

2014

Comprehensive Annual Financial Report

City of Henderson, Nevada | For Fiscal Year Ended June 30, 2014



A Place To Call Home

**CITY OF HENDERSON, NEVADA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**Prepared by:
Department of Finance**

**Richard A. Derrick
Chief Financial Officer**

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF HENDERSON, NEVADA

COMPREHENSIVE ANNUAL FINANCIAL REPORT TABLE OF CONTENTS FOR THE YEAR ENDED JUNE 30, 2014

	<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	24
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	29
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	30
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities - Governmental Activities	32
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	33
Major Special Revenue Funds	
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Grants Fund	34
Statement of Net Position - Proprietary Funds	35
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	37
Statement of Cash Flows - Proprietary Funds	39
Statement of Net Position - Fiduciary Funds	41
Notes to Basic Financial Statements	42
Required Supplementary Information	
Other Post Employment Benefits - Schedule of Funding Progress	73
Notes to Required Supplementary Information	74
Other Supplementary Information	
Governmental Funds	
Combining Balance Sheet - Non-Major Governmental Funds	75
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Governmental Funds	76
Combining Balance Sheet - Non-Major Special Revenue Funds	77
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Special Revenue Funds	78
Combining Balance Sheets - Non-Major Capital Projects Funds	80
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Capital Projects Funds	81
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	83
Special Revenue Funds	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Grants Fund	87
Redevelopment Agency Fund	88
Gas Tax Fund	89
Forfeited Assets Fund	90
Municipal Court Administrative Fee Fund	91
Financial Stabilization Fund	92

(Continued)

CITY OF HENDERSON, NEVADA

COMPREHENSIVE ANNUAL FINANCIAL REPORT TABLE OF CONTENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2014

	<u>Page</u>
Sales and Use Tax Fund	93
Code Enforcement Fund	94
Commissary Fund	95
Eldorado Valley Training Facility Fund	
Debt Service Funds	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual -	
General Obligation Fund	96
Special Assessment Districts Fund	97
Capital Projects Funds	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual -	
Special Assessment Districts Fund	98
Municipal Facilities Acquisition and Construction Fund	99
Land Sales Fund	100
Special Recreation Fund	101
Park Development Fund	102
Flood Control Fund	103
RTC/County Funded Fund	104
Special Ad Valorem Transportation Fund	105
Capital Replacement Fund	106
Lake Las Vegas Fund	107
Proprietary Funds	
Internal Service Funds	
Combining Statement of Net Position - Internal Service Funds	108
Combining Statement of Revenues, Expenses and Changes in Net Position - Internal Service Funds	110
Combining Statement of Cash Flows - Internal Service Funds	111
Schedule of Revenues, Expenses and Changes in Net Position - Budget and Actual -	
Engineering Fund	113
City Shop Fund	114
Revolving Fund	115
Self Insurance Fund	116
Workmen's Compensation Self Insurance Fund	117
Health Insurance Self Insurance Fund	118
Citywide Services Fund	119
Enterprise Funds	
Combining Statement of Net Position - Non-Major Enterprise Funds	120
Combining Statement of Revenues, Expenses and Changes in Net Position - Non-Major Enterprise Funds	121
Combining Statement of Cash Flows - Non-Major Enterprise Funds	122
Schedule of Revenues, Expenses and Changes in Net Position - Budget and Actual -	
Water	123
Sewer Fund	124
Cultural Arts and Tourism Fund	125
Municipal Golf Course Fund	126
Development Services Fund	127
Fiduciary Funds	
Agency Funds	
Combining Statement of Fiduciary Assets and Liabilities	128
Combining Statement of Changes in Fiduciary Assets and Liabilities	129
Statistical Section	
Table 1 - Net Position by Component - Last Ten Fiscal Years	130
Table 2 - Changes in Net Position - Last Ten Fiscal Years	131
Table 3 - Fund Balance, Governmental Funds - Last Ten Fiscal Years	133
Table 4 - Changes in Fund Balance, Governmental Funds - Last Ten Fiscal Years	134
Table 5 - Assessed and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years	136
Table 6 - Property Tax Rates - Direct and Overlapping Governments - Last Ten Fiscal Years	137
Table 7 - Principal Property Taxpayers - Current and Nine Years Ago	138

(Continued)

CITY OF HENDERSON, NEVADA

COMPREHENSIVE ANNUAL FINANCIAL REPORT TABLE OF CONTENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2014

	<u>Page</u>
Table 8 - Property Tax Levies and Collections - Last Ten Fiscal Years	139
Table 9 - Ratios of Outstanding Debt by Type - Last Ten Fiscal Years	140
Table 10 - Ratios of General Bonded Debt Outstanding - Last Ten Fiscal Years	141
Table 11 - Direct and Overlapping Governmental Activities Debt	142
Table 12 - Legal Debt Margin Information - Last Ten Fiscal Years	143
Table 13 - Pledged Revenue Bond Coverage - Last Ten Fiscal Years	144
Table 14 - Demographic and Economic Statistics - Last Ten Fiscal Years	145
Table 15 - Principal Employers - Current and Nine Years Ago	146
Table 16 - Full-Time Equivalent City Government Employees by Function/Program - Last Ten Fiscal Years	147
Table 17 - Operating Indicators by Function/Program - Last Ten Fiscal Years	148
Table 18 - Capital Asset Statistics by Function/Program - Last Ten Fiscal Years	150
 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>	151
Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and Schedule of Expenditures of Federal Awards	153
Schedule of Expenditures of Federal Awards	155
Notes to Schedule of Expenditures of Federal Awards	160
Schedule of Findings and Questioned Costs	161
Schedule of Prior Findings and Questioned Costs	166
 Schedule of Business License Fees	 172

THIS PAGE INTENTIONALLY LEFT BLANK

INTRODUCTORY SECTION

2014 Comprehensive Annual Financial Report

City of Henderson, Nevada | For Fiscal Year Ended June 30, 2014



A Place To Call Home



City of Henderson, Nevada
240 Water Street

Henderson, Nevada 89105

October 30, 2014

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, 2014 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, 2014 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 of Henderson's financial statements for fiscal year ended June 30, 2014, 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 of Henderson 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 require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement 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 285,000, 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 on the third Tuesday 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 24 years.

Located just seven miles from the famous Las Vegas Strip, Henderson is known throughout the nation for its premiere 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 development such as the M Resort, Sunset Station, Fiesta Henderson, and Green Valley Ranch Station.

An ongoing challenge for the public entities in Nevada has been the slow economic recovery from the recession. Sales tax revenue continued to recover in Fiscal Year 2014, and there was an increase in sales tax revenues of 9.1% during the 12 month period ended June 2014, compared to the same 12 month period from the prior year.

Dr. Stephen P.A. Brown, an economist from CBER (UNLV's Center for Business and Economic Research), projected in the CBER 2014 Mid-Year Economic Outlook that virtually all economic indicators will rise during the coming two years. Dr. Brown also pointed to strong employment numbers in Nevada and the Las Vegas Metropolitan Statistical Area (MSA), noting that Nevada's job growth rate had improved to second in the nation in 2013, and that it was expected to remain strong into the foreseeable future. His overall prognosis for the state and local, as well as national, economies was optimistic.

Population estimates made by the Nevada state demographer indicate that the population of Clark County rose to 2,031,723 in 2013. This reflects an increase of 2.2% over the 2012 figure of 1,988,195. The current year population increase is double that of the prior year.

The real estate market, particularly the residential sector, is also showing solid signs of strength. The S&P Case-Shiller Home Price Index shows a record of growth over the past two years in the Las Vegas MSA that only Los Angeles and San Francisco can match. With sales improving, construction activity consequently has increased, as demonstrated by the housing permit activity. Since 2011, Clark County housing permits have increased by 85.3% and Henderson permits are up 67.6% with much of this growth attributable to the most recent two year period. This recent growth is a positive sign, not only because of its strength, but also because it is more modest, and therefore more sustainable, than the rampant growth experienced during the housing boom of the prior decade.

The national unemployment rate decreased from 7.2% in August 2013 to 6.1% in August 2014, reflecting a continued stabilization in the U.S. job market. Further, the local unemployment rates, both statewide and in the Las Vegas MSA, continued to show strong signs of improvement during the first half of 2014, with Nevada's unemployment rate dropping to 8.0% in July, down from 10.1% a year ago. Further, the Las Vegas MSA unemployment also fell substantially, dropping from 10.4% in July of 2013 to 8.2% in July of 2014.

Employment growth in the Las Vegas MSA increased by 1.0%, a fairly modest improvement. However, the first seven months of 2014 have been substantially better. The annualized employment growth rate for 2014 currently stands at 3.8% with the local economy adding an average of 2,851 jobs per month versus only 540 per month for the first seven months of 2013. If this rate of employment growth can be sustained, 2014 would become the third strongest employment growth year since 2000. CBER is forecasting employment growth of 3.9% and 4.1% for 2014 and 2015 respectively.

Henderson has a tax rate of \$.7108 per \$100 in assessed valuation. This property tax rate has remained consistent for the past 24 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 is again increasing, with the 12-month running total exceeding 40 million for the first time ever in early 2014, along with a record high month in March 2014 of 3,688,357 visitors. With national and local employment figures improving and consumer confidence advancing convention attendance, occupancy rates and average daily room rates are both expected to be positively impacted as well.

The City is projected to experience limited population and revenue growth in the coming years, unlike the dramatic growth and rapid increases experienced through 2008. However, even though population and revenue growth is expected to stabilize, Henderson's population is expected to remain affluent as the median household income in Henderson continues to outpace both the county and state averages. The high quality of life continues to attract new citizens.

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 2015, contingent upon available funding, include:

Grants, park taxes, and contributions to fund various parks and recreation projects, including Union Pacific Rail Road Right of Way Acquisition, Union Pacific Railroad Trail Phase III, McCullough Vista Park, and Paradise Pointe Park.

Water Fund to fund Sites 17 and 18 Pump Station and Reservoir Upgrades and various other smaller independent projects with expenditures under \$1 million each totaling \$6.1 million.

Sewer fund to fund various smaller independent projects with expenditures under \$1 million each totaling \$3.6 million.

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 to include flood channels and street projects, including replacing Pittman Wash with approximately 1,729 linear feet of concrete channel, widening of Stephanie Street from Galleria Drive to Patrick Lane, improvements to Volunteer Boulevard from Las Vegas Blvd. to Executive Airport Drive, Warm Springs Road improvements from Arroyo Grande Parkway to Boulder Highway, and various other downtown 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, we attempt 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

In 2008, the City began to prepare a 5-year plan to address the significant economic downturn that the country was facing. A 5-year plan committee was formed which continues to meet on a bi-weekly basis to assess current revenues and expenditures, and discuss options. Since 2008, several cost cutting strategies have been implemented. Employment compensation reductions included: a hiring freeze, an employee buyout program, overtime restrictions, suspension of the City's deferred compensation match, suspension of car allowance benefits, compensatory time off in-lieu of paid overtime, suspension of cost-of-living pay raises, modifications to paid holidays, and concessions from all employees equivalent to 2% of pay for fiscal year 2013 and fiscal year 2014. Other expenditure reductions included prohibition of non-essential travel, reduction to base operating budgets, consolidation of service contracts, surrendering of one-time funds, reduction of non-essential services, extension of vehicle life, reduction to the city vehicle fleet, the closing of City Hall on Fridays, deferring of capital projects, and right sizing of staffing in areas where service demand is down. Each department maintains a contingency plan that is periodically updated for possible implementation if needed. In addition, the City is looking into revenue enhancement opportunities that could be presented to the City Council for approval.

A Special Budget Ad Hoc Committee (SBAHC) was established during fiscal year 2014. This committee, comprised of business and community leaders in Henderson, provided several recommendations for the City Council to consider. These recommendations included methods to address the capital reinvestment needs of the city. The SBAHC presented its recommendations to the City Council on February 18, 2014. Some of the short term recommendations have already been implemented including non-core program reductions and a comprehensive rate study for Parks and Recreation programs. Other long-term strategies including a ballot questions for a property tax increase are still being considered.

Fiscal Year 2014 was the first time since 2007 the City closed out the General Operating Fund without a transfer in from reserves. Management is committed to controlling growth of the General Fund budget as provided for by revenue increases. During the economic downturn the City maintained its ability to provide quality municipal services to the community. With the strategies that have been implemented and those being planned or considered for the future, we are confident in our ability to grow and prosper as our community continues to grow and change over time.

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, 2013.

This was the 32nd 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 Department, and the Neighborhood Services staff. 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,



Jacob L. Snow
City Manager



Richard A. Derrick
Chief Financial Officer



Government Finance Officers Association

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

Presented to

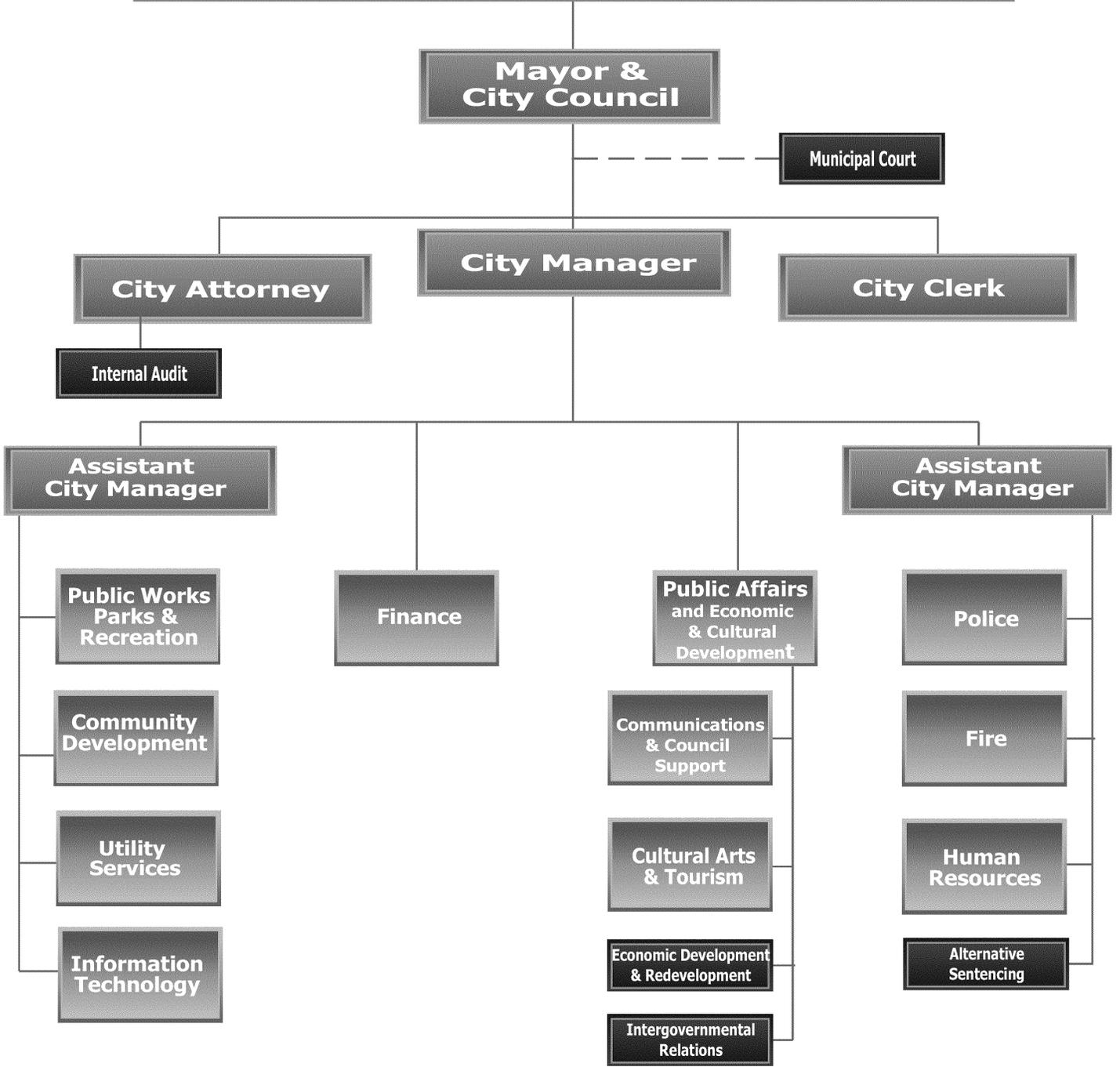
**City of Henderson
Nevada**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

Citizens of Henderson



CITY OF HENDERSON, NEVADA

List of Principal Officers

FOR THE YEAR ENDED JUNE 30, 2014

MAYOR AND COUNCIL

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

CITY OFFICIALS

Jacob L. Snow, City Manager
Josh Reid, City Attorney
Sabrina Mercadante, City Clerk