

CITY OF HENDERSON  
HENDERSON, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
DECEMBER 31, 2016

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CITY OF HENDERSON, MINNESOTA  
 ANNUAL FINANCIAL REPORT  
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**INTRODUCTORY SECTION**

CITY OF HENDERSON  
HENDERSON, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2016

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CITY OF HENDERSON, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
FOR THE YEAR ENDED DECEMBER 31, 2016

**ELECTED OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Paul Menne	Mayor	12/31/16
James Brenno	Council	12/31/16
Jeff Steinborn	Council	12/31/16
Kelvin Braun	Council	12/31/18
Randall Tiegs	Council	12/31/18

**APPOINTED OFFICIALS**

Lon Berberich	Administrator/Clerk-Treasurer
Lindsey Dhaene	Deputy Clerk-Treasurer

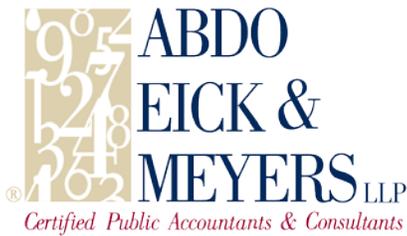
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**FINANCIAL SECTION**

**CITY OF HENDERSON**  
**HENDERSON, MINNESOTA**

**FOR THE YEAR ENDED**  
**DECEMBER 31, 2016**

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Henderson, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Henderson, Minnesota, (the City) as of and for the year ended December 31, 2016, and the related notes 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 the 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*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 City'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 City'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, each major fund and the aggregate remaining fund information of the City as of December 31, 2016, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General and Economic Development Authority funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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## Other Matters

### *Report on Summarized Comparative Information*

We have previously audited the City's 2015 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in our report dated April 8, 2016. In our opinion, the summarized comparative information presented herein for the respective proprietary fund financial statements as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page 13 and the Schedules of Employer's Share of the Net Pension Liability and the Schedules of Employer's Contributions starting on page 74 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*

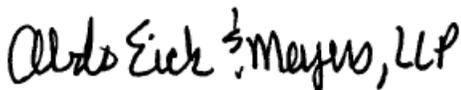
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules 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 fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
March 6, 2017

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## **Management's Discussion and Analysis**

As management of the City of Henderson, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2016.

### **Financial Highlights**

- The assets and deferred outflows of resources of the City exceeded its liabilities and the deferred inflows of resources at the close of the most recent fiscal year by \$5,893,225 (net position).
- The City's total net position increased by \$15,236 as compared to an increase of \$47,744 in the prior year. This increase is mostly attributable to the decrease in water expenses from the prior year.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$218,083, a decrease of \$56,511 in comparison with the prior year mainly due to capital project costs which do not currently have funding sources. Also included in the total fund balance are amounts restricted for economic development loans of \$5,000. Nonspendable fund balance amounts to \$6,798 and the remaining balance consists of unassigned fund balance of \$206,285.
- The City's total debt decreased by \$657,000, 9.8 percent, during the current fiscal year. The key factors in this decrease were no bond issuances and retirement of debt of \$657,000 from regularly scheduled bond payments.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 reflects how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

**Figure 1**  
**Required Components of the**  
**City’s Annual Financial Report**

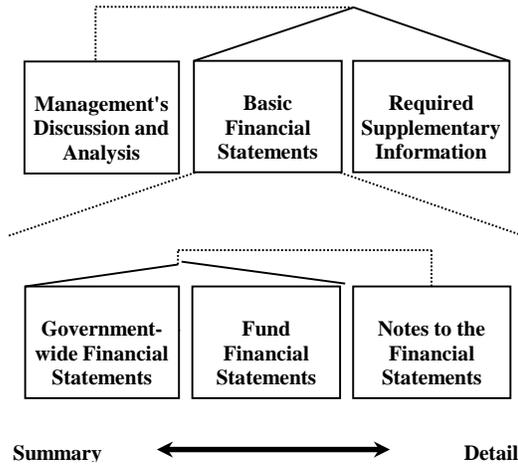


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of Management’s Discussion and Analysis explains the structure and contents of each of the statements.

**Figure 2**  
**Major Features of the Government-wide and Fund Financial Statements**

	<b>Fund Financial Statements</b>		
	<b>Government-wide Statements</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>
Scope	Entire City government (except fiduciary funds) and the City’s component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses and Changes in Net Position</li> <li>• Statement of Cash Flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid.	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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

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

The *statement of activities* presents information showing how the City’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 in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate Economic Development Authority for which the City is financially accountable. The Economic Development Authority, although legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found starting on page 27 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, 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 can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental 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 evaluating 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 by 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 maintains 12 individual governmental funds, nine of which are Debt Service funds, which are reported as one major fund for the government-wide financial statements. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Debt Service, Economic Development Authority and Minnesota and 6<sup>th</sup> Street Project funds, all of which are considered to be major funds.

The City adopts an annual appropriated budget for its General fund and certain special revenue funds. A budgetary comparison statement has been provided for the General and the Economic Development Authority funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found starting on page 32 of this report.

**Proprietary funds.** The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and environmental services operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found starting on page 38 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 47 of this report.

**Required supplementary information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Henderson's share of net pension liabilities (assets) for defined benefits plans and schedules of contributions. Required supplementary information can be found starting on page 74 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to financial statements. Combining and individual fund financial statements and schedules can be found starting on page 79 of this report.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of liabilities by \$5,893,225 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (92.0 percent) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment and vehicles), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Henderson's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Current and other assets	\$ 572,262	\$ 653,597	\$ (81,335)	\$ 802,327	\$ 826,974	\$ (24,647)
Capital assets	5,377,053	5,604,859	(227,806)	5,561,343	5,841,815	(280,472)
Total assets	5,949,315	6,258,456	(309,141)	6,363,670	6,668,789	(305,119)
Deferred outflows of resources	237,846	33,662	204,184	8,467	1,888	6,579
Long-term liabilities outstanding	2,524,875	2,609,755	(84,880)	3,979,689	4,299,000	(319,311)
Other liabilities	46,944	49,304	(2,360)	49,286	69,013	(19,727)
Total liabilities	2,571,819	2,659,059	(87,240)	4,028,975	4,368,013	(339,038)
Deferred inflows of resources	61,356	54,142	7,214	3,923	3,592	331
Net position						
Net investment in capital assets	3,817,053	3,789,859	27,194	1,605,343	1,542,815	62,528
Restricted	5,000	17,785	(12,785)	938,222	969,646	(31,424)
Unrestricted	(268,067)	(228,727)	(39,340)	(204,326)	(213,389)	9,063
Total net position	\$ 3,553,986	\$ 3,578,917	\$ (24,931)	\$ 2,339,239	\$ 2,299,072	\$ 40,167

An additional portion of the City's net position (16.0 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (-8.0 percent) represents a deficit, which may affect the ability to meet the City's ongoing obligations to citizens and creditors.

There was an increase of \$40,167 in net position reported in connection with the City's business-type activities. This increase is mostly attributable to the Water fund which had operating income of \$13,712 in the current year compared to an operating loss of \$69,393 in the prior year.

**Governmental activities.** Governmental activities decreased the City's net position by \$24,931. Key elements of this decrease are as follows:

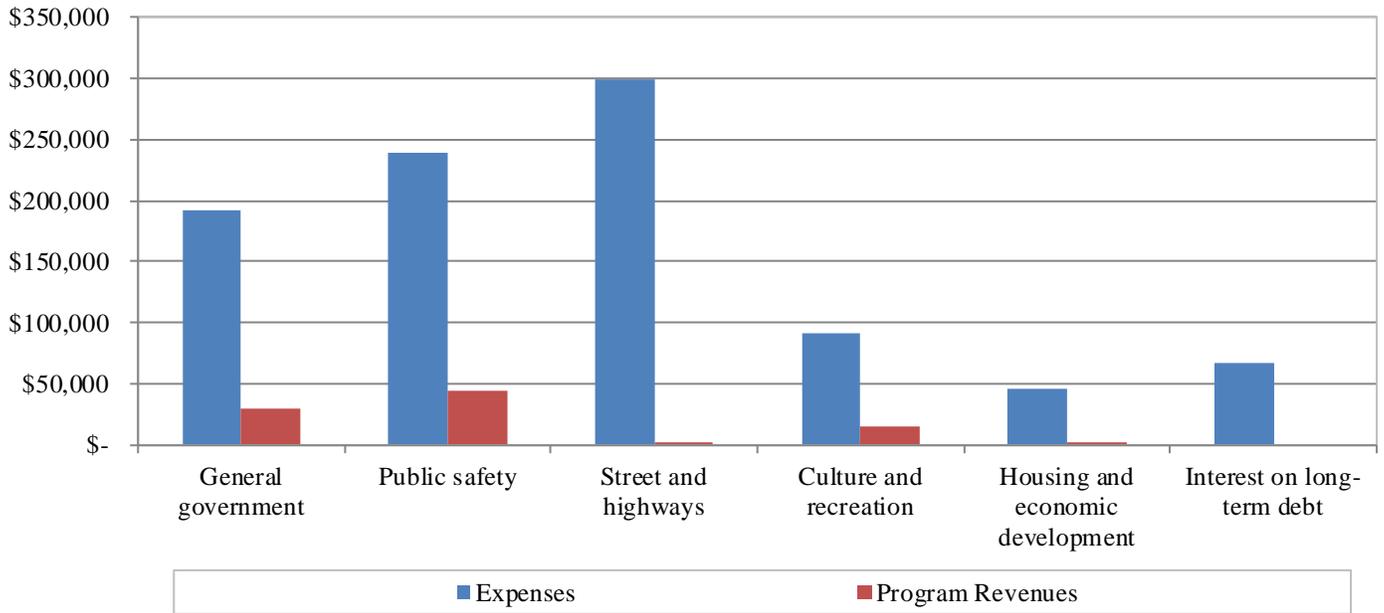
### City of Henderson's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
<b>Revenues</b>						
<b>Program revenues</b>						
Charges for services	\$ 55,228	\$ 46,126	\$ 9,102	\$ 597,962	\$ 591,029	\$ 6,933
Operating grants and contributions	36,135	218,710	(182,575)	36,041	6,864	29,177
Capital grants and contributions	877	112,147	(111,270)	20,752	23,444	(2,692)
<b>General revenues</b>						
Property taxes/tax increments	487,168	486,990	178	-	-	-
Other taxes	39,385	39,790	(405)	-	-	-
Grants and contributions not restricted to specific programs	292,288	290,995	1,293	-	-	-
Investment earnings	443	1,052	(609)	13	202	(189)
Other	2,934	2,882	52	-	-	-
<b>Total revenues</b>	<b>914,458</b>	<b>1,198,692</b>	<b>(284,234)</b>	<b>654,768</b>	<b>621,539</b>	<b>33,229</b>
<b>Expenses</b>						
General government	192,061	205,821	(13,760)	-	-	-
Public safety	239,813	415,580	(175,767)	-	-	-
Streets and highways	299,099	273,918	25,181	-	-	-
Culture and recreation	90,890	93,411	(2,521)	-	-	-
Economic development	46,442	47,723	(1,281)	-	-	-
Interest on long-term debt	67,084	74,983	(7,899)	-	-	-
Water	-	-	-	177,063	247,676	(70,613)
Sewer	-	-	-	415,187	389,498	25,689
Storm water	-	-	-	26,351	23,877	2,474
<b>Total expenses</b>	<b>935,389</b>	<b>1,111,436</b>	<b>(176,047)</b>	<b>618,601</b>	<b>661,051</b>	<b>(42,450)</b>
			-			-
<b>Increase (decrease) in net assets before transfers</b>	<b>(20,931)</b>	<b>87,256</b>	<b>(108,187)</b>	<b>36,167</b>	<b>(39,512)</b>	<b>75,679</b>
<b>Transfers</b>	<b>(4,000)</b>	<b>-</b>	<b>(4,000)</b>	<b>4,000</b>	<b>-</b>	<b>4,000</b>
<b>Change in net position</b>	<b>(24,931)</b>	<b>87,256</b>	<b>(112,187)</b>	<b>40,167</b>	<b>(39,512)</b>	<b>79,679</b>
<b>Net position - January 1</b>	<b>3,578,917</b>	<b>3,491,661</b>	<b>87,256</b>	<b>2,299,072</b>	<b>2,338,584</b>	<b>(39,512)</b>
<b>Net position - December 31</b>	<b>\$ 3,553,986</b>	<b>\$ 3,578,917</b>	<b>\$ (24,931)</b>	<b>\$ 2,339,239</b>	<b>\$ 2,299,072</b>	<b>\$ 40,167</b>

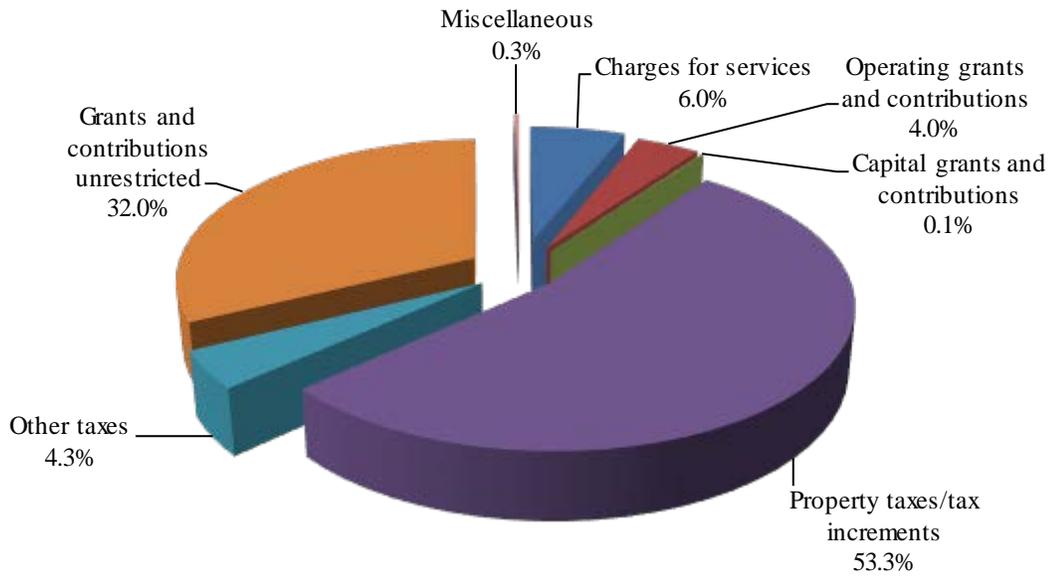
Property taxes levied in 2016 did not change from the prior year.

The following graphs depict various governmental activities and show the revenue and expenses directly related to those activities.

### Expenses and Program Revenues - Governmental Activities



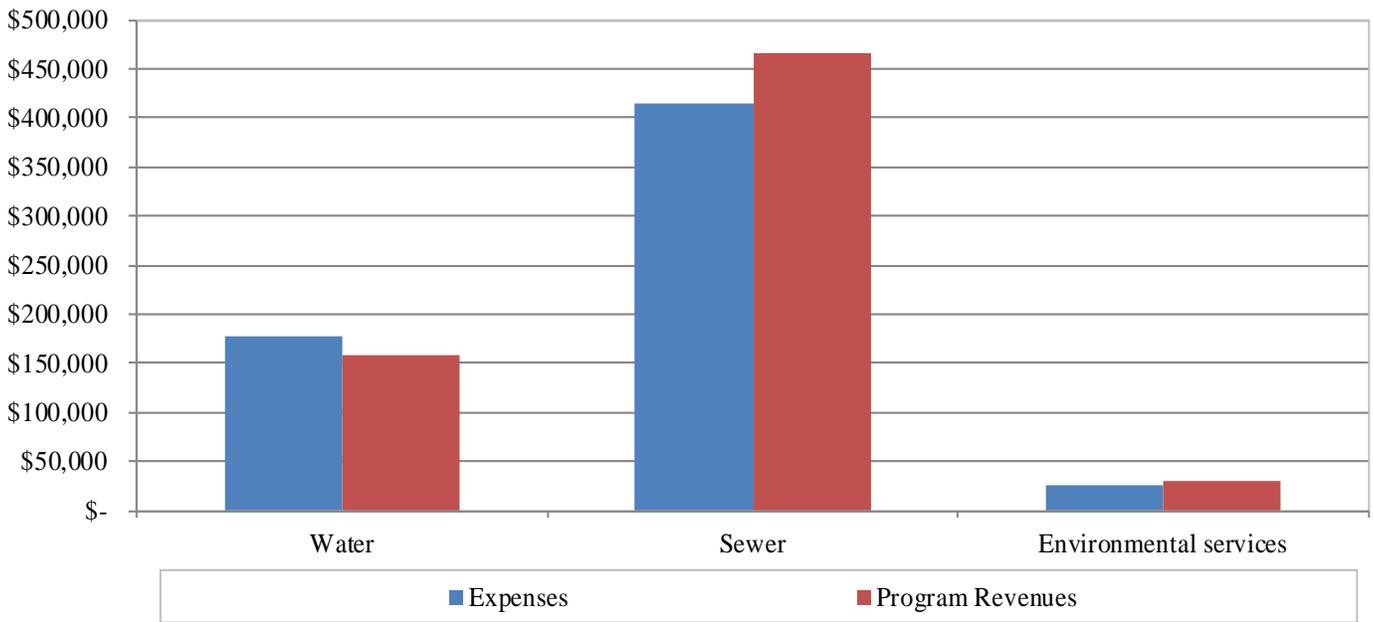
### Revenues by Source - Governmental Activities



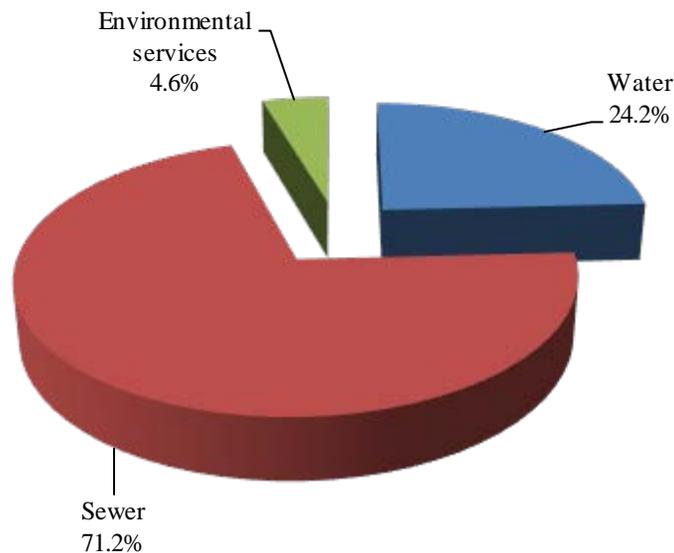
**Business-type activities.** Business-type activities increased the City’s net position by \$40,167. Key elements of this increase are as follows:

- Depreciation expense for the enterprise funds in 2016 was \$280,472.
- Total operating expenses decreased by \$39,238 which is mainly attributable to less repairs and maintenance and wage costs in the Water fund.
- Total nonoperating expenses (net of revenues) decreased by \$25,315 which is mainly due to revenue associated with the MRVPUC joint venture.
- Charges for services for business-type activities increased by \$13,818 or 2.4 percent.
- Special assessment income of \$20,634 in the Sewer fund represents interest on special assessments levied to assist in repayment of debt service relating to the sewer treatment plant.

**Expenses and Program Revenues - Business - type Activities**



**Revenues by Source - Business - type Activities**



## Financial Analysis of the City's Funds

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

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**General Fund** - The General fund is the chief operating fund of the City. At the end of the current year, the fund balance of the General fund was \$305,939. As a measure of the General fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Total unassigned fund balance of \$299,199 represents 57.8 percent of fund expenditures.

The fund balance of the City's General fund increased by \$54,693 during the current fiscal year. During 2016, actual revenues exceeded budgeted amounts by \$16,755 while expenditures fell below budgeted amounts by \$49,545. Transfers out of \$13,000 include a \$9,000 transfer to the Economic Development Authority fund to cover a fund balance deficit and a \$4,000 transfer to the Environmental Services fund for cash flow purposes.

**Economic Development Authority Special Revenue Fund** - The Economic Development Authority special revenue fund has a fund balance deficit of \$14,196 at year end. The net decrease in fund balance during the current year was \$15,334. This decrease was attributable to unbudgeted costs during the year related to flood mitigation planning.

**Debt Service Fund** - The Debt Service fund has a total fund balance deficit of \$61,020. The net decrease in fund balance during the current year in the Debt Service fund was \$83,230, the majority of which is due to debt service payments exceeding property tax revenues.

**Minnesota and 6<sup>th</sup> Street Project Fund** - The Minnesota and 6<sup>th</sup> Street Project fund has a total fund balance deficit of \$12,640 which was the amount of engineering costs during the year. This project currently does not have a funding source.

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

Unrestricted net position of the enterprise funds at the end of the year had a negative balance of \$204,326. The total increase in net position for the funds was \$40,167. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

## General Fund Budgetary Highlights

The City's overall budget was amended in December 2016. Actual revenues exceeded budgeted amounts by \$16,755 while expenditures fell below budgeted amounts by \$49,545, mainly due to budgeted street capital improvements which went unspent.

## Capital Asset and Debt Administration

**Capital assets.** The City's investment in capital assets for its governmental and business type activities as of December 31, 2016, amounts to \$10,938,396 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, vehicles, roads and construction in progress. The total decrease in the City's investment in capital assets for the current fiscal year was 4.4 percent (a 4.1 percent decrease for governmental activities and a 4.8 percent decrease for business-type activities).

Major capital asset events during the year included the following:

- Minnesota and 6<sup>th</sup> Street project began during the year incurring engineering costs of \$12,640.
- Replacement of the library furnace totaling \$4,000.
- Purchase of a flood pump repair kit for \$9,799.

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

	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Land	\$ 410,096	\$ 410,096	\$ -	\$ 4,500	\$ 4,500	\$ -
Buildings	792,427	838,675	(46,248)	-	-	-
Infrastructure	3,934,667	4,114,297	(179,630)	5,556,843	5,837,315	(280,472)
Machinery and equipment	75,578	72,102	3,476	-	-	-
Vehicles	149,101	169,689	(20,588)	-	-	-
Construction in progress	15,184	-	15,184	-	-	-
<b>Total</b>	<b>\$ 5,377,053</b>	<b>\$ 5,604,859</b>	<b>\$ (227,806)</b>	<b>\$ 5,561,343</b>	<b>\$ 5,841,815</b>	<b>\$ (280,472)</b>

Additional information on the City's capital assets can be found in Note 3C starting on page 56 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$6,031,000. Of this amount, \$1,245,000 is special assessment debt, \$3,956,000 is revenue debt, \$100,000 is tax increment debt and \$730,000 is general obligation debt. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

### City of Henderson's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
General obligation bonds	\$ 730,000	\$ 800,000	\$ (70,000)	\$ -	\$ -	\$ -
G.O. tax increment bonds	100,000	129,000	(29,000)	-	-	-
G.O. improvement bonds	1,245,000	1,460,000	(215,000)	-	-	-
General obligation revenue bonds	-	-	-	3,956,000	4,299,000	(343,000)
<b>Total</b>	<b>\$ 2,075,000</b>	<b>\$ 2,389,000</b>	<b>\$ (314,000)</b>	<b>\$ 3,956,000</b>	<b>\$ 4,299,000</b>	<b>\$ (343,000)</b>

The City's total debt decreased by \$657,000 (9.8 percent) during the current fiscal year. The key factors in this decrease were no bond issuances and the retirement of debt of \$657,000 from regularly scheduled bond payments.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The current debt limitation for the City is \$1,339,683, which is in excess of the City's outstanding general obligation debt of \$730,000.

Additional information on the City's long-term debt can be found in Note 3E starting on page 58 of this report.

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

- Overall property valuations within the City stayed close to the same in 2016. In 2015, there were 10 residential unit permits issued and 1 commercial remodel. In 2016, two new residential unit permits were issued. In 2012, the City sold 23 lots at auction in Oak View Heights Subdivision with hopes this will help to stimulate residential construction over the next few years - these programs were partially extended in 2016. There are still available new lots available for new housing construction. In 2011, the City also implemented franchise fees for its natural gas and electric providers.
- The unemployment rate for Sibley County as of December 2016 was 4.7 percent, up from 4.4 percent the prior year. The State's average unemployment rate for the year was 4.0 percent and the national average rate was 4.5 percent.
- Inflationary trends in the region compare favorably to state and national indices.

All of these factors were considered in preparing the City's budget for fiscal years 2016 and 2017.

During the current fiscal year, fund balance in the General fund increased to \$305,939, an increase of \$54,693 or 21.8 percent from the previous balance of \$251,246.

In 2016 for taxes payable in 2017, the City of Henderson tax levy was kept the same as 2014, 2015 and 2016. Rates will continue to be reviewed and adjusted accordingly. Conservation rates for water/sanitary sewer charges were implemented on August 1, 2010. Fund 603, which previously collected and paid for refuse and recycling activities, was closed out in 2010; the current refuse hauler is now charging and collecting for these services. The current agreement with this hauler expires July 31, 2019.

All loans have been paid in the 250 fund and are either paid in full or current; due to the fact the MNCS TIF fund was closed in 2010 future loan repayments and bond debt activity will occur in this fund. One new 10 year loan of \$5,000 was issued to Wingnut Welding in 2016.

In 2013, the City of Henderson formed a Joint Powers Fire District with Henderson and Jessenland Township to operate a joint Fire District. No Tax Anticipation Certificates were issued in 2016 and there are no plans to issue this short term debt in 2017.

## **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrator-Clerk-Treasurer, City of Henderson, 600 Main Street, Henderson, Minnesota 56044 or emailed at lonber3@mchsi.com.

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

CITY OF HENDERSON  
HENDERSON, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2016

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CITY OF HENDERSON, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and temporary investments	\$ 155,487	\$ 147,216	\$ 302,703
Cash held by fiscal agent	11,300	-	11,300
Receivables			
Delinquent taxes	13,536	-	13,536
Accounts	10,586	66,541	77,127
Loans	5,000	-	5,000
Special assessments	12,280	513,310	525,590
Intergovernmental	48,227	4,113	52,340
Prepaid items	6,798	1,166	7,964
Investment in joint ventures	309,048	69,981	379,029
Capital assets			
Nondepreciable	425,280	4,500	429,780
Depreciable, net of accumulated depreciation	4,951,773	5,556,843	10,508,616
<b>TOTAL ASSETS</b>	<b>5,949,315</b>	<b>6,363,670</b>	<b>12,312,985</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred pension resources	237,846	8,467	246,313
<b>LIABILITIES</b>			
Accounts payable	14,715	5,775	20,490
Due to other governments	-	7,642	7,642
Accrued interest payable	27,629	35,869	63,498
Unearned revenue	4,600	-	4,600
Noncurrent liabilities			
Due within one year	326,428	346,000	672,428
Due in more than one year	2,198,447	3,633,689	5,832,136
<b>TOTAL LIABILITIES</b>	<b>2,571,819</b>	<b>4,028,975</b>	<b>6,600,794</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred pension resources	61,356	3,923	65,279
<b>NET POSITION</b>			
Net investment in capital assets	3,817,053	1,605,343	5,422,396
Restricted			
Economic development loans	5,000	-	5,000
Debt service	-	938,222	938,222
Unrestricted	(268,067)	(204,326)	(472,393)
<b>TOTAL NET POSITION</b>	<b>\$ 3,553,986</b>	<b>\$ 2,339,239</b>	<b>\$ 5,893,225</b>

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

CITY OF HENDERSON, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities</b>				
General government	\$ 192,061	\$ 28,753	\$ 874	\$ -
Public safety	239,813	10,722	33,261	-
Streets and highways	299,099	765	-	877
Culture and recreation	90,890	14,236	500	-
Economic development	46,442	752	1,500	-
Interest and other costs	67,084	-	-	-
Total governmental activities	<u>935,389</u>	<u>55,228</u>	<u>36,135</u>	<u>877</u>
<b>Business-type activities</b>				
Water	177,063	157,737	-	109
Sewer	415,187	410,417	36,041	20,634
Environmental services	26,351	29,808	-	9
Total business-type activities	<u>618,601</u>	<u>597,962</u>	<u>36,041</u>	<u>20,752</u>
<b>Totals</b>	<u>\$ 1,553,990</u>	<u>\$ 653,190</u>	<u>\$ 72,176</u>	<u>\$ 21,629</u>

General revenues  
Property taxes, levied for general purposes  
Property taxes, levied for debt service  
Tax increments  
Franchise taxes  
Grants and contributions not restricted to specific programs  
Unrestricted investment earnings  
Other revenues  
Transfers

Total general revenues and transfers

Change in net position

Net position, January 1

Net position, December 31

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

Net (Expense) Revenue and  
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (162,434)		\$ (162,434)
(195,830)		(195,830)
(297,457)		(297,457)
(76,154)		(76,154)
(44,190)		(44,190)
(67,084)		(67,084)
<u>(843,149)</u>		<u>(843,149)</u>
	\$ (19,217)	(19,217)
	51,905	51,905
	<u>3,466</u>	<u>3,466</u>
	<u>36,154</u>	<u>36,154</u>
<u>(843,149)</u>	<u>36,154</u>	<u>(806,995)</u>
184,605	-	184,605
302,000	-	302,000
563	-	563
39,385	-	39,385
292,288	-	292,288
443	13	456
2,934	-	2,934
(4,000)	4,000	-
<u>818,218</u>	<u>4,013</u>	<u>822,231</u>
(24,931)	40,167	15,236
<u>3,578,917</u>	<u>2,299,072</u>	<u>5,877,989</u>
<u>\$ 3,553,986</u>	<u>\$ 2,339,239</u>	<u>\$ 5,893,225</u>

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

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**FUND FINANCIAL STATEMENTS**

CITY OF HENDERSON  
HENDERSON, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2016

CITY OF HENDERSON, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016

	General	Debt Service	Special Revenue	Capital Projects	Totals
			Economic Development Authority	Minnesota and 6th Street Project	
<b>ASSETS</b>					
Cash and temporary investments	\$ 258,377	\$ (72,445)	\$ (17,805)	\$ (12,640)	\$ 155,487
Cash held by fiscal agent	-	11,300	-	-	11,300
Receivables					
Delinquent taxes	13,105	431	-	-	13,536
Accounts	10,118	-	468	-	10,586
Loans	-	-	5,000	-	5,000
Special assessments	-	12,280	-	-	12,280
Intergovernmental	48,102	125	-	-	48,227
Prepaid items	6,740	-	58	-	6,798
<b>TOTAL ASSETS</b>	<b>\$ 336,442</b>	<b>\$ (48,309)</b>	<b>\$ (12,279)</b>	<b>\$ (12,640)</b>	<b>\$ 263,214</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 12,798	\$ -	\$ 1,917	\$ -	\$ 14,715
Unearned revenue	4,600	-	-	-	4,600
<b>TOTAL LIABILITIES</b>	<b>17,398</b>	<b>-</b>	<b>1,917</b>	<b>-</b>	<b>19,315</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue					
Taxes	13,105	431	-	-	13,536
Special assessments	-	12,280	-	-	12,280
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>13,105</b>	<b>12,711</b>	<b>-</b>	<b>-</b>	<b>25,816</b>
<b>FUND BALANCES</b>					
Nonspendable	6,740	-	58	-	6,798
Restricted					
Economic development loans	-	-	5,000	-	5,000
Unassigned	299,199	(61,020)	(19,254)	(12,640)	206,285
<b>TOTAL FUND BALANCES</b>	<b>305,939</b>	<b>(61,020)</b>	<b>(14,196)</b>	<b>(12,640)</b>	<b>218,083</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 336,442</b>	<b>\$ (48,309)</b>	<b>\$ (12,279)</b>	<b>\$ (12,640)</b>	<b>\$ 263,214</b>

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

CITY OF HENDERSON, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016

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

Total fund balances - governmental funds	\$ 218,083
Net capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	5,377,053
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of	
Compensated absences payable	(5,428)
Bonds payable	(2,075,000)
Pension liability	(444,447)
Investments in joint ventures are not financial resources and therefore are not reported in the funds.	309,048
Long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds.	
Delinquent property taxes receivable	13,536
Special assessments receivable	12,280
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	237,846
Deferred inflows of pension resources	(61,356)
Governmental funds do not report a liability for accrued interest until due and payable.	(27,629)
	(27,629)
Total net position - governmental activities	\$ 3,553,986

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

CITY OF HENDERSON, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

	General	Debt Service	Special Revenue Economic Development Authority	Capital Projects Minnesota and 6th Street Project	Totals
<b>REVENUES</b>					
Taxes	\$ 202,161	\$ 302,132	\$ 20,000	\$ -	\$ 524,293
Special assessments	-	4,369	-	-	4,369
Licenses and permits	7,664	-	-	-	7,664
Intergovernmental	325,009	-	1,500	-	326,509
Charges for services	14,966	-	-	-	14,966
Fines and forfeits	4,245	-	-	-	4,245
Investment earnings	443	-	-	-	443
Miscellaneous	31,035	-	752	-	31,787
<b>TOTAL REVENUES</b>	<b>585,523</b>	<b>306,501</b>	<b>22,252</b>	<b>-</b>	<b>914,276</b>
<b>EXPENDITURES</b>					
Current					
General government	133,847	9,800	-	-	143,647
Public safety	193,778	-	-	-	193,778
Streets and highways	111,051	-	-	-	111,051
Culture and recreation	61,981	-	-	-	61,981
Economic development	-	2,400	46,586	-	48,986
Capital outlay					
Public safety	2,450	-	-	-	2,450
Streets and highways	-	-	-	12,640	12,640
Culture and recreation	8,280	-	-	-	8,280
Debt service					
Principal	5,000	309,000	-	-	314,000
Interest and other costs	1,443	68,531	-	-	69,974
<b>TOTAL EXPENDITURES</b>	<b>517,830</b>	<b>389,731</b>	<b>46,586</b>	<b>12,640</b>	<b>966,787</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>67,693</b>	<b>(83,230)</b>	<b>(24,334)</b>	<b>(12,640)</b>	<b>(52,511)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	-	9,000	-	9,000
Transfers out	(13,000)	-	-	-	(13,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(13,000)</b>	<b>-</b>	<b>9,000</b>	<b>-</b>	<b>(4,000)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>54,693</b>	<b>(83,230)</b>	<b>(15,334)</b>	<b>(12,640)</b>	<b>(56,511)</b>
<b>FUND BALANCES, JANUARY 1</b>	<b>251,246</b>	<b>22,210</b>	<b>1,138</b>	<b>-</b>	<b>274,594</b>
<b>FUND BALANCES, DECEMBER 31</b>	<b>\$ 305,939</b>	<b>\$ (61,020)</b>	<b>\$ (14,196)</b>	<b>\$ (12,640)</b>	<b>\$ 218,083</b>

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

CITY OF HENDERSON, MINNESOTA  
RECONCILIATION OF THE STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Net change in fund balances - governmental funds	\$ (56,511)
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	36,027
Depreciation expense	(263,833)
<p>The City has an equity interest joint ventures. The net allocated gain or (loss) and contributions from this investment is not a current financial resource and therefore is not reported in the governmental funds.</p>	
	(24,122)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Principal repayments	314,000
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	2,890
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Property taxes	2,260
Special assessments	(3,492)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Compensated absences	3,190
<p>Long-term pension activity is not reported in governmental funds.</p>	
Pension expense	(36,754)
Direct aid contributions	1,414
	1,414
Change in net position - governmental activities	\$ (24,931)

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

CITY OF HENDERSON, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL -  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 215,100	\$ 215,100	\$ 202,161	\$ (12,939)
Licenses and permits	7,080	7,080	7,664	584
Intergovernmental	315,195	316,488	325,009	8,521
Charges for services	8,000	8,000	14,966	6,966
Fines and forfeits	4,000	4,000	4,245	245
Investment earnings	800	800	443	(357)
Miscellaneous	17,300	17,300	31,035	13,735
	<u>567,475</u>	<u>568,768</u>	<u>585,523</u>	<u>16,755</u>
TOTAL REVENUES				
EXPENDITURES				
Current				
General government	141,454	141,454	133,847	7,607
Public safety	193,429	193,429	193,778	(349)
Streets and highways	100,415	100,415	111,051	(10,636)
Culture and recreation	74,190	74,190	61,981	12,209
Economic development	1,700	1,700	-	1,700
Capital outlay				
Public safety	-	-	2,450	(2,450)
Streets and highways	33,000	33,000	-	33,000
Culture and recreation	3,000	3,000	8,280	(5,280)
Debt service				
Principal	5,000	5,000	5,000	-
Interest and other costs	15,187	15,187	1,443	13,744
	<u>567,375</u>	<u>567,375</u>	<u>517,830</u>	<u>49,545</u>
TOTAL EXPENDITURES				
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	100	1,393	67,693	66,300
OTHER FINANCING SOURCES (USES)				
Transfers out	-	(13,000)	(13,000)	-
NET CHANGE IN FUND BALANCES	100	(11,607)	54,693	66,300
FUND BALANCES, JANUARY 1	<u>251,246</u>	<u>251,246</u>	<u>251,246</u>	<u>-</u>
FUND BALANCES, DECEMBER 31	<u>\$ 251,346</u>	<u>\$ 239,639</u>	<u>\$ 305,939</u>	<u>\$ 66,300</u>

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

CITY OF HENDERSON, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL -  
ECONOMIC DEVELOPMENT AUTHORITY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Intergovernmental	-	-	1,500	1,500
Miscellaneous	7,000	7,000	752	(6,248)
TOTAL REVENUES	27,000	27,000	22,252	(4,748)
EXPENDITURES				
Current				
Economic development	26,986	26,986	46,586	(19,600)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	14	14	(24,334)	(24,348)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	9,000	9,000	-
NET CHANGE IN FUND BALANCES	14	9,014	(15,334)	(24,348)
FUND BALANCES, JANUARY 1	1,138	1,138	1,138	-
FUND BALANCES, DECEMBER 31	<u>\$ 1,152</u>	<u>\$ 10,152</u>	<u>\$ (14,196)</u>	<u>\$ (24,348)</u>

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

CITY OF HENDERSON, MINNESOTA  
STATEMENTS OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2016 AND 2015

	Business-type Activities - Enterprise Funds			
	<b>601</b>		<b>602/604</b>	
	Water Utility		Sewer Utility	
	2016	2015	2016	2015
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 85,275	\$ 93,349	\$ 59,003	\$ 32,534
Receivables				
Accounts	17,771	22,211	45,734	56,359
Special assessments	-	-	36,307	46,121
Intergovernmental	162	-	3,939	3,020
Prepaid items	711	398	339	345
<b>TOTAL CURRENT ASSETS</b>	<b>103,919</b>	<b>115,958</b>	<b>145,322</b>	<b>138,379</b>
<b>NONCURRENT ASSETS</b>				
Special assessments receivable - noncurrent	-	-	477,003	533,008
Investment in joint venture	-	-	69,981	33,940
Capital assets				
Land	4,500	4,500	-	-
Infrastructure	2,753,908	2,753,908	6,214,495	6,214,495
Machinery and equipment	23,329	23,329	-	-
Less accumulated depreciation	(1,470,529)	(1,398,070)	(2,083,796)	(1,881,040)
<b>Total capital assets (net of accumulated depreciation)</b>	<b>1,311,208</b>	<b>1,383,667</b>	<b>4,130,699</b>	<b>4,333,455</b>
<b>TOTAL NONCURRENT ASSETS</b>	<b>1,311,208</b>	<b>1,383,667</b>	<b>4,677,683</b>	<b>4,900,403</b>
<b>TOTAL ASSETS</b>	<b>1,415,127</b>	<b>1,499,625</b>	<b>4,823,005</b>	<b>5,038,782</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred pension resources	8,467	1,888	-	-
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	2,002	4,233	3,433	1,728
Due to other governments	(13)	236	7,655	6,644
Accrued interest payable	11,499	11,846	23,399	25,910
Bonds payable - current	62,600	63,200	272,700	267,900
<b>TOTAL CURRENT LIABILITIES</b>	<b>76,088</b>	<b>79,515</b>	<b>307,187</b>	<b>302,182</b>
<b>NONCURRENT LIABILITIES</b>				
Bonds payable - noncurrent	945,500	1,008,100	2,612,400	2,885,100
Pension liability	23,689	16,695	-	-
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>969,189</b>	<b>1,024,795</b>	<b>2,612,400</b>	<b>2,885,100</b>
<b>TOTAL LIABILITIES</b>	<b>1,045,277</b>	<b>1,104,310</b>	<b>2,919,587</b>	<b>3,187,282</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred pension resources	3,923	3,592	-	-
<b>NET POSITION</b>				
Net investment in capital assets	303,108	312,367	1,245,599	1,180,455
Restricted for debt service	-	-	938,222	969,646
Unrestricted	71,286	81,244	(280,403)	(298,601)
<b>TOTAL NET POSITION</b>	<b>\$ 374,394</b>	<b>\$ 393,611</b>	<b>\$ 1,903,418</b>	<b>\$ 1,851,500</b>

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

Business-type Activities - Enterprise Funds

605			
Environmental Services		Totals	
2016	2015	2016	2015
\$ 2,938	\$ 727	\$ 147,216	\$ 126,610
3,036	3,459	66,541	82,029
-	-	36,307	46,121
12	1,382	4,113	4,402
116	121	1,166	864
6,102	5,689	255,343	260,026
-	-	477,003	533,008
-	-	69,981	33,940
-	-	4,500	4,500
157,715	157,715	9,126,118	9,126,118
2,933	2,933	26,262	26,262
(41,212)	(35,955)	(3,595,537)	(3,315,065)
119,436	124,693	5,561,343	5,841,815
119,436	124,693	6,108,327	6,408,763
125,538	130,382	6,363,670	6,668,789
-	-	8,467	1,888
340	527	5,775	6,488
-	-	7,642	6,880
971	1,194	35,869	38,950
10,700	11,900	346,000	343,000
12,011	13,621	395,286	395,318
52,100	62,800	3,610,000	3,956,000
-	-	23,689	16,695
52,100	62,800	3,633,689	3,972,695
64,111	76,421	4,028,975	4,368,013
-	-	3,923	3,592
56,636	49,993	1,605,343	1,542,815
-	-	938,222	969,646
4,791	3,968	(204,326)	(213,389)
\$ 61,427	\$ 53,961	\$ 2,339,239	\$ 2,299,072

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

CITY OF HENDERSON, MINNESOTA  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Business-type Activities - Enterprise Funds			
	<b>601</b>		<b>602/604</b>	
	Water Utility		Sewer Utility	
	2016	2015	2016	2015
<b>OPERATING REVENUES</b>				
Charges for services	\$ 156,979	\$ 143,667	\$ 409,707	\$ 408,828
<b>OPERATING EXPENSES</b>				
Salaries and benefits	32,152	48,611	14,714	15,774
Supplies	12,584	22,907	442	849
Other services and charges	14,524	50,708	111,250	91,118
Insurance	1,160	1,209	1,018	1,116
Utilities	10,388	12,574	25,916	16,929
Depreciation	72,459	77,051	202,756	202,739
<b>TOTAL OPERATING EXPENSES</b>	<b>143,267</b>	<b>213,060</b>	<b>356,096</b>	<b>328,525</b>
<b>OPERATING INCOME (LOSS)</b>	<b>13,712</b>	<b>(69,393)</b>	<b>53,611</b>	<b>80,303</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Other income	48	6,538	-	-
Income from investment in joint venture	-	-	36,041	6,864
Investment earnings	-	155	13	47
Rental income	710	497	710	1,207
Interest and other costs	(33,796)	(34,616)	(59,091)	(60,973)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(33,038)</b>	<b>(27,426)</b>	<b>(22,327)</b>	<b>(52,855)</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<b>(19,326)</b>	<b>(96,819)</b>	<b>31,284</b>	<b>27,448</b>
<b>CAPITAL CONTRIBUTIONS TRANSFERS IN</b>	<b>109</b>	<b>182</b>	<b>20,634</b>	<b>23,234</b>
<b>CHANGE IN NET POSITION</b>	<b>(19,217)</b>	<b>(96,637)</b>	<b>51,918</b>	<b>50,682</b>
<b>NET POSITION, JANUARY 1</b>	<b>393,611</b>	<b>490,248</b>	<b>1,851,500</b>	<b>1,800,818</b>
<b>NET POSITION, DECEMBER 31</b>	<b>\$ 374,394</b>	<b>\$ 393,611</b>	<b>\$ 1,903,418</b>	<b>\$ 1,851,500</b>

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

Business-type Activities - Enterprise Funds

<b>605</b>			
Environmental Services		Totals	
2016	2015	2016	2015
\$ 29,321	\$ 29,694	\$ 596,007	\$ 582,189
9,440	7,619	56,306	72,004
166	55	13,192	23,811
8,428	7,310	134,202	149,136
697	626	2,875	2,951
-	-	36,304	29,503
5,257	5,394	280,472	285,184
23,988	21,004	523,351	562,589
5,333	8,690	72,656	19,600
61	300	109	6,838
-	-	36,041	6,864
-	-	13	202
426	298	1,846	2,002
(2,363)	(2,873)	(95,250)	(98,462)
(1,876)	(2,275)	(57,241)	(82,556)
3,457	6,415	15,415	(62,956)
9	28	20,752	23,444
4,000	-	4,000	-
7,466	6,443	40,167	(39,512)
53,961	47,518	2,299,072	2,338,584
\$ 61,427	\$ 53,961	\$ 2,339,239	\$ 2,299,072

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

CITY OF HENDERSON, MINNESOTA  
STATEMENTS OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Business-type Activities - Enterprise Funds			
	<b>601</b>		<b>602/604</b>	
	Water Utility		Sewer Utility	
	2016	2015	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 161,257	\$ 138,040	\$ 420,332	\$ 399,195
Payments to suppliers and vendors	(38,369)	(87,380)	(135,904)	(107,433)
Payments to and on behalf of employees	(31,406)	(48,649)	(14,714)	(15,774)
Other receipts	758	7,035	710	1,207
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>92,240</b>	<b>9,046</b>	<b>270,424</b>	<b>277,195</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers from other funds	-	-	-	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Special assessments received	109	182	85,534	79,991
Principal paid on long-term debt	(63,200)	(17,800)	(267,900)	(262,600)
Interest and fees paid on long-term debt	(34,143)	(27,002)	(61,602)	(62,652)
Acquisition of capital assets	(3,080)	(548,262)	-	(1,805)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(100,314)</b>	<b>(592,882)</b>	<b>(243,968)</b>	<b>(247,066)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received on investments	-	155	13	47
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(8,074)</b>	<b>(583,681)</b>	<b>26,469</b>	<b>30,176</b>
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<b>93,349</b>	<b>677,030</b>	<b>32,534</b>	<b>2,358</b>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<b>\$ 85,275</b>	<b>\$ 93,349</b>	<b>\$ 59,003</b>	<b>\$ 32,534</b>

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

Business-type Activities - Enterprise Funds

**605**

Environmental Services		Totals	
2016	2015	2016	2015
\$ 31,114	\$ 29,111	\$ 612,703	\$ 566,346
(9,473)	(7,958)	(183,746)	(202,771)
(9,440)	(7,619)	(55,560)	(72,042)
487	598	1,955	8,840
<u>12,688</u>	<u>14,132</u>	<u>375,352</u>	<u>300,373</u>
<u>4,000</u>	<u>-</u>	<u>4,000</u>	<u>-</u>
9	28	85,652	80,201
(11,900)	(10,600)	(343,000)	(291,000)
(2,586)	(2,918)	(98,331)	(92,572)
<u>-</u>	<u>-</u>	<u>(3,080)</u>	<u>(550,067)</u>
<u>(14,477)</u>	<u>(13,490)</u>	<u>(358,759)</u>	<u>(853,438)</u>
<u>-</u>	<u>-</u>	<u>13</u>	<u>202</u>
2,211	642	20,606	(552,863)
<u>727</u>	<u>85</u>	<u>126,610</u>	<u>679,473</u>
<u>\$ 2,938</u>	<u>\$ 727</u>	<u>\$ 147,216</u>	<u>\$ 126,610</u>

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

CITY OF HENDERSON, MINNESOTA  
 STATEMENTS OF CASH FLOWS - CONTINUED  
 PROPRIETARY FUNDS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Business-type Activities - Enterprise Funds			
	601		602/604	
	Water Utility		Sewer Utility	
	2016	2015	2016	2015
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 13,712	\$ (69,393)	\$ 53,611	\$ 80,303
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Other income related to operations	758	7,035	710	1,207
Depreciation	72,459	77,051	202,756	202,739
(Increase) decrease in assets				
Accounts receivable	4,440	(5,627)	10,625	(9,633)
Due from other governments	(162)	-	-	-
Prepaid items	(313)	196	6	60
(Increase) decrease in deferred outflows of resources				
Deferred pension resources	(6,579)	755	-	-
Increase (decrease) in liabilities				
Accounts payable	849	(414)	1,705	(4,125)
Due to other governments	(249)	236	1,011	6,644
Pension liability	6,994	99	-	-
Increase (decrease) in deferred inflows of resources				
Deferred pension resources	331	(892)	-	-
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ 92,240</u>	<u>\$ 9,046</u>	<u>\$ 270,424</u>	<u>\$ 277,195</u>
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>				
Income from investment in joint venture	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,041</u>	<u>\$ 6,864</u>
Capital assets acquired on account	<u>\$ -</u>	<u>\$ 3,080</u>	<u>\$ -</u>	<u>\$ -</u>

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

Business-type Activities - Enterprise Funds

<b>605</b>			
Environmental Services		Total	
2016	2015	2016	2015
\$ 5,333	\$ 8,690	\$ 72,656	\$ 19,600
487	598	1,955	8,840
5,257	5,394	280,472	285,184
423	799	15,488	(14,461)
1,370	(1,382)	1,208	(1,382)
5	(99)	(302)	157
-	-	(6,579)	755
(187)	132	2,367	(4,407)
-	-	762	6,880
-	-	6,994	99
-	-	331	(892)
<u>\$ 12,688</u>	<u>\$ 14,132</u>	<u>\$ 375,352</u>	<u>\$ 300,373</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,041</u>	<u>\$ 6,864</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,080</u>

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

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CITY OF HENDERSON, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting entity**

The City of Henderson (the City) operates under “Optional Plan A” as defined in the State of Minnesota statutes. The City is governed by an elected Mayor and a four-member Council. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are in substance, part of the City’s operations and so data from these units are combined with data of the primary government. The blended component unit presented has a December 31 year end.

*Blended Component Unit.* The Economic Development Authority (EDA) was created pursuant to Minnesota statutes 469.090 through 469.108 to carry out economic and industrial development and redevelopment within the City in accordance with policies established by the City Council. The EDA serves the citizens of the City and is governed by a Board comprised of the City’s elected Council. The EDA is reported as a blended special revenue fund. Separate financial statements are not issued for the EDA.

**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 City. *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 City is reported separately from certain legally separate *component units* for which the City is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *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 and proprietary funds. 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 fund 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.

CITY OF HENDERSON, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if 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.

Property taxes, franchise taxes, licenses, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City reports the following major governmental funds:

The *General fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

The *Economic Development Authority fund* is a special revenue fund that was established by the bylaws of the Economic Development Authority and accounts for property tax levy revenues, developer payments and land sale proceeds which are committed for the activities of the Economic Development Authority including the sale of residential lots in Oak View Heights Subdivision.

The *Minnesota and 6<sup>th</sup> Street Project fund* is a capital project fund that accounts for project costs related to the upcoming street reconstruction.

CITY OF HENDERSON, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

The City reports the following major proprietary funds:

The *Water Utility enterprise fund* accounts for costs associated with the City's water system and to ensure that user charges are sufficient to pay for those costs.

The *Sewer Utility enterprise fund* accounts for the costs associated with the City's sewer system and to ensure that user charges are sufficient to pay for those costs.

The *Environmental Services enterprise fund* accounts for the costs associated with the City's storm water system and refuse collections to ensure that user charges are sufficient to pay for those costs.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are charges between the City's water, sewer, refuse and environmental services functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position/fund balance**

***Deposits and investments (cash and cash equivalents)***

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the statements of cash flows.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

CITY OF HENDERSON, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

***Property taxes***

The Council annually adopts a tax levy and certifies it to the County in December for collection the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June, and November each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the governmental fund financial statements.

***Accounts receivable***

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2016. All trade receivables are shown net of an allowance for uncollectible accounts. There was no allowance for uncollectible accounts at December 31, 2016 because the City has the ability to certify unpaid utility bills to property owners' taxes.

CITY OF HENDERSON, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Special assessments*

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are annually certified to the County or received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred inflow of resources in the fund financial statements.

*Interfund receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

*Prepaid items*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

*Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets, (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$750 (amount not rounded) and an estimated useful life in excess of one year. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the actual cost of the infrastructure to be capitalized by using available records). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the estimated fair value of the item at the date of its donation.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and land improvements	15 - 20
System improvements/infrastructure	30 - 50
Machinery and equipment	10 - 30
Vehicles	5 - 50

CITY OF HENDERSON, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Deferred outflows of resources*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

*Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The General fund is typically used to liquidate governmental compensated absences payable.

*Postemployment benefits other than pensions*

Under Minnesota statute 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in a group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees may obtain dependent coverage immediately before retirement. All premiums are funded on a pay-as-you-go basis. During the year 2016, the City calculated its OPEB liability using the alternative measurement method and determined that the calculated liability was immaterial. At this point, the City anticipates it will not incur material future explicit or implicit OPEB costs for its employees and therefore, no liability will be recorded.

*Long-term obligations*

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

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

*Pensions*

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF HENDERSON, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Deferred outflows of resources*

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NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Net position*

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consists of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of “restricted” or “net investment in capital assets”.

**Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the following funds:

- General fund
- Special revenue fund
- Economic Development Authority

In August of each year, all departments of the City submit requests for appropriations to the Administrator/Clerk-Treasurer so that a budget may be prepared. Before September 30, the proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is prepared and adopted in early December. The City does not use encumbrance accounting.

The appropriated budget is prepared by fund, function and department. The City’s department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Administrator/Clerk/Treasurer. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted or as amended by the Council. The City amended its General and EDA fund budgets for the year in December 2016 resulting in insignificant changes due to unanticipated revenues and expenditures encountered during the year.

**B. Excess of expenditures over appropriations**

For the year ended December 31, 2016, expenditures exceeded appropriations in the following fund:

Fund	Budget	Actual	Excess of Expenditures over Appropriations
Special revenue			
Economic Development Authority	\$ 26,986	\$ 46,586	\$ 19,600

These over expenditures were funded by a transfer from the General fund and partially by fund balance reserves but did create a fund balance deficit at year end.

CITY OF HENDERSON, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

**Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - CONTINUED**

**C. Deficit fund equity**

The following funds had fund equity deficits at December 31, 2016:

Fund	Amount
Special revenue	
Economic Development Authority	\$ 24,696
Capital projects	
Minnesota and 6th Street Project	12,640
Debt Service	61,020

The above deficits will be eliminated through future tax and special assessment collections, debt issuances, transfers from other funds and grant funding if available.

**Note 3: DETAILED NOTES ON ALL FUNDS**

**A. Deposits and investments (cash deposits with financial institutions)**

*Deposits*

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance, bonds, or irrevocable standby letters of credit from Federal Home Loan Banks.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rate "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the City.

CITY OF HENDERSON, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

At year end, the City's carrying amount of deposits was \$302,703 and the bank balance was \$324,502. Of the bank balance, \$276,275 was covered by federal depository insurance and \$48,227 was covered by collateral held in the City's name.

**B. Loans receivable**

*Economic development loans*

The City currently has one loan to a local business totaling \$5,000 at December 31, 2016. Repayment begins in 2017 via annual payments with an interest rate of 3.0 percent over 10 years. The loan is secured by real estate.

**C. Capital assets**

Capital asset activity for the City for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 410,096	\$ -	\$ -	\$ 410,096
Construction in progress	-	15,184	-	15,184
 Total capital assets not being depreciated	 410,096	 15,184	 -	 425,280
Capital assets being depreciated				
Buildings	1,810,460	4,920	-	1,815,380
Infrastructure	7,142,528	2,800	-	7,145,328
Machinery and equipment	196,750	13,123	-	209,873
Vehicles	234,455	-	-	234,455
 Total capital assets being depreciated	 9,384,193	 20,843	 -	 9,405,036
Less accumulated depreciation for				
Buildings	(971,785)	(51,168)	-	(1,022,953)
Infrastructure	(3,028,231)	(182,430)	-	(3,210,661)
Machinery and equipment	(124,648)	(9,647)	-	(134,295)
Vehicles	(64,766)	(20,588)	-	(85,354)
 Total accumulated depreciation	 (4,189,430)	 (263,833)	 -	 (4,453,263)
 Total capital assets being depreciated, net	 5,194,763	 (242,990)	 -	 4,951,773
 Governmental activities capital assets, net	 <u>\$ 5,604,859</u>	 <u>\$ (227,806)</u>	 <u>\$ -</u>	 <u>\$ 5,377,053</u>

CITY OF HENDERSON, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 4,500	\$ -	\$ -	\$ 4,500
Capital assets being depreciated				
Water system	2,753,908	-	-	2,753,908
Sanitary sewer system	6,214,495	-	-	6,214,495
Storm water system	157,715	-	-	157,715
Machinery and equipment	26,262	-	-	26,262
Total capital assets being depreciated	<u>9,152,380</u>	<u>-</u>	<u>-</u>	<u>9,152,380</u>
Less accumulated depreciation for				
Water system	(1,374,740)	(72,460)	-	(1,447,200)
Sanitary sewer system	(1,881,041)	(202,755)	-	(2,083,796)
Storm water system	(33,022)	(5,257)	-	(38,279)
Machinery and equipment	(26,262)	-	-	(26,262)
Total accumulated depreciation	<u>(3,315,065)</u>	<u>(280,472)</u>	<u>-</u>	<u>(3,595,537)</u>
Total capital assets being depreciated, net	<u>5,837,315</u>	<u>(280,472)</u>	<u>-</u>	<u>5,556,843</u>
Business-type activities capital assets, net	<u>\$ 5,841,815</u>	<u>\$ (280,472)</u>	<u>\$ -</u>	<u>\$ 5,561,343</u>

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

<b>Governmental activities</b>		
General government		\$ 35,236
Public safety		18,660
Streets and highways		184,388
Culture and recreation		25,549
Total depreciation expense - governmental activities		<u>\$ 263,833</u>
<b>Business-type activities</b>		
Water		\$ 72,459
Sewer		202,756
Environmental services		5,257
Total depreciation expense - business-type activities		<u>\$ 280,472</u>

CITY OF HENDERSON, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**D. Interfund receivables, payables and transfers**

The Permanent Improvement Revolving fund loaned \$113,500 to the 2007 G.O. Tax Increment Bonds fund to assist in meeting future debt service requirements and other expenditures. In 2015, an additional \$69,500 was loaned between the two funds. The total principal of \$183,000 is to be paid back in full by December 31, 2018 at a 0 percent interest rate.

The composition of interfund transfers at December 31, 2016 is as follows:

Transfers out	Transfers in		
	Economic Development Authority Fund	Environmental Services Fund	Total
General fund	\$ 9,000	\$ 4,000	\$ 13,000

In 2016, the General fund transferred \$9,000 to the Economic Development Authority fund to partially eliminate the fund's deficit. Furthermore, the General fund transferred \$4,000 to the Environmental Services fund for cash flow purposes. Additional transfers between Debt Service funds were made to cover principal and interest payments.

**E. Long-term debt**

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation bonds have been issued to refund special assessments related bonds.

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These obligations are being funded through ad valorem tax levies. General obligation bonds currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Refunding					
Bonds of 2011B	\$ 45,000	2.00 - 3.40 %	12/29/11	02/01/19	\$ 25,000
2011C G.O. Tax Abatement Bonds	495,000	2.50 - 4.75	12/29/11	02/01/28	415,000
2013A G.O. Equipment Certificates	85,000	3.00 - 4.00	01/30/13	01/01/23	70,000
2014A G.O. Bonds	200,000	1.50 - 3.50	02/11/14	02/01/24	220,000
Total General Obligation Bonds					\$ 730,000

CITY OF HENDERSON, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

The annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	<b>General Obligation Bonds</b> Governmental Activities		
	Principal	Interest	Total
2017	\$ 70,000	\$ 25,106	\$ 95,106
2018	75,000	23,388	98,388
2019	75,000	21,269	96,269
2020	65,000	19,069	84,069
2021	70,000	16,938	86,938
2022 - 2026	290,000	46,162	336,162
2027 - 2028	85,000	4,156	89,156
Total	<u>\$ 730,000</u>	<u>\$ 156,088</u>	<u>\$ 886,088</u>

G.O. Tax Increment Bonds

The following bonds were issued for redevelopment projects. The additional tax increments resulting from increased tax capacity of the redeveloped properties will be used to retire related debt.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Tax Increment Bonds of 2007	\$ 233,000	4.50 - 4.75 %	08/22/07	02/01/19	<u>\$ 100,000</u>

The annual debt service requirements to maturity for general obligation tax increment bonds are as follows:

Year Ending December 31	<b>G.O. Tax Increment Bonds</b> Governmental Activities		
	Principal	Interest	Total
2017	\$ 31,000	\$ 3,990	\$ 34,990
2018	33,000	2,486	35,486
2019	36,000	854	36,854
Total	<u>\$ 100,000</u>	<u>\$ 7,330</u>	<u>\$ 107,330</u>

CITY OF HENDERSON, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

G.O. Special Assessment (Improvement) Bonds

The following bonds were issued to finance various improvements and will be repaid primarily from special assessments levied on the properties benefiting from the improvements. Some issues, however, are partly financed by ad valorem tax levies. All special assessment debt is backed by the full faith and credit of the City. Each year the combined assessment and tax levy equals 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax or assessment payments.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Refunding Bonds of 2011B (2006A)	\$ 635,000	2.00 - 3.00 %	12/29/11	02/01/20	\$ 410,000
G.O. Refunding Bonds of 2011B (2002A)	525,000	2.00 - 3.40	12/29/11	02/01/23	350,000
G.O. Refunding Bonds of 2011B (2003A)	145,000	2.00 - 3.40	12/29/11	02/01/23	105,000
G.O. Refunding Bonds of 2011B (2005A)	635,000	2.00 - 3.20	12/29/11	02/01/21	<u>380,000</u>
Total G.O. Special Assessment Bonds					<u>\$ 1,245,000</u>

The annual debt service requirements to maturity for general obligation special assessment bonds are as follows:

Year Ending December 31	<b>G.O. Special Assessment Bonds</b> Governmental Activities		
	Principal	Interest	Total
2017	\$ 220,000	\$ 32,311	\$ 252,311
2018	225,000	27,039	252,039
2019	240,000	20,934	260,934
2020	245,000	13,960	258,960
2021	180,000	7,405	187,405
2022 - 2023	<u>135,000</u>	<u>4,643</u>	<u>139,643</u>
Total	<u>\$ 1,245,000</u>	<u>\$ 106,292</u>	<u>\$ 1,351,292</u>

CITY OF HENDERSON, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

G.O. Revenue Bonds

The following bonds were issued to finance capital improvements in the enterprise funds. They will be retired from net revenues of the enterprise funds.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Utility Revenue Bonds of 2007B	\$ 470,000	3.60 - 4.25 %	11/15/07	02/01/23	\$ 255,000
G.O. Wastewater Revenue Note of 2007 (PFA)	3,713,099	1.49	09/26/07	08/20/27	2,326,000
G.O. Refunding Bonds of 2011B (Water)	215,000	2.00 - 3.40	12/29/11	02/01/23	171,800
G.O. Refunding Bonds of 2011B (Sewer)	395,000	2.00 - 3.40	12/29/11	02/01/23	218,300
G.O. Refunding Bonds of 2011B (Sewer)	265,000	2.00 - 3.00	12/29/11	02/01/20	145,000
G.O. Refunding Bonds of 2011B (Storm)	80,000	2.00 - 3.00	12/29/11	02/01/20	19,900
G.O. Revenue Bonds of 2013A (Water)	85,000	3.00 - 4.00	01/30/13	01/01/23	90,000
G.O. Bonds of 2014A	135,000	1.50 - 3.50	02/11/14	02/01/24	120,000
G.O. Water Revenue Bonds of 2014C	635,000	1.30 - 3.70	12/16/14	02/01/35	<u>610,000</u>
Total G.O. Revenue Bonds					<u><u>\$ 3,956,000</u></u>

Annual revenues from charges for services, principal and interest payments, and percentage of revenue required to cover principal and interest payments are as follows:

	Water	Sewer	Environmental Services
Revenues	\$ 156,979	\$ 409,707	\$ 29,321
Principal and interest	97,343	329,502	14,486
Percentage of revenues	62.0%	80.4%	49.4%

CITY OF HENDERSON, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

The annual debt service requirements to maturity for general obligation revenue bonds are as follows:

Year Ending December 31	<b>G.O. Revenue Bonds</b> Business-type Activities		
	Principal	Interest	Total
2017	\$ 346,000	\$ 84,979	\$ 430,979
2018	354,000	78,122	432,122
2019	352,000	70,804	422,804
2020	360,000	63,050	423,050
2021	318,000	55,561	373,561
2022 - 2026	1,668,000	150,199	1,818,199
2027 - 2031	398,000	47,269	445,269
2032 - 2035	160,000	11,790	171,790
Total	<u>\$ 3,956,000</u>	<u>\$ 561,774</u>	<u>\$ 4,517,774</u>

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Bonds payable					
General obligation bonds	\$ 800,000	\$ -	\$ (70,000)	\$ 730,000	\$ 70,000
General obligation tax increment bonds	129,000	-	(29,000)	100,000	31,000
General obligation special assessment bonds	<u>1,460,000</u>	<u>-</u>	<u>(215,000)</u>	<u>1,245,000</u>	<u>220,000</u>
Total bonds payable	<u>2,389,000</u>	<u>-</u>	<u>(314,000)</u>	<u>2,075,000</u>	<u>321,000</u>
Compensated absences payable					
	<u>8,618</u>	<u>11,335</u>	<u>(14,525)</u>	<u>5,428</u>	<u>5,428</u>
Pension liability					
GERF	143,963	71,450	(11,756)	203,657	-
PEPF	<u>68,174</u>	<u>182,521</u>	<u>(9,905)</u>	<u>240,790</u>	<u>-</u>
Total pension liability	<u>212,137</u>	<u>253,971</u>	<u>(21,661)</u>	<u>444,447</u>	<u>-</u>
Governmental activity long-term liabilities	<u>\$ 2,609,755</u>	<u>\$ 265,306</u>	<u>\$ (350,186)</u>	<u>\$ 2,524,875</u>	<u>\$ 326,428</u>

CITY OF HENDERSON, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Business-type activities</b>					
Bonds payable					
General obligation					
revenue bonds	\$ 4,299,000	\$ -	\$ (343,000)	\$ 3,956,000	\$ 346,000
Pension liability					
GERF	16,695	8,350	(1,356)	23,689	-
Business-type activity					
long-term liabilities	<u>\$ 4,315,695</u>	<u>\$ 8,350</u>	<u>\$ (344,356)</u>	<u>\$ 3,979,689</u>	<u>\$ 346,000</u>

**F. Tax increment districts**

The City is the administering authority for the following tax increment finance districts:

	Tax Increment District No. 1-3 (New Country School)*	Tax Increment District No. 1-4 (Oakview Heights Second Addition)
Authorizing law	M.S. 469.176	M.S. 469.176
Type of district	Redevelopment	Housing
Year established	1997	2007
Duration of district	25 years	25 years
Tax capacity		
Original	\$ -	\$ 869
Current	-	1,171
Captured - retained	<u>\$ -</u>	<u>\$ 302</u>
Total General Obligation Tax Increment		
Bonds and notes issued	\$ 665,000	\$ 233,000
Amounts redeemed	<u>(665,000)</u>	<u>(133,000)</u>
Outstanding at December 31, 2016	<u>\$ -</u>	<u>\$ 100,000</u>

\* Tax-exempt

CITY OF HENDERSON, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE**

**A. Plan description**

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota statutes, chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Public Employees Police and Fire Fund (PEPFF)

The PEPFF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

**B. Benefits provided**

PERA provides retirement, disability and death benefits. Benefit provisions are established by Minnesota statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

GERF benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

CITY OF HENDERSON, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

PEPFF benefits

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014 vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service.

For PEPFF members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

**C. Contributions**

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2016. The City's contributions to the GERF for the years ending December 31, 2016, 2015 and 2014 were \$13,808, \$13,482 and \$13,146, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

PEPFF contributions

Plan members were required to contribute 10.8 percent of their annual covered salary in calendar year 2016. The City was required to contribute 16.20 percent of pay for PEPFF members in calendar year 2016. The City's contributions to the PEPFF for the years ending December 31, 2016, 2015 and 2014 were \$6,257, \$8,694 and \$8,211, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

**D. Pension costs**

GERF pension costs

At December 31, 2016, the City reported a liability of \$227,346 for its proportionate share of the GERF's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$2,931. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportionate share was 0.0028 percent which was a decrease of 0.0003 percent from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$20,481 for its proportionate share of GERF's pension expense. In addition, the City recognized an additional \$874 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the GERF.

CITY OF HENDERSON, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

At December 31, 2016, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 721	\$ 17,087
Changes in actuarial assumptions	48,799	-
Net difference between projected and actual earnings on plan investments	24,067	-
Changes in proportion	-	20,568
Contributions to GERF subsequent to the measurement date	7,681	-
	<u>7,681</u>	<u>-</u>
Total	<u>\$ 81,268</u>	<u>\$ 37,655</u>

Deferred outflows of resources totaling \$7,681 related to pensions resulting from the City's contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

2017	\$ 7,733
2018	1,985
2019	18,002
2020	8,212
2021	-
Thereafter	-

PEPPF pension costs

At December 31, 2016, the City reported a liability of \$240,790 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportionate share was 0.0060 percent which did not change from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$36,210 for its proportionate share of PEPFF's pension expense. The City also recognized \$540 for the year ended December 31, 2016 as pension expense (and an offsetting reduction of net pension liability) for its proportionate share of the State of Minnesota's on-behalf contributions to the plan. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

CITY OF HENDERSON, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

At December 31, 2016, the City reported its proportionate share of PEPFF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 55	\$ 27,624
Changes in actuarial assumptions	142,237	-
Net difference between projected and actual earnings on plan investments	20,758	-
Contributions to PEPFF subsequent to the measurement date	1,995	-
Total	\$ 165,045	\$ 27,624

Deferred outflows of resources totaling \$1,995 related to pensions resulting from the City's contributions to PEPFF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to PEPFF pensions will be recognized in pension expense as follows:

2017	\$ 25,730
2018	25,730
2019	33,724
2020	27,494
2021	22,748
Thereafter	-

**E. Actuarial assumptions**

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active member payroll growth	3.25% per year
Investment rate of return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for the GERS and RP-2000 tables for the PEPFF for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for all future years for the GERS and PEPFF.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERS was completed in 2015. The experience study for PEPFF was for the period July 1, 2004, through June 30, 2009.

CITY OF HENDERSON, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

The following changes in actuarial assumptions occurred in 2016:

GERF

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

PEPFF

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2037 and 2.5 percent per year thereafter to 1.0 percent per year for all future years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 5.6 percent.
- The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic stocks	45.00 %	5.50 %
International stocks	15.00	6.00
Bonds	18.00	1.45
Alternative assets	20.00	6.40
Cash	2.00	0.50
Total	100.00 %	

CITY OF HENDERSON, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

**F. Discount rate**

The discount rate used to measure the total pension liability was 7.5 percent, a reduction from the 7.9 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statutes. Based on these assumptions, the fiduciary net position of the GERF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the PEPFF, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056. Beginning in fiscal year ended June 30, 2057 for the PEPFF, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60 percent for the PEPFF was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits through the point of asset depletion and 2.85 percent after.

**G. Pension liability sensitivity**

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	City Proportionate Share of NPL		
	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
	GERF	\$ 322,899	\$ 227,346
	City Proportionate Share of NPL		
	1 Percent Decrease (4.60%)	Current (5.60%)	1 Percent Increase (6.60%)
PEPFF	\$ 337,075	\$ 240,790	\$ 162,119

**H. Pension plan fiduciary net position**

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

CITY OF HENDERSON, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 5: OTHER INFORMATION**

**A. Risk management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

**B. Contingent liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is currently a defendant in a lawsuit. Although the outcome of this lawsuit is not presently determinable, it is the opinion of the City's counsel that resolution of this matter will not have a material adverse effect on the financial condition of the City.

**C. Legal debt margin**

In accordance with Minnesota statutes, the City may not incur or be subject to general obligation debt in excess of three percent of the market value of taxable property within the City. General obligation debt is payable solely from ad valorem taxes and therefore, excludes debt financed partially or entirely by special assessments, enterprise fund receipts or tax increments. The current debt limitation for the City is \$1,339,683, which is in excess of the City's outstanding general obligation debt of \$730,000.

**D. Concentrations**

The City receives a significant amount of its annual General fund revenues from the State of Minnesota via the Local Government Aid program. The LGA amount received in 2016 was \$291,832 which accounted for 50 percent of General fund revenues.

**E. Tax increment districts**

The City's tax increment districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management has indicated that they are not aware of any instances of noncompliance which could have a material effect on the financial statements.

**F. Related party transactions**

The City uses services from a company owned by a City Council member. Total payments made to the business during 2016 were \$1,020.

CITY OF HENDERSON, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 5: OTHER INFORMATION - CONTINUED**

**G. Joint powers agreements**

In April of 1993, the City of Henderson and the City of Le Sueur entered into a joint powers agreement for operating and monitoring the activities of cable commissions for the purpose of establishing a cable communications system in the two Cities. The public agency created under this joint powers agreement to manage this activity is known as the Le Sueur-Henderson Cable Communications Commission (CATV). CATV consists of seven directors, five of whom are appointed by Le Sueur and two of whom are appointed by Henderson. Property ownership of the facilities is based on the makeup of the directors of the Commission.

The City's equity interest and its share of the net income (loss) of the Commission are added to the value of the investment in joint ventures in the government-wide financial statements under governmental activities. As of December 31, 2016, the amount reported as the equity interest in the joint venture was \$0 as the entity was disbanded during the year. The City did not receive any assets nor have to pay anything related to the dissolution.

In April of 2005, the City of Henderson and the City of Le Sueur entered into a joint powers agreement for the planning, construction, operation and maintenance of facilities for collection and treatment of any wastewater generated within the boundaries of the Cities of Henderson and Le Sueur. The public agency created under this joint powers agreement to manage this activity is known as the Minnesota River Valley Public Utilities Commission (MRVPUC). Under this agreement the City of Henderson transports its wastewater through a force main to a new mechanical treatment facility located in the City of Le Sueur. Wastewater from the facility is discharged into the Minnesota River. Both cities are billed an appropriate amount based upon the amount of wastewater loading generated by each city to cover the costs of its operation based on a budget prepared by MRVPUC. Property ownership of the facilities is based on location and proportion of contributions of the respective jurisdictions.

In 2016, the City of Henderson made payments to MRVPUC in the amount of \$82,342. As of December 31, 2016, MRVPUC reported a net position balance of \$1,457,317. The City of Henderson's share of this balance was \$69,981.

On January 7, 2014, the City of Henderson entered into a joint powers agreement with the Townships of Henderson and Jessenland to create a Joint Fire/EMS District. According to the agreement, all trucks, equipment and personal property of the City of Henderson Fire Department, as well as Fire Department employees, shall hereafter be included and part of the Fire District. Additionally, the City is responsible for 55 percent of operating expenses and 50 percent of capital replacement expenses incurred by the District. The City contributed \$46,376 to the District during the year. The amount reported as the equity interest in the joint venture at December 31, 2016 was \$309,048.

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**REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF HENDERSON  
HENDERSON, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2016

CITY OF HENDERSON, MINNESOTA  
 REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEAR ENDED DECEMBER 31, 2016

**Schedule of employer's share of PERA net pension liability - General Employees Retirement Fund**

Required Supplementary Information							
Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/16	0.0028 %	\$ 227,346	\$ 2,931	\$ 230,277	\$ 170,740	133.2 %	68.9 %
06/30/15	0.0031	160,658	-	160,658	209,072	76.8	78.2

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

**Schedule of employer's PERA contributions - General Employees Retirement Fund**

Required Supplementary Information					
Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/16	\$ 13,808	\$ 13,808	\$ -	\$ 184,112	7.5 %
12/31/15	13,482	13,482	-	179,755	7.5

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

CITY OF HENDERSON, MINNESOTA  
 REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED  
 FOR THE YEAR ENDED DECEMBER 31, 2016

**Schedule of employer's share of PERA net pension liability - Public Employees Police and Fire Fund**

Required Supplementary Information							
Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/15	0.0060 %	\$ 240,790	\$ -	\$ 240,790	\$ 53,143	453.1 %	63.9 %
06/30/15	0.0060	68,174	-	68,174	52,175	130.7	86.6

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

**Schedule of employer's PERA contributions - Public Employees Police and Fire Fund**

Required Supplementary Information					
Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/16	\$ 6,257	\$ 6,257	\$ -	\$ 38,621	16.2 %
12/31/15	8,694	8,694	-	53,667	16.2

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

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**COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF HENDERSON  
HENDERSON, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2016

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CITY OF HENDERSON, MINNESOTA  
GENERAL FUND  
COMPARATIVE BALANCE SHEETS  
DECEMBER 31, 2016 AND 2015

	2016	2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 258,377	\$ 206,458
Receivables		
Delinquent taxes	13,105	11,276
Accounts	10,118	12,667
Intergovernmental	48,102	45,576
Prepaid items	6,740	5,330
<b>TOTAL ASSETS</b>	<b>\$ 336,442</b>	<b>\$ 281,307</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 12,798	\$ 5,981
Due to other governments	-	84
Unearned revenue	4,600	12,720
<b>TOTAL LIABILITIES</b>	<b>17,398</b>	<b>18,785</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable revenue		
Taxes	13,105	11,276
<b>FUND BALANCES</b>		
Nonspendable	6,740	5,330
Restricted		
Streets	-	17,785
Unassigned	299,199	228,131
<b>TOTAL FUND BALANCES</b>	<b>305,939</b>	<b>251,246</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 336,442</b>	<b>\$ 281,307</b>

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CITY OF HENDERSON, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - CONTINUED ON THE FOLLOWING PAGES  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Taxes					
Property taxes	\$ 175,000	\$ 175,000	\$ 162,776	\$ (12,224)	\$ 172,522
Franchise taxes	40,100	40,100	39,385	(715)	39,790
Total taxes	215,100	215,100	202,161	(12,939)	212,312
Special assessments	-	-	-	-	6
Licenses and permits					
Business	4,980	4,980	4,870	(110)	4,930
Nonbusiness	2,100	2,100	2,794	694	1,970
Total licenses and permits	7,080	7,080	7,664	584	6,900
Intergovernmental					
Federal					
Other Federal aid	-	-	8,120	8,120	199,480
State					
Local government aid	290,539	291,832	291,832	-	290,539
Police State aid	8,000	8,000	8,269	269	7,976
Other State aid	16,656	16,656	16,788	132	107,291
Total State	315,195	316,488	316,889	401	405,806
Total intergovernmental	315,195	316,488	325,009	8,521	605,286
Charges for services					
General government	-	-	10	10	-
Streets and highways	-	-	720	720	-
Culture and recreation	8,000	8,000	14,236	6,236	10,253
Total charges for services	8,000	8,000	14,966	6,966	10,253
Fines and forfeits	4,000	4,000	4,245	245	3,646
Investment earnings	800	800	443	(357)	1,052
Miscellaneous					
Other	200	200	-	(200)	9
Contributions and donations	2,500	2,500	500	(2,000)	3,916
Rents and refunds	14,600	14,600	30,535	15,935	24,581
Total miscellaneous	17,300	17,300	31,035	13,735	28,506
TOTAL REVENUES	567,475	568,768	585,523	16,755	867,961

CITY OF HENDERSON, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With Comparative Actual Amounts for the Year Ended December 31, 2015)

EXPENDITURES	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Current					
General government					
Mayor and Council					
Personal services	\$ 5,900	\$ 5,900	\$ 6,890	\$ (990)	\$ 5,221
Other services and charges	1,560	1,560	580	980	796
Total Mayor and Council	7,460	7,460	7,470	(10)	6,017
City clerk/administration					
Personal services	70,644	70,644	68,336	2,308	67,616
Supplies	1,200	1,200	1,533	(333)	1,381
Other services and charges	14,050	14,050	13,479	571	11,259
Total city clerk/administration	85,894	85,894	83,348	2,546	80,256
Auditing					
Other services and charges	5,800	5,800	5,755	45	5,615
Assessing					
Other services and charges	5,700	5,700	5,921	(221)	5,300
Legal					
Supplies	50	50	-	50	-
Other services and charges	13,100	13,100	11,558	1,542	9,333
Total legal	13,150	13,150	11,558	1,592	9,333
General government building					
Supplies	2,050	2,050	765	1,285	1,668
Other services and charges	21,400	21,400	19,030	2,370	53,729
Total general government building	23,450	23,450	19,795	3,655	55,397
Total general government	141,454	141,454	133,847	7,607	161,918

CITY OF HENDERSON, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Public safety					
Police					
Personal services	\$ 88,600	\$ 88,600	\$ 72,945	\$ 15,655	\$ 86,486
Supplies	6,750	6,750	3,533	3,217	4,103
Other services and charges	9,790	9,790	16,212	(6,422)	8,734
Total police	105,140	105,140	92,690	12,450	99,323
Fire					
Personal services	14,282	14,282	14,230	52	14,282
Other services and charges	48,607	48,607	51,874	(3,267)	52,493
Total fire	62,889	62,889	66,104	(3,215)	66,775
Ambulance					
Supplies	100	100	-	100	10
Building inspection					
Other services and charges	8,300	8,300	13,089	(4,789)	6,855
Civil defense					
Supplies	2,500	2,500	220	2,280	165
Other services and charges	14,150	14,150	20,199	(6,049)	3,428
Total civil defense	16,650	16,650	20,419	(3,769)	3,593
Animal control					
Supplies	50	50	-	50	-
Other services and charges	300	300	195	105	195
Total animal control	350	350	195	155	195
2014 disasters					
Supplies	-	-	-	-	230
Other services and charges	-	-	1,281	(1,281)	46,351
Total 2014 disasters	-	-	1,281	(1,281)	46,581
Total public safety	193,429	193,429	193,778	(349)	223,332
Streets and highways					
Streets and highways					
Personal services	41,500	41,500	51,916	(10,416)	26,536
Supplies	10,200	10,200	10,344	(144)	7,769
Other services and charges	26,715	26,715	28,886	(2,171)	26,309
Total streets and highways	78,415	78,415	91,146	(12,731)	60,614

CITY OF HENDERSON, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Streets and highways - continued					
Street lighting					
Other services and charges	\$ 22,000	\$ 22,000	\$ 19,905	\$ 2,095	\$ 18,985
Total streets and highways	<u>100,415</u>	<u>100,415</u>	<u>111,051</u>	<u>(10,636)</u>	<u>79,599</u>
Culture and recreation					
Parks					
Personal services	3,900	3,900	3,297	603	8,878
Supplies	8,300	8,300	5,535	2,765	2,974
Other services and charges	<u>29,840</u>	<u>29,840</u>	<u>26,453</u>	<u>3,387</u>	<u>35,021</u>
Total parks	<u>42,040</u>	<u>42,040</u>	<u>35,285</u>	<u>6,755</u>	<u>46,873</u>
Library					
Personal services	500	500	-	500	-
Supplies	2,000	2,000	773	1,227	599
Other services and charges	<u>25,150</u>	<u>25,150</u>	<u>25,923</u>	<u>(773)</u>	<u>20,800</u>
Total library	<u>27,650</u>	<u>27,650</u>	<u>26,696</u>	<u>954</u>	<u>21,399</u>
Cable TV					
Other services and charges	<u>4,500</u>	<u>4,500</u>	<u>-</u>	<u>4,500</u>	<u>-</u>
Total culture and recreation	<u>74,190</u>	<u>74,190</u>	<u>61,981</u>	<u>12,209</u>	<u>68,272</u>
Economic development					
Other services and charges	<u>1,700</u>	<u>1,700</u>	<u>-</u>	<u>1,700</u>	<u>-</u>
Total current	<u>511,188</u>	<u>511,188</u>	<u>500,657</u>	<u>10,531</u>	<u>533,121</u>

CITY OF HENDERSON, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016			Variance with Final Budget	2015
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
EXPENDITURES - CONTINUED					
Capital outlay					
Public safety	\$ -	\$ -	\$ 2,450	\$ (2,450)	\$ 308,882
Streets and highways	33,000	33,000	-	33,000	16,233
Culture and recreation	3,000	3,000	8,280	(5,280)	2,570
Total capital outlay	<u>36,000</u>	<u>36,000</u>	<u>10,730</u>	<u>25,270</u>	<u>327,685</u>
Debt service					
Principal	5,000	5,000	5,000	-	5,000
Interest and other costs	15,187	15,187	1,443	13,744	1,978
Total debt service	<u>20,187</u>	<u>20,187</u>	<u>6,443</u>	<u>13,744</u>	<u>6,978</u>
TOTAL EXPENDITURES	<u>567,375</u>	<u>567,375</u>	<u>517,830</u>	<u>49,545</u>	<u>867,784</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	100	1,393	67,693	66,300	177
OTHER FINANCING SOURCES (USES)					
Transfers out	-	(13,000)	(13,000)	-	(6,000)
NET CHANGE IN FUND BALANCES	100	(11,607)	54,693	66,300	(5,823)
FUND BALANCES, JANUARY 1	<u>251,246</u>	<u>251,246</u>	<u>251,246</u>	<u>-</u>	<u>257,069</u>
FUND BALANCES, DECEMBER 31	<u>\$ 251,346</u>	<u>\$ 239,639</u>	<u>\$ 305,939</u>	<u>\$ 66,300</u>	<u>\$ 251,246</u>

CITY OF HENDERSON, MINNESOTA  
DEBT SERVICE FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2016  
(With Comparative Totals for December 31, 2015)

	<b>301</b>	<b>303</b>	<b>304</b>	<b>307</b>
	Permanent Improvement Revolving	2003A G.O. Improvement Bonds	2005A G.O. Improvement Bonds	2011C G.O. Tax Abatement Bonds
<b>ASSETS</b>				
Cash and temporary investments	\$ (216,593)	\$ 98,072	\$ 274	\$ 31,439
Cash held with fiscal agent	-	-	-	-
Receivables				
Taxes	-	-	-	-
Special assessments				
Current	1,963	-	-	-
Delinquent	505	-	-	-
Noncurrent	9,812	-	-	-
Intergovernmental	125	-	-	-
Due from other funds	183,000	-	-	-
<b>TOTAL ASSETS</b>	<b><u>\$ (21,188)</u></b>	<b><u>\$ 98,072</u></b>	<b><u>\$ 274</u></b>	<b><u>\$ 31,439</u></b>
<b>LIABILITIES</b>				
Due to other funds	\$ -	\$ -	\$ -	\$ -
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue				
Taxes	-	-	-	-
Special assessments	12,280	-	-	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b><u>12,280</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>FUND BALANCES</b>				
Restricted for debt service	-	98,072	274	31,439
Unassigned	(33,468)	-	-	-
<b>TOTAL FUND BALANCES</b>	<b><u>(33,468)</u></b>	<b><u>98,072</u></b>	<b><u>274</u></b>	<b><u>31,439</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b><u>\$ (21,188)</u></b>	<b><u>\$ 98,072</u></b>	<b><u>\$ 274</u></b>	<b><u>\$ 31,439</u></b>

310 2006A G.O. Improvement Bonds	375 2002 G.O. Improvement Bonds	379 2007 G.O. Tax Increment Bonds	308 2013 G.O. Equipment Certificates	309 2014 G.O. Improvement Bonds	Totals	
					2016	2015
\$ 420	\$ 969	\$ 10,124	\$ 82	\$ 2,768	\$ (72,445)	\$ 10,720
-	-	-	11,300	-	11,300	11,450
-	-	431	-	-	431	-
-	-	-	-	-	1,963	2,122
-	-	-	-	-	505	915
-	-	-	-	-	9,812	12,735
-	-	-	-	-	125	40
-	-	-	-	-	183,000	183,000
<u>\$ 420</u>	<u>\$ 969</u>	<u>\$ 10,555</u>	<u>\$ 11,382</u>	<u>\$ 2,768</u>	<u>\$ 134,691</u>	<u>\$ 220,982</u>
\$ -	\$ -	\$ 183,000	\$ -	\$ -	\$ 183,000	\$ 183,000
-	-	431	-	-	431	-
-	-	-	-	-	12,280	15,772
-	-	431	-	-	12,711	15,772
420	969	-	11,382	2,768	145,324	170,434
-	-	(172,876)	-	-	(206,344)	(148,224)
420	969	(172,876)	11,382	2,768	(61,020)	22,210
<u>\$ 420</u>	<u>\$ 969</u>	<u>\$ 10,555</u>	<u>\$ 11,382</u>	<u>\$ 2,768</u>	<u>\$ 134,691</u>	<u>\$ 220,982</u>

CITY OF HENDERSON, MINNESOTA  
DEBT SERVICE FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With Comparative Totals for the Year Ended December 31, 2015)

	<b>301</b>	<b>303</b>	<b>304</b>	<b>307</b>
	Permanent Improvement Revolving	2003A G.O. Improvement Bonds	2005A G.O. Improvement Bonds	2011C G.O. Tax Abatement Bonds
<b>REVENUES</b>				
Taxes				
Property taxes	\$ 42,000	\$ 4,000	\$ 62,000	\$ 44,000
Tax increment district taxes	-	-	-	-
Special assessments	4,369	-	-	-
<b>TOTAL REVENUES</b>	<b>46,369</b>	<b>4,000</b>	<b>62,000</b>	<b>44,000</b>
<b>EXPENDITURES</b>				
Current				
General government	9,800	-	-	-
Economic development	-	-	-	-
Debt service				
Principal	-	10,000	70,000	30,000
Interest and other costs	-	3,182	11,425	17,467
<b>TOTAL EXPENDITURES</b>	<b>9,800</b>	<b>13,182</b>	<b>81,425</b>	<b>47,467</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>36,569</b>	<b>(9,182)</b>	<b>(19,425)</b>	<b>(3,467)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	15,000	-
Transfers out	(82,738)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(82,738)</b>	<b>-</b>	<b>15,000</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(46,169)</b>	<b>(9,182)</b>	<b>(4,425)</b>	<b>(3,467)</b>
<b>FUND BALANCES, JANUARY 1</b>	<b>12,701</b>	<b>107,254</b>	<b>4,699</b>	<b>34,906</b>
<b>FUND BALANCES, DECEMBER 31</b>	<b>\$ (33,468)</b>	<b>\$ 98,072</b>	<b>\$ 274</b>	<b>\$ 31,439</b>

310 2006A G.O. Improvement Bonds	375 2002 G.O. Improvement Bonds	379 2007 G.O. Tax Increment Bonds	308 2013 G.O. Equipment Certificates	309 2014 G.O. Improvement Bonds	Totals	
					2016	2015
\$ 90,000	\$ 52,000	\$ -	\$ 8,000	\$ -	\$ 302,000	\$ 302,000
-	-	132	-	-	132	252
-	-	-	-	-	4,369	3,148
<u>90,000</u>	<u>52,000</u>	<u>132</u>	<u>8,000</u>	<u>-</u>	<u>306,501</u>	<u>305,400</u>
-	-	-	-	-	9,800	8,800
-	-	2,400	-	-	2,400	2,529
90,000	45,000	29,000	10,000	25,000	309,000	266,000
<u>11,738</u>	<u>10,831</u>	<u>5,384</u>	<u>2,996</u>	<u>5,508</u>	<u>68,531</u>	<u>76,110</u>
<u>101,738</u>	<u>55,831</u>	<u>36,784</u>	<u>12,996</u>	<u>30,508</u>	<u>389,731</u>	<u>353,439</u>
<u>(11,738)</u>	<u>(3,831)</u>	<u>(36,652)</u>	<u>(4,996)</u>	<u>(30,508)</u>	<u>(83,230)</u>	<u>(48,039)</u>
11,738	4,000	12,000	8,000	32,000	82,738	13,500
-	-	-	-	-	(82,738)	(13,500)
<u>11,738</u>	<u>4,000</u>	<u>12,000</u>	<u>8,000</u>	<u>32,000</u>	<u>-</u>	<u>-</u>
-	169	(24,652)	3,004	1,492	(83,230)	(48,039)
<u>420</u>	<u>800</u>	<u>(148,224)</u>	<u>8,378</u>	<u>1,276</u>	<u>22,210</u>	<u>70,249</u>
<u>\$ 420</u>	<u>\$ 969</u>	<u>\$ (172,876)</u>	<u>\$ 11,382</u>	<u>\$ 2,768</u>	<u>\$ (61,020)</u>	<u>\$ 22,210</u>

CITY OF HENDERSON, MINNESOTA  
SUMMARY FINANCIAL REPORT  
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS -  
GOVERNMENTAL FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Total 2016	Total 2015	Percent Increase (Decrease)
<b>REVENUES</b>			
Taxes	\$ 524,293	\$ 534,564	(1.92) %
Special assessments	4,369	3,154	38.52
Licenses and permits	7,664	6,900	11.07
Intergovernmental	326,509	607,786	(46.28)
Charges for services	14,966	10,253	45.97
Fines and forfeits	4,245	3,646	16.43
Investment earnings	443	1,052	(57.89)
Miscellaneous	31,787	32,125	(1.05)
	<u>          </u>	<u>          </u>	
<b>TOTAL REVENUES</b>	<u>\$ 914,276</u>	<u>\$ 1,199,480</u>	(23.78) %
Per capita	\$ 1,022	\$ 1,340	(23.78) %
<b>EXPENDITURES</b>			
<b>Current</b>			
General government	\$ 143,647	\$ 170,718	(15.86) %
Public safety	193,778	223,332	(13.23)
Streets and highways	111,051	79,599	39.51
Culture and recreation	61,981	68,272	(9.21)
Economic development	48,986	47,723	2.65
<b>Capital outlay</b>			
Public safety	2,450	308,882	(99.21)
Streets and highways	12,640	16,233	(22.13)
Culture and recreation	8,280	2,570	222.18
<b>Debt service</b>			
Principal	314,000	301,000	4.32
Interest and other costs	69,974	77,580	(9.80)
Bond issuance costs	-	870	(100.00)
	<u>          </u>	<u>          </u>	
<b>TOTAL EXPENDITURES</b>	<u>\$ 966,787</u>	<u>\$ 1,296,779</u>	(25.45) %
Per capita	\$ 1,080	\$ 1,449	(25.45) %
<b>Total long-term indebtedness</b>	\$ 2,075,000	\$ 2,389,000	(13.14) %
Per capita	2,318	2,669	(13.14)
<b>General fund balance - December 31</b>	\$ 305,939	\$ 251,246	21.77 %
Per capita	342	281	21.77

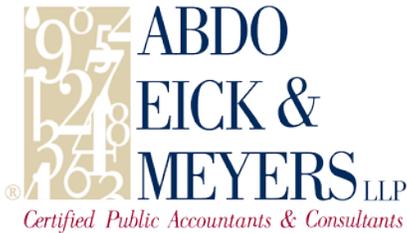
The purpose of this report is to provide a summary of financial information concerning the City of Henderson to interested citizens. The complete financial statements may be examined at PO Box 433, 600 Main St. Questions about this report should be directed to Lon Berberich, Administrator/Clerk-Treasurer at 507-248-3234.

**OTHER REQUIRED REPORTS**

CITY OF HENDERSON  
HENDERSON, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT ON  
MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council  
City of Henderson, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Henderson, Minnesota, (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 6, 2017.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

*Albdo Eick & Meyers, LLP*

ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
March 6, 2017

INDEPENDENT AUDITOR'S REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and City Council  
City of Henderson, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Henderson, Minnesota, (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 6, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2016-002 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2016-001 to be a significant deficiency.

## Compliance and Other Matters

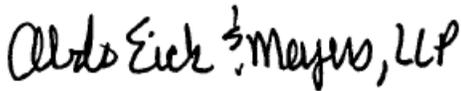
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## The City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
March 6, 2017

CITY OF HENDERSON, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding      Description

**2016-001**      **Segregation of duties**

*Condition:*              During our audit we reviewed internal control procedures over payroll, disbursements, cash receipts and utility billing and found the City to have limited segregation of duties in these areas.

*Criteria:*                There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.

*Effect:*                    The existence of this limited segregation of duties increases the risk of fraud.

**Internal control over payroll**

*Cause:*                    As a result of the small number of staff, the Administrator/Clerk-Treasurer controls and maintains the check stock, approves time cards, runs payroll, prepares and signs checks, posts activity to the general ledger, reconciles bank accounts, prepares payroll tax returns, and maintains the payroll records.

*Recommendation:*    Currently, the City Council and Mayor are involved in the payroll process through signing checks, approving general ledger postings, putting checks in envelopes, reconciliations, tax returns, payroll records, compensated absences, and accrued wages. We believe these procedures significantly mitigate the risk related to segregation of duties and should be continued.

*Updated progress from prior year:*

The Council is very involved in overseeing the financial reports and now reviews time cards. Since 2008 sign off sheets are being used to provide documentation of this oversight.

**Internal control over disbursements**

*Cause:*                    As a result of the small number of staff, the Administrative Assistant sets up vendors, posts activity to general ledger, prepares checks, mails checks to vendors, maintains the purchase journal and accounts payable records.

*Recommendation:*    Currently, the City Council reviews and signs off on activity posted to general ledger, reviews checks before they are processed, and the mayor reviews disbursements before checks are signed. We believe these procedures significantly mitigate the risk related to segregation of duties and should be continued.

*Updated progress from prior year:*

The Council is very involved in overseeing the financial reports. Since 2008, sign off sheets are being used to provide documentation of this oversight.

CITY OF HENDERSON, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding      Description

**2016-001**      **Segregation of duties - Continued**

**Internal control over cash receipts**

*Cause:*                      As a result of the small number of staff, the Administrative Assistant sets up customers, posts activity to the general ledger, receives and endorses checks and currency, prepares the deposit, generates billing statements, and maintains the receipts journal and receivable records.

*Recommendation:*      Currently, the City Council reviews and reconciles deposits and receivables monthly. We believe these procedures significantly mitigate the risk related to segregation of duties and should be continued.

*Updated progress from prior year:*

The Council is very involved in overseeing the financial reports. Since 2008, sign off sheets are being used to provide documentation of this oversight.

**Internal control over utility billing**

*Cause:*                      As a result of the small number of staff, the Administrator/Clerk-Treasurer opens mail, takes the deposit to the bank, reviews adjustments to accounts, and controls the accuracy completeness of and access to utility billing program and data files.

*Recommendation:*      Currently, Council members review the accuracy and completeness of reports in fund accounting and utility billing, and approve adjustments to accounts. We believe these procedures significantly mitigate the risk related to segregation of duties and should be continued.

*Management response:*

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons, approval of adjustments to accounts, and approval of the reconciliation of the utility subledger to the general ledger. The Administrative Assistant now prepares the bank deposits and reconciles the receivable subledger.

*Updated progress from prior year:*

The Council is very involved in overseeing the financial reports. Since 2008, sign off sheets are being used to provide documentation of this oversight.

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CITY OF HENDERSON, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding      Description

**2016-002**      **Material audit adjustments**

*Condition:*              During our audit, two adjustments were needed to correct coding and reclassify amounts to correct funds. The following are related to the reclassification and adjustment that was made during the audit:

- To adjust activity related to 2016 debt activity.
- To adjust activity related to 2016 loans activity.

*Criteria:*                Such adjustments should be detected and made by the City's personnel.

*Cause:*                    City staff has not prepared a year-end trial balance reflecting all necessary accruals and year-end adjustments without auditor assistance.

*Effect:*                    It is likely that if a misstatement were to occur, it would not be detected by the City's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.

*Recommendation:*    We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.

*Management response:*

The City will review all adjusting entries posted this year and make all such necessary adjustments in the future. The Administrator/Clerk-Treasurer will continue to monitor all financial activity and adjust account balances as needed throughout the year and at year end to prevent material misstatements from occurring.

*Updated progress from prior year:*

Improvement was made in this area during 2016 as the number of journal entries decreased by five. However, we believe that the adjusting entries made to adjust the 2016 debt and loans activity caused this finding to be a material weakness.