

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Annual Financial Report
For the Year Ended June 30, 2010

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Annual Financial Report
For the Year Ended June 30, 2010

Table of Contents

	<u>Page</u>
Independent Auditors' Report on Financial Statements and Supplementary Information	1
Management's Discussion and Analysis	3
<u>Basic Financial Statements:</u>	
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet - Governmental Fund - General Fund	12
Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Assets	13
Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Fund - General Fund	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	15
Statement of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual - Governmental Fund - General Fund	16
Notes to Basic Financial Statements	17
<u>Supplementary Information:</u>	
Combining Balance Sheet - By Project Area - Governmental Fund General Government - General Fund	39
Combining Statement of Revenues, Expenditures and Changes in Fund Balance By Project Area - Governmental Fund - General Government - General Fund	40
<u>Compliance Reports</u>	
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>	41
Schedule of Findings and Responses	43

**INDEPENDENT AUDITORS' REPORT ON FINANCIAL
STATEMENTS AND SUPPLEMENTARY INFORMATION**

Members of the City of Henderson
Redevelopment Agency Board
City of Henderson, Nevada

We have audited the accompanying basic financial statements of the City of Henderson Redevelopment Agency (the Agency), a component unit of the City of Henderson, Nevada, as of and for the year ended June 30, 2010, as listed in the table of contents. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency as of June 30, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2010, on our consideration of the Agency'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of the City of Henderson
Redevelopment Agency Board
City of Henderson, Nevada

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The supplemental information, identified as the Balance Sheet and Statement of Revenues, Expenditures, Expenditures and Changes in Fund Balance by Project Area, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in blue ink that reads "Percy Bowler Taylor & Ken". The signature is written in a cursive style.

November 18, 2010

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Management's Discussion and Analysis
June 30, 2010

As management of the finances of the City of Henderson Redevelopment Agency (the Agency) finances, we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2010.

FINANCIAL HIGHLIGHTS

- The assets of the Agency's governmental activities exceeded its liabilities at the close of the most recent fiscal year by \$17,707,859.
- The Agency's restated total liabilities on the Statement of Net Assets increased by \$2,456,616 (8.7 percent) during the current fiscal year, as compared to the prior fiscal year.
- As of the close of the current fiscal year, the Agency's governmental fund reported an ending fund balance of \$32,408,932, a decrease of \$5,545,835 in comparison with the prior year restated amounts. Approximately 44.5% of this amount is unreserved fund balance. The decrease is a result of property tax increment being applied to redevelopment projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements.

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

The Statement of Net Assets presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Activities presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets 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 result in cash inflows or outflows in future fiscal periods.

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Management's Discussion and Analysis
June 30, 2010

Both of the government-wide financial statements show all five of the redevelopment areas (Downtown, Cornerstone, Tuscany, Eastside, and Lakemoor), which are principally supported by tax increment from ad valorem receipts. All redevelopment activity of the Agency, regardless of area, is included in the general government function, since the Agency is a single-purpose entity.

The government-wide financial statements can be found on pages 10 and 11 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 Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the activity of the Agency is recorded in the governmental fund category.

Governmental Fund. The governmental fund is 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 the Agency's near-term financing requirements.

Because the focus of the governmental fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental fund with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Agency'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 the governmental fund and governmental activities.

The Agency maintains one governmental fund, the General Fund.

The Agency adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided to demonstrate compliance with the budget.

The basic governmental fund financial statements (and reconciliations to the government-wide financial statements) can be found on pages 12 through 16 of this report.

Notes to Basic Financial Statements. The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Management's Discussion and Analysis
 June 30, 2010

financial statements. The notes to the basic financial statements can be found on pages 17-38 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The total assets of the Agency's governmental activities exceeded its liabilities at the close of the most recent fiscal year by \$17,707,859.

Net Assets

	Governmental Activities	
	2010	2009 (restated)
Current and other assets	\$ 48,494,438	\$ 42,327,229
Capital assets	--	203,959
Total assets	48,494,438	42,531,188
Long-term liabilities	17,069,263	17,682,541
Other liabilities	13,717,316	10,647,422
Total liabilities	30,786,579	28,329,963
Net assets:		
Invested in capital assets, net of related debt	--	203,959
Unrestricted	17,707,859	13,997,266
Total net assets	\$ 17,707,859	\$ 14,201,225

Total assets of the Agency at June 30, 2010, were \$48,494,438. Of the total liabilities of \$30,786,579, approximately 55.4% represent liabilities related to long-term debt of the Agency.

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Management's Discussion and Analysis
 June 30, 2010

Changes in Net Assets

	Governmental Activities	
	2010	2009 (restated)
Revenues:		
Program revenues		
Charges for services	\$ 15,297	\$ 53,474
General revenues		
Property taxes	12,934,879	13,623,262
Unrestricted investment earnings	738,017	1,047,382
Miscellaneous	67,850	-
Total revenues	13,756,043	14,724,118
Expenses:		
General government	10,249,409	8,612,801
Total expenses	10,249,409	8,612,801
Change in net assets	3,506,634	6,111,317
Net assets, July 1 as restated	14,201,225	8,089,908
Net assets, June 30	\$ 17,707,859	\$ 14,201,225

Total revenues for the year, decreased 6.6%, due to the overall downturn in the economy which required property tax assessments to be revalued ultimately resulting in less property taxes being collected. Total expenses increased 19% due to increased program costs resulting from current development. While revenues decreased and expenses increased, the overall financial position of the Agency improved due to total revenues exceeding total expenses resulting in an increase to net assets of \$3,506,634.

At the end of the current fiscal year, the Agency is able to report a positive balance in its net assets, "unrestricted."

A prior period adjustment was made related to tax increment that was due to developers for redevelopment efforts for fiscal years 2009 and prior. It was determined that upon further review of various Owner Participation Agreements between the Agency and the developers, that an expense and liability must be recognized once tax increment is received on various redevelopment projects, reimbursable costs have been incurred by the developer, and it is probable that the developer will be repaid. This prior period adjustment is the amount of the expense and liability that should have been recognized in previous years.

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUND

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

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Management's Discussion and Analysis
June 30, 2010

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

As a measure of the Agency's liquidity, it may be useful to compare the unreserved fund balance to fund expenditures. Unreserved fund balance represents 142% of total fund expenditures, including debt service expenditures. This increased fund balance will give the Agency's General Fund sufficient cash to meet its near-term operational obligations.

GOVERNMENTAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and final amended budget are summarized below.

- Revenue estimates increased by \$29,950, which was an increase in interest revenue.
- Budgeted expenditures were increased by \$2,183,434, the majority representing two major infrastructure projects and a new tenant improvement program for the Downtown redevelopment project area and design upgrades of Henderson's oldest park in our Eastside redevelopment project area as well as to meet the estimated operational needs of the Agency.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The Agency had no investment in capital assets as of June 30, 2010. The leasehold improvements for the Agency's office within City Hall were transferred to the City during fiscal 2010. Additional information on the Agency's capital assets is provided in Note 6 of the notes to financial statements.

Long-Term Debt. At the end of the fiscal year, the Agency had total bonded debt outstanding of \$14,215,000. Of this amount, \$10,415,000 is considered tax allocation debt of senior bonds and \$3,800,000 is tax allocation debt of junior bonds. The remainder of long-term debt includes an advance from the City for the purchase of land to satisfy a redevelopment project loan guaranty and compensated absences and post employee benefits.

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Management's Discussion and Analysis
 June 30, 2010

Outstanding Long-Term Debt

	Governmental Activities	
	2010	2009
Tax allocation bonds	\$ 14,215,000	\$ 14,780,000
Note payable/Advances from City	3,209,916	3,209,916
Compensated absences and other post employment benefits	244,613	270,482
Total	\$ 17,669,529	\$ 18,260,398

In June 2002, the Agency received a bond rating of "AAA" on the Senior 2002 Bonds from Standard and Poor's. The junior bonds were not rated.

Additional information on the Agency's long-term debt can be found in Note 8 of the notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Nevada's redevelopment agencies heavily rely upon tax increment, or the incremental value of ad valorem tax and personal property tax above the base year, as a primary revenue source. While tax increment for the Agency is anticipated to increase modestly, there is always the opportunity for casinos and other commercial taxpayers to request tax exemptions, which could adversely impact tax increment revenue for the Agency. One casino within the Downtown Redevelopment project area requested and received a tax exemption during fiscal 2010.

In the 2005 legislative session, the Nevada State Legislature passed a law to provide property tax relief to citizens. Assembly Bill 489, signed into law on April 6, 2005, provides a partial abatement of taxes by applying a 3% cap on the tax bill of the owner's primary residence (single-family house, townhouse, condominium or manufactured home). Only one property may be selected in the State of Nevada as a primary residence. Some rental dwellings that meet the low-income rent limits may also qualify for a 3% cap on the tax bill.

An 8% cap on the tax bill will be applied to residences that are not owner occupied. The 8% cap will also apply to land, commercial buildings, business personal property, aircraft, etc. New construction or property that has a change of use (zoning change or manufactured homed conversion) in the current year will not qualify for any cap until the following fiscal year.

These factors were considered in preparing the Agency budget for the 2010-2011 fiscal year.

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Management's Discussion and Analysis
June 30, 2010

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the Agency's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Henderson Redevelopment Agency, Attn: Special Projects Accountant, P.O. Box 95050, MSC 116, Henderson, Nevada 89009-5050.

BASIC FINANCIAL STATEMENTS

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Statement of Net Assets
 June 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 31,268,365
Receivables:	
Accounts	3,286
Accrued interest	128,980
Notes	529,185
Due from other governments	308,228
Land held for development	15,762,293
Deferred charges	494,101
Total Assets	<u>48,494,438</u>
 LIABILITIES	
Accounts payable and accrued wages	242,996
Accrued interest payable	735,561
Tax increment payable to developers	11,988,493
Deposits held for others	150,000
Noncurrent liabilities:	
Due within one year - bonds and compensated absences	600,266
Due in more than one year:	
Compensated absences	154,260
Other post employment benefit (OPEB) liability	80,087
Notes and bonds payable	13,625,000
Advances from the City of Henderson	3,209,916
Total Liabilities	<u>30,786,579</u>
 NET ASSETS	
Unrestricted	<u>\$ 17,707,859</u>

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

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Statement of Activities
For the Year Ended June 30, 2010

	Program Revenues			Net	
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	(Expenses) Revenues and Changes in Net Assets	
FUNCTIONS/PROGRAMS				Governmental	
Governmental Activities:				Activities	
General government	\$ 9,271,421	\$ 15,297	\$ -	\$ -	\$ (9,256,124)
Interest and other fiscal charges	977,988	-	-	-	(977,988)
Total Governmental Activities	\$ 10,249,409	\$ 15,297	\$ -	\$ -	(10,234,112)
General Revenues:					
Tax increment				12,934,879	
Unrestricted investment earnings				738,017	
Miscellaneous				67,850	
Total General Revenues				13,740,746	
Change in Net Assets				3,506,634	
NET ASSETS, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED				23,332,073	
PRIOR PERIOD ADJUSTMENT				(9,130,848)	
NET ASSETS, BEGINNING OF YEAR, AS RESTATED				14,201,225	
NET ASSETS, END OF YEAR				\$ 17,707,859	

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

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Balance Sheet
 Governmental Fund - General Fund
 June 30, 2010

ASSETS	
Cash and investments	\$ 31,268,365
Receivables:	
Accounts	3,286
Accrued interest	128,980
Notes	529,185
Due from other governments	308,228
Land held for development	<u>15,762,293</u>
TOTAL ASSETS	<u><u>\$ 48,000,337</u></u>
 LIABILITIES	
Accounts payable and accrued wages	\$ 242,996
Deposits held for others	150,000
Tax increment payable to developers	11,988,493
Advances from City of Henderson	<u>3,209,916</u>
Total liabilities	<u>15,591,405</u>
 FUND BALANCE	
Reserved for:	
Land held for sale	15,762,293
Debt service	1,376,888
Notes receivable	529,185
Encumbrances	328,210
Unreserved and undesignated	<u>14,412,356</u>
Total fund balance	<u>32,408,932</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 48,000,337</u></u>

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

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Reconciliation of the Balance Sheet of the Governmental Fund
to the Statement of Net Assets

June 30, 2010

Fund Balance - Governmental Fund		\$ 32,408,932
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Other assets used in governmental activities are not current financial resources and, therefore are not reported in the governmental fund:		
Bond costs - deferred charges	708,503	
Less: Accumulated amortization	<u>(214,402)</u>	
		494,101
Long-term liabilities and the related accrued interest payable are not due and payable in the current period and, therefore, are not reported in the governmental fund:		
Bonds payable	(14,215,000)	
Accrued interest payable	(735,561)	
Compensated absences	(164,526)	
Other post employment benefits payable (OPEB) liability	<u>(80,087)</u>	
		<u>(15,195,174)</u>
Total net assets of governmental activities as shown on the Statement of Net Assets		<u>\$ 17,707,859</u>

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Statement of Revenues, Expenditures, and Changes in Fund Balance
 Governmental Fund - General Fund
 For the Year Ended June 30, 2010

REVENUES	
Tax increment	\$ 12,934,879
Interest and rent revenue	738,017
Intergovernmental	67,850
Miscellaneous	15,297
Total revenues	13,756,043
EXPENDITURES	
Current:	
General government:	
Salaries and wages	1,047,883
Employee benefits	332,472
Services and supplies	1,000,444
Program costs	6,432,055
Total general government	8,812,854
Debt service:	
Principal payments	565,000
Interest payments	793,176
Total debt service	1,358,176
Total expenditures	10,171,030
EXCESS OF REVENUES OVER EXPENDITURES	3,585,013
OTHER FINANCING SOURCES (USES)	
Transfer from other RDA funds	1,662,156
Transfer to other RDA funds	(1,662,156)
Total other financing Sources (uses)	-
NET CHANGE IN FUND BALANCE	3,585,013
FUND BALANCE, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	37,954,767
PRIOR PERIOD ADJUSTMENT	(9,130,848)
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED	28,823,919
FUND BALANCE, END OF YEAR	\$ 32,408,932

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

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of the Governmental Fund to the Statement of Activities
For the Year Ended June 30, 2010

Net Change in Fund Balance - Governmental Fund		\$ 3,585,013
Amounts reported for governmental activities in the Statement of Activities are different because:		
The issuance of long-term debt provides current financial resources to the governmental fund, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental fund. Neither transaction, however, has any effect on Net Assets		
Accrued interest payable	(155,240)	
Principal payments	565,000	409,760
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 the governmental fund:		
Amortization of bond fees	(29,572)	
Change in other post employment benefit (OPEB) liability	(19,711)	
Change in long-term compensated absences	45,580	
Write-off of uncollectible interest on notes receivable	(280,477)	
Transfer of capital assets to City of Henderson	(203,959)	(488,139)
Change in Net Assets of Governmental Activities as shown in the Statement of Activities		\$ 3,506,634

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual
 Governmental Fund - General Fund
 For the Year Ended June 30, 2010

	<u>2010 Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
REVENUES				
Tax increment	\$ 12,475,379	\$ 12,475,379	\$ 12,934,879	\$ 459,500
Interest and rent revenue	-	334,200	738,017	403,817
Intergovernmental	-	-	67,850	67,850
Miscellaneous	369,900	65,650	15,297	(50,353)
Total revenues	<u>12,845,279</u>	<u>12,875,229</u>	<u>13,756,043</u>	<u>880,814</u>
EXPENDITURES				
Current:				
General government:				
Salaries and wages	1,010,127	1,182,538	1,047,883	134,655
Employee benefits	394,458	420,104	332,472	87,632
Services and supplies	9,496,112	11,481,489	1,000,444	10,481,045
Program costs	-	-	6,432,055	(6,432,055)
Total general government	<u>10,900,697</u>	<u>13,084,131</u>	<u>8,812,854</u>	<u>4,271,277</u>
Debt service:				
Principal payments	565,000	565,000	565,000	-
Interest payments	793,176	793,176	793,176	-
Total debt service	<u>1,358,176</u>	<u>1,358,176</u>	<u>1,358,176</u>	<u>-</u>
Total expenditures	<u>12,258,873</u>	<u>14,442,307</u>	<u>10,171,030</u>	<u>4,271,277</u>
NET CHANGE IN FUND BALANCE	<u>586,406</u>	<u>(1,567,078)</u>	<u>3,585,013</u>	<u>5,152,091</u>
FUND BALANCE, BEGINNING OF YEAR AS PREVIOUSLY REPORTED	32,752,586	37,954,767	37,954,767	-
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>-</u>	<u>(9,130,848)</u>	<u>(9,130,848)</u>
FUND BALANCE, BEGINNING OF YEAR AS RESTATED	<u>32,752,586</u>	<u>37,954,767</u>	<u>28,823,919</u>	<u>(9,130,848)</u>
FUND BALANCE, END OF YEAR	<u>\$ 33,338,992</u>	<u>\$ 36,387,689</u>	<u>\$ 32,408,932</u>	<u>\$ (3,978,757)</u>

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

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 1. Summary of Significant Accounting Policies

The financial statements of the City of Henderson Redevelopment Agency (the Agency) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies are described below.

A. The Reporting Entity

The Agency is a blended component unit of the City of Henderson, Nevada (the City) and is governed by a five-member board composed of the four City Council members and the Mayor of the City. Accordingly, the Agency participates in the City's pooled cash, investments, other post-employment benefits, retirement plan, and risk management programs. Additional information can be obtained regarding these matters from the City's Comprehensive Annual Financial Report, which can be obtained by writing to:

City of Henderson Finance Department
240 Water Street, Mail Stop Code 121
P.O. Box 95050
Henderson, Nevada 89009-5050

On December 20, 1994, the City Council of the City, acting pursuant to the provisions of the Nevada Community Redevelopment Law (NRS 279.382 to 279.680, inclusive), created by resolution the Agency. The Agency was established in fiscal year 1996 as a separate and distinct legal entity to provide a diversified and strengthened economy in the central area of the City.

In October 1995, an official Redevelopment Plan was adopted to facilitate redevelopment efforts for the Downtown Redevelopment Area. Subsequently, in November 2005, the Redevelopment Plan was amended to include 73.48 acres of newly annexed land to the Downtown Redevelopment Area.

In February 2001, an official Redevelopment Plan was adopted to facilitate redevelopment efforts for the Cornerstone Redevelopment Area.

In March 2001, an official Redevelopment Plan was adopted to facilitate redevelopment efforts for the Tuscany Redevelopment Area.

In February 2006, an official Redevelopment Plan was adopted to facilitate redevelopment efforts for the Eastside Redevelopment Area.

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 1. Summary of Significant Accounting Policies (continued)

A. The Reporting Entity (continued)

In March 2009, an official Redevelopment Plan was adopted to facilitate redevelopment efforts for the Lakemoor Redevelopment Area.

B. Government-wide and Fund Financial Statements

The Statement of Activities demonstrates the degree to which the direct expenses of the General Government function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements provide information about the governmental activity of the Agency. The Agency reports no business type activities.

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*. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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 *measurable* when the amount of the transaction can be determined and *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within sixty days of the end of the fiscal period. Expenditures generally are recorded when liabilities are incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(continued)

Property taxes, intergovernmental revenues, 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. Miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash.

Property tax revenue is recognized in the fiscal year in which the taxes become due to the extent they are collected during the fiscal year or soon enough thereafter that they can be used to finance current period expenditures (no later than sixty days after year-end).

The Agency reports deferred revenue in the fund financial statements balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Agency before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Agency has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

The Agency's General Fund is the primary operating fund. It accounts for all financial resources of the Agency.

D. Assets, Liabilities and Equity

1. Cash and Investments

The Agency participates in the City's pooled cash fund. The City pools the majority of its cash resources with the cash resources of the Agency in order to facilitate the management of cash and maximize investment earning potential. Cash applicable to the Agency is readily identifiable. The balances in the pool are available to meet current operating requirements.

2. Property Taxes

The Agency's main source of revenue is ad valorem property taxes. The Nevada Tax Commission must certify all tax rates on June 25, and property is liened on July 1. Property taxes are levied in July and are payable to the County Treasurer in four

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

2. Property Taxes (continued)

installments during August, October, January and March. Apportionment of taxes by Clark County, to the Agency, is made on a monthly basis.

The Agency receives that portion of ad valorem tax which is produced by the rate at which the tax is levied each year by all taxing entities in the redevelopment area, applied to that portion of the assessed valuation of all taxable property in the redevelopment area, which is in excess of the base year assessed valuation as certified by the Clark County Tax Assessor.

In the 2005 legislative session, the Nevada State Legislature passed a law to provide property tax relief to citizens. Assembly Bill 489, signed into law on April 6, 2005, provides a partial abatement of taxes by applying a 3% cap on the tax bill of the owner's primary residence (single-family house, townhouse, condominium or manufactured home). Only one property may be selected in the State of Nevada as a primary residence. Some rental dwellings that meet the low-income rent limits may also qualify for a 3% cap on the tax bill.

An 8% cap on the tax bill will be applied to residences that are not owner occupied. The 8% cap will also apply to land, commercial buildings, business personal property, aircraft, *etc.* New construction or property that has a change of use (zoning change or manufactured homed conversion) in the current year will not qualify for any cap until the following fiscal year.

3. Land Held for Development

Land held for development consists of property obtained by the Agency in a defined redevelopment area with the intent that it will be transferred to either the City or a developer in accordance with development agreements. The Development Disposition Agreements provide for transfer of property to developers after certain redevelopment obligations have been fulfilled. The property is accounted for at the lower of cost, estimated net realizable value, or agreed-upon sales price if a disposition agreement has been made with a developer.

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

4. Capital Assets

Capital assets, which include land, improvements and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Life</u>
Buildings and improvements	5 to 15 years
Equipment	5 years

5. Compensated Absences

It is the Agency's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick leave is accrued when incurred in the government-wide financial statements. In governmental funds, the current portion of compensated absences, vacation leave, and sick leave actually paid or accrued as a result of employees who have terminated, is recorded as a payroll expenditure.

6. Long-term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method.

For governmental fund types, bond premiums and discounts, as well as bond issuance costs, are recognized during the period in which the bonds are issued. The face amount of bonds issued is reported as other financing sources, as are bond premiums. Bond discounts are recorded as other financing uses. Bond issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

7. Equity Classifications

In the government-wide financial statements, equity is classified as net assets and displayed in three components:

- a. **Invested in Capital Assets, Net of Related Debt** – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. **Restricted Net Assets** – Consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. **Unrestricted Net Assets** – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

The Agency's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

In the fund financial statements, governmental fund equity is classified as fund balance. Fund balance is further classified as reserved or unreserved. Reservations of fund balance consist of amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

8. Estimates

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

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 2. Stewardship, Compliance and Accountability

A. Budgetary Information

An annual budget is legally adopted for the General Fund of the Agency on a basis of accounting consistent with accounting principles generally accepted in the United States of America.

Prior to April 15, the Treasurer of the Agency submits a tentative budget for the Agency for the ensuing fiscal year to the Agency Board, the Nevada Department of Taxation and the Citizens via public hearings. The Nevada Department of Taxation notifies the Agency whether or not the budget is in compliance with the appropriate regulations. Public hearings, at which all changes made to the tentative budget are indicated, are conducted on the third Tuesday in May. The Agency Board adopts the budget prior to June 1 and submits it to the Department of Taxation for final approval. The revenue classifications and expenditure functions shown in the financial statements are those prescribed by the Nevada Department of Taxation. All revisions to the adopted budget are made a matter of public record by actions of the Agency Board. Per Nevada law, the budget officer is authorized to transfer budgeted amounts within functions if the Agency Board is notified at the next regular meeting and the action is noted in the official minutes. Revisions, which affect the total fund appropriations, are accomplished through formal Agency Board approval. Various supplemental appropriations are approved during the year to adjust resources available and to reflect corresponding changes in spending. Nevada law (NRS 354.626) requires budgetary control to be exercised at the function level in governmental funds.

The Agency uses an encumbrance system as an extension of normal budgetary accounting for the general fund. Under this system, purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year end are recorded as reservations of fund balance as they do not constitute expenditures or liabilities. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward in the ensuing year's budget.

B. Compliance with the Nevada Revised Statutes (NRS) and the Nevada Administrative Code

The Agency conformed to all significant statutory constraints on its financial administration during the year.

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 3. Cash and Investments

A. Summary of Deposit and Investment Balances

The following is a summary of the Agency's governmental activity deposit and investment balances as of June 30, 2010:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Pooled cash and investments held by the City	\$17,671,038	\$12,220,430	\$29,891,468
Investments		1,376,897	1,376,897
Total Cash and Investments	<u>\$17,671,038</u>	<u>\$13,597,327</u>	<u>\$31,268,365</u>

B. Deposits

State statutes govern the Agency's deposit policies. Agency monies must be deposited in insured banks and savings and loan associations. The Agency is authorized to use demand accounts, time accounts and certificates of deposit.

State statutes do not specifically require collateral for demand deposits, but do specify that collateral for time deposits may be of the same type as those described for permissible state investments. Permissible state investments include obligations of the U.S. Treasury, certain farm loan bonds, certain securities issued by Nevada local governments, repurchase agreements, bankers' acceptances, commercial paper, negotiable certificates of deposit, and money market mutual funds. Allowable Agency investments are similar except that some state investments are longer term and include securities issued by municipalities outside of Nevada.

The Agency invests monies on its own and through pooling of monies with the City. The pooling of monies, referred to as an internal investment pool, is theoretically invested on the whole, as a combination of monies from each fund belonging to the pool. In this manner, the City's Finance Director is able to invest the monies at a higher interest rate for a longer period of time. Interest revenue is apportioned monthly to each fund in the pool based on the average cash balance of the fund for the month.

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 3. Cash and Investments (continued)

C. Investments

State statutes authorize the Agency to invest in obligations of the U.S. Treasury and U.S. Agencies having maturity dates that do not extend more than ten years from the date of purchase, the state treasurer's investment pool, negotiable notes or short-term negotiable bonds issued by other local governments of the State of Nevada, bankers' acceptances not exceeding 180 days maturity and eligible by law for rediscount with the Federal Reserve Banks and commercial paper issued by a corporation organized and operating in the U.S. that is purchased from a registered broker-dealer, with a remaining term of less than 270 days rated "A-I", "P-I" or better (purchases of bankers' acceptances or commercial paper may not exceed 20 percent of the money available for local government investment).

At June 30, 2010, the Agency had the following investments:

	<u>Cost</u>	<u>Fair and Carrying Value</u>	<u>Credit Rating</u>	<u>Weighted- average Maturity (Years)</u>
Pooled cash and investments held by the City	\$29,891,468	\$29,891,468	N/A	2.77
Investments held with Fiscal Agent Money market fund	<u>1,376,897</u>	<u>1,376,897</u>	AAA	--
Total Investments	<u><u>\$31,268,365</u></u>	<u><u>\$31,268,365</u></u>		

Note 4. Notes Receivable

As incentives to accomplish redevelopment efforts, the Agency negotiates and issues low-interest notes to provide gap financing to developers; for business recruitment, retention and expansion; and, to owner-occupied residents for home improvements.

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 4. Notes Receivable (continued)

For the fiscal year ended June 30, 2010, the change in notes receivable is as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Home Program Advances:				
Principal	\$ 72,895	\$ --	\$ (27,107)	\$ 45,788
Interest	--	1,836	(1,836)	--
	<u>72,895</u>	<u>1,836</u>	<u>(28,943)</u>	<u>45,788</u>
Advances to individuals and business, payable in monthly installments for a term of generally five years, including interest at 0.0% to 8.0% ⁽¹⁾ :				
Principal	117,204	30,000	(19,807)	127,397
Interest	--	2,893	(2,893)	--
	<u>117,204</u>	<u>32,893</u>	<u>(22,700)</u>	<u>127,397</u>
Advances to an LLC, maximum amount is \$775,000, payments deferred for five years. Accrued interest at 6.23% per year ⁽²⁾ :				
Principal	775,000	--	(775,000)	--
Interest	180,707	--	(180,707)	--
	<u>955,707</u>	<u>--</u>	<u>(955,707)</u>	<u>--</u>
Default of loan, secured by lien on a development site. Foreclosure proceedings were concluded during the year. ⁽³⁾ :				
Principal	850,000	--	(850,000)	--
Interest	--	--	--	--
	<u>850,000</u>	<u>--</u>	<u>(850,000)</u>	<u>--</u>
Sale of land to an LLC, secured by guarantee agreement and deed of trust. Interest accrues at 4.84%. Principal and accrued interest are due in April 2012 ⁽⁴⁾ :				
Principal	580,298	--	(224,298)	356,000
Interest	99,770	--	(99,770)	--
	<u>680,068</u>	<u>--</u>	<u>(324,068)</u>	<u>356,000</u>
Totals				
Principal	2,395,397	30,000	(1,896,212)	529,185
Interest	280,477	4,729	(285,206)	--
	<u>\$ 2,675,874</u>	<u>\$ 34,729</u>	<u>\$ (2,181,418)</u>	<u>\$ 529,185</u>

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 4. Notes Receivable (continued)

- (1) Due to the downturn in the economy, two businesses that received loans from the Agency requested loan restructures. The Agency reduced the interest rate on one of the loans to zero and provided for a matching grant component as an incentive to make monthly payments on time. The other loan was restructured to allow for interest only payments for one year.
- (2) Due to the downturn in the economy and uncertainty regarding repayment, the \$775,000 note, including all accrued interest thereon, has been fully reserved. On October 19, 2010, the Agency amended its agreements extending the existing loan for one additional year. No other terms of the loan were modified.
- (3) On January 17, 2006, the Agency approved an Owner Participation Agreement with an LLC, for the development of a three-story office building. Through the agreement, the Agency had a \$600,000 equity share of the project. The property was secured by a first deed of trust to a Nevada bank.

In February 2009, foreclosure proceedings were initiated by a Nevada bank against the LLC. The property, consisting of vacant land, was originally scheduled for sale in May 2009. To obtain control of the property before the foreclosure sale occurred, the Agency negotiated with the bank to purchase the note balance securing the first deed of trust for \$850,000. The purchase of the note resulted in the recording of a note receivable from the LLC in the same amount, as of June 30, 2009. The \$600,000 was written off in fiscal 2009 to more accurately reflect the Agency's financial position.

On July 18, 2009, the Agency implemented foreclosure proceedings against the LLC, by recording a notice of default under the terms of the deed of trust. The default was not cured within the period allowed by law and the foreclosure sale occurred August 6, 2009, resulting in the acquisition of the property by the Agency. The Agency received an appraisal dated October 1, 2009, for the property in an amount of \$850,000 which corresponded to their purchase of the note in June 2009. Accordingly, after foreclosure proceedings, the note receivable balance of \$850,000 was effectively converted to land, and is therefore presented as a component of Land Held for Development.

- (4) Due to the downturn in the economy and uncertainty regarding repayment, the \$580,298 note, including all accrued interest thereon, was written down to the estimated value of the land collateralizing the note.

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 5. Land Held for Development

For the fiscal year ended June 30, 2010, the change in land held for development consisted of the following:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Downtown Redevelopment Area:				
Water Street Commons	\$ 3,549,362	\$ --	\$ --	\$ 3,549,362
Lake Mead Parkway	195,721	--	--	195,721
Texas / Atlantic Parking	425,181	--	--	425,181
Pinnacle	3,934,751	--	--	3,934,751
Asset Central	--	846,142	--	846,142
Other	929,503	--	--	929,503
Total Downtown Redevelopment Area	9,034,518	846,142	--	9,880,660
Eastside Redevelopment Area	5,881,633	--	--	5,881,633
Total	<u>\$ 14,916,151</u>	<u>\$ 846,143</u>	<u>\$ --</u>	<u>\$ 15,762,293</u>

Note 6. Capital Assets

For the year ended June 30, 2010, capital asset activity was as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets being depreciated:				
Buildings and improvements	\$ 226,621	\$ --	\$ (226,621)	\$ --
Equipment	36,364	--	(36,364)	--
Total capital assets being depreciated	262,985	--	(262,985)	--
Less accumulated depreciation:				
Buildings and improvements	(22,662)	--	22,662	--
Equipment	(36,364)	--	36,364	--
Total accumulated depreciation	(59,026)	--	59,026	--
Capital assets being depreciated, net	203,959	--	(203,959)	--
Governmental capital assets, net	<u>\$ 203,959</u>	<u>\$ --</u>	<u>\$ (203,959)</u>	<u>\$ --</u>

During fiscal 2010, all capital assets, consisting primarily of tenant improvements to City Hall, were transferred to the City.

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 7. Advances from the City of Henderson

For the fiscal year ended June 30, 2010, the change in advances from the City of Henderson is as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
\$791,592 note payable, principal and interest deferred until September 2012, as amended, interest accrues at 6.0%	\$ 621,260	\$ --	\$ --	\$ 621,260
\$2,588,656 note payable, principal and interest deferred until November 2012, or sale of property, whichever occurs first, interest accrues at 4.8%	2,588,656	--	--	2,588,656
	\$ 3,209,916	\$ --	\$ --	\$ 3,209,916

On August 19, 2008, the Agency reevaluated the advance from the City dated September 15, 2004, in the amount of \$791,592. The Agency Board and City Council approved a loan amendment whereby the Agency would repay the Park Development Fund the principal amount of \$170,331 and accrued interest on the original maturity date of September 15, 2008. The remaining balance related to the Land Fund would receive the interest accrued through September 15, 2008 as of at that date, but the Agency would continue to owe the principal amount of \$621,260 at an interest rate of 6% to September 15, 2012, with the option to extend the maturity date two additional three-year periods at the sole option of the City. Interest would be accrued and paid upon maturity or at extension date. Accrued interest of \$219,420 is included as a liability on the Statement of Net Assets.

On November 20, 2007, the Agency borrowed \$2,588,655 from the City's Land fund. The purpose of the loan was to fund the payment of amounts due under a guarantee agreement entered into on July 13, 2005. Interest accrues at 4.8% per year. All principal outstanding and interest accrued are due and payable on the earlier of the sale of the Pinnacle Building property, or November 20, 2012. Accrued interest of \$320,993 is included as a liability on the Statement of Net Assets.

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 8. Long-term Liabilities

For the year ended June 30, 2010, the following schedule summarizes the changes in long-term debt:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010	Amounts Due Within One Year
\$4,295,000 2002 tax allocation junior bonds due in annual installments through October 2025, interest varies between 5.1% and 7.2%	\$ 3,935,000	\$ --	\$ (135,000)	\$ 3,800,000	\$ 140,000
\$12,045,000 tax allocation senior bonds due in annual installments through October 2025; interest varies between 3.5% and 5.25%	10,845,000	--	(430,000)	10,415,000	450,000
Total Bonds Payable	14,780,000	--	(565,000)	14,215,000	590,000
Compensated absences	210,106	18,249	(63,829)	164,526	10,266
Other postemployment benefits obligation (OPEB)	60,376	23,358	(3,647)	80,087	--
Total Long-term Liabilities	<u>\$ 15,050,482</u>	<u>\$ 41,607</u>	<u>\$ (632,476)</u>	<u>\$ 14,459,613</u>	<u>\$ 600,266</u>

As of June 30, 2010, the annual requirements to pay principal and interest on all bonds outstanding are as follows:

Year Ending June 30:	Bonds		
	Principal	Interest	Total
2011	\$ 590,000	\$ 765,671	\$ 1,355,671
2012	615,000	735,127	1,350,127
2013	650,000	702,790	1,352,790
2014	680,000	669,121	1,349,121
2015	715,000	633,881	1,348,881
2016 – 2020	4,185,000	2,542,327	6,727,327
2021 – 2025	5,485,000	1,201,586	6,686,586
2026	1,295,000	37,699	1,332,699
	<u>\$ 14,215,000</u>	<u>\$ 7,288,202</u>	<u>\$ 21,503,202</u>

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 9. Retirement Plan

The Agency, as a component unit of the City, is a public employer participating in the Public Employees Retirement System of the State of Nevada (PERS), a cost sharing multiple-employer defined benefit plan administered by PERS. All full-time employees are covered under the system. In addition, any part-time employees working at least twenty hours per week are covered. The City has no liability for unfunded obligations of the system as provided by Nevada Revised Statute (NRS) 286.110.

Benefits, as required by statute, are determined by the number of years of accredited service at the time of retirement and the member's highest average compensation in any 36 consecutive months. Benefits payments to which participants may be entitled under the Plan include pension benefits, disability benefits and death benefits.

Monthly benefit allowances for regular members with an effective date prior to January 1, 2010, are computed at 2.50% for service earned through June 30, 2001, and 2.67 % for service earned on or after July 1, 2001, with a ceiling of 75% of the average compensation (36 consecutive months of highest compensation). Monthly benefit allowances for regular members with an effective date on or after January 1, 2010, are computed at 2.50% of average compensation for each accredited year of service prior to retirement with a ceiling of 75% of the average compensation (36 consecutive months of highest compensation). PERS offers several alternatives to the unmodified service retirement allowance which, in general, allows the retired employee to accept a reduced service retirement allowance payable monthly during his/her life and various optional monthly payments to a named beneficiary after his/her death. Regular members are eligible for retirement at age 65 with 5 years of service, age 60 with 10 years of service or any age with 30 years of service.

Member contribution rates are established by NRS 286.450, which requires adjustments on each odd numbered year based on the actuarially determined contribution rate indicated in the biennial actuarial valuation. The Agency is enrolled in the employer pay contribution plan of PERS and is, therefore, required to contribute all amounts due under the Plan. PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System of the State of Nevada, 693 West Nye Lane, Carson City, NV 89703-1599 or by calling (775) 687-4200.

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

The Agency's contribution rates and amounts contributed for the last three years are as follows:

Fiscal Year	Contribution Rate	Total Required Contribution	Actual Percentage Contributed of Required Contribution
2010	21.50%	\$ 247,809	100%
2009	20.50%	\$ 173,026	100%
2008	20.50%	\$ 149,746	100%

Note 10. Other Post-employment Benefits (OPEB)

For the fiscal year ended June 30, 2010, the City annual OPEB cost is \$1,943,715, of which the Agency's share is \$23,358. Amounts unpaid are recorded as a liability on the Statement of Net Assets.

The Agency's net OPEB obligation for the years ended June 30, 2010, 2009 and 2008, is as follows:

Year Ended	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net Ending OPEB Obligation
June 30, 2010	\$ 23,358	\$ 3,647	15.61%	\$ 80,087
June 30, 2009	36,157	3,995	11.05%	60,376
June 30, 2008	30,506	2,292	7.51%	28,214

Note 11. Risk Management

The Agency is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions. The Agency is covered under the City's insurance policies, which provide health insurance coverage for its employees. The City carries insurance policies for liability, fire, theft, auto, inland marine, workers' compensation and Directors' and Officers' coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years for the Agency.

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 12. Commitments and Contingencies

The Agency has entered into tax increment subordinate lien notes as part of owner participation agreements. The notes varied by amount of indebtedness, interest rate and maturity date and have been allocated to various parcels of land in their respective redevelopment area. The indebtedness is payable solely and exclusively from a predetermined percentage of the site tax increment received by the Agency on those specific parcels and is not payable from any other source. Because the requirements to repay the notes are contingent on the Agency receiving sufficient site tax increment on the specific parcels, as well as the developer incurring reimbursable project costs, certain of these potential future obligations of the Agency have been reflected in the Agency's financial statements to the extent that tax increment has been collected and qualified expenses have been incurred by the developer. The following summarizes the unique terms of each note:

A. Cornerstone Redevelopment Area

CS Lot 1 Land Purchase Note - Promissory note entered into on June 1, 2001, in the amount of \$3,100,000, payable over ten years. Interest at 9.5% accrues unless the Developer fails to meet the Private Improvement Schedule set forth in the note. The percentage of Site Tax Increment from which the note is to be paid is 25%. The proceeds from the note were used to purchase land, upon which a public improvement project was built by the Developer. All unpaid principal and interest that remains due thirty (30) years after the date of the adoption of the Cornerstone Redevelopment Plan will be forgiven and deemed paid in full. During the year, the Agency received site tax increment revenue and paid \$331,507 which was charged to program costs. Additionally, the Agency received site tax increment revenue of \$59,372 that was accrued to program cost, but will not be disbursed to the developer until fiscal 2010. The current balance on the CS Lot 1 Note at June 30, 2010 was \$3,145,942. Currently, interest is tolling since the developer has not met the private improvements criteria set forth in the note.

Series B Bonds Note - Promissory note entered into on May 9, 2002, in the amount of \$6,250,000, payable over sixteen years. Interest at 6.9% accrues beginning December 1, 2002. The note is equal to the proceeds of the Series B Bonds issued by the City. A separate agreement signed by the Developer and the City assigned all payments on this note to the City as an offset to the principal and interest payments the City is obligated to pay on the Series B Bonds. The percentage of Site Tax Increment from which the note is to be paid is 40%. During fiscal 2010, the Agency received site tax increment revenue and paid \$118,324 and \$342,758, in principal and interest, respectively, which was charged to program costs. Additionally, the Agency received site tax increment revenue of \$94,996 that was accrued to program cost, but will not be disbursed until fiscal 2011.

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 12. Commitments and Contingencies (continued)

A. Cornerstone Redevelopment Area (continued)

Shortfall Note - Promissory note, which provides that the property owners will advance the Agency the amount of the payments due on the Series B Bonds Note when due, reduced by the available site tax increment received by the Agency. Interest at 6.9% accrues unless the Developer fails to meet the Private Improvement Schedule set forth in the note. The amount from which the note is to be paid is the remainder of 40% of the site tax increment after payment on the Series B Bond Note. The property owners advanced the Agency \$136,676 for payment due on the Series B Bond Note during the fiscal year. Current balance on the shortfall note at June 30, 2010 was \$2,352,102. Currently, interest is tolling since the developer has not met the private improvements criteria set forth in the note.

Diamond Cornerstone Note - Promissory note entered into on April 10, 2007, with Diamond Cornerstone, LLC, in the amount of \$274,002, maturing October 1, 2030. Interest accrues at 4.51 %. Repayment is due on April 1 and October 1 of each year. All amounts owing, including interest, are subordinate to CS Lot 1 Promissory Note, the Shortfall Promissory Note and the 18% housing set-aside and no payment is due until this existing indebtedness has been satisfied. The Agency's obligation is wholly contingent and dependent upon the receipt of site tax increment. Provided that there are no other defaults under the notes, the Developer is to forgive any and all amounts due under the notes, including accrued interest, penalties and fees upon the maturity date. During the year the Agency received site tax increment revenue and paid \$742 in interest which was charged to program costs. Current balance on the Diamond Cornerstone Note at June 30, 2010 was \$312,936.

B. Tuscany Redevelopment Area

Commerce Note - On April 16, 2002, the Agency entered into an Owner Participation Agreement with Commerce and Associates, LLC, which provides that the Agency reimburse Commerce up to \$40 million for public improvements from 85% of the tax increment received from the Tuscany redevelopment project area. Interest on the note is 8.5%, but tolls when accumulated assessed value fails to equal or exceed the minimums per the promissory note. The original schedule for completion of all public and private improvements per the Owner Participation Agreement was by December 31, 2006. The developer has received four amendments extending the time for completion to December 15, 2011. The fourth amendment also increases the Agency's reimbursement commitment to \$60 million from 90% of the tax increment received from the Tuscany redevelopment project area, payable until such time that the 18% low-income housing set

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 12. Commitments and Contingencies (continued)

B. Tuscany Redevelopment Area (continued)

aside is required by NRS. At that time, the Agency's reimbursement commitment changes from 90% to 95% of the remainder after the low-income housing set aside. The amendment also modifies the promissory note interest rate such that interest shall not accrue until the date a certificate of completion is executed by the Agency. The interest rate is 5.25% per annum compounded annually. To date, the Agency has received \$11.3 million in tax increment that has been placed in the restricted cash account, and has recorded a liability due to the developer.

On June 15, 2010, the Agency entered into Amendment #4 to the original Owner Participation Agreement, with Commerce Associates, LLC, to release, within 30 days, \$7,507,500 of previously accumulated site tax increment to Nevada Construction Services (NCS). This amount is to be disbursed by NCS as Commerce Associates, LLC completes their final public improvements. Prior to release of funds, the improvements need to be inspected by NCS. The \$7,507,500 was transferred by the Agency to NCS in July 2010. NCS permitted Commerce Associates, LLC to draw \$229,593 and \$1,296,560 in September and October 2010, respectively.

C. Eastside Redevelopment Area

LandWell Note - On October 16, 2007, the Agency entered into an Owner Participation Agreement with LandWell, LLC, which provides that the Agency reimburse LandWell up to \$170 million for public improvements from 50% of the tax increment received from the project. Interest is at 8% but will toll when interest reaches \$39 million in total. The Agreement provides that the Agency set aside 50% of the tax increment received from the project on October 1 and April 1 as restricted cash until such times that a reimbursement is submitted and approved. To date, \$524,914 has been placed in a restricted cash account as well as recorded as a program expense and a liability due to developer. The Agency's obligation is wholly contingent and dependent upon receipt of project site tax increment. All unpaid principal and interest that remains owed thirty (30) years after the date of adoption of the Eastside Redevelopment Plan will be forgiven and deemed paid in full.

Note 13. Prior Period Adjustment

In previous years, pursuant to various Owner Participation Agreements with developers related to the Agency's redevelopment efforts, no liability to developers was recorded related to tax increment revenues received in advance of the various redevelopment

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 13. Prior Period Adjustment (continued)

projects being completed, which revenue must be used solely to repay the developers for constructing public improvements on behalf of the Agency. However, after further analysis of these agreements, it has been determined that a liability must be recognized if tax increment revenue has been collected, allowable public improvement expenditures have been made by the developer, and it is probable that the developer will be repaid. As a result, a prior period adjustment was recorded reducing previously reported net assets of governmental activities by \$9,130,848, and establishing a tax increment liability payable to developers of the same amount at July 1, 2009.

Note 14. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued Statement No. 59, *Financial Instruments Omnibus*. According to the GASB, this standard is intended to update and improve existing standards regarding financial reporting of certain financial instruments and external investment pools. Specifically, GASB 59 provides financial reporting guidance by doing the following:

- Emphasizing the applicability of SEC requirements to certain external investment pools (known as 2a7-like pools) to provide users more consistent information on qualifying pools;
- Addressing the applicability of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, to certain financial instruments to clarify which financial instruments are within the scope of that pronouncement and to provide greater consistency in financial reporting; and
- Applying the reporting provisions for interest-earning investment contracts of GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, to unallocated insurance contracts to improve the consistency of reporting by pension and other postemployment benefit plans.

GASB 59 is effective for financial statements prepared by state and local governments for periods beginning after June 15, 2010, with earlier application encouraged. Management has not completed its assessment of this statement; however, it is not expected that its adoption will materially affect the Agency's financial position, results of operations, or cash flows.

The GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, effective for periods beginning after June 15, 2009, with retroactive application required for all prior periods presented during which a government was in bankruptcy. Early application is encouraged. The Statement provides guidance for

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 14. New Accounting Pronouncements (continued)

governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code by establishing requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities and for classifying changes in those items and related costs.

The Agency has never declared bankruptcy, nor is it likely to do so in the future, so adoption of Statement No. 58 is not expected to affect the Agency's financial position, results of operation or cash flows.

The GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB 57 addresses issues related to measurement of other postemployment benefit (OPEB) obligations by certain employers participating in agent multiple-employer OPEB plans. GASB 57 amends GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The provisions of GASB 57 related to the use and reporting of the alternative measurement method are effective immediately, whereas other provisions are effective for periods beginning after June 15, 2011, with earlier application encouraged. The City of Henderson's OPEB plan, which the Agency participates in, is not an agent multiple-employer plan administered as a trust, or equivalent arrangement, and does not participate in such plans. Therefore, adoption of Statement No. 57 is not expected to affect the Agency's financial position, results of operation or cash flows.

The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. GASB 54 establishes a hierarchy of fund balance classifications based primarily on the extent to which a government is bound to observe spending constraints imposed upon how resources reported in governmental funds may be used. Specifically, GASB 54 distinguishes fund balance between amounts that are considered nonspendable and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Under GASB 54, fund balance amounts will be reported in the following classifications:

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Note 14. New Accounting Pronouncements (continued)

- Restricted - amounts constrained by external parties, constitutional provision, or enabling legislation;
- Committed - amounts constrained by a government using its highest level of decision-making authority;
- Assigned - amounts a government intends to use for a particular purpose; and
- Unassigned - amounts that are not constrained at all will be reported in the general fund.

GASB 54 is effective for financial statements for periods beginning after June 15, 2010. Early adoption is encouraged. Management has not completed its assessment of this statement; however, it is not expected that adoption of this statement will materially affect the Agency's financial position, results of operations, or cash flows.

SUPPLEMENTARY INFORMATION

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Combining Balance Sheet - By Project Area
 Governmental Fund - General Government - General Fund
 June 30, 2010

	<u>Downtown</u>	<u>Tuscany</u>	<u>Cornerstone</u>	<u>Eastside</u>	<u>Lakemoor</u>	<u>Administration</u>	<u>Total</u>
ASSETS							
Cash and investments	\$ 9,414,524	\$ 11,437,988	\$ 1,089,054	\$ 9,269,390	\$ 29	\$ 57,380	\$ 31,268,365
Receivables:							
Accounts	3,179	-	-	107	-	-	3,286
Accrued interest	34,368	49,665	4,808	39,731	-	408	128,980
Notes	509,756	-	-	19,429	-	-	529,185
Due from other governments	61,532	73,756	40,762	132,178	-	-	308,228
Land held for development	9,880,660	-	-	5,881,633	-	-	15,762,293
TOTAL ASSETS	<u>\$ 19,904,019</u>	<u>\$ 11,561,409</u>	<u>\$ 1,134,624</u>	<u>\$ 15,342,468</u>	<u>\$ 29</u>	<u>\$ 57,788</u>	<u>\$ 48,000,337</u>
LIABILITIES							
Accounts payable and accrued wages	\$ 48,262	\$ -	\$ 51,470	\$ 86,585	\$ -	\$ 56,679	\$ 242,996
Deposits held for others	150,000	-	-	-	-	-	150,000
Tax increment payable to developers	-	11,309,211	154,368	524,914	-	-	11,988,493
Advances from City of Henderson	3,209,916	-	-	-	-	-	3,209,916
Total liabilities	<u>3,408,178</u>	<u>11,309,211</u>	<u>205,838</u>	<u>611,499</u>	<u>-</u>	<u>56,679</u>	<u>15,591,405</u>
FUND BALANCE							
Reserved for:							
Land held for sale	9,880,660	-	-	5,881,633	-	-	15,762,293
Debt service	1,376,888	-	-	-	-	-	1,376,888
Notes receivable	509,756	-	-	19,429	-	-	529,185
Encumbrances	171,892	-	52,436	101,382	-	2,500	328,210
Unreserved and undesignated	4,556,645	252,198	876,350	8,728,525	29	(1,391)	14,412,356
Total fund balance	<u>16,495,841</u>	<u>252,198</u>	<u>928,786</u>	<u>14,730,969</u>	<u>29</u>	<u>1,109</u>	<u>32,408,932</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 19,904,019</u>	<u>\$ 11,561,409</u>	<u>\$ 1,134,624</u>	<u>\$ 15,342,468</u>	<u>\$ 29</u>	<u>\$ 57,788</u>	<u>\$ 48,000,337</u>

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - By Project Area - Governmental Fund - General Government - General Fund
For the Year Ended June 30, 2010

	Downtown	Tuscany	Cornerstone	Eastside	Lakemoor	Administration	Totals
REVENUES							
Tax increment	\$ 4,347,640	\$ 2,554,404	\$ 1,075,233	\$ 4,957,568	\$ 34	\$ -	\$ 12,934,879
Interest and rent revenue	233,445	263,764	25,543	214,156	-	1,109	738,017
Intergovernmental	67,850	-	-	-	-	-	67,850
Miscellaneous	15,000	-	-	-	297	-	15,297
Total revenues	<u>4,663,935</u>	<u>2,818,168</u>	<u>1,100,776</u>	<u>5,171,724</u>	<u>331</u>	<u>1,109</u>	<u>13,756,043</u>
EXPENDITURES							
Current:							
General government:							
Salaries and wages	13,345	-	-	9,904	-	1,024,634	1,047,883
Employee benefits	2,750	-	-	3,655	-	326,067	332,472
Services and supplies	560,923	29,720	386	150,786	297	258,332	1,000,444
Program costs	2,245,956	2,542,985	583,135	1,059,979	-	-	6,432,055
Total general government	<u>2,822,974</u>	<u>2,572,705</u>	<u>583,521</u>	<u>1,224,324</u>	<u>297</u>	<u>1,609,033</u>	<u>8,812,854</u>
Debt service:							
Principal payments	565,000	-	-	-	-	-	565,000
Interest payments	793,176	-	-	-	-	-	793,176
Total debt service	<u>1,358,176</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,358,176</u>
Total expenditures	<u>4,181,150</u>	<u>2,572,705</u>	<u>583,521</u>	<u>1,224,324</u>	<u>297</u>	<u>1,609,033</u>	<u>10,171,030</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>482,785</u>	<u>245,463</u>	<u>517,255</u>	<u>3,947,400</u>	<u>34</u>	<u>(1,607,924)</u>	<u>3,585,013</u>
OTHER FINANCING SOURCES (USES)							
Transfer to/from other RDA funds						1,662,156	1,662,156
Transfer to other RDA funds	(680,850)	(127,428)	(107,222)	(746,651)	(5)	-	(1,662,156)
Total other financing Sources (uses)	<u>(680,850)</u>	<u>(127,428)</u>	<u>(107,222)</u>	<u>(746,651)</u>	<u>(5)</u>	<u>1,662,156</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(198,065)	118,035	410,033	3,200,749	29	54,232	3,585,013
FUND BALANCE, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	16,693,906	8,900,389	883,375	11,530,220	-	(53,123)	37,954,767
PRIOR PERIOD ADJUSTMENT	-	(8,766,226)	(364,622)	-	-	-	(9,130,848)
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED	<u>16,693,906</u>	<u>134,163</u>	<u>518,753</u>	<u>11,530,220</u>	<u>-</u>	<u>(53,123)</u>	<u>28,823,919</u>
FUND BALANCE, END OF YEAR	<u>\$ 16,495,841</u>	<u>\$ 252,198</u>	<u>\$ 928,786</u>	<u>\$ 14,730,969</u>	<u>\$ 29</u>	<u>\$ 1,109</u>	<u>\$ 32,408,932</u>

COMPLIANCE REPORTS

**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 GOVERNMENT AUDITING STANDARDS**

Members of the City of Henderson
Redevelopment Agency Board
City of Henderson, Nevada

We have audited the basic financial statements of the City of Henderson Redevelopment Agency (the Agency), a component unit of the City of Henderson, as of and for the year ended June 30, 2010, and have issued our report thereon dated November 18, 2010. 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.

Internal Control over Financial Reporting. In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 deficiencies described as items 2010-1 and 2010-2 in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and other matters. As part of obtaining reasonable assurance about whether the Agency's basic financial statements are free of 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 including whether the funds established by the Agency, as described in Nevada Revised Statutes (NRS) 354.624(5)(a)(1) – (5), complied with the express purposes required by NRS 354.6241. 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 Honorable Mayor,
Members of the City Council and
Management of the
City of Henderson, Nevada

The Agency's responses to the findings identified in our audit are included in the accompanying schedule of findings and responses. However, we did not audit the Agency's responses and, accordingly, we express no opinion on them.

We noted certain matters that were reported to the Agency's management in a separate letter dated November 18, 2010.

This report is intended for the information and use of the Redevelopment Agency Board, management of the Agency, federal awarding agencies and pass-through entities. However, this report is a matter of public record, and therefore, its distribution is not limited.

A handwritten signature in blue ink that reads "Percy Bowler Taylor". The signature is written in a cursive style with a stylized flourish at the end.

November 18, 2010

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2010

2010-1

Criteria	Agreements that could have a potentially material effect on the Agency's financial statements should be reviewed, with the salient provisions abstracted and summarized to support and document the rationale for the accounting treatment applied.
Condition/context	Certain Owner Participation Agreements (OPAs) and Disposition and Development Agreements (DDAs), each of which include material commitments that may potentially obligate the Agency over the next several years, have not been abstracted. In addition, although Agency management appears familiar with the various OPAs and DDAs, documentation supporting prior decisions regarding the accounting treatment for certain provisions of each OPA or DDA has not been created and reviewed by an appropriate level of management.
Effect	A material commitment to a developer and a \$9.1 million liability to various developers were not reported in the prior year financial statements, and a \$2.3 million adjustment to the amount owed to developers was not recorded in the current year.
Cause	The majority of OPAs and DDAs were originally written and maintained by individuals who are no longer with the Agency. However, current management has not adequately summarized and documented its understanding of the material provisions of all of the agreements, including documenting its rationale for the accounting treatment applied to each agreement.
Recommendation	We recommend that management create documentation summarizing its understanding of the salient, material provisions of the OPAs and DDAs and the rationale for the accounting treatment applied to those provisions. These abstracts should be updated periodically to document the status of the related development, the perceived financial condition of the developer and the perceived value of collateral for notes receivable, if any. The abstracts and updates thereto should be reviewed periodically by an appropriate level of management to provide reasonable assurance that all material provisions are properly reported and adequately disclosed in the notes to the Agency's basic financial statements.
Management response	Management has informed us that because of the recent changes in management and staff, management has again been reviewing all of the agreements with the Agency's legal counsel. Due to limited staff, not all agreements have been reviewed; however, the review is well underway and is scheduled to be complete no later than the end of fiscal year 2011. While management is very familiar with the salient, material provisions of each agreement, written summaries have not been completed. Management will complete documented summaries and abstracts indicating the reasoning for specific accounting treatment.

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Schedule of Findings and Responses (continued)
For the Fiscal Year Ended June 30, 2010

2010-1 (continued)

Management response
(continued)

Management has also informed us that they agree with this very conservative approach to the recording of current financial resources available to make future payments as advances are added to the note payable, upon the developer meeting all of the requirements of the agreement.

Lastly, management informed us that it extensively discussed the agreements, including all material provisions, with the two previous auditing firms agreeing with the reporting of a contingent liability for each agreement. Because GASB is silent on this issue, management was reporting the contingent liability in the notes to the financial statements during the time that the developers had not completed all of the requirements to the agreements.

THE CITY OF HENDERSON REDEVELOPMENT AGENCY
(A Component Unit of the City of Henderson, Nevada)

Schedule of Findings and Responses (continued)
For the Fiscal Year Ended June 30, 2010

2010-2

Criteria	Notes receivable are periodically evaluated for impairment based on evolving events and circumstances that may be impairment indicators (<i>i.e.</i> , those that increase the risk that the recorded balance may not be collectible).
Condition/context	The Agency has several notes receivable from developers which, due to the current economic climate and the hardships being experienced by developers, should be evaluated for impairment.
Effect	The Agency's notes receivable were overstated by \$775,000 due to an unrecorded impairment charge.
Cause	Due to ineffective monitoring, a formal impairment analysis on the Agency's notes receivable was not completed.
Recommendation	The collectibility of the Agency's notes receivable from developers should be evaluated at least annually for impairment based on evolving events and circumstances that may be indicators of impairment. The perceived financial condition of the counterparty, as well as the Agency's collateral should be considered in determining if the receivable is impaired.
Management response	Management has informed us that the collateral for notes will be reviewed by appropriate staff (<i>i.e.</i> , property experts, <i>etc.</i>) annually to validate notes receivable balances or recommend impairments.