

2015

Comprehensive Annual Financial Report

City of Henderson, Nevada | For Fiscal Year Ended June 30, 2015



CITY OF HENDERSON, NEVADA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2015

Prepared by: Finance Department

Richard A. Derrick

Chief Financial Officer

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CITY OF HENDERSON, NEVADA

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INTRODUCTORY SECTION

2015 Comprehensive Annual Financial Report

City of Henderson, Nevada | For Fiscal Year Ended June 30, 2015





City of Henderson, Nevada
240 Water Street

Henderson, Nevada 89015

November 2, 2015

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, 2015 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, 2015 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, 2015, 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 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 287,000, 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 25 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.

Several indicators of economic growth are in the sector of construction and real estate. According to UNLV's Center for Business and Economic Research (CBER), in the Las Vegas metropolitan statistical area, construction employment increased by 9.8% and 1.7% in 2012 and 2013, respectively. CBER projects that 2014 and 2015 will experience further increases of 2.4% and 2.9%, respectively.

Home prices also experienced large gains in 2012 and 2013, increasing by 12.9% and 25.5%, respectively. CBER projects that 2014 and 2015 will continue the upward trend with increases of 10.3% and 7.3%, respectively.

Clark County building permits have also experienced large increases for both 2012 and 2013, rising by 40.0% and 18.8%, respectively. CBER projects significant growth for 2014 and 2015 of 8.5% and 9.4%, respectively.

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.

The national employment picture has continued to show signs of strengthening. The official unemployment rate, which was at 6.1% in August 2014, decreased to 5.1% as of August 2015, 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 6.9% in July 2015, down from 7.9% in July 2014. In the Las Vegas Metropolitan Statistical Area (MSA), the unemployment rate also decreased to 7.0% in July 2015 from 8.0% in July 2014.

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. That trend appears to finally be behind us as the job market continues to accelerate. The employment market has recovered creating nearly 100,000 jobs since 2010, according to Bill Anderson, chief economist with the Nevada Department of Employment, Training, and Rehabilitation (DETR) in Carson City. By the end of 2014, more than 100,000 jobs had been created. Nevada's job growth is stronger than 48 other states, said Anderson. Job growth is now up across almost every sector, including construction.

For 2015, solid jobs gain is expected to continue, driven by modest gains in construction, gaming and hospitality, and professional and business services. DETR projects year-over-year employment growth from 2014 through 2017 at 49,000 jobs annually.

Henderson has a tax rate of \$.7108 per \$100 in assessed valuation. This property tax rate has remained consistent for the past 25 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 41 million for the first time ever in late 2014, reaching 41.35 million in May 2015. With national and local employment figures improving and consumer confidence advancing, convention attendance, occupancy rates and average daily room rates are expected to be positively impacted as well.

Clark County saw a small population increase in 2014. According to population estimates made by the Nevada state demographer, the population in Clark County rose to 2,069,450 in 2014. This reflects a modest population increase of 1.9% over the 2013 figure of 2,031,723. Henderson's population is estimated to grow about 2% in the next year. For Henderson, positive growth is anticipated into the foreseeable future.

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 2016, 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 and Union Pacific Railroad Trail Phase III.

Water Fund to fund R-19A Reservoir Rehabilitation, design and construction of R-10A Reservoir, and various other smaller independent projects with expenditures under \$1 million each totaling \$11.2 million.

Sewer fund to fund various smaller independent projects with expenditures under \$1 million each totaling \$6.1 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 design and construction of the Pittman North Detention Basin and Outfall Channel from the basin to Starr Road; improvements to Stephanie Street from Galleria Drive to Patrick Lane, Burkholder Boulevard from Lake Mead Parkway to Warm Springs Road and from Warm Springs Road to Russell Road, 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, 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

Fiscal year 2015 was the second 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. Property tax revenues however will still take a while to recover as the property tax limits 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 creative ways to maintain the quality services and facilities that our community has come to expect.

In addition, the City will create an Economic Contraction Management Plan. With the economy being in growth mode for a few years now, the City must prepare for the next economic decline. The City intends to build up reserves and be as 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, 2014.

This was the 33rd 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,



Robert Murnane
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

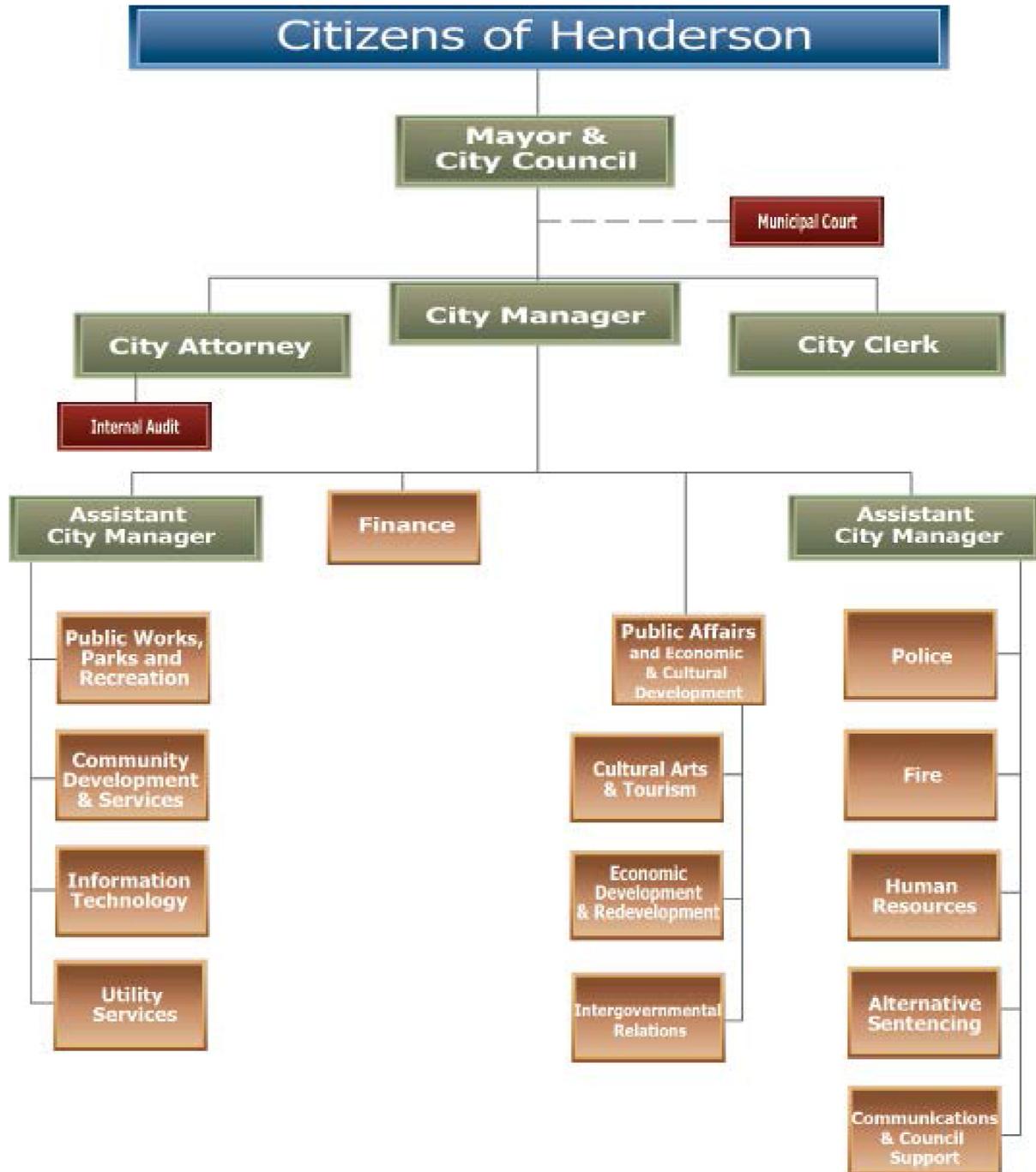
June 30, 2014

Executive Director/CEO

CITY OF HENDERSON, NEVADA

ORGANIZATION CHART

FOR THE YEAR ENDED JUNE 30, 2015



CITY OF HENDERSON, NEVADA

List of Principal Officers

FOR THE YEAR ENDED JUNE 30, 2015

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