\$ 32,558</u>	<u>\$ (30,477)</u>	<u>\$ -</u>	<u>\$ 69,924</u>	<u>\$ 9,900</u>	<u>\$ 246,497</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Cemetery Fund**  
**For the Fiscal Year Ended June 30, 2013**

	<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	197,000	197,000	233,049	36,049
Investment income	1,000	1,000	142	(858)
Miscellaneous	-	-	-	-
Total revenues	<u>198,000</u>	<u>198,000</u>	<u>233,191</u>	<u>35,191</u>
<b>EXPENDITURES</b>				
Administration	-	-	-	-
Mass transit	-	-	-	-
Parks and recreation	411,500	411,500	365,041	46,459
Police	-	-	-	-
Public works	-	-	-	-
Capital outlays	<u>32,500</u>	<u>32,500</u>	<u>28,916</u>	<u>3,584</u>
Total expenditures	<u>444,000</u>	<u>444,000</u>	<u>393,957</u>	<u>50,043</u>
Excess (deficiency) of revenues over expenditures	<u>(246,000)</u>	<u>(246,000)</u>	<u>(160,766)</u>	<u>85,234</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in from General Fund	<u>126,000</u>	<u>126,000</u>	<u>46,000</u>	<u>(80,000)</u>
Total other financing sources	<u>126,000</u>	<u>126,000</u>	<u>46,000</u>	<u>(80,000)</u>
Net change in fund balance	(120,000)	(120,000)	(114,766)	5,234
Fund balance, beginning of year	<u>103,734</u>	<u>103,734</u>	<u>103,734</u>	<u>-</u>
Fund balance, end of year	<u>\$ (16,266)</u>	<u>\$ (16,266)</u>	<u>\$ (11,032)</u>	<u>\$ 5,234</u>



**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Public Way Improvement (PWI) Fund**  
**For the Fiscal Year Ended June 30, 2013**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 777,700	\$ 777,700	\$ 876,024	\$ 98,324
Service charges and fees	-	-	-	-
Investment income	300	300	410	110
Miscellaneous	-	-	448	448
Total revenues	<u>778,000</u>	<u>778,000</u>	<u>876,882</u>	<u>98,882</u>
<b>EXPENDITURES</b>				
Administration	-	-	-	-
Mass transit	-	-	-	-
Parks and recreation	-	-	-	-
Police	-	-	-	-
Public works	1,479,000	1,554,000	1,464,907	89,093
Capital outlays	-	-	-	-
Total expenditures	<u>1,479,000</u>	<u>1,554,000</u>	<u>1,464,907</u>	<u>89,093</u>
Excess (deficiency) of revenues over expenditures	<u>(701,000)</u>	<u>(776,000)</u>	<u>(588,025)</u>	<u>187,975</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in from General Fund	<u>701,000</u>	<u>776,000</u>	<u>692,000</u>	<u>(84,000)</u>
Total other financing sources	<u>701,000</u>	<u>776,000</u>	<u>692,000</u>	<u>(84,000)</u>
Net change in fund balance	-	-	103,975	103,975
Fund balance, beginning of year	<u>(78,471)</u>	<u>(78,471)</u>	<u>(78,471)</u>	<u>-</u>
Fund balance, end of year	<u>\$ (78,471)</u>	<u>\$ (78,471)</u>	<u>\$ 25,504</u>	<u>\$ 103,975</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Henderson Area Rapid Transit (HART) Fund**  
**For the Fiscal Year Ended June 30, 2013**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 799,000	\$ 1,008,000	\$ 746,817	\$ (261,183)
Service charges and fees	40,000	40,000	39,571	(429)
Investment income	-	-	165	165
Miscellaneous	-	-	2,532	2,532
Total revenues	<u>839,000</u>	<u>1,048,000</u>	<u>789,085</u>	<u>(258,915)</u>
<b>EXPENDITURES</b>				
Administration	-	-	-	-
Mass transit	1,380,000	1,380,000	1,257,386	122,614
Parks and recreation	-	-	-	-
Police	-	-	-	-
Public works	-	-	-	-
Capital outlays	7,000	232,000	250,000	(18,000)
Total expenditures	<u>1,387,000</u>	<u>1,612,000</u>	<u>1,507,386</u>	<u>104,614</u>
Excess (deficiency) of revenues over expenditures	<u>(548,000)</u>	<u>(564,000)</u>	<u>(718,301)</u>	<u>(154,301)</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in from General Fund	548,000	564,000	695,000	131,000
Total other financing sources	<u>548,000</u>	<u>564,000</u>	<u>695,000</u>	<u>131,000</u>
Net change in fund balance	-	-	(23,301)	(23,301)
Fund balance, beginning of year	<u>173,421</u>	<u>173,421</u>	<u>173,421</u>	<u>-</u>
Fund balance, end of year	<u>\$ 173,421</u>	<u>\$ 173,421</u>	<u>\$ 150,120</u>	<u>\$ (23,301)</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Emergency Communications (911) Fund**  
**For the Fiscal Year Ended June 30, 2013**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 129,000	\$ 129,000	\$ 74,863	\$ (54,137)
Service charges and fees	597,000	597,000	578,254	(18,746)
Investment income	-	-	80	80
Miscellaneous	-	-	-	-
Total revenues	<u>726,000</u>	<u>726,000</u>	<u>653,197</u>	<u>(72,803)</u>
<b>EXPENDITURES</b>				
Administration	-	-	-	-
Mass transit	-	-	-	-
Parks and recreation	-	-	-	-
Police	1,089,700	1,089,700	878,041	211,659
Public works	-	-	-	-
Capital outlays	<u>22,300</u>	<u>22,300</u>	<u>-</u>	<u>22,300</u>
Total expenditures	<u>1,112,000</u>	<u>1,112,000</u>	<u>878,041</u>	<u>233,959</u>
Excess (deficiency) of revenues over expenditures	<u>(386,000)</u>	<u>(386,000)</u>	<u>(224,844)</u>	<u>161,156</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in from General Fund	<u>386,000</u>	<u>386,000</u>	<u>219,000</u>	<u>(167,000)</u>
Total other financing sources	<u>386,000</u>	<u>386,000</u>	<u>219,000</u>	<u>(167,000)</u>
Net change in fund balance	-	-	(5,844)	(5,844)
Fund balance, beginning of year	<u>38,402</u>	<u>38,402</u>	<u>38,402</u>	<u>-</u>
Fund balance, end of year	<u>\$ 38,402</u>	<u>\$ 38,402</u>	<u>\$ 32,558</u>	<u>\$ (5,844)</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Community Development Block Grant (CDBG) Fund**  
**For the Fiscal Year Ended June 30, 2013**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 397,000	\$ 397,000	\$ 215,862	\$ (181,138)
Service charges and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>397,000</u>	<u>397,000</u>	<u>215,862</u>	<u>(181,138)</u>
<b>EXPENDITURES</b>				
Administration	397,000	397,000	246,339	150,661
Mass transit	-	-	-	-
Parks and recreation	-	-	-	-
Police	-	-	-	-
Public works	-	-	-	-
Capital outlays	-	-	-	-
Total expenditures	<u>397,000</u>	<u>397,000</u>	<u>246,339</u>	<u>150,661</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(30,477)</u>	<u>(30,477)</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in from General Fund	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	(30,477)	(30,477)
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (30,477)</u>	<u>\$ (30,477)</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**HOME Fund**  
**For the Fiscal Year Ended June 30, 2013**

	<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	\$ -	\$ (264,000)
Service charges and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>264,000</u>	<u>264,000</u>	<u>-</u>	<u>(264,000)</u>
<b>EXPENDITURES</b>				
Administration	264,000	264,000	-	264,000
Mass transit	-	-	-	-
Parks and recreation	-	-	-	-
Police	-	-	-	-
Public works	-	-	-	-
Capital outlays	-	-	-	-
Total expenditures	<u>264,000</u>	<u>264,000</u>	<u>-</u>	<u>264,000</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in from General Fund	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Police Investigation Fund**  
**For the Fiscal Year Ended June 30, 2013**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 6,800	\$ 6,800	\$ 13,783	\$ 6,983
Service charges and fees	-	-	-	-
Investment income	200	200	473	273
Miscellaneous	-	-	-	-
Total revenues	<u>7,000</u>	<u>7,000</u>	<u>14,256</u>	<u>7,256</u>
<b>EXPENDITURES</b>				
Administration	-	-	-	-
Mass transit	-	-	-	-
Parks and recreation	-	-	-	-
Police	80,000	80,000	13,242	66,758
Public works	-	-	-	-
Capital outlays	-	-	-	-
Total expenditures	<u>80,000</u>	<u>80,000</u>	<u>13,242</u>	<u>66,758</u>
Excess (deficiency) of revenues over expenditures	<u>(73,000)</u>	<u>(73,000)</u>	<u>1,014</u>	<u>74,014</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in from General Fund	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(73,000)	(73,000)	1,014	74,014
Fund balance, beginning of year	<u>68,910</u>	<u>68,910</u>	<u>68,910</u>	<u>-</u>
Fund balance, end of year	<u>\$ (4,090)</u>	<u>\$ (4,090)</u>	<u>\$ 69,924</u>	<u>\$ 74,014</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Justice Assistance Grant (JAG) Fund**  
**For the Fiscal Year Ended June 30, 2013**

	<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	-	-	38	38
Miscellaneous	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>38</u>	<u>38</u>
<b>EXPENDITURES</b>				
Administration	-	-	-	-
Mass transit	-	-	-	-
Parks and recreation	-	-	-	-
Police	-	-	-	-
Public works	-	-	-	-
Capital outlays	13,000	13,000	-	13,000
Total expenditures	<u>13,000</u>	<u>13,000</u>	<u>-</u>	<u>13,000</u>
Excess (deficiency) of revenues over expenditures	<u>(13,000)</u>	<u>(13,000)</u>	<u>38</u>	<u>13,038</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in from General Fund	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(13,000)	(13,000)	38	13,038
Fund balance, beginning of year	<u>9,862</u>	<u>9,862</u>	<u>9,862</u>	<u>-</u>
Fund balance, end of year	<u>\$ (3,138)</u>	<u>\$ (3,138)</u>	<u>\$ 9,900</u>	<u>\$ 13,038</u>



**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Debt Service Fund**  
**For the Fiscal Year Ended June 30, 2013**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 665,950	\$ 665,950	\$ 665,950	\$ -
Investment income	1,160	1,160	983	(177)
Miscellaneous	-	-	242	242
Total revenues	<u>667,110</u>	<u>667,110</u>	<u>667,175</u>	<u>65</u>
<b>EXPENDITURES</b>				
Debt service:				
Principal	1,460,000	1,460,000	1,460,000	-
Interest	926,000	926,000	925,391	609
Total expenditures	<u>2,386,000</u>	<u>2,386,000</u>	<u>2,385,391</u>	<u>609</u>
Excess (deficiency) of revenues over expenditures	<u>(1,718,890)</u>	<u>(1,718,890)</u>	<u>(1,718,216)</u>	<u>674</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in from General Fund	775,000	775,000	783,000	8,000
Transfers in from Capital Projects Fund	943,890	943,890	935,397	(8,493)
Total other financing sources	<u>1,718,890</u>	<u>1,718,890</u>	<u>1,718,397</u>	<u>(493)</u>
Net change in fund balance	-	-	181	181
Fund balance, beginning of year	<u>69,424</u>	<u>69,424</u>	<u>69,424</u>	<u>-</u>
Fund balance, end of year	<u>\$ 69,424</u>	<u>\$ 69,424</u>	<u>\$ 69,605</u>	<u>\$ 181</u>

**City of Henderson, Kentucky**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Capital Projects Fund**  
**For the Fiscal Year Ended June 30, 2013**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 6,520,000	\$ 6,520,000	\$ 3,617,381	\$ (2,902,619)
Investment income	-	-	23,026	23,026
Total revenues	<u>6,520,000</u>	<u>6,520,000</u>	<u>3,640,407</u>	<u>(2,879,593)</u>
<b>EXPENDITURES</b>				
Administration	-	-	147,120	(147,120)
Fire	-	-	8,106	(8,106)
Capital outlays	6,520,000	6,520,000	2,820,000	3,700,000
Capital contributions to HWU	-	-	264,547	(264,547)
Total expenditures	<u>6,520,000</u>	<u>6,520,000</u>	<u>3,239,773</u>	<u>3,280,227</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>400,634</u>	<u>400,634</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out to General Fund	-	-	(22,475)	(22,475)
Transfers out to Debt Service Fund	(944,000)	(944,000)	(935,397)	8,603
Bond issuance	9,919,600	9,919,600	9,730,000	(189,600)
Total other financing sources (uses)	<u>8,975,600</u>	<u>8,975,600</u>	<u>8,772,128</u>	<u>(203,472)</u>
Net change in fund balance	8,975,600	8,975,600	9,172,762	197,162
Fund balance, beginning of year	<u>20,519,762</u>	<u>20,519,762</u>	<u>20,519,762</u>	<u>-</u>
Fund balance, end of year	<u>\$29,495,362</u>	<u>\$29,495,362</u>	<u>\$29,692,524</u>	<u>\$ 197,162</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>	102
<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.	105
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the City's most significant local revenue sources	111
<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.	121
<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.	125
<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.	128
<b>Sources:</b> Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant 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 eleventh 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, 192 bed Methodist Hospital that is staffed by 24 physicians and over 1,000 employees. The facility includes a Level II Neonatal Intensive Care (NICU), birthing center, ICU, 24-hour physician covered ER, and a comprehensive rehabilitation center. 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. A trail of bronze statues based on Audubon prints can be found downtown.



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. Ellis Park offers live horse racing in the summer and simulcasting nearly year round.

## 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 POSITION BY COMPONENT**  
**LAST TEN FISCAL YEARS**  
(accrual basis of accounting)

	2004	2005	2006 a)	2007	2008	2009	2010	2011	2012	2013
Governmental activities										
Net investment in capital assets	\$ 5,311,939	\$ 5,648,894	\$ 28,992,905	\$ 26,557,865	\$ 26,382,562	\$ 25,443,524	\$ 22,333,017	\$ 21,669,525	\$ 22,194,236	\$ 23,527,075
Restricted	517,312	530,138	541,152	934,268	5,381	778,755	311,144	228,354	148,196	149,429
Unrestricted	2,304,101	2,908,310	2,534,369	3,675,129	3,819,538	2,489,572	4,659,177	4,643,359	5,163,109	7,635,905
Total governmental activities net position	\$ 8,133,352	\$ 9,087,342	\$ 32,068,426	\$ 31,167,262	\$ 30,207,481	\$ 28,711,851	\$ 27,303,338	\$ 26,541,238	\$ 27,505,541	\$ 31,312,409
Business-type activities										
Net investment in capital assets	\$ 2,991,253	\$ 2,901,711	\$ 3,000,351	\$ 2,901,469	\$ 2,971,746	\$ 3,068,422	\$ 3,097,074	\$ 3,045,705	\$ 2,911,634	\$ 2,911,911
Unrestricted	8,382,315	7,822,166	6,563,922	5,230,239	3,892,579	3,654,328	3,785,614	3,671,994	3,077,639	3,123,673
Total business-type activities net position	\$ 11,373,568	\$ 10,723,877	\$ 9,564,273	\$ 8,131,708	\$ 6,864,325	\$ 6,722,750	\$ 6,882,688	\$ 6,717,699	\$ 5,989,273	\$ 6,035,584
Primary government										
Net investment in capital assets	\$ 8,303,192	\$ 8,550,605	\$ 31,993,256	\$ 29,459,334	\$ 29,354,308	\$ 28,511,946	\$ 25,430,091	\$ 24,715,230	\$ 25,105,870	\$ 26,438,986
Restricted	517,312	530,138	541,152	934,268	5,381	778,755	311,144	228,354	148,196	149,429
Unrestricted	10,686,416	10,730,476	9,098,291	8,905,368	7,712,117	6,143,900	8,444,791	8,315,353	8,240,748	10,759,578
Total primary government net position	\$ 19,506,920	\$ 19,811,219	\$ 41,632,699	\$ 39,298,970	\$ 37,071,806	\$ 35,434,601	\$ 34,186,026	\$ 33,258,937	\$ 33,494,814	\$ 37,347,993

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

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

	2004	2005	2006 a)	2007	2008	2009	2010	2011	2012	2013
<b>Expenses</b>										
Governmental activities:										
Administration	\$ 3,504,510	\$ 2,852,944	\$ 2,347,787	\$ 4,199,901	\$ 4,007,520	\$ 3,645,774	\$ 5,605,945	\$ 4,481,821	\$ 5,800,427	\$ 4,571,652
Finance	1,669,625	2,026,423	2,130,334	2,259,418	2,417,412	2,407,749	2,452,338	2,663,586	2,715,668	2,522,369
Mass transit	1,127,693	954,634	902,655	952,890	1,164,952	1,200,824	1,331,320	1,373,343	1,379,552	1,373,897
Parks and recreation	1,052,019	1,454,021	1,594,334	1,656,495	1,733,640	1,752,936	1,830,649	1,827,515	1,931,317	1,968,902
Public safety	9,309,616	10,352,496	11,334,251	11,018,065	11,179,873	11,097,829	11,631,711	12,171,884	12,380,137	11,755,095
Public works	2,388,391	3,107,277	4,916,759	5,065,764	4,946,437	5,139,345	5,134,823	5,342,349	5,359,904	5,286,706
Nondepartmental	1,308,577	1,453,683	1,363,796	1,173,052	1,392,650	1,923,248	1,881,343	2,024,182	2,128,359	2,311,163
Interest on long-term debt	239,639	230,231	220,711	269,917	281,184	297,764	306,503	439,480	750,582	925,391
<b>Total governmental activities expenses</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>	<b>32,445,946</b>	<b>30,715,175</b>
Business-type activities:										
Gas	19,159,759	21,517,615	28,993,461	24,583,655	30,026,696	24,380,948	19,015,757	18,002,896	14,531,170	15,508,629
Sanitation	1,960,497	1,997,939	2,375,386	2,388,064	2,361,380	2,568,844	2,607,748	2,816,642	2,962,683	2,911,519
<b>Total business-type activities expenses</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>17,493,853</b>	<b>18,420,148</b>
<b>Total primary government expenses</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>\$ 49,939,799</b>	<b>\$ 49,135,323</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	\$ 2,378,914	\$ 2,129,121
Finance	-	221,444	1,903,007	2,109,001	2,324,014	2,368,766	2,406,292	2,667,698	2,792,566	2,788,812
Mass transit	-	34,370	35,091	38,508	45,814	35,781	48,129	43,305	49,456	42,103
Parks and recreation	217,242	306,672	306,829	301,957	310,938	312,951	331,928	362,825	280,165	291,143
Public safety	85,764	413,814	716,936	481,805	761,937	919,361	953,804	1,167,236	912,513	862,244
Public works	35,484	64,503	466,240	80,196	95,649	111,668	169,680	175,876	91,228	104,714
Operating grants and contributions	964,976	3,322,409	2,262,836	3,056,723	2,616,045	2,366,703	2,617,657	3,081,379	3,685,996	3,427,690
Capital grants and contributions	901,449	1,254,164	886,861	105,300	244,931	161,409	795,477	734,901	2,973,862	3,647,262
<b>Total governmental activities program revenues</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>	<b>13,164,700</b>	<b>13,293,089</b>

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

	2004	2005	2006 a)	2007	2008	2009	2010	2011	2012	2013
<b>Business-type activities:</b>										
Charges for services										
Gas	\$ 20,065,081	\$ 22,160,449	\$ 29,861,306	\$ 24,739,734	\$ 29,926,210	\$ 24,699,179	\$ 20,437,945	\$ 19,092,445	\$ 15,287,287	\$ 16,817,749
Sanitation	1,594,648	1,589,366	1,488,001	1,586,933	2,107,769	2,393,856	2,429,609	2,665,082	2,793,255	2,940,533
Operating grants and contributions	-	-	-	-	-	-	-	-	-	93,820
<b>Total business-type activities</b>	<b>21,659,729</b>	<b>23,749,815</b>	<b>31,349,307</b>	<b>26,326,667</b>	<b>32,033,979</b>	<b>27,093,035</b>	<b>22,867,554</b>	<b>21,757,527</b>	<b>18,080,542</b>	<b>19,852,102</b>
<b>Total primary government</b>	<b>\$ 26,738,262</b>	<b>\$ 31,260,122</b>	<b>\$ 39,726,837</b>	<b>\$ 34,120,447</b>	<b>\$ 40,096,543</b>	<b>\$ 35,149,812</b>	<b>\$ 32,460,153</b>	<b>\$ 32,184,027</b>	<b>\$ 31,245,242</b>	<b>\$ 33,145,191</b>
<b>Net (Expense)Revenue</b>										
Governmental activities	\$ (15,521,537)	\$ (14,921,402)	\$ (16,433,097)	\$ (18,801,722)	\$ (19,061,104)	\$ (19,408,692)	\$ (20,582,033)	\$ (19,897,660)	\$ (19,281,246)	\$ (17,422,086)
Business-type activities	539,473	234,261	(19,540)	(645,052)	(354,097)	143,243	1,244,049	937,989	586,689	1,431,954
<b>Total primary government net expense</b>	<b>\$ (14,982,064)</b>	<b>\$ (14,687,141)</b>	<b>\$ (16,452,637)</b>	<b>\$ (19,446,774)</b>	<b>\$ (19,415,201)</b>	<b>\$ (19,265,449)</b>	<b>\$ (19,337,984)</b>	<b>\$ (18,959,671)</b>	<b>\$ (18,694,557)</b>	<b>\$ (15,990,132)</b>
<b>General Revenues and Other Changes in Net Position</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	\$ 4,942,815	\$ 5,154,559
Property	3,983,611	4,202,727	4,355,360	4,753,013	5,250,283	5,593,273	6,571,652	6,664,192	7,177,659	7,654,195
Insurance	4,442,749	4,531,904	4,533,359	4,365,717	4,091,311	4,291,149	4,301,984	4,136,526	4,203,745	4,519,282
Other	837,737	655,649	627,676	624,842	746,004	672,452	656,896	694,413	810,567	824,073
Occupational licenses	682,582	610,539	-	-	-	-	-	-	-	-
Distributions from component units	3,500,000	3,500,000	1,128,727	1,444,724	1,444,724	1,644,734	1,644,724	1,644,724	1,644,724	1,644,724
Intergovernmental	1,263,360	-	-	-	-	-	-	-	-	-
Investment earnings	30,192	185,238	196,815	270,582	253,890	73,489	88,136	86,572	66,039	32,121
Miscellaneous	295,682	789,335	-	-	-	-	-	-	-	-
Extraordinary item	-	-	-	-	-	(554,720)	-	-	-	-
Transfers	1,937,957	1,400,000	2,400,000	1,300,000	1,400,000	1,400,000	1,193,000	1,206,000	1,400,000	1,400,000
<b>Total governmental activities</b>	<b>16,973,870</b>	<b>15,875,392</b>	<b>15,240,436</b>	<b>17,900,558</b>	<b>18,101,323</b>	<b>17,913,062</b>	<b>19,173,520</b>	<b>19,135,560</b>	<b>20,245,549</b>	<b>21,228,954</b>

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

	2004	2005	2006 a)	2007	2008	2009	2010	2011	2012	2013
<b>Business-type activities:</b>										
Investment earnings	\$ 18,876	\$ 516,048	\$ 157,936	\$ 464,487	\$ 486,714	\$ 160,214	\$ 108,889	\$ 103,022	\$ 84,885	\$ 14,357
Extraordinary item	-	-	-	-	-	954,968	-	-	-	-
Transfers	(1,937,957)	(1,400,000)	(2,400,000)	(1,300,000)	(1,400,000)	(1,400,000)	(1,193,000)	(1,206,000)	(1,400,000)	(1,400,000)
<b>Total business-type activities</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>(1,315,115)</b>	<b>(1,385,643)</b>
<b>Total primary government</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>\$ 18,930,434</b>	<b>\$ 19,843,311</b>
<b>Change in Net Position</b>										
Governmental activities:	\$ 1,452,333	\$ 953,990	\$ (1,192,661)	\$ (901,164)	\$ (959,781)	\$ (1,495,630)	\$ (1,408,513)	\$ (762,100)	\$ 964,303	\$ 3,806,868
Business-type activities:	(1,379,608)	(649,691)	(2,261,604)	(1,480,565)	(1,267,383)	(141,575)	159,938	(164,989)	(728,426)	46,311
<b>Total primary government</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>	<b>\$ 235,877</b>	<b>\$ 3,853,179</b>

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

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

	2004	2005	2006 a)	2007	2008	2009	2010	2011 b)	2012	2013
<b>General Fund</b>										
Reserved	\$ 30,168	\$ -	\$ -	\$ 850,000	\$ 590,000	\$ 590,000	\$ 1,095,872			
Unreserved	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	\$ 39,087	\$ 32,760
Restricted								-	-	-
Committed								955,573	1,130,781	2,095,480
Assigned								988,500	837,000	1,296,300
Unassigned								3,836,690	5,592,998	6,038,346
<b>Total general fund</b>	<b>\$ 3,851,398</b>	<b>\$ 3,377,314</b>	<b>\$ 2,648,312</b>	<b>\$ 4,007,175</b>	<b>\$ 4,609,711</b>	<b>\$ 5,282,077</b>	<b>\$ 7,028,671</b>	<b>\$ 6,998,098</b>	<b>\$ 7,599,866</b>	<b>\$ 9,462,886</b>
<b>All Other Governmental Funds</b>										
Reserved, reported in:										
Permanent funds	\$ 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	531,591	796,618	678,094	656,430	659,060	435,242	474,272			
Nonspendable								\$ 23,120	\$ 24,852	\$ 26,408
Special revenue funds										
Restricted										
Debt service fund								924	69,424	69,605
Capital projects fund								11,702,613	21,172,367	29,958,480
Special revenue funds								227,430	78,772	79,824
Committed										
Special revenue funds								566,741	300,912	181,774
Assigned								-	-	-
Unassigned										
Capital projects fund								(380,048)	(652,605)	(265,956)
Special revenue funds								(1,800)	(78,470)	(41,509)
<b>Total all other governmental funds</b>	<b>\$ 1,048,903</b>	<b>\$ 1,326,756</b>	<b>\$ 1,219,246</b>	<b>\$ 1,590,698</b>	<b>\$ 664,441</b>	<b>\$ (742,100)</b>	<b>\$ (921,248)</b>	<b>\$ 12,138,980</b>	<b>\$ 20,915,252</b>	<b>\$ 30,008,626</b>

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 TEN FISCAL YEARS**  
(modified accrual basis of accounting)

	2004	2005	2006 a)	2007	2008	2009	2010	2011	2012	2013
<b>Revenues</b>										
Taxes	\$ 9,390,280	\$ 11,514,894	\$ 14,885,252	\$ 15,002,709	\$ 15,002,709	\$ 15,349,559	\$ 16,247,660	\$ 16,198,264	\$ 17,134,786	\$ 18,152,109
Charges for services	556,876	663,766	990,955	1,026,292	1,242,500	1,349,938	1,460,316	1,435,183	1,388,763	1,379,948
Investment income	30,192	178,720	175,858	248,288	241,715	69,672	86,892	85,107	64,712	30,176
Licenses and permits	682,582	706,375	194,993	101,080	86,230	73,827	88,624	102,046	77,643	81,091
Intergovernmental revenue	4,274,985	4,576,573	4,724,916	4,904,924	4,913,514	4,867,253	5,825,278	6,385,784	9,204,912	9,529,693
Distributions from component units	3,500,000	3,500,000	1,128,727	1,444,724	1,444,724	1,644,734	1,644,724	1,644,724	1,644,724	1,644,724
Other	375,346	178,587	370,979	268,234	317,790	262,959	506,111	252,000	275,645	320,790
<b>Total revenues</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>29,791,185</b>	<b>31,138,531</b>
<b>Expenditures</b>										
Administration	1,431,563	1,007,131	1,025,138	2,596,582	2,072,530	2,277,438	2,517,239	2,627,053	2,561,360	2,592,453
Finance	1,579,727	1,884,715	1,987,523	2,065,065	2,274,800	2,326,392	2,426,737	2,610,767	2,620,612	2,503,295
Public safety	8,934,903	9,811,606	10,685,174	10,268,009	10,630,489	10,626,785	11,192,621	11,865,141	12,124,460	11,348,620
Public works	2,308,424	2,957,253	3,122,916	3,241,802	3,006,808	3,225,161	3,207,831	3,439,486	3,476,855	3,414,197
Parks & recreation	895,704	1,326,786	1,424,947	1,473,393	1,526,873	1,555,361	1,607,810	1,616,671	1,730,432	1,620,578
Non-departmental	1,308,577	1,453,683	1,363,796	1,173,052	1,392,650	1,923,248	1,881,343	2,024,182	2,128,359	2,311,163
Mass transit	1,127,693	886,039	860,592	884,040	1,091,239	1,124,891	1,193,074	1,271,873	1,295,020	1,257,386
Capital outlay	3,397,583	1,170,700	2,001,662	3,322,931	2,044,193	1,282,849	793,698	1,562,152	4,703,361	3,614,507
Capital contributions to HWU	-	-	-	-	-	-	-	-	1,363,929	264,547
Debt service:										
Interest	239,639	230,231	220,711	269,917	281,184	297,764	306,503	439,480	750,582	925,391
Principal	593,680	300,000	423,755	2,391,669	652,137	557,508	358,303	360,000	955,000	1,460,000
Other charges	-	-	-	-	-	-	-	27,648	72,175	-
<b>Total expenditures</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>	<b>33,782,145</b>	<b>31,312,137</b>
Excess of revenues over (under) expenditures	(3,007,232)	290,771	(644,534)	(4,690,209)	(1,723,721)	(1,579,455)	374,446	(1,741,345)	(3,990,960)	(173,606)
<b>Other Financing Sources (Uses)</b>										
Transfers in	3,452,761	3,290,783	3,818,766	3,596,374	2,802,811	2,797,000	2,974,500	5,686,761	4,103,218	4,792,872
Transfers out	(1,514,805)	(1,890,783)	(1,418,766)	(2,296,374)	(1,402,811)	(1,397,000)	(1,781,500)	(4,480,761)	(2,703,218)	(3,392,872)
Insurance recovery	-	-	328,914	-	-	-	-	-	-	-
Proceeds from loans	800,000	-	325,422	5,237,981	-	-	-	13,730,000	12,080,000	9,730,000
Bond refundings	-	-	-	-	-	-	-	(1,310,000)	-	-
Sale of land	-	-	-	-	-	-	-	1,145,000	(111,000)	-
Other	-	-	124,044	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</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>	<b>13,369,000</b>	<b>11,130,000</b>
Extraordinary item	-	-	-	-	-	(554,720)	-	-	-	-
<b>Net change in fund balances</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>	<b>\$ 9,378,040</b>	<b>\$ 10,956,394</b>
Debt service as a percentage of noncapital expenditures	4.5%	2.7%	3.1%	10.9%	4.1%	3.6%	2.7%	3.0%	5.9%	8.6%

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
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
2012	17,134,786	7,177,659	4,203,745	4,194,962	747,853	677,159	133,408
2013	18,152,109	7,654,195	4,519,282	4,265,067	889,492	677,113	146,960

- 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)

Fiscal Year	Real Estate (a)	Personal Property (a)	Bank Deposits (b)	Total
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
2012	1,095,301	131,246	544,520	1,771,067
2013	1,101,286	133,508	598,793	1,833,587

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 TEN 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
2012	784,181,028	3,014,722	379,700,845	6,779,520	78,375,555	-	1,095,300,560	0.00521	5,706,516
2013	786,359,573	3,022,322	385,853,285	6,803,920	80,752,738	-	1,101,286,362	0.00542	5,968,972

**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
2012	52,850,006	46,594,388	12,820,482	13,737,384	1,385,767	3,858,178	131,246,205	0.00743	975,159
2013	52,091,144	53,770,713	12,519,762	8,528,020	1,484,755	5,113,377	133,507,771	0.00750	1,001,308

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.

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: 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>	
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
2012	-	-	-	0.5210	0.5210	0.5170	0.1220	0.1180	0.0740	0.0260	0.0270	1.4050
2013	-	-	-	0.5420	0.5420	0.5300	0.1220	0.1180	0.0780	0.0260	0.0270	1.4430

<b>Personal property: 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>	
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
2012	-	-	-	0.7430	0.7430	0.5170	0.4500	0.1750	0.1089	0.0260	0.0415	2.0614
2013	-	-	-	0.7500	0.7500	0.5300	0.4500	0.1750	0.1064	0.0260	0.0413	2.0787

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>	
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
2012	0.5210	0.5170	0.1220	0.1180	0.0740	0.0260	0.0270	1.4050
2013	0.5420	0.5300	0.1220	0.1180	0.0780	0.0260	0.0270	1.4430
<b>Personal property:</b>								
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
2012	0.7430	0.5170	0.4500	0.1750	0.1089	0.0260	0.0415	2.0614
2013	0.7500	0.5300	0.4500	0.1750	0.1064	0.0260	0.0413	2.0787

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>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Kentucky Farm Bureau Insurance	Insurance premium tax	\$ 392,174	\$ 400,515	\$ 387,260	\$ 399,568	\$ 410,043	\$ 425,793	\$ 456,374	\$ 486,160	\$ 521,020	\$ 549,560
Commonwealth of Kentucky - Telecom (a)	Franchise tax	-	-	-	315,994	316,101	315,991	316,068	316,044	311,957	307,895
Bellsouth Telecommunications / AT&T	911 tax/Franchise fees	158,529	203,391	270,679	200,665	280,409	283,255	277,972	285,083	281,144	274,277
State Farm Mutual Automobile Insurance	Insurance premium tax	171,549	172,297	173,236	172,002	161,049	175,243	176,025	192,829	225,066	256,612
State Farm Fire & Casualty Company	Insurance premium tax	-	-	-	114,716	114,810	116,277	127,469	144,505	163,885	211,115
Insight Communications (a)	911 tax/Franchise fees	285,073	325,312	236,649	-	225,568	192,960	214,889	237,779	232,997	198,050
Big Rivers Electric Corporation	Franchise tax	-	-	-	-	-	-	-	-	172,549	179,717
Cincinnati Insurance Company	Insurance premium tax	102,818	-	113,508	100,644	96,125	115,878	127,925	136,640	138,131	156,094
United Healthcare	Insurance premium tax	143,431	145,257	161,039	147,950	197,205	224,861	188,973	177,349	163,636	147,451
Anthem Life & Health Insurance Company	Insurance premium tax	-	-	-	-	-	-	-	-	-	112,956
Progressive Casualty Insurance Company	Insurance premium tax	-	-	-	133,516	152,869	150,993	148,370	123,904	108,966	-
West American Insurance Company	Insurance premium tax	106,617	116,083	118,402	118,984	120,170	110,157	103,134	95,201	-	-
Grange Mutual	Insurance premium tax	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	-	-	-	-	-	-	-	-	-
<b>Total</b>		<b>\$ 1,711,666</b>	<b>\$ 1,818,422</b>	<b>\$ 1,791,836</b>	<b>\$ 1,826,719</b>	<b>\$ 2,074,348</b>	<b>\$ 2,111,408</b>	<b>\$ 2,137,198</b>	<b>\$ 2,195,494</b>	<b>\$ 2,319,351</b>	<b>\$ 2,393,727</b>

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 TEN FISCAL YEARS

Fiscal Year	Total Tax Levy for Fiscal Year (a)	Collected within the Fiscal Year of the Levy		Collections in subsequent years (b)	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2004	\$ 3,900,800	N/A	N/A	N/A	\$ 3,889,975	99.7%
2005	4,173,261	\$ 4,122,781	98.8%	\$ 40,579	4,163,360	99.8%
2006	4,301,791	4,247,636	98.7%	41,515	4,289,151	99.7%
2007	4,703,911	4,647,361	98.8%	41,618	4,688,979	99.7%
2008	5,136,824	5,064,159	98.6%	53,873	5,118,032	99.6%
2009	5,596,653	5,491,093	98.1%	72,282	5,563,375	99.4%
2010	5,785,861	5,692,217	98.4%	66,111	5,758,329	99.5%
2011	6,065,067	5,959,466	98.3%	60,689	6,020,155	99.3%
2012	6,555,992	6,446,468	98.3%	58,862	6,505,330	99.2%
2013	6,908,481	6,827,927	98.8%	-	6,827,927	98.8%

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 June 30, 2013

**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>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>2012</b>
Residential	708,087	611,354	613,872	513,033	558,863	622,342	566,728	589,839	519,927	455,233
Commercial	338,998	337,788	341,802	319,357	331,896	371,493	342,366	366,061	341,617	294,765
Industrial	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	2,202,345	2,160,308
Municipal	-	-	-	-	6,428 b)	7,875	6,882	7,543	7,614	5,564
<b>Total Sold</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>	<b>3,071,503</b>	<b>2,915,870</b>
Delivered only	356,232	399,848	360,747	358,538	331,305	- d)	-	-	-	-
Pipeline distribution use (net of losses)	(2,302) a)	1,352	1,037	1,926	3,647 c)	1,733	4,628 e)	2,796	3,201	2,125
<b>Total Disposition</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>	<b>3,074,704</b>	<b>2,917,995</b>

- a) The department reported a loss from leaks, migration, damage and/or accidents of 2,780.
- b) Prior to 2007, Municipal consumption was included in Commercial.
- 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)**

<u>Type of Customer</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>	<u>2012</u>
Residential	\$ 6,595	\$ 6,028	\$ 8,064	\$ 6,421	\$ 6,594	\$ 7,715	\$ 5,925	\$ 6,142	\$ 5,286	\$ 4,356
Commercial	2,972	3,023	4,120	3,899	3,671	4,542	2,967	3,196	2,774	2,105
Industrial	10,913	12,704	16,702	16,612	15,147	22,049	10,524	11,460	10,907	8,294
Total Sold	\$ 20,480	\$ 21,755	\$ 28,886	\$ 26,932	\$ 25,413	\$ 34,306 a)	\$ 19,416 b)	\$ 20,798	\$ 18,967	\$ 14,755

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
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
2012	12.00	2.25
2013	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, 2013**

<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)	\$ 21,490,000	52.42% (b)	\$ 11,265,058
Henderson County (d)			
Henderson County Public Properties Corp.	4,314,650	52.42% (b)	<u>2,261,740</u>
Subtotal, overlapping debt			\$ 13,526,798
<b>City direct debt</b>			<u>37,395,000</u>
<b>Total direct and overlapping debt</b>			<u><u>\$ 50,921,798</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 audit of the Henderson County Board of Education for fiscal year 2013.
- 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>		
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
2012	15,734	11,883	3,851	1,313	886	2,199	1.75	60,033	57,245	2,788	-	452	452	6.17	2012
2013	17,025	11,522	5,503	2,482	957	3,439	1.60	64,041	60,662	3,379	570	510	1,080	3.13	2013

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	Government	Per Capita	Income	Income
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%
2012	29,125,000	1,771,066,893	1.64%	28,853	1,009	-	-	-	29,125,000	1,009	31,265	3.23%
2013	37,395,000	1,833,587,019	2.04%	28,911	1,293	-	-	-	37,395,000	1,293	32,311	4.00%

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									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>General Bonded</b>										
General bonded debt outstanding	\$ -	\$ -	\$ -	\$ -	\$ 5,230	\$ 5,005	\$ 4,775	\$ 18,000	\$ 29,125	\$ 37,395
Other bonded debt	-	-	-	-	-	-	1,584	-	-	-
Total	-	-	-	-	5,230	5,005	6,359	18,000	29,125	37,395
Estimated actual property value	\$ 1,374,606	\$ 1,374,606	\$ 1,396,033	\$ 1,423,495	\$ 1,486,361	\$ 1,599,707	\$ 1,647,584	\$ 1,747,829	\$ 1,771,067	\$ 1,833,587
Percentage of estimated actual property value	0%	0%	0%	0%	0.35%	0.31%	0.39%	1.03%	1.64%	2.04%
Population	27,502	27,542	27,666	27,666	27,768	27,768	27,933	28,757	28,853	28,911
Per capita	-	-	-	-	\$ 188	\$ 180	\$ 228	\$ 626	\$ 1,009	\$ 1,293
Less: Amounts set aside to repay general debt	-	-	-	-	-	269	1,018	918	1,131	1,725
Total net debt applicable to debt limit	-	-	-	-	\$ 5,230	\$ 4,736	\$ 5,341	\$ 17,082	\$ 27,994	\$ 35,670
Debt Limit	\$ 81,108	\$ 84,424	\$ 87,125	\$ 91,271	\$ 100,736	\$ 105,167	\$ 107,144	\$ 107,909	\$ 109,530	\$ 110,129
Total net debt applicable to limit	\$ 4,649	\$ 4,855	\$ 4,555	\$ 4,535	\$ 7,508	\$ 6,856	\$ 7,524	\$ 18,000	\$ 29,125	\$ 37,395
Legal Debt Limit a)	\$ 76,459	\$ 79,569	\$ 82,570	\$ 86,736	\$ 93,228	\$ 98,311	\$ 99,620	\$ 89,909	\$ 80,405	\$ 72,734
Legal Debt Margin b)	\$ 76,459	\$ 79,569	\$ 82,570	\$ 86,736	\$ 87,998	\$ 93,575	\$ 94,279	\$ 72,827	\$ 52,411	\$ 37,064
Legal debt margin as a percentage of the debt limit	100%	100%	100%	100%	94.4%	95.2%	94.6%	81.0%	65.2%	51.0%

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>
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%
2012	28,853	902,089	31,265	38.3	7,546	7.6%
2013	28,911	934,143	32,311	39.0	7,555	8.1%

**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 EIGHT FISCAL YEARS**

Employer	2006 (a)			2007			2008			2009		
	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	11.16%
Henderson County Schools	3	111,294	7.86%	2	278,054	6.66%	2	297,595	7.10%	2	306,117	7.30%
Gibbs	4	83,475	5.89%	4	201,997	4.84%	4	167,912	4.00%	4	152,176	3.63%
City of Henderson	5	47,119	3.33%	5	115,414	2.77%	5	118,877	2.84%	5	124,433	2.97%
Dana	2	121,608	8.59%	3	275,966	6.61%	3	249,417	5.95%	3	171,968	4.10%
Big Rivers	8	26,063	1.84%	8	66,309	1.59%	6	76,604	1.83%	6	84,017	2.00%
Wal-Mart	18	-	0.00%	11	-	0.00%	8	70,954	1.69%	7	79,145	1.89%
Redbanks	13	-	0.00%	9	63,355	1.52%	10	64,275	1.53%	8	69,684	1.66%
State of Kentucky	17	-	0.00%	14	-	0.00%	12	-	0.00%	9	64,760	1.54%
Henderson Community College	9	23,867	1.69%	10	61,073	1.46%	9	65,096	1.55%	10	64,076	1.53%
Sunspring America	6	44,200	3.12%	6	100,056	2.40%	7	75,034	1.79%	13	-	0.00%
Vincent Plastics	7	24,779	1.75%	7	71,215	1.71%	11	-	0.00%	11	-	0.00%
Spartan Staffing	10	22,830	1.61%	22	-	0.00%	15	-	0.00%	15	-	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>37.79%</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

Source: City of Henderson Occupational License Office

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

Employer	2010			2011			2012			2013		
	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	\$ 467,415	11.84%	1	\$ 468,695	11.58%	1	\$ 509,135	12.14%	1	\$ 500,850	11.74%
Henderson County Schools	2	321,754	8.15%	2	321,922	7.96%	2	328,197	7.82%	2	345,801	8.11%
City of Henderson	4	161,027	4.08%	4	163,558	4.04% (b)	4	165,130	3.94% (b)	4	169,016	3.96%
Dana	5	133,290	3.38%	5	134,989	3.34%	3	174,305	4.16%	3	154,761	3.63%
Gibbs	3	162,702	4.12%	3	165,136	4.08%	5	162,138	3.87%	5	151,889	3.56%
Big Rivers	6	107,244	2.72%	6	127,353	3.15%	6	119,522	2.85%	6	123,251	2.89%
Redbanks	8	73,480	1.86%	8	77,667	1.92%	8	79,410	1.89%	8	80,413	1.89%
Wal-Mart	7	80,982	2.05%	7	78,704	1.95%	7	80,826	1.93%	7	75,616	1.77%
Henderson Community College	10	64,660	1.64%	9	68,000	1.68%	9	70,761	1.69%	9	72,025	1.69%
Henderson County	11	-	0.00%	11	-	0.00%	10	67,396	1.61%	10	71,955	1.69%
State of Kentucky	9	68,515	1.74%	10	66,018	1.63%	11	-	0.00%	11	-	0.00%
<b>Total</b>		<b>\$ 1,572,554</b>	<b>39.84%</b>		<b>\$ 1,606,024</b>	<b>39.69%</b>		<b>\$ 1,756,820</b>	<b>41.88%</b>		<b>\$ 1,745,577</b>	<b>40.93%</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

Source: City of Henderson Occupational License Office

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

<u>Function / Program</u>	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>General Government</b>										
Administration	15.00	15.00	12.00 a	11.00	22.00 c	22.00	22.50 d	22.50	23.25	24.00
Finance	31.00	31.00	31.00	33.00 b	32.00	32.00	33.50 d	33.50	32.75	33.00
<b>Police</b>										
Officers	57.50	57.50	57.80	57.80	57.80	57.55	60.75 e	60.75	60.75	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	14.50	14.50	14.20	15.20	15.20	15.45	15.25	15.25	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	7.00	7.00	9.00 a	9.00	2.00 c	2.00	2.00	2.00	2.00	2.00
<b>Parks and Recreation</b>	14.00	14.00	14.00	14.00	13.00	13.00	13.00	13.00	13.00	13.00
<b>Mass Transit</b>	12.00	12.00	12.00	12.00	13.00	14.00	14.00	14.00	14.00	14.00
<b>Gas System</b>	30.00	30.00	30.00	27.00	28.00	28.00	28.00	28.00	28.00	27.00
<b>Sanitation</b>	18.50	18.50	18.50	18.50	18.50	18.50	18.50	18.50	18.50	18.50
<b>Cemetery</b>	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
<b>Public Way Improvement</b>	37.50	37.50	37.50	37.50	35.50 c	35.50	35.50	35.50	35.50	35.50
<b>TOTAL</b>	307.00	307.00	306.00	305.00	307.00	308.00	313.00	313.00	313.00	313.00

Source: Applicable Departments

- a) The City moved Community Development from Administration to Fire.
- b) With the passage of the new payroll/net profits tax, the City added a tax collector and moved the Switchboard from Administration
- c) The City moved Codes, Community Development, and Engineering to Administration and added an Assistant City Manager with Administrative Secretary.
- d) Two positions from Henderson Water Utility were moved to the City.
- e) 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**

<b>Function / Program</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>2012</b>	<b>2013</b>
<b>Public Way Improvement</b>										
Miles of streets paved	111	111	113	113	113	113	113	124	124	124
Miles of sidewalks	73	73	73	73	73	73	73	73	73	73
<b>Wastewater System</b>										
Miles of sanitary sewers	151	206	185	205	205	203	205	200	201	201
Miles of storm sewers	136	136	136	136	136	136	136	136	136	51
Number of service connections	10,136	11,156	11,156	10,792	10,793	10,782	10,846	10,884	10,884	10,893
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	203	223	206	219	222	224	225	225	225	225
Number of service connections	10,649	11,156	11,156	10,792	10,793	10,782	10,846	10,844	10,844	10,893
Number of fire hydrants	1,087	939	939	988	1,007	1,020	1,030	1,084	1,095	1,112
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	208	208	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	234	236	241	243	244	245	247	249	251	253
Miles of service lines	128	129	129	129	129	129	129	129	138	139
Number of meters	10,150	10,095	10,030	10,008	10,000	9,652	9,532	9,470	9,422	9,421
<b>Parks and Recreation</b>										
Park acreage	210	210	210	210	210	210	210	210	210	211
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	17	17	16	16	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	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.

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

<b>Function / Program</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>2012</b>	<b>2013</b>
<b>Police</b>										
Physical arrests	5,776	3,827	3,696	3,759	3,793	3,519	3,183	2,615	2,776	2,951
Traffic violations	3,932	2,166	3,086	2,697	2,073	1,458	2,315	2,854	2,455	3,505
Parking violations	5,870	5,746	5,195	3,867	4,492	4,387	2,425	4,075	4,088	4,137
Calls for service	29,179	24,525	25,987	23,600	22,335	17,658	18,582	17,633	17,827	17,454
<b>Fire</b>										
Fire	160	152	152	152	176	155	124	152	150	140
Overpressure Rupture, Explosion, Overheat	9	8	9	12	13	12	10	9	10	8
Rescue & Emergency Medical Service	801	985	1,029	1,213	1,182	1,246	1,297	1,216	1,513	1,757
Hazardous Condition (No Fire)	386	399	261	220	165	288	134	153	138	147
Service Call	70	63	62	67	57	74	73	76	66	64
Good Intent Call	178	177	128	141	153	167	144	169	158	140
False Alarm & False Call	146	170	195	188	191	188	204	246	207	198
Severe Weather & Natural Disaster	-	-	-	3	1	12	1	3	1	1
Special Incident Type	9	14	11	1	2	4	-	7	7	5
Number of inspections performed	18	604	709	1,238	1,210	781	733	772	788	749
<b>Mass Transit</b>										
Number of routes	*	*	*	5	5	5	5	5	5	5
Fixed Route Passengers	*	*	*	101,683	108,817	121,058	114,154	138,603	139,321	137,359
Para transit Passengers	*	*	*	16,653	17,529	17,298	15,736	18,161	16,357	15,339
Wheelchair Usage	*	*	*	6,728	4,900	4,758	4,729	6,411	7,915	6,601
Miles of Service	*	*	*	202,885	216,852	222,297	227,937	242,024	222,262	221,955
<b>Wastewater System</b>										
Average daily treatment in 1,000 gallons	9,800	9,800	8,800	10,185	9,970	9,648	9,506	8,979	8,672	8,993
<b>Water System</b>										
Average daily consumption in 1,000 gallons	11,836	11,836	10,500	10,469	8,316	8,034	7,847	7,669	9,030	9,151

Source: Applicable Departments

\* - Data not available

**Case No. 2019-00269**  
**Attachment 1 to BREC 1-31**  
**Pages 144**



**CITY OF HENDERSON, KENTUCKY  
COMPREHENSIVE ANNUAL  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2014**





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

**For the Fiscal Year Ended June 30, 2014**



**Prepared by:**

**Finance Department**

**CITY OF HENDERSON, KENTUCKY**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**For the Fiscal Year Ended June 30, 2014**

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**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 Position .....	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 Position .....	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 Changes in Fund Balance – Budget and Actual – General Fund.....	36
Statement of Net Position – Proprietary Funds.....	37
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds.....	38
Statement of Cash Flows – Proprietary Funds.....	39
Statement of Fiduciary Net Position – Fiduciary Funds .....	40
Statement of Changes in Fiduciary Net Position – Fiduciary Funds .....	41
Notes to the Financial Statements.....	42
Required Supplementary Information:	
Schedule of Changes in the Net Pension Liability and Related Ratios .....	87
Schedule of Contributions.....	89
Schedule of Investment Returns .....	91
Nonmajor Governmental Funds:	
Nonmajor Governmental Funds – Fund Descriptions .....	92
Combining Balance Sheet – Special Revenue Funds .....	93
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Special Revenue Funds .....	94

Continued

## Schedules of Revenues, Expenditures, and Changes in Fund

## Balances – Budget and Actual:

Cemetery Fund.....	95
Public Way Improvement Fund .....	96
Henderson Area Rapid Transit Fund .....	97
Emergency Communications Fund.....	98
Community Development Block Grant Fund .....	99
HOME Fund.....	100
Police Investigation Fund .....	101
Debt Service Fund.....	102
Capital Projects Fund.....	103

**STATISTICAL SECTION**

Statistical Section Contents.....	104
General Information.....	105
Financial Trends:	
Net Position by Component .....	108
Changes in Net Position.....	109
Fund Balances of Governmental Funds .....	112
Changes in Fund Balances of Governmental Funds .....	113
Revenue Capacity:	
General Governmental Tax Revenue by Source.....	114
Assessed Value and Actual Value of Taxable Property .....	115
Detail of Assessed Value and Estimated Actual Value of Taxable Property .....	116
Property Tax Rates - Direct and Overlapping Governments .....	117
Ad Valorem Tax Rates – Direct and Overlapping Governments .....	118
Top Ten Taxpayers .....	119
Property Tax Levies and Collections.....	120
Natural Gas Volume by Customer Type.....	121
Natural Gas Sold by Customer Type .....	122
Natural Gas Rates – Residential Customers .....	123
Debt Capacity:	
Direct and Overlapping Governmental Activities Debt.....	124
Pledged-Revenue Coverage – Water & Sewer and Electric Commissions ...	125
Ratios of Outstanding Debt by Type .....	126
Ratios of General Bonded Debt Outstanding and Legal Debt Margin .....	127
Demographic and Economic Information:	
Demographic Statistics .....	128
Principal Employers.....	129
Operating Information:	
Full-time Equivalent City Government Employees by Function / Program..	131
Capital Asset Statistics by Function / Program.....	132
Operating Indicators by Function / Program .....	133

## **INTRODUCTORY SECTION**

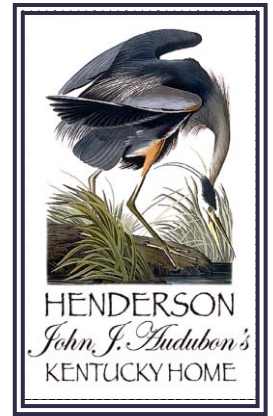


Steve Austin, Mayor

Commissioners:  
Thomas E. Davis  
Jan M. Hite  
Robert M. Mills  
Robert N. Pruitt

# 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 9, 2014

Honorable Mayor,  
Members of the Board of Commissioners,  
Citizens of the City of Henderson, Kentucky:

We present to you the Comprehensive Annual Financial Report of the City of Henderson, Kentucky for the fiscal year ended June 30, 2014. Kentucky Revised Statute 91A.040 requires that the City of Henderson publish, before February 1 immediately following the fiscal year, a complete set of audited financial statements. This report is published to fulfill that requirement.

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.

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, 2014. 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.



### *Profile of the government*

The City of Henderson was incorporated as a town in 1810 and as a City in 1867. Henderson currently serves a population of 28,832 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.

The City of Henderson 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. Henderson 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)*

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.

### *Local economy*

Henderson is located in the Evansville, IN-KY Metropolitan Statistical Area (MSA). This geographical region covers approximately 2,367 square miles and is the 137<sup>th</sup> largest MSA in the United States. The economy for the City of Henderson and Henderson County continues a modest recovery from the global recession and the City 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 property tax increases.

Per the U.S. Census Bureau the family medium income for the City of Henderson for the past 12 months was \$34,496 which was \$8,114 or 19.0% lower than the Kentucky family medium income of \$42,610. The estimated medium price of a single family home in the city was \$94,400. 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 2014 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 31.2% or \$263.1 million from \$844.2 million in fiscal 2005 to \$1,107.3 million in fiscal 2014. Bank deposits have increased 37.9% or \$165.4 million from \$436.0 million to \$601.4 million over the same ten-year period.

The City of Henderson is a member of Kyndle, an economic development joint venture made up of the City of Henderson and four adjoining counties in the area. Kyndle markets not only the City of Henderson but also the four-county region encompassing some 90,000 people. Kyndle 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 \$9.5 million at June 30, 2013 to \$10.8 million at June 30, 2014. The reserves consisted of cash, investments, and receivables. The \$1,363,471 increase in General Fund reserves was primarily the result of a slight increase in tax collections, the sale of surplus property, and lower than expected personnel expenses due to open positions. Tax collections increased \$247,147 or 1.4% with growth in all three areas: property, insurance premium, and occupational taxes. Personnel expenses were \$1,308,723 under budget with health insurance accounting for \$374,554 of that number. The General Fund will have a cash and investment balance, net of cash due to component units, entering the fiscal year equal to 5.3 months operating expense and transfers to other funds. The Gas Fund's cash and investment balance will be equal to 2.3 months operating expense. The City has exceeded its goal of establishing a balance of cash and investments equal to 3 months worth of operating expense in the General Fund and is working to meet that same goal in the Gas Fund. A recent rate increase approved by the Board of Commissioners will help to meet that goal.



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, 2012, and 2013 the average loss was \$305,000. On November 26, 2013, the Henderson Board of Commissioners increased the monthly base rates from \$12.00 to \$12.50 and the rate per 1,000 cubic feet of natural gas from \$2.25 to \$2.30. The ordinance also allows an increase of \$0.05 per 1,000 cubic feet for fiscal 2015, 2016, and 2017. The hope is that the rate increase will reduce the need of using Gas Fund reserves.

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. As a result of the consumption during the fiscal year, \$279,201 was returned to Henderson which is an increase of \$4,080 from the \$275,121 that was returned in fiscal 2013.

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.

One of the largest expenses for the City is employee health insurance. For fiscal years 2010, 2011, and 2012, the City spent \$6.8 million, \$6.6 million, and \$6.4 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 receives 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.

Finally, in July of 2012, the City changed the third party administrator to UMR which is owned by United Healthcare. The City moved from a regional discounter to a national discounter with the potential of better pricing on health care. The changes to the health insurance plan seem to have worked. For fiscal 2013 and 2014, the total health care cost dropped to \$5.6 million and \$5.9 million, respectively. The \$500,673 drop from fiscal 2012 to fiscal 2014 equates to a savings of 7.8% during a period of increases seen throughout the country.

From a capital projects aspect, 2014 was another busy year. Some projects and improvements of note include:

*Streets and Sidewalk Improvements:*

North Green River Road is currently under a rehabilitation to widen the road in order to make it safer. This project is being done by the City of Henderson with proceeds coming from the State of Kentucky. Preliminary engineering was done in fiscal 2013 with construction starting in fiscal 2014.

Future capital projects include the final phase of riverfront development. There is approximately \$1.0 million remaining from the federal grant. Projects for the remaining funds have been developed and the plans have been submitted to the State of Kentucky for construction in fiscal 2015.

*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. For fiscal 2013, \$359,931 was spent on flood prevention projects.

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. For fiscal 2014, the County contribution was \$96,160. The term of the agreement was for an initial period of five years beginning July 1, 2008 and ending June 30, 2013. After the recent renewal, the agreement has three five year automatic renewal options remaining.

The City of Henderson and Henderson County are looking to improve recycling programs throughout Henderson County. The Tri-County Recycling Alliance utilized \$1.4 million in federal, state, and local funds for the construction of the center. The center handles cardboard, aluminum, and the mulching of leaves, branches, and yard clippings. This joint venture won the "Spirit of Kentucky Award" at the Governors' Local Issues Conference. The project was noted for its "use of creative, collaborative, and cost effective thinking to plan and implement a highly successful project."

The City of Henderson and Henderson County are looking to improve 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. For fiscal 2015, the committee is pushing for an increase in the state fee for cellular service that is collected by the State and then remitted back to the local 911 center.

The City and County are also working together to develop a new park in the East-end. Property was purchased in fiscal 2013. The City has applied for a state grant to help with the development.

#### *Downtown Infrastructure Rehabilitation:*

Henderson Water Utility (HWU) continues with its massive \$42.9 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 was estimated to be \$13.9 million. From 1996 through 2009, HWU spent an estimated \$20 million on capital improvements to its combined sewer system. 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 has hired a contractor to demolish Station 1 power plant located on the riverfront. Station 1 was built in 1950 with two 1-megawatt diesel generators and two 5-MW coal-fired generators. A 10-MW coal unit was added in 1955 followed by a 26-MW unit in 1968. Because of the increasing operating costs and stringent air emission regulations, Station 1 was decommissioned in December 2008.

What is unique about the contract is that the HMP&L will actually be paid by the contractor instead of vice versa. Bids from other contractors were as high as \$4.19 million. The contractor will keep all proceeds from the sale of the scrap metal and other obsolete assets and in return will pay HMP&L approximately \$37,000. The building is owned by HMP&L while the land is owned by the City of Henderson. Once the building is removed, the City will develop plans on the best use of the riverfront property.

*Other Developments:*

As part of the budget process, the staff identifies and quantifies the operational costs associated with its capital projects and budgets resources accordingly. In addition, the budget committee monitors the condition of all government equipment and vehicles and makes recommendations on their replacement.

The City of Henderson maintains a vehicle replacement schedule which serves as its fleet replacement guide over a five-year period. The fiscal year 2015 budget includes \$13.9 million in capital projects which includes \$1.0 million in rolling stock replacement.

During the last fiscal year, HMP&L spent \$1,098,249 in capital improvements and replacements in the existing system and \$2,958,938 in capital improvements and replacements at Station Two. HWU added \$19,907,240 in capital projects during fiscal 2014.

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.

With all of the award-winning downtown improvements, the City/County collaborations, and East-end redevelopment, it is a very exciting time for the community. 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.

### ***Relevant financial policies***

The City of Henderson uses a comprehensive set of financial policies. During the current year, two of these policies were particularly relevant. The City of Henderson has a policy that requires the adoption of a balanced annual operating budget where operating expenses may not exceed anticipated revenues plus available unassigned fund balance. The amended fiscal 2014 budget was adopted using \$1,246,300 of unassigned fund balance. However, these funds were not needed. At the end of fiscal 2014, the unassigned fund balance was \$5.3 million. The reserve policy also designates that 20% of annual surpluses be set aside for short-term payments on large vehicles and equipment; 40% of annual surpluses be set aside for long-term payments on major building projects or improvements; and the remaining 40% be placed in the unassigned fund balance.

Having these funds set aside has enabled the City to reserve funds for a new fire truck in fiscal 2015 and have funds available to make payments on the General Obligation Series Bonds 2011A.

The second financial policy involves the reserve policy, where the goal of maintaining a minimum General Fund reserve of at least one-quarter (three months) of the General Fund's operating budget, was exceeded.

### ***Awards and Acknowledgements***

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 (CAFR) for the fiscal year ended June 30, 2013. This was the fifteenth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable program 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 CAFR 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, 2013 and ending June 30, 2014. 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. The preparation of this report would not have been possible without the skill, effort, and dedication of the entire staff of the Finance and Administration Departments. We wish to thank all government departments for their assistance in providing the data necessary to prepare this report. Credit also is due to the Board of Commissioners for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Henderson's finances.

Respectfully submitted,



Russell R. Sights  
City Manager



Robert Gunter  
Finance Director



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**City of Henderson  
Kentucky**

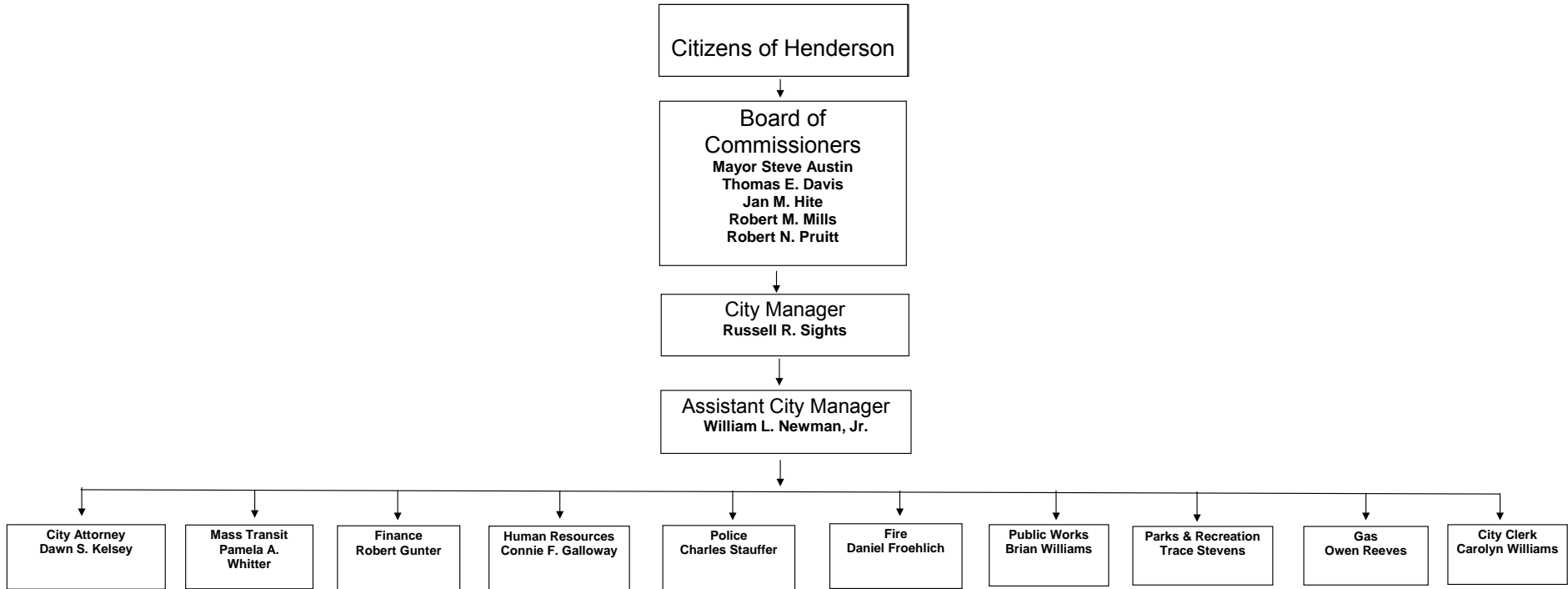
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO



**CITY OF HENDERSON, KENTUCKY  
Organizational Chart**



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

**Elected Officials**

Mayor	Steve Austin
Commissioner	Thomas E. Davis
Commissioner	Jan M. Hite
Commissioner	Robert M. Mills
Commissioner	Robert N. Pruitt

**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	Trace Stevens
Police Chief	Charles Stauffer
Public Works Director, Acting	Brian Williams

## **FINANCIAL SECTION**



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Knowledge you trust. People you know. Strength...in Numbers.

To the Honorable Steve Austin, Mayor  
and the Board of Commissioners of the  
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 City of Henderson, Kentucky as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Standards applicable to financial audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension schedules on pages 15 to 29 and 87 to 91 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Henderson, Kentucky's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2014, on our consideration of the City of Henderson, Kentucky's internal control over financial reporting and on our tests of compliance with laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing and not to provide a legal opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Henderson, Kentucky's internal control over financial reporting and compliance.



Henderson, Kentucky  
November 26, 2014

**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, 2014. 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 \$37.2 million at the close of fiscal 2014. Of this amount, \$12.5 million (unrestricted net position) may be used to meet the City's ongoing obligations.
- City governmental funds reported combined ending fund balances of \$39.7 million. Of this total, \$5.2 million is unassigned.
- In the City's business-type activities, income from operations increased from \$1,431,954 in fiscal 2013 to \$1,653,653 in fiscal 2014.
- The City's General Fund ended the year with a fund balance of \$10,826,357, an increase of \$1,363,471 or 14.4% from fiscal year 2013's balance of \$9,462,886.
- In the past four years, the General Fund's fund balance has increased 54.3% from \$7.0 million in 2010 to \$10.8 million in 2014.

### Overview of Financial Statements

This discussion and analysis provided here are intended to serve as an introduction to the City of Henderson's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

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

The *statement of activities* presents information showing how the City of Henderson's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., taxes, grants, and earned but unused vacation leave).

Both of the governmental-wide financial statements distinguish functions of the City of Henderson that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant

portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Henderson include administration, finance, mass transit, parks and recreation, police, fire, public works, and nondepartmental. The business-type activities of the City of Henderson include the natural gas and sanitation operations.

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

The government-wide financial statements can be found on pages 30-31 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Henderson, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Henderson can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the 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 ten (10) 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 from the other seven (7) governmental funds is 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 the form of combining statements in the combining and individual fund statements and schedules section of 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.

The basic governmental funds financial statements can be found on pages 32-36 of this report.

**Proprietary Funds.** The City of Henderson maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Henderson uses enterprise funds to account for its natural gas and sanitation operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Henderson's various functions. The City of Henderson use an internal service fund to account for the management of its self-funded health insurance. Because this service predominantly benefits governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service fund is presented in the proprietary fund financial statements.

Proprietary funds provide the same kind of information as government-wide financial statements, only in greater detail. The proprietary fund financial statements provide separate information for the natural gas and sanitation operations, both of which are considered to be major funds of the City of Henderson.

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.

The basic proprietary funds financial statements can be found on pages 37-39 of this report.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because those resources are not available to support the City of Henderson's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City of Henderson maintains three different types of fiduciary funds. The Civil Service Pension fund is used to report resources held in trust for non-hazardous retirees and beneficiaries that elected to participate in 1987. Police & Fire Pension fund is used to report resources held in trust for hazardous retirees and beneficiaries that elected to participate in 1987. The Health Reimbursement Arrangement Plan is used to help employees pay for health care expenses.

The fiduciary funds financial statements can be found on pages 40-41 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 42-86 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the City of Henderson’s progress in funding its obligations to provide pension and other post-employment benefits to its employees. Required supplementary information can be found on pages 87-91 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions and other post employment benefits. Combining and individual fund statements and schedules can be found on pages 92-103 of this report.

### Government-Wide Overall Financial Analysis

As noted earlier, net position 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 \$37,175,621 at the close of the most recent fiscal year.

The tables and charts on the next few pages provide a summary of the City of Henderson’s operations for the fiscal year ended June 30, 2014.

### City of Henderson’s – Net Position

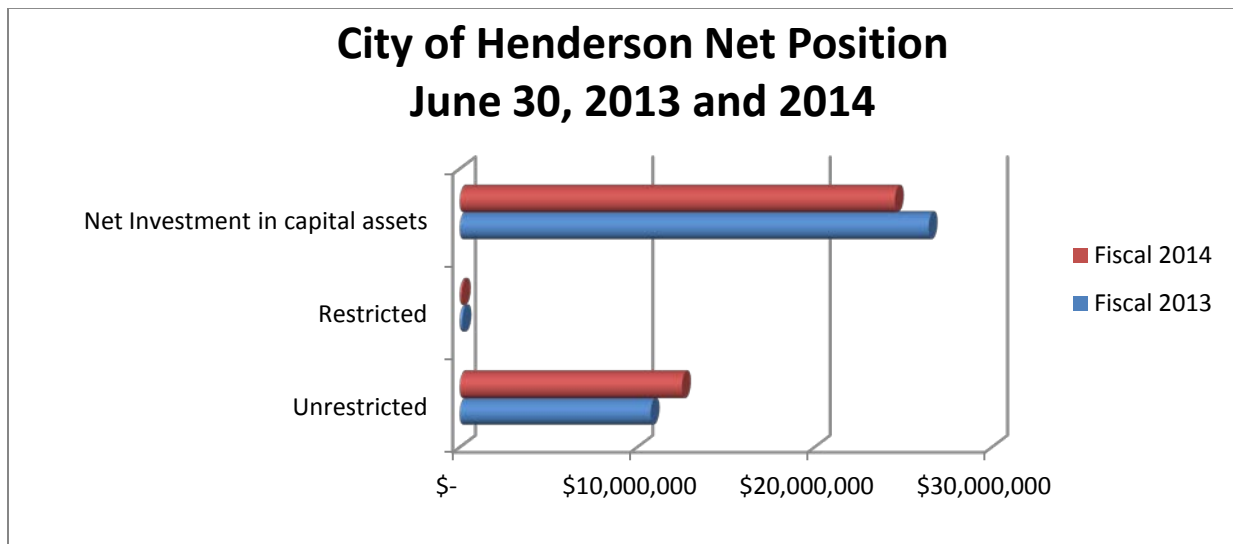
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$42,754,734	\$44,241,815	\$ 9,306,300	\$ 8,448,443	\$52,061,034	\$52,690,258
Capital assets	28,417,091	30,963,595	3,020,759	3,096,911	31,437,850	34,060,506
Total assets	<u>\$71,171,825</u>	<u>\$75,205,410</u>	<u>\$12,327,059</u>	<u>\$11,545,354</u>	<u>\$83,498,884</u>	<u>\$86,750,764</u>
Long-term liabilities	\$37,506,923	\$39,203,876	\$ 3,660,000	\$ 3,450,000	\$41,166,923	\$42,653,876
Other liabilities	2,844,238	4,689,125	2,312,102	2,059,770	5,156,340	6,748,895
Total liabilities	<u>\$40,351,161</u>	<u>\$43,893,001</u>	<u>\$ 5,972,102</u>	<u>\$ 5,509,770</u>	<u>\$46,323,263</u>	<u>\$49,402,771</u>
Net position:						
Net investment in capital assets	\$21,513,291	\$23,527,075	\$ 3,020,759	\$ 2,911,911	\$24,534,050	\$26,438,986
Restricted for:						
Debt Service	68,456	69,605	-	-	68,456	69,605
Law enforcement	45,021	79,824	-	-	45,021	79,824
Unrestricted	9,193,896	7,635,905	3,334,198	3,123,673	12,528,094	10,759,578
Total net position	<u>\$30,820,664</u>	<u>\$31,312,409</u>	<u>\$ 6,354,957</u>	<u>\$ 6,035,584</u>	<u>\$37,175,621</u>	<u>\$37,347,993</u>

By far, the largest portion of the City of Henderson’s net position (66.0%) 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 position (0.31%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$12,528,094 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 position, 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 position decreased \$172,372 from the prior fiscal year. The reasons for this overall decrease are discussed in the following sections for governmental activities and business-type activities.

**Governmental Activities.** During the current fiscal year, net position for governmental activities decreased \$491,745 from the prior year for an ending balance of \$30,820,664. There were three key elements that attributed to the increase. Capital grants and contributions decreased \$3,293,765 from the prior year. Secondly, the governmental activities expenses increased by \$1,688,237 or 5.5%, and total general revenues and transfers increased only by \$342,533 or 1.6%.

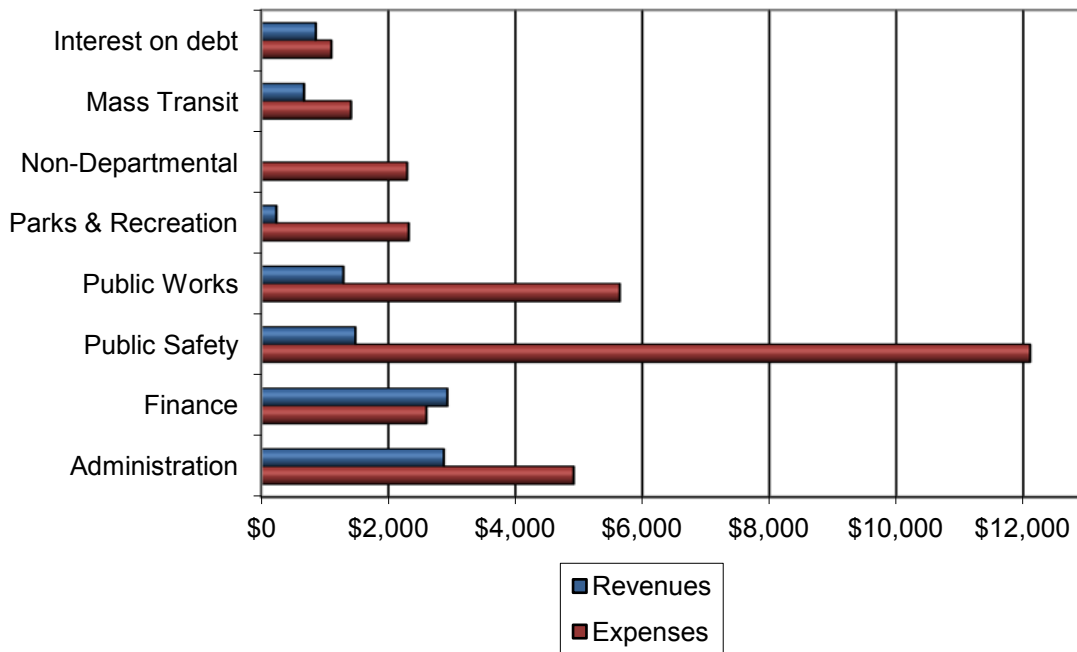
The governmental funds had an increase in fund balance of \$209,248 with the General Fund increasing \$1,363,471. Most of the increase was due to actual expenses coming in well under budget. Of the \$2,016,133 spent or used in Capital Projects Fund, \$1,390,667 or 69.0% was related to the transfers to the Debt Service Fund for payment on outstanding bonds.

The General Fund added to its reserves in the amount of \$1,363,471. Since fiscal 2010, the fund's balance has increased 54.3%. Based on the fiscal 2015 budgeted expenditures of \$28.4 million, the General Fund has approximately 4.6 months worth of reserves. The City has assigned \$2,760,400 of the fiscal 2014 fund balance with \$2,510,400 of that amount to fill the fiscal 2015 budget deficit leaving \$5,268,321 unassigned. If the City adopts a fiscal 2016 budget in the same amount as fiscal 2015, it would equate to 3.5 months worth of reserves.

### City of Henderson – Changes in Net Position Analysis of the City's Operations

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 6,460,880	\$ 6,218,137	\$ 23,644,167	\$ 19,758,282	\$ 30,105,047	\$ 25,976,419
Operating grants	3,248,760	3,427,690	96,160	93,820	3,344,920	3,521,510
Capital grants	630,540	3,647,262	-	-	630,540	3,647,262
General revenues:						
Taxes	18,399,256	18,152,109	-	-	18,399,256	18,152,109
Investment income	127,507	32,121	65,720	14,357	193,227	46,478
Distributions from component units	1,644,724	1,644,724	-	-	1,644,724	1,644,724
<b>Total revenues</b>	<b>30,511,667</b>	<b>33,122,043</b>	<b>23,806,047</b>	<b>19,866,459</b>	<b>54,317,714</b>	<b>52,988,502</b>
<b>Expenses:</b>						
Administration	4,919,330	4,571,652	-	-	4,919,330	4,571,652
Finance	2,599,737	2,522,369	-	-	2,599,737	2,522,369
Mass transit	1,411,411	1,373,897	-	-	1,411,411	1,373,897
Parks & recreation	2,320,197	1,968,902	-	-	2,320,197	1,968,902
Public safety	12,110,492	11,755,095	-	-	12,110,492	11,755,095
Public works	5,644,391	5,286,706	-	-	5,644,391	5,286,706
Nondepartmental	2,295,114	2,311,163	-	-	2,295,114	2,311,163
Interest on long-term debt	1,102,740	925,391	-	-	1,102,740	925,391
Gas	-	-	18,635,805	15,508,629	18,635,805	15,508,629
Sanitation	-	-	3,450,869	2,911,519	3,450,869	2,911,519
<b>Total expenses</b>	<b>32,403,412</b>	<b>30,715,175</b>	<b>22,086,674</b>	<b>18,420,148</b>	<b>54,490,086</b>	<b>49,135,323</b>
Increase/(Decrease) before transfers	(1,891,745)	2,406,868	1,719,373	1,446,311	(172,372)	3,853,179
Transfers	1,400,000	1,400,000	(1,400,000)	(1,400,000)	-	-
Increase (Decrease) in net position	(491,745)	3,806,868	319,373	46,311	(172,372)	3,853,179
Net position, beginning	31,312,409	27,505,541	6,035,584	5,989,273	37,347,993	33,494,814
Net position, ending	<b>\$ 30,820,664</b>	<b>\$ 31,312,409</b>	<b>\$ 6,354,957</b>	<b>\$ 6,035,584</b>	<b>\$ 37,175,621</b>	<b>\$ 37,347,993</b>

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



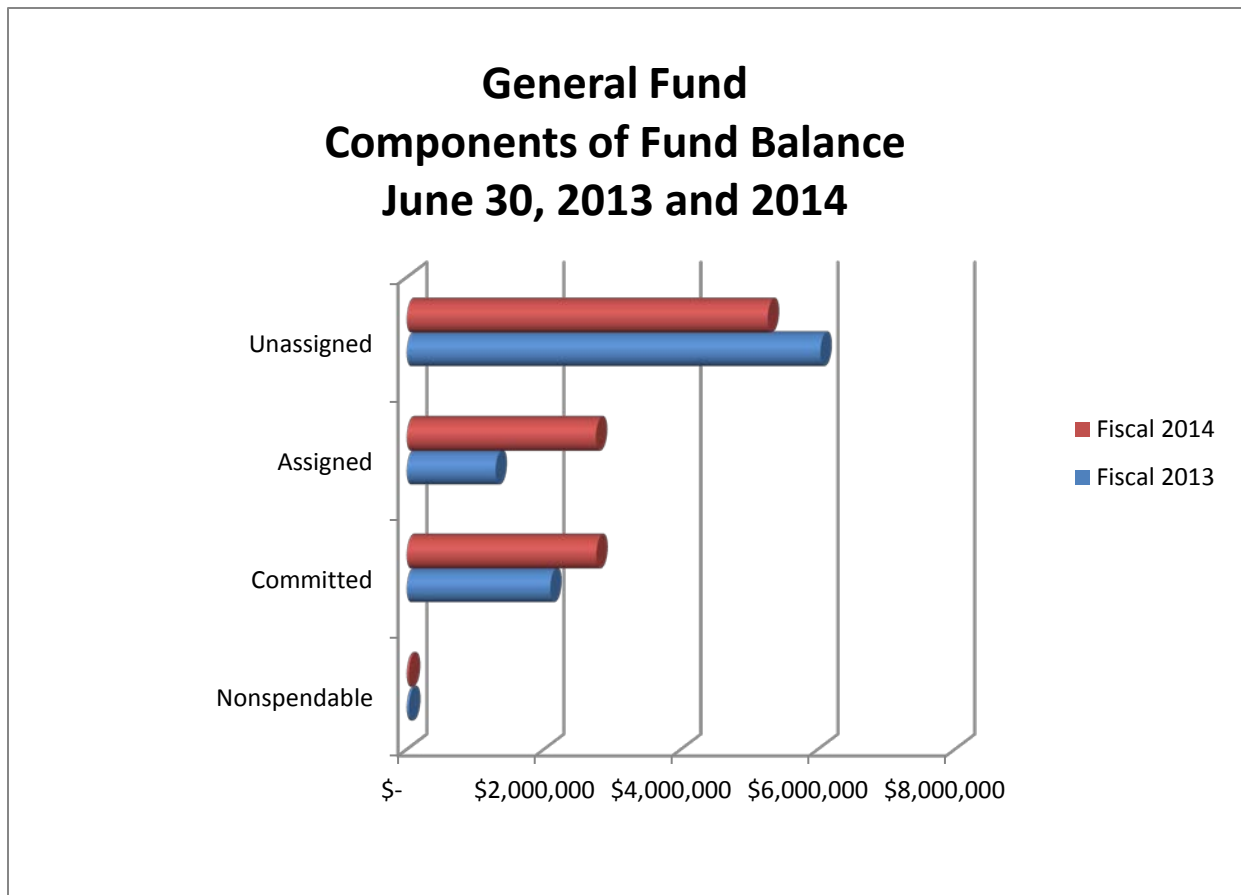
**Business-type Activities.** For the City of Henderson’s business-type activities, the results for the current fiscal year were positive in that overall net position increased to reach an ending balance of \$6,354,957. The total increase in net position for business-type activities (natural gas and sanitation) was \$319,373 or 5.3% from the prior fiscal year. The increase is attributable to sales in the natural gas fund rather than the sanitation fund. The gas fund had an increase in net position of \$369,494. Due to a colder winter, gas sales increased \$3,602,660 or 21.6%. The cost of natural gas supplies increased \$3,150,125. The sanitation fund had a decrease in net position of \$50,121. Refuse fees were up \$80,281 or 4.0%. The last of three \$1.00 increases in the residential sanitation rates went into effect on July 1, 2013. Transfer station fees also had an increase over the prior fiscal with revenue up \$321,449 or 72.9%. The contractor cost of disposing of the waste increased \$248,668. The engineer’s estimate related to closing and monitoring the landfill increased by \$210,000.

### Financial Analysis of Governmental Funds

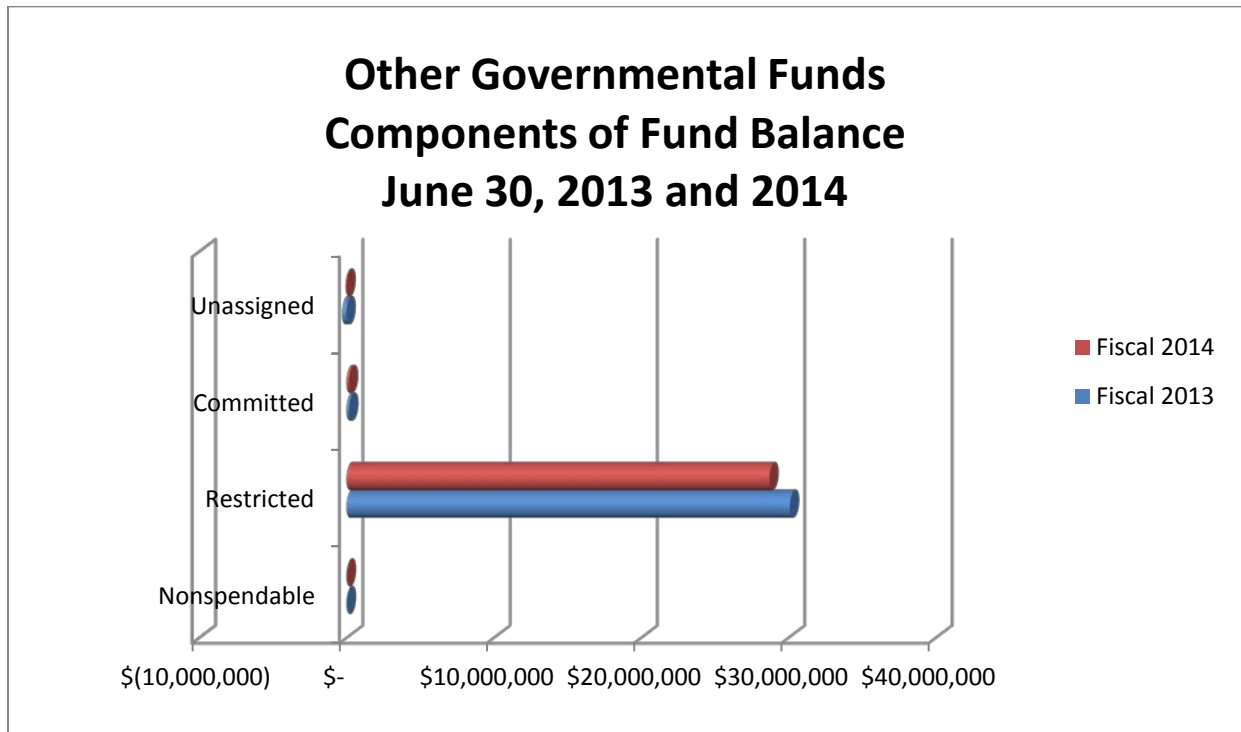
As noted earlier, the City of Henderson uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**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 June 30, 2014, the City of Henderson’s governmental funds reported combined fund balance of \$39,670,860, an increase of \$209,248 in comparison with the prior fiscal year. Approximately 13.1% of this amount (\$5,210,414) constitutes unassigned fund balance, which is available for spending at the government’s discretion. Nearly 72.4% or \$28.7 million of the fund balance was restricted for debt, capital projects and other special purposes. There was also \$56,363 that was classified as “nonspendable” because it is for inventories. A total of \$2,934,006 was committed for long-term debt payments and another \$2,760,400 assigned to fill the fiscal 2015 budget deficit (\$2,510,400), set aside for the future construction of a Newman Park shelter (\$200,000), and donations that will be used for downtown wayfaring signage (\$50,000).



The General Fund was the primary operating fund of the City of Henderson. At the end of the current fiscal year, the General Fund unassigned fund balance was \$5,268,321, while total fund balance increased to \$10,826,357. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 18.6 percent of total 2015 fiscal year general fund expenditures, while total fund balance represents approximately 38.1 percent of that same amount.



The fund balance of the City of Henderson's general fund increased by \$1,363,471 during the current fiscal year. Factors contributing to this increase include:

- Taxes increased by \$247,147 or 1.4% with property taxes up \$183,861. There was a small increase (\$0.019 per \$100 of fair market assessment) in the real property tax rate due to the City taking the compensating property tax rate. There was also moderate growth in insurance tax collections (\$60,894 or 1.4%).
- Surplus property was sold resulting in \$150,000 in proceeds.
- Capital expenses decreased by \$405,228 or 61.4%.

The Capital Projects Fund ended the fiscal year with a fund balance of \$28,552,177 which is a deterioration of \$1,140,347 from the prior year. The City received federal funding on the riverfront project in the amount of \$273,615 during the fiscal year which included the reimbursement of capital expenditures. The Capital Projects Fund transferred \$1,390,667 to the Bond Fund to retire debt.

The Debt Service Fund, the remaining major governmental fund, had a decrease in fund balance during the current year of \$1,149 to bring the year end fund balance to \$68,456. The decrease essentially resulted from rounding the transfers from the general fund to the nearest \$1,000 minus payments on the general obligation bonds.

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

Unrestricted net position of the Natural Gas Fund at the end of the year was \$4,633,663 and for the Sanitation Fund was (\$1,299,465). The total growth (decrease) in net position for both funds was \$416,834 and (\$206,309), respectively.

As noted earlier in the discussion of business-type activities, the increase for the Natural Gas Fund was attributed to a colder winter where gas sales increased \$3,602,660 or 21.6%. Due to the colder winter and a small increase in the monthly base rate and the rate per 1,000 cubic feet of natural gas, the Gas Fund's income from operations increased \$3,556,904 or 21.2% from the prior fiscal year. After investment income and transfers to the general fund, the change in net position was \$369,494. Since 2010, the cumulative change in the net position for the Gas Fund has been a decrease of \$546,768 or 7.2%. Based on the 2015 fiscal year's budgeted expenditures and net of invested in capital assets, the Gas Fund has approximately 2.6 months worth of reserves.

The engineer's estimate related to closing and monitoring the landfill increased by \$210,000 which contributed to the decrease in the unrestricted net position for the Sanitation Fund. The Sanitation Fund's statement of net position reflects the landfill closure and post closure costs of \$3,660,000. Of this total, approximately \$2.59 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 \$2.28 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**

**Original budget compared to final budget.** As with most years, there was a need for budget amendments. The original budget was adopted with expenditures set at \$26,500,000. The first amendment increased the general fund budget to \$27,134,000. Using the prior year surplus, the City increased appropriations in the amount of \$267,000 for sidewalks, parking lot paving, and street overlays. The surplus was also used for a new \$25,000 Dog Park, \$40,000 for replacement of the bar-b-q pit roof, and a \$30,000 half-pike for the parks and recreation department. The General Fund also transferred \$100,000 to the Sanitation Fund for new recycling carts. There was also a \$50,000 appropriation to an outside agency to help improve conditions in the East end. The other amendments were small and varied.



The second amendment was done late in the fiscal year and increased the total general fund appropriation to \$27,205,000. Additional appropriations in the amount of \$53,500 were needed in the fire department for various repairs to vehicles and equipment. Another \$17,500 was added to the police department for 10 body armor vests and supplies for the Youth Citizen's Academy.

The amended fiscal 2014 budget was approved with anticipated expenses exceeding anticipated revenue by \$1,935,300. The difference was to come from reserves. The General Fund's actual revenue and transfers in were \$25,908,875 or 102.5% of the approved budget of \$25,269,700 or a difference of \$639,175. The General Fund's actual expenses and transfers out were \$24,545,404 or 90.2% of approved budget of \$27,205,000 or a difference of \$2,659,596.

**Final budget compared to actual results.** The most significant differences between estimated revenues and actual revenues were as follows:

<u>Revenue source</u>	<u>Estimated Revenues</u>	<u>Actual Revenues</u>	<u>Difference</u>
Property Tax	\$7,631,300	\$7,838,056	\$ 206,756
Payroll and Net Profits Tax	\$5,075,000	\$5,159,531	\$ 84,531
Miscellaneous	\$ 34,650	\$ 248,766	\$ 214,116

As a general practice, the budgets for tax revenue are conservative. Even though prior year numbers are reviewed and trends are analyzed, the budget committee has adopted the approach to avoid budget shortfalls. The actual revenues for property tax came in at 102.7% while the actual for payroll and net profits tax came in at 101.7%. The miscellaneous account exceeded budget due to the sale of surplus property in the amount of \$150,000 and reimbursable services exceeding the budget by \$92,696.

<u>Expense</u>	<u>Estimated Expense</u>	<u>Actual Expense</u>	<u>Difference</u>
Health Insurance	\$3,255,000	\$2,880,446	\$ 374,554
Salaries – Operational	\$6,215,640	\$5,738,718	\$ 476,922
Police & Fire Pension	\$2,066,340	\$1,911,019	\$ 155,321
Special Projects	\$ 338,500	\$ 118,040	\$ 220,460
Park Improvements	\$ 215,700	\$ 22,802	\$ 192,898

A review of actual expenditures compared to the appropriation in the final budget yields some rewarding numbers. The City of Henderson has been working diligently to control costs in all departments and across all categories. Health insurance costs that usually had large increases in prior years actually had smaller increases. In July 2012, the City of Henderson switched the third party administrator for the health insurance plan. With the City getting bigger discounts, health insurance came in 88.5% of budget. Due to open positions in several departments, operating salaries were \$476,922 below budget or 92.3% of anticipated expenses. The police and fire pension expense also benefited from several open positions. The costs for this line item were \$155,321 below estimated or 92.5% of budget.

The special projects estimated expense item included funds for an environmental report for the old Henderson Gaslight property that have come in \$37,000 under budget. This account also included another \$89,000 for the City's match on a state drainage grant that has progressed

slower than expected but should be well under way in fiscal 2015. Park improvements include a new skate park installed in fiscal 2015 and a new park in the East End that will be partially funded by State grants; however, the approval has yet to be received and will progress in fiscal 2015.

## Capital Asset and Debt Administration

**Capital Assets.** The City of Henderson’s investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts to \$31,437,850 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, gas system improvements, park facilities, vehicles, sculptures, and infrastructure. The total decrease in capital assets for the current fiscal year was approximately 7.7%.

### City of Henderson’s Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 3,111,493	\$ 3,522,408	\$ 114,815	\$ 114,815	\$ 3,226,308	\$ 3,637,223
Artwork	196,500	196,500	-	-	196,500	196,500
Buildings	8,097,420	8,332,385	157,349	179,556	8,254,769	8,511,941
Improvements	4,903,219	5,306,194	-	-	4,903,219	5,306,194
Vehicles	984,257	1,173,134	332,966	276,912	1,317,223	1,450,046
Natural Gas System	-	-	2,174,806	2,234,807	2,174,806	2,234,807
Equipment	507,846	710,779	240,823	290,821	748,669	1,001,600
Infrastructure	10,616,356	11,722,195	-	-	10,616,356	11,722,195
Total	<u>\$ 28,417,091</u>	<u>\$ 30,963,595</u>	<u>\$ 3,020,759</u>	<u>\$ 3,096,911</u>	<u>\$ 31,437,850</u>	<u>\$ 34,060,506</u>

Major capital asset events during the current fiscal year included the following:

- Sale of \$410,915 of surplus real estate property
- Demolition of the old Doc Hosbach Tennis Complex with a net book value of approximately \$84,869.
- Nearly \$123,600 spent on 5 new fully equipped police cars.

Additional information on the City of Henderson’s capital assets may be found in Note 4 in the notes to the financial statements on pages 54-55 of this report.

**Long-Term Debt.** At the end of the current fiscal year, the City of Henderson had total bonded debt outstanding of \$35,500,000. All of the \$35,500,000 is backed by the full faith and credit of the City.

**City of Henderson’s Outstanding Debt  
(net of depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
General Obligations						
Bonds	\$ 35,500,000	\$ 37,395,000	\$ -	\$ -	\$ 35,500,000	\$ 37,395,000

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 in 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.

Combined and Consolidated Municipal Water, Sanitary Sewer and Storm Sewer System - During the year ended June 30, 2013, the City issued \$9,730,000 in 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 a new headworks structure, a third final clarifier, waste and return activated sludge pumping, ultraviolet disinfection, and internal plant piping at the City's North Wastewater Treatment Plant, such additions and improvements to increase the capacity of the Plant from 15 million to 25.5 million gallons per day.

The City of Henderson's total debt decreased by \$1,895,000, (5.1%) during the current fiscal year. The reason for the decrease was the payment of the annual principal for the fiscal year.

The City of Henderson has maintained an Aa3 rating from Moody's Investors Service for general obligation debt. The Aa3 is considered investment grade. For the long-term, Aa3 is rated as high quality and very low credit risk and for the short-term, it is rated as the best ability to repay short-term 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 \$110,727,000, which is significantly in excess of the current outstanding general obligation debt of \$35,500,000.

Additional information on the City of Henderson's long-term debt may be found in Note 5 on pages 56-61 of this report.

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

The City of Henderson was able to fund the fiscal 2015 Budget with existing resources and the use of reserves from the General, Gas, and Sanitation 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.

In September of 2014, the Board of Commissioner passed a modest increase (\$0.016 per \$100 of fair market assessment) in the property tax rate. The increase was the compensating property tax rate that essentially gives the City the same revenue as the prior year plus additions to the tax rolls. It is anticipated that the tax rate will generate an additional \$261,000 in tax revenue.

For fiscal 2014, there were 238 construction permits issued with a total value of \$11,048,456. There were 20 single family units, 3 duplexes (6 units), and 3 multi-family (30 units) for a total of 56 units approved. The total value for new housing was \$4,638,800.

There were 2 new commercial developments with a total value of \$1,131,000. There were 14 permits issued for demolition of substandard residential structures.

The unemployment rate for the City of Henderson in June 2014 was 6.9% which was higher than the national rate of 6.3% but lower than the Kentucky rate of 7.4%.

Interest rates are expected to remain at record low levels throughout the 2015 fiscal year. The City of Henderson issued additional general obligation bonds in the amount of \$8.0 million on behalf of Henderson Water Utility.

If suitable property is located and purchased, the City of Henderson will consider the construction of a new public works facility that will include natural gas, sanitation, and city garage operations.

The City of Henderson is creating a Vision Plan and the Henderson City/County Planning Commission is updating the Comprehensive Plan. These plans are being led by City/County staff, a Community Visioning Steering Committee and a consultant team. The Comprehensive Plan will establish the long-term community vision which defines the quantity of growth, quality of growth and location of growth that the community desires.

Using the annual surpluses, the City of Henderson has embarked on a Community Betterment Project that includes improving sidewalks, roads, street lights, and overall community appearance.

## **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 Position**  
**June 30, 2014**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Henderson Municipal Power & Light	Henderson Water Utility
<b>ASSETS</b>					
Cash	\$ 5,809,944	\$ 2,329,102	\$ 8,139,046	\$ 1,363,626	\$ 9,028,245
Investments	7,870,718	4,205,257	12,075,975	17,869,158	2,101,991
Receivables	781,999	1,623,440	2,405,439	5,826,884	1,277,232
Internal balances	(999,129)	999,129	-	-	-
Inventories	56,363	149,372	205,735	5,000,606	923,759
Prepaid expenses	-	-	-	103,324	32,447
Restricted assets:					
Cash	190,073	-	190,073	-	188,570
Investments	-	-	-	3,826,221	1,060,069
Receivable from HWU:					
Due in one year	1,365,470	-	1,365,470	-	-
Due after one year	27,230,730	-	27,230,730	-	-
Land and other nondepreciable capital assets	3,307,993	114,815	3,422,808	1,235,451	862,879
Capital assets, net of accumulated depreciation	25,109,098	2,905,944	28,015,042	61,644,168	73,977,419
Other assets	448,566	-	448,566	-	274,442
<b>Total assets</b>	<b>\$ 71,171,825</b>	<b>\$ 12,327,059</b>	<b>\$ 83,498,884</b>	<b>\$ 96,869,438</b>	<b>\$ 89,727,053</b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 1,933,261	\$ 1,408,821	\$ 3,342,082	\$ 9,053,652	\$ 3,099,959
Deposits payable	-	284,781	284,781	659,894	77,415
Due to component units	910,977	-	910,977	-	-
Gas storage liability	-	618,500	618,500	-	-
Noncurrent liabilities:					
Due in one year	2,630,000	-	2,630,000	595,000	2,832,295
Due after one year	34,876,923	3,660,000	38,536,923	13,270,000	34,547,466
<b>Total liabilities</b>	<b>40,351,161</b>	<b>5,972,102</b>	<b>46,323,263</b>	<b>23,578,546</b>	<b>40,557,135</b>
<b>NET POSITION</b>					
Net investment in capital assets	21,513,291	3,020,759	24,534,050	49,014,619	38,389,653
Restricted for:					
Debt service	68,456	-	68,456	3,826,221	141,941
Law enforcement	45,021	-	45,021	-	-
Unrestricted	9,193,896	3,334,198	12,528,094	20,450,052	10,638,324
<b>Total net position</b>	<b>30,820,664</b>	<b>6,354,957</b>	<b>37,175,621</b>	<b>73,290,892</b>	<b>49,169,918</b>
<b>Total liabilities and net position</b>	<b>\$ 71,171,825</b>	<b>\$ 12,327,059</b>	<b>\$ 83,498,884</b>	<b>\$ 96,869,438</b>	<b>\$ 89,727,053</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, 2014**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position					
	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	\$ 4,919,330	\$ 2,258,509	\$ 291,766	\$ 323,616	\$ (2,045,439)	\$ -	\$ (2,045,439)		
Finance	2,599,737	2,929,809	-	-	330,072	-	330,072		
Mass transit	1,411,411	53,276	563,025	55,634	(739,476)	-	(739,476)		
Parks and recreation	2,320,197	235,609	-	-	(2,084,588)	-	(2,084,588)		
Police	6,675,677	875,418	369,432	-	(5,430,827)	-	(5,430,827)		
Fire	5,434,815	6,000	229,818	-	(5,198,997)	-	(5,198,997)		
Public works	5,644,391	102,259	937,703	251,290	(4,353,139)	-	(4,353,139)		
Nondepartmental	2,295,114	-	-	-	(2,295,114)	-	(2,295,114)		
Interest on long-term debt	1,102,740	-	857,016	-	(245,724)	-	(245,724)		
Total governmental activities	<u>32,403,412</u>	<u>6,460,880</u>	<u>3,248,760</u>	<u>630,540</u>	<u>(22,063,232)</u>	<u>-</u>	<u>(22,063,232)</u>		
Business-type activities:									
Gas	18,635,805	20,374,653	-	-	-	1,738,848	1,738,848		
Sanitation	3,450,869	3,269,514	96,160	-	-	(85,195)	(85,195)		
Total business-type activities	<u>22,086,674</u>	<u>23,644,167</u>	<u>96,160</u>	<u>-</u>	<u>-</u>	<u>1,653,653</u>	<u>1,653,653</u>		
Total primary government	<u>\$ 54,490,086</u>	<u>\$ 30,105,047</u>	<u>\$ 3,344,920</u>	<u>\$ 630,540</u>	<u>(22,063,232)</u>	<u>1,653,653</u>	<u>(20,409,579)</u>		
<b>Component units</b>									
Henderson Municipal Power & Light	\$ 64,133,566	\$ 60,791,429	\$ -	\$ -			\$ (3,342,137)	\$ -	
Henderson Water Utility	<u>16,739,967</u>	<u>17,795,470</u>	<u>-</u>	<u>-</u>			<u>-</u>	<u>1,055,503</u>	
Total component units	<u>\$ 80,873,533</u>	<u>\$ 78,586,899</u>	<u>\$ -</u>	<u>\$ -</u>			<u>(3,342,137)</u>	<u>1,055,503</u>	
General revenues:									
Taxes:									
Property					7,838,056	-	7,838,056	-	
Payroll and net profits					5,159,531	-	5,159,531	-	
Insurance					4,580,176	-	4,580,176	-	
Franchise					674,160	-	674,160	-	
Bank deposits					147,333	-	147,333	-	
Distributions from component units					1,644,724	-	1,644,724	-	
Investment income					127,507	65,720	193,227	22,834	
Transfers					1,400,000	(1,400,000)	-	-	
Total general revenues and transfers					<u>21,571,487</u>	<u>(1,334,280)</u>	<u>20,237,207</u>	<u>22,834</u>	
Change in net position					(491,745)	319,373	(172,372)	(3,319,303)	
Net position, beginning of year					<u>31,312,409</u>	<u>6,035,584</u>	<u>37,347,993</u>	<u>76,610,195</u>	
Net position, end of year					<u>\$ 30,820,664</u>	<u>\$ 6,354,957</u>	<u>\$ 37,175,621</u>	<u>\$ 73,290,892</u>	

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



**City of Henderson, Kentucky  
Balance Sheet  
Governmental Funds  
June 30, 2014**

	<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	\$ 5,477,477	\$ -	\$ 1,316	\$ 63,229	\$ 5,542,022
Investments	7,870,718	-	-	-	7,870,718
Receivables	448,398	-	-	301,431	749,829
Due from other funds	140,189	-	-	-	140,189
Inventories	30,340	-	-	26,023	56,363
Restricted assets:					
Cash	-	68,456	-	121,617	190,073
Receivable from HWU:					
Due in one year	-	-	1,365,470	-	1,365,470
Due after one year	-	-	27,230,730	-	27,230,730
Total assets	<u>\$ 13,967,122</u>	<u>\$ 68,456</u>	<u>\$ 28,597,516</u>	<u>\$ 512,300</u>	<u>\$ 43,145,394</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 797,439	\$ -	\$ 45,339	\$ 234,573	\$ 1,077,351
Accrued wages	303,720	-	-	43,168	346,888
Due to other funds	1,128,629	-	-	10,689	1,139,318
Due to component units	910,977	-	-	-	910,977
Total liabilities	<u>3,140,765</u>	<u>-</u>	<u>45,339</u>	<u>288,430</u>	<u>3,474,534</u>
<b>FUND BALANCES</b>					
Nonspendable	30,340	-	-	26,023	56,363
Restricted	-	68,456	28,596,200	45,021	28,709,677
Committed	2,767,296	-	-	166,710	2,934,006
Assigned	2,760,400	-	-	-	2,760,400
Unassigned	5,268,321	-	(44,023)	(13,884)	5,210,414
Total fund balances	<u>10,826,357</u>	<u>68,456</u>	<u>28,552,177</u>	<u>223,870</u>	<u>39,670,860</u>
Total liabilities and fund balances	<u>\$ 13,967,122</u>	<u>\$ 68,456</u>	<u>\$ 28,597,516</u>	<u>\$ 512,300</u>	<u>\$ 43,145,394</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 Position**  
**June 30, 2014**

Total fund balances of governmental funds per balance sheet \$ 39,670,860

Amounts reported for governmental activities in the statement of net position 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. 28,417,091

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. 448,566

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 position. (208,930)

Long-term debt and other liabilities were not currently due and payable in the fiscal year ended June 30, 2014, and, therefore, were not reported in the governmental funds.

Long-term debt payable	\$ (35,500,000)	
Accrued compensated absences	(1,381,923)	
HRA Fund unfunded obligation	(625,000)	
		(37,506,923)

Total net position of governmental activities per statement of net position \$ 30,820,664

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, 2014**

	<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	\$ 7,838,056	\$ -	\$ -	\$ -	\$ 7,838,056
Payroll and net profits	5,159,531	-	-	-	5,159,531
Insurance	4,580,176	-	-	-	4,580,176
Franchise	674,160	-	-	-	674,160
Bank deposits	147,333	-	-	-	147,333
Intergovernmental	3,278,381	857,016	524,906	1,794,577	6,454,880
Distributions from component units	1,644,724	-	-	-	1,644,724
Service charges and fees	536,801	-	-	800,111	1,336,912
Rents, concessions, and other services	124,415	-	-	-	124,415
Licenses and permits	84,349	-	-	-	84,349
Fines, finance charges, and penalties	64,483	-	-	-	64,483
Investment income	99,313	87	25,880	953	126,233
Miscellaneous	248,766	208	-	15,316	264,290
Total revenues	<u>24,480,488</u>	<u>857,311</u>	<u>550,786</u>	<u>2,610,957</u>	<u>28,499,542</u>
<b>EXPENDITURES</b>					
Current:					
Administration	2,240,363	-	103,873	93,627	2,437,863
Finance	2,582,338	-	-	-	2,582,338
Mass transit	-	-	-	1,285,332	1,285,332
Parks and recreation	1,468,332	-	-	365,081	1,833,413
Police	5,433,316	-	-	1,033,388	6,466,704
Fire	5,212,349	-	-	-	5,212,349
Public works	2,052,893	-	-	1,745,135	3,798,028
Nondepartmental	2,295,114	-	-	-	2,295,114
Debt service:					
Principal	-	1,895,000	-	-	1,895,000
Interest	-	1,102,740	-	-	1,102,740
Capital outlays	200,699	-	521,593	59,121	781,413
Total expenditures	<u>21,485,404</u>	<u>2,997,740</u>	<u>625,466</u>	<u>4,581,684</u>	<u>29,690,294</u>
Excess (deficiency) of revenues over expenditures	<u>2,995,084</u>	<u>(2,140,429)</u>	<u>(74,680)</u>	<u>(1,970,727)</u>	<u>(1,190,752)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	1,428,387	2,139,280	325,000	1,958,000	5,850,667
Transfers out	<u>(3,060,000)</u>	-	<u>(1,390,667)</u>	-	<u>(4,450,667)</u>
Total other financing sources (uses)	<u>(1,631,613)</u>	<u>2,139,280</u>	<u>(1,065,667)</u>	<u>1,958,000</u>	<u>1,400,000</u>
Net change in fund balances	1,363,471	(1,149)	(1,140,347)	(12,727)	209,248
Fund balances, beginning of year	<u>9,462,886</u>	<u>69,605</u>	<u>29,692,524</u>	<u>236,597</u>	<u>39,461,612</u>
Fund balances, end of year	<u>\$ 10,826,357</u>	<u>\$ 68,456</u>	<u>\$ 28,552,177</u>	<u>\$ 223,870</u>	<u>\$ 39,670,860</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, 2014**

Net change in fund balances of governmental funds	\$	209,248
<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. In addition, governmental funds do not report the net book value of deletions as expenditures.</p>		
Capital outlays		781,413
Depreciation expense		(2,832,133)
Deleted capital assets		(495,784)
<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		1,895,000
<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>		
Increase in negative net civil service pension obligation		80,047
Increase in negative net police & fire pension obligation		5,071
Increase in accrued compensated absences		(60,047)
Increase in HRA Fund unfunded obligation		(138,000)
Miscellaneous charges		(9,900)
<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		73,340
Change in net position of governmental activities	\$	(491,745)

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

**City of Henderson, Kentucky**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2014**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes:				
Property	\$7,631,300	\$7,631,300	\$ 7,838,056	\$ 206,756
Payroll and net profits	5,075,000	5,075,000	5,159,531	84,531
Insurance	4,528,000	4,528,000	4,580,176	52,176
Franchise	675,000	675,000	674,160	(840)
Bank deposits	147,000	147,000	147,333	333
Intergovernmental	3,268,300	3,284,300	3,278,381	(5,919)
Distributions from component units	1,644,700	1,644,700	1,644,724	24
Service charges and fees	528,100	528,100	536,801	8,701
Rents, concessions, and other services	126,050	126,050	124,415	(1,635)
Licenses and permits	82,000	82,000	84,349	2,349
Fines, finance charges, and penalties	64,000	64,000	64,483	483
Investment income	49,600	49,600	99,313	49,713
Miscellaneous	34,650	34,650	248,766	214,116
Total revenues	<u>23,853,700</u>	<u>23,869,700</u>	<u>24,480,488</u>	<u>610,788</u>
<b>EXPENDITURES</b>				
Current:				
Administration	2,410,000	2,413,200	2,240,363	172,837
Finance	2,834,120	2,835,720	2,582,338	253,382
Parks and recreation	1,449,260	1,527,260	1,468,332	58,928
Police	6,033,430	6,069,530	5,433,316	636,214
Fire	5,356,160	5,386,060	5,212,349	173,711
Public works	2,122,510	2,160,510	2,052,893	107,617
Nondepartmental	2,708,700	2,814,700	2,295,114	519,586
Capital outlays	460,820	576,020	200,699	375,321
Total expenditures	<u>23,375,000</u>	<u>23,783,000</u>	<u>21,485,404</u>	<u>2,297,596</u>
Excess of revenues over expenditures	<u>478,700</u>	<u>86,700</u>	<u>2,995,084</u>	<u>2,908,384</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,400,000	1,400,000	1,428,387	28,387
Transfers out	(3,125,000)	(3,422,000)	(3,060,000)	362,000
Total other financing sources (uses)	<u>(1,725,000)</u>	<u>(2,022,000)</u>	<u>(1,631,613)</u>	<u>390,387</u>
Net change in fund balance	(1,246,300)	(1,935,300)	1,363,471	3,298,771
Fund balance, beginning of year	<u>9,462,886</u>	<u>9,462,886</u>	<u>9,462,886</u>	<u>-</u>
Fund balance, end of year	<u>\$8,216,586</u>	<u>\$7,527,586</u>	<u>\$10,826,357</u>	<u>\$ 3,298,771</u>

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

**City of Henderson, Kentucky**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2014**

	<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	\$ 2,242,547	\$ 86,555	\$ 2,329,102	\$ 267,922
Investments	1,924,715	-	1,924,715	-
Receivables	1,444,135	179,305	1,623,440	32,170
Due from other funds	998,657	129,972	1,128,629	-
Inventories	149,372	-	149,372	-
Total current assets	<u>6,759,426</u>	<u>395,832</u>	<u>7,155,258</u>	<u>300,092</u>
Noncurrent assets:				
Investments, designated for landfill closure costs	-	2,280,542	2,280,542	-
Land	-	114,815	114,815	-
Capital assets, net of accumulated depreciation	2,374,940	531,004	2,905,944	-
Total noncurrent assets	<u>2,374,940</u>	<u>2,926,361</u>	<u>5,301,301</u>	<u>-</u>
Total assets	<u>\$ 9,134,366</u>	<u>\$ 3,322,193</u>	<u>\$ 12,456,559</u>	<u>\$ 300,092</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 1,193,065	\$ 167,036	\$ 1,360,101	\$ 509,022
Deposits payable	284,781	-	284,781	-
Accrued wages	29,417	19,303	48,720	-
Due to other funds	-	129,500	129,500	-
Gas storage liability	618,500	-	618,500	-
Total current liabilities	<u>2,125,763</u>	<u>315,839</u>	<u>2,441,602</u>	<u>509,022</u>
Noncurrent liabilities:				
Estimated landfill closure costs	-	3,660,000	3,660,000	-
Total noncurrent liabilities	<u>-</u>	<u>3,660,000</u>	<u>3,660,000</u>	<u>-</u>
Total liabilities	<u>2,125,763</u>	<u>3,975,839</u>	<u>6,101,602</u>	<u>509,022</u>
<b>NET POSITION</b>				
Net investment in capital assets	2,374,940	645,819	3,020,759	-
Unrestricted	4,633,663	(1,299,465)	3,334,198	(208,930)
Total net position	<u>7,008,603</u>	<u>(653,646)</u>	<u>6,354,957</u>	<u>(208,930)</u>
Total liabilities and net position	<u>\$ 9,134,366</u>	<u>\$ 3,322,193</u>	<u>\$ 12,456,559</u>	<u>\$ 300,092</u>

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

**City of Henderson, Kentucky**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2014**

	<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	\$ 20,259,890	\$ -	\$ 20,259,890	\$ -
Sanitation fees	-	3,332,349	3,332,349	-
Other income	114,763	33,325	148,088	-
Health insurance premiums:				
City of Henderson	-	-	-	3,988,065
Henderson Municipal Power & Light	-	-	-	529,532
Henderson Water Utility	-	-	-	1,073,055
Other	-	-	-	408,264
Total operating revenues	<u>20,374,653</u>	<u>3,365,674</u>	<u>23,740,327</u>	<u>5,998,916</u>
<b>OPERATING EXPENSES</b>				
Gas administration	1,455,423	-	1,455,423	-
Gas distribution	16,971,035	-	16,971,035	-
Sanitation expenses	-	3,101,294	3,101,294	-
Landfill closure cost	-	210,000	210,000	-
Depreciation	209,347	139,575	348,922	-
HRA Fund contributions	-	-	-	309,000
Health insurance administration	-	-	-	602,264
Health insurance claims	-	-	-	5,015,586
Total operating expenses	<u>18,635,805</u>	<u>3,450,869</u>	<u>22,086,674</u>	<u>5,926,850</u>
Income (loss) from operations	1,738,848	(85,195)	1,653,653	72,066
<b>NONOPERATING REVENUES</b>				
Investment income	<u>30,646</u>	<u>35,074</u>	<u>65,720</u>	<u>1,274</u>
Income (loss) before transfers	1,769,494	(50,121)	1,719,373	73,340
Transfers out to General Fund	<u>(1,400,000)</u>	<u>-</u>	<u>(1,400,000)</u>	<u>-</u>
Change in net position	369,494	(50,121)	319,373	73,340
Net position, beginning of year	<u>6,639,109</u>	<u>(603,525)</u>	<u>6,035,584</u>	<u>(282,270)</u>
Net position, end of year	<u>\$ 7,008,603</u>	<u>\$ (653,646)</u>	<u>\$ 6,354,957</u>	<u>\$ (208,930)</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, 2014**

	<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	\$ 20,123,100	\$ 3,309,239	\$ 23,432,339	\$ 6,001,733
Payments for goods and services	(16,499,066)	(2,108,802)	(18,607,868)	(602,264)
Payments for employees	(1,623,296)	(1,068,383)	(2,691,679)	-
Payments for HRA Fund contributions	-	-	-	(309,000)
Payments for health insurance claims	-	-	-	(5,144,380)
Net cash provided (used) by operating activities	<u>2,000,738</u>	<u>132,054</u>	<u>2,132,792</u>	<u>(53,911)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Loans from General Fund	277,000	135,000	412,000	-
Loan repayments to General Fund	(277,000)	(135,000)	(412,000)	-
Transfers 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	(162,007)	(110,763)	(272,770)	-
Loan repayments to General Fund	-	(55,500)	(55,500)	-
Net cash provided (used) by capital and related financing activities	<u>(162,007)</u>	<u>(166,263)</u>	<u>(328,270)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from investments	1,185,956	837,887	2,023,843	-
Purchases of investments	(867,978)	(865,358)	(1,733,336)	-
Interest received	39,118	29,256	68,374	1,274
Investment fees paid	(1,286)	(1,374)	(2,660)	-
Net cash provided (used) by investing activities	<u>355,810</u>	<u>411</u>	<u>356,221</u>	<u>1,274</u>
Net increase (decrease) in cash	794,541	(33,798)	760,743	(52,637)
Cash, beginning of year	<u>1,448,006</u>	<u>120,353</u>	<u>1,568,359</u>	<u>320,559</u>
Cash, end of year	<u>\$ 2,242,547</u>	<u>\$ 86,555</u>	<u>\$ 2,329,102</u>	<u>\$ 267,922</u>
<b>Reconciliation of income from operations to net cash provided (used) by operating activities</b>				
Income (loss) from operations	\$ 1,738,848	\$ (85,195)	\$ 1,653,653	\$ 72,066
Reconciling items:				
Depreciation expense	209,347	139,575	348,922	-
Landfill closure cost	-	210,000	210,000	-
Receivables (increase) decrease	(160,189)	22,973	(137,216)	2,817
Due from other funds (increase) decrease	(126,482)	(79,408)	(205,890)	-
Inventories (increase) decrease	10,991	-	10,991	-
Accounts and deposits payable increase (decrease)	185,645	(80,659)	104,986	(128,794)
Accrued wages increase (decrease)	3,378	4,768	8,146	-
Gas storage liability increase (decrease)	139,200	-	139,200	-
Net cash provided (used) by operating activities	<u>\$ 2,000,738</u>	<u>\$ 132,054</u>	<u>\$ 2,132,792</u>	<u>\$ (53,911)</u>
<b>Noncash investing activities:</b>				
(Increase) decrease in fair value of investments	<u>\$ 7,307</u>	<u>\$ (6,304)</u>	<u>\$ 1,003</u>	<u>\$ -</u>

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