



2016

Comprehensive Annual Financial Report

City of Henderson, Nevada | For Fiscal Year Ended June 30, 2016



CITY OF HENDERSON, NEVADA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2016

Prepared by: Finance Department

Richard A. Derrick

Chief Financial Officer

Jim McIntosh

Finance Director

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CITY OF HENDERSON, NEVADA

COMPREHENSIVE ANNUAL FINANCIAL REPORT TABLE OF CONTENTS FOR THE YEAR ENDED JUNE 30, 2016

	<u>Page</u>
Introductory Section	
Letter of Transmittal	1
GFOA Certificate of Achievement	6
Organization Chart	7
List of Principal Officers	8
Financial Section	
Independent Auditors' Report on Financial Statements and Supplementary Information	9
Management's Discussion and Analysis	11
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	23
Statement of Activities	25
Fund Financial Statements	
Balance Sheet - Governmental Funds	27
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position - Governmental Activities	28
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	29
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities - Governmental Activities	31
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	32
Major Special Revenue Funds	
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Grants Fund	33
Statement of Net Position - Proprietary Funds	34
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	36
Statement of Cash Flows - Proprietary Funds	37
Statement of Net Position - Fiduciary Funds	39
Notes to Basic Financial Statements	40
Required Supplementary Information	
Other Post Employment Benefits - Schedule of Funding Progress	72
Multiple-Employer Cost-Sharing Defined Benefit Pension Plan Proportionate Share of the Collective Net Pension Liability Information	73
Multiple-Employer Cost-Sharing Defined Benefit Pension Plan Proportionate Share of Statutorily Required Contribution Information	74
Notes to Required Supplementary Information	75
Other Supplementary Information	
Governmental Funds	
Combining Balance Sheet - Non-Major Governmental Funds	76
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Governmental Funds	77
Combining Balance Sheet - Non-Major Special Revenue Funds	78
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Special Revenue Funds	80
Combining Balance Sheets - Non-Major Debt Service Funds	82
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Debt Service Funds	83
Combining Balance Sheets - Non-Major Capital Projects Funds	84
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Capital Projects Funds	87
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	90
Special Revenue Funds	

(Continued)

CITY OF HENDERSON, NEVADA

COMPREHENSIVE ANNUAL FINANCIAL REPORT TABLE OF CONTENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2016

	<u>Page</u>
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual -	
Grants Fund	94
Redevelopment Agency Fund	95
Gas Tax Fund	96
Forfeited Assets Fund	97
Municipal Court Administrative Fee Fund	98
Financial Stabilization Fund	99
Sales and Use Tax Fund	100
Commissary Fund	101
Eldorado Valley Training Facility Fund	102
Debt Service Funds	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual -	
Special Assessment Districts Fund	103
General Obligation Fund	104
Capital Projects Funds	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual -	
Municipal Facilities Acquisition and Construction Fund	105
Special Recreation Fund	106
Park Development Fund	107
Flood Control Fund	108
RTC/County Funded Fund	109
Special Ad Valorem Transportation Fund	110
Capital Replacement Fund	111
Lake Las Vegas Fund	112
Special Assessment Districts Fund	113
Land Sales Fund	114
Proprietary Funds	
Internal Service Funds	
Combining Statement of Net Position - Internal Service Funds	115
Combining Statement of Revenues, Expenses and Changes in Net Position - Internal Service Funds	117
Combining Statement of Cash Flows - Internal Service Funds	119
Schedule of Revenues, Expenses and Changes in Net Position - Budget and Actual -	
Engineering Fund	120
City Shop Fund	121
Revolving Fund	122
Self Insurance Fund	123
Worker's Compensation Self Insurance Fund	124
Health Insurance Self Insurance Fund	125
Citywide Services Fund	126
Enterprise Funds	
Combining Statement of Net Position - Non-Major Enterprise Funds	127
Combining Statement of Revenues, Expenses and Changes in Net Position - Non-Major Enterprise Funds	128
Combining Statement of Cash Flows - Non-Major Enterprise Funds	129
Schedule of Revenues, Expenses and Changes in Net Position - Budget and Actual -	
Water Fund	130
Sewer Fund	131
Cultural Arts and Tourism Fund	132
Municipal Golf Course Fund	133
Development Services Fund	134
Fiduciary Funds	
Agency Funds	
Combining Statement of Fiduciary Assets and Liabilities	135
Combining Statement of Changes in Fiduciary Assets and Liabilities	136
Statistical Section	
Table 1 - Net Position by Component - Last Ten Fiscal Years	137

(Continued)

CITY OF HENDERSON, NEVADA

COMPREHENSIVE ANNUAL FINANCIAL REPORT TABLE OF CONTENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2016

	<u>Page</u>
Table 2 - Changes in Net Position - Last Ten Fiscal Years	138
Table 3 - Fund Balance, Governmental Funds - Last Ten Fiscal Years	141
Table 4 - Changes in Fund Balance, Governmental Funds - Last Ten Fiscal Years	142
Table 5 - Assessed and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years	144
Table 6 - Property Tax Rates - Direct and Overlapping Governments - Last Ten Fiscal Years	145
Table 7 - Principal Property Taxpayers - Current and Nine Years Ago	146
Table 8 - Property Tax Levies and Collections - Last Ten Fiscal Years	147
Table 9 - Ratios of Outstanding Debt by Type - Last Ten Fiscal Years	148
Table 10 - Ratios of General Bonded Debt Outstanding - Last Ten Fiscal Years	149
Table 11 - Direct and Overlapping Governmental Activities Debt	150
Table 12 - Legal Debt Margin Information - Last Ten Fiscal Years	151
Table 13 - Pledged Revenue Bond Coverage - Last Ten Fiscal Years	152
Table 14 - Demographic and Economic Statistics - Last Ten Fiscal Years	153
Table 15 - Principal Employers - Current and Nine Years Ago	154
Table 16 - Full-Time Equivalent City Government Employees by Function/Program - Last Ten Fiscal Years	155
Table 17 - Operating Indicators by Function/Program - Last Ten Fiscal Years	156
Table 18 - Capital Asset Statistics by Function/Program - Last Ten Fiscal Years	158
 Compliance Section	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	159
Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	161
Schedule of Expenditures of Federal Awards	163
Notes to Schedule of Expenditures of Federal Awards	168
Schedule of Findings and Questioned Costs	169
Schedule of Prior Findings and Questioned Costs	172
Schedule of Business License Fees	175

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INTRODUCTORY SECTION



2016

Comprehensive Annual Financial Report

City of Henderson, Nevada | For Fiscal Year Ended June 30, 2016



City of Henderson, Nevada
240 Water Street

Henderson, Nevada 89015

October 28, 2016

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Henderson, Nevada:

The comprehensive annual financial report for the City of Henderson for the fiscal year ended June 30, 2016 is hereby submitted. State law requires that a local government provide for an annual audit by independent certified public accountants of its financial statements in accordance with generally accepted auditing standards.

This report consists of management's representations concerning the finances of the City of Henderson (referred to herein as either Henderson or the City). Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Piercy Bowler Taylor & Kern, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2016 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for fiscal year ended June 30, 2016, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and legal requirements involving the administration of federal awards. These reports are available in the compliance section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

Henderson is located in the southeastern part of Clark County, Nevada. With a population of approximately 296,000, Henderson is the second largest city in the State of Nevada. The City Charter was approved in its present form by the Nevada Legislature in 1971, and has been amended subsequent thereto.

The City operates under a council-manager form of government, with elective offices consisting of the Mayor, four City Council members, and three municipal court judges. The Mayor and all Council members are elected for four-year terms. Elections for City Council members are held every other year with either three City Council seats or one City Council seat and the position of Mayor being voted upon in any one election year. All City Council seats and the position of Mayor are elected at large on a nonpartisan basis, although no two Council members can be from the same ward of the City's four wards. City Council meetings are presided over by the Mayor, or by the Mayor pro tempore (a Councilman appointed to that position by the City Council), in the absence of the Mayor.

The City provides a full range of services including police and fire protection; municipal court; detention facilities; water and sewer services; the construction and maintenance of boulevards, streets and other public infrastructure; recreational facilities and activities; cultural events; and a municipal golf course.

The City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget, as augmented, that was approved by the City Council and the State of Nevada's Department of Taxation. Prior to April 15th, the Budget Manager submits a tentative budget for the ensuing fiscal year to the City Council, the Nevada Department of Taxation and the Citizens via public hearings. The Nevada Department of Taxation notifies the City Council if the budget is in compliance with the law and appropriate regulations. Public hearings, at which all changes made to the tentative budget are indicated, are conducted no sooner than the third Monday in May and not later than the last day in May.

The City Council adopts the budget prior to June 1 and submits it to the Department of Taxation for final approval. All revisions to the adopted budget are made a matter of public record by actions of the City Council. Per Nevada law, the City Manager is authorized to transfer budgeted amounts within functions (General Fund) or funds if the City Council is notified at the next regular meeting and the action is noted in the official minutes. Revisions which affect the total fund appropriations or transfers between funds are accomplished through formal City Council approval. Various supplemental appropriations were approved for the year to reflect necessary changes in spending and the corresponding additional resources available.

Activities of the general fund, special revenue funds, debt service funds, capital project funds, enterprise funds, and internal service funds, are included in the annual budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is statutorily required to be exercised at the function level. Appropriations lapse at year end. However, encumbrances generally are re-appropriated as part of the following year's budget augmentation.

Local Economy

Henderson continues to be ranked as one of the most tax-friendly cities as well as one of the best cities to "live and play," having been able to maintain property taxes at the same low rate for 26 years.

Located just seven miles from the famous Las Vegas Strip, Henderson is known throughout the nation for its premier master planned residential communities, outstanding parks and recreational facilities, cultural activities, and business community. Some of the nation's best known and most respected corporations have established major operations in Henderson, including Ocean Spray Cranberries, Inc., Ethel M. Chocolates, Titanium Metals Corporation of America, and Good-Humor-Breyers Ice Cream. Henderson also has defined gaming districts which include casino/resort developments such as the M Resort, Sunset Station, Fiesta Henderson, and Green Valley Ranch Station.

The City is focusing its efforts on recruiting new businesses from a select list of target industries including medical, industrial, financial, educational, and administrative offices. These new businesses help create job opportunities for residents, while also helping to diversify the local economy. Businesses that may be interested in relocating and local businesses planning to expand may be eligible for a number of incentive programs and services. As municipal stewards, it is essential that the financial integrity of the City is maintained regardless of the effects of outside forces and economic conditions.

Nevada's economy has been driven for years by gaming and construction. The reliance on these two industries was devastating to the economy when the recession hit. Lessons learned, now Nevada's efforts are focused on economic diversification, and these efforts are helping to move the State in the right direction.

The national employment picture has continued to show signs of strengthening. The official unemployment rate, which was at 5.6% in July 2015, fell to 5.1% as of July 2016, suggesting that the U.S. job market continues to improve and progress toward stabilization.

Like the national employment market, the local market has also shown signs of strengthening, with Nevada's unemployment rate dropping to 6.4% in June 2016, down from 6.9% in June 2015. In the Las Vegas Metropolitan Statistical Area (MSA), the unemployment rate fell to 6.9% in June 2016 as well, down from 7.0% in June 2015.

Nevada has suffered from one of the highest unemployment rates in the country over the last few years. The state lost 175,000 jobs during the recession, driven by dramatic losses in the construction, gaming, and manufacturing industries, but that trend appears to finally be changing as the job market continues to accelerate and almost all of the jobs lost have been regained. Nevada's job growth has continued to outpace the nation's, according to Bill Anderson, chief economist for Nevada's Department of Employment, Training and Rehabilitation. Nevada is number three in job growth, compared to being last a few years ago. Job growth is now up across almost every sector, including construction, at a rate of 3%. The recovery is diversified, thus making it more sustainable and growing at a rate that is more manageable. Employment increased statewide by 4,700 in July 2016, and was 31,900 higher than a year ago.

For 2016, solid jobs gain is expected to continue, with education and health services leading the way, followed closely by trade, transportation and utilities. Professional and business services and leisure and hospitality are also expected to continue to grow. Peak employment is expected to be reached in 2016. It is noteworthy that this should be accomplished with 50,000 fewer construction jobs than when previously reached, demonstrating how much more diversified the local economy has become.

The City has a tax rate of \$.7108 per \$100 in assessed valuation. This property tax rate has remained consistent for the past 26 years and continues to be one of the lowest in the State of Nevada.

The City is highly reliant on consolidated tax, which consists of liquor taxes, cigarette taxes, the Government Services Tax, the Real Property Transfer Tax, the Basic City County Relief Tax (BCCRT), and the Supplemental City County Relief Tax (SCCRT). The BCCRT and SCCRT are strictly sales tax based, and generally make up in excess of 85% of consolidated tax. Once compiled at the state level, these funds are then distributed to municipalities according to a formula outlined in NRS 360. Because consolidated tax is so closely tied to sales tax, economic indicators which affect sales tax, such as visitor volume, can have a critical impact on the City.

After experiencing a period of stagnation, visitor volume in the Las Vegas valley peaked at a record high of 42.7 million visitors for the year ending April 2016. Visitor spending also peaked with spending exceeding \$22 billion in 2015. Convention growth has exceeded expectations and hotel room occupancy rates are reaching capacity on both midweek and weekend levels.

Clark County saw a small population increase in 2015. According to population estimates made by the Nevada state demographer, the population in Clark County rose to 2,118,353 in 2015. This reflects a modest population increase of 2.4% over the 2014 figure of 2,069,450. It is estimated that the population growth will remain around 2.0% in the coming years.

Long Term Financial Planning

The City continues to update the Capital Improvement Plan, a multi-year planning document that identifies and prioritizes the need for a variety of public improvements and coordinates the City's financing and construction time frames. Some of these capital projects for fiscal year 2017, contingent upon available funding, include:

- Grants, park taxes, and contributions to fund various parks and recreation projects, including Union Pacific Railroad Right of Way Acquisition.

- Water Fund to fund construction of R-10A Reservoir, and various other smaller independent projects.

- Sewer Fund to fund Water Reclamation Facility odor control system and various smaller independent projects.

- Developer contributions and City to fund West Henderson Fire Station-Inspirada.

The City will continue to partner with the Clark County Regional Flood Control District, the Regional Transportation Commission, Nevada Department of Transportation, and developers to fund projects for flood channels and street projects, including design and construction of the Pittman North Detention Basin and Outfall Channel from the basin to Starr Road; Center Street Storm Drain; improvements to Stephanie Street from Galleria Drive to Patrick Lane, and various other Henderson streets.

The City maintains a forecast of the financial condition of the City's major operating funds over a five-year horizon. It is an invaluable tool used to assist the City Council, City Manager, and department heads in developing long-range strategies and tactics to be included in their Performance Budget and, ultimately, in formulating budget requests.

The long-range forecast is updated on a continual basis and is used to evaluate the current status of city-wide short and long-range goals and objectives, and to make predictions about how future events and circumstances may affect the City's financial stability. Forecasting is one of the most powerful tools the City has available to help make informed financial decisions that will ensure the City's future vitality and economic stability.

The City's approach to forecasting in general is to apply a conservative philosophy that will produce the long-term goals of not overstating revenues or understating expenditures. Economic forecasting is not an exact science and at times relies upon the best professional judgment of the forecaster. To reduce the risks of miscalculating future revenues or expenditures, the City attempts to identify as many factors as possible that may contribute to changes in revenues and expenditures. The City's revenue and expenditure budgets are comprised of many unique elements that respond to a variety of external factors such as population growth, development, inflation, and interest rates. The forecast data includes assumptions relating to major revenues and expenditures for the various funds based on the current political and economic environment.

If a prolonged economic downturn occurs, and annual revenues are unable to support the costs of essential services, the City will consider several options. These options would include increasing revenues from existing sources such as property taxes, creating new taxing sources, and/or service reductions.

Major Initiatives

Fiscal year 2016 was the third year in a row that the General Fund closed out with no transfers in from reserves. The City had been using reserves to balance this fund since 2008. With the upturn in the economy, the City is cautiously optimistic about planning for the future. Consolidated tax is again approaching the high point that was realized in fiscal year 2006. However, property tax revenues will require additional time to recover due to property tax limits that are in place. As revenues continue to grow to pre-recession levels it will be essential to dedicate funds to the City's most pressing needs.

A comprehensive assessment of capital and operating needs is being compiled so that additional funds can be strategically allocated. Like the rest of the country, the infrastructure needs in the City far outpace the resources available for investment. The City will continue to look for resourceful ways to maintain the quality services and facilities that our community has come to expect.

The City is working on a financial resiliency plan. With the economy having been in growth mode for a few years now, the City must prepare for the next economic decline. To this end the City intends to build up reserves beyond the requirements outlined in the Financial Management Policy statements in order to be prepared for the next downturn as it was for the last. This is an important step in keeping on the road to attaining our vision of being America's Premier Community.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Henderson for its comprehensive annual financial report for the fiscal year ended June 30, 2015.

This was the 34th consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the Finance Department's Accounting Division staff as well as certain members of the City Manager's staff, Public Works, Parks and Recreation Department, Utilities, and Neighborhood Services staffs. We would like to express our appreciation to all members of the Departments who assisted and contributed to its preparation, as well as the contributions of the staff of Piercy Bowler Taylor & Kern, the City's independent auditors.

In closing, without the leadership and support of the City Council of the City of Henderson, preparation of this report would not have been possible.

Respectfully submitted,



Richard A. Derrick
Chief Financial Officer



Jim McIntosh
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Henderson
Nevada**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

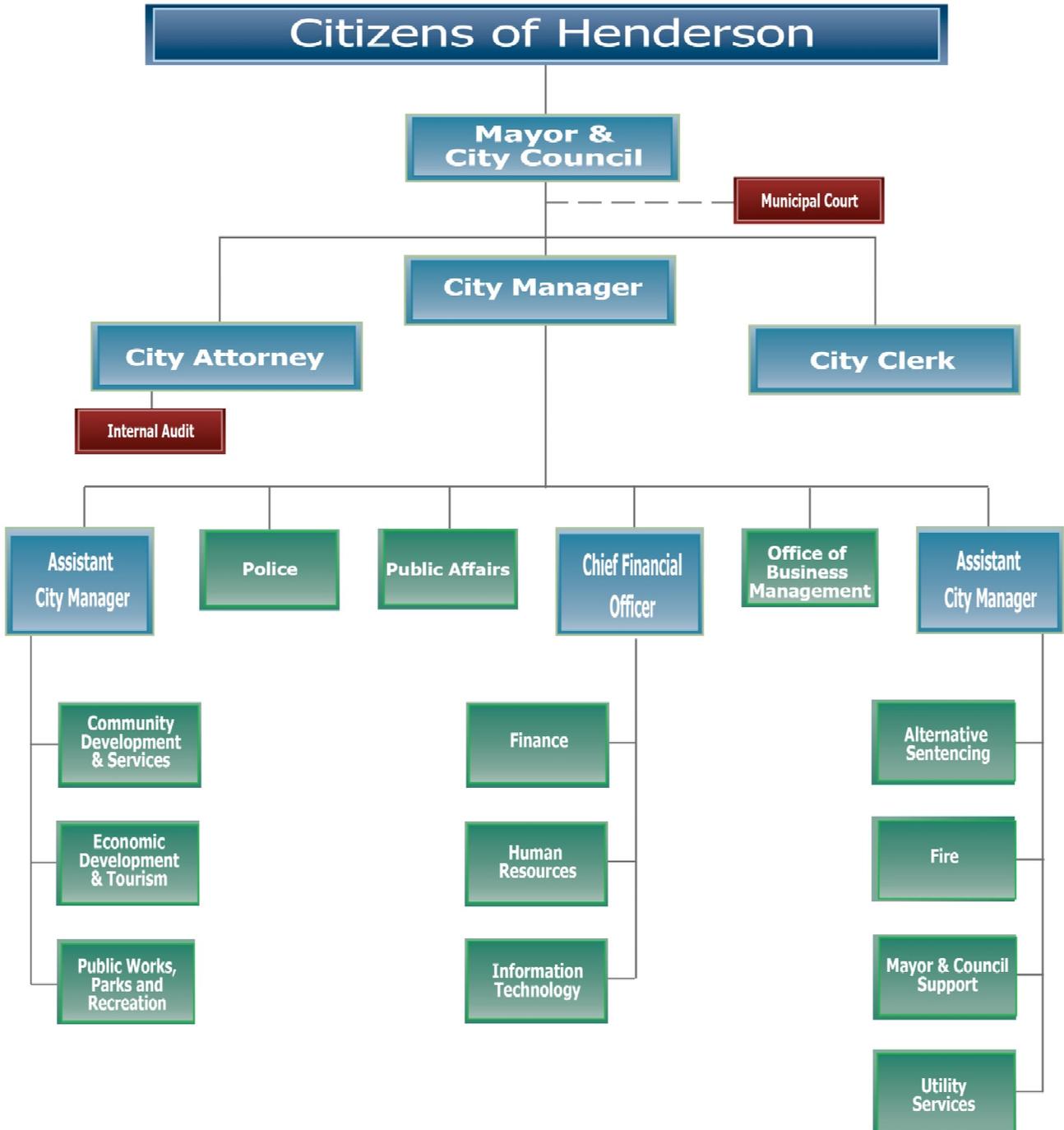
June 30, 2015

Executive Director/CEO

CITY OF HENDERSON, NEVADA

ORGANIZATION CHART

FOR THE YEAR ENDED JUNE 30, 2016



CITY OF HENDERSON, NEVADA

List of Principal Officers

FOR THE YEAR ENDED JUNE 30, 2016

MAYOR AND COUNCIL

Andy Hafen, Mayor
Gerri Schroder, Councilwoman
John F. Marz, Councilman
Debra March, Councilwoman
Sam Bateman, Councilman

CITY OFFICIALS

Robert Murnane, City Manager
Josh Reid, City Attorney
Sabrina Mercadante, City Clerk