

**CITY OF HENDERSON, NEVADA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Prepared by:
Department of Finance

Steven M. Hanson
Finance Director

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CITY OF HENDERSON, NEVADA

**Comprehensive Annual Financial Report
For the Year Ended June 30, 2009**

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CITY OF HENDERSON
240 Water Street
P. O. Box 95050
Henderson, NV 89009

November 4, 2009

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, 2009 is hereby submitted. State law requires that local governments 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. 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 of Henderson 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 of Henderson's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City of Henderson'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 of Henderson's financial statements have been audited by Gallina, LLP, 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 of Henderson for the fiscal year ended June 30, 2009 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 unqualified opinion that the City of Henderson's financial statements for fiscal year ended June 30, 2009, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

Profile of the Government

The City of Henderson is located in the southeastern part of Clark County, Nevada which ranks as one of the nation’s top growth areas. With a population of approximately 274,293, 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 elected 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 of Henderson 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 Manager of Budget and Strategic Planning 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.

Factors Affecting Financial Condition

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", with one of our goals being to maintain Henderson's property taxes at the same low rate for 19 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. These include, but are not limited to, Ocean Spray Cranberries, Inc., Ethel M. Chocolates, and Good-Humor-Breyers Ice Cream. Henderson also has defined gaming districts which include casino/resort development such as the M Resort, Loew's Resort, Sunset Station, Fiesta Henderson, and Green Valley Ranch Station.

In light of the significant economic downturn, the Finance Department has prepared a comprehensive 5-year plan to address the shortfall in revenue. During fiscal year 2009 several measures were implemented in order to work toward a balanced budget. These immediate, mid-term and long-term cost saving approaches can be applied City-wide. The City has already implemented salary and benefit savings through a hiring freeze for all non-critical positions, an employee buyout program, overtime restrictions, suspension of City's deferred compensation match, as well as the suspension of car allowance benefits, provide an option for compensatory time off in-lieu of paid overtime, suspension of cost-of-living pay raises, as well as modifications to paid holidays including the elimination of the Columbus Day holiday. Savings to expenses were also realized through a prohibition of all non-essential travel, reduction to base operating budgets, stricter cell phone policies, consolidation of service contracts, surrendering of one-time funds, and deferring of capital projects.

In the first few months of fiscal year 2010, the City implemented a policy to close City Hall on Fridays, and implemented some operating cuts that will not affect services provided to our citizens. Further reductions are pending council action. In addition each department has been tasked with identifying additional cost saving opportunities. The City has built up reserves in some funds that can help to bridge the operating loss for the short term as other strategies are investigated and implemented.

The local housing market has experienced a significant slow down in construction and sales activity. In June 2009, the median price for new homes and resale homes combined was down 42% from June 2008. Total home sales during this same 12 month period was up 30% from the prior 12 months. This improved housing affordability can be, however, detrimental to consumer and business confidence due to losses of equity.

Indicators show that consumers are saving at the highest rate in 15 years, and outstanding consumer and commercial loan balances are being paid down. Both of these statistics indicate a fundamental change in spending which can prolong economic recovery.

In early fiscal year 2010, the official Clark County unemployment estimate was 12.3% with the National rate at 9.5%. Most of the job losses were in the construction, leisure and hospitality, and professional and business service categories. However, the M Resort opened in Henderson in March 2009 and created approximately 1,500 jobs. The first phase of the City Center in Las Vegas is due to open later this year. Upon completion of the project, 12,000 new permanent positions will be created for the Las Vegas Valley.

The City has reduced its workforce through the hiring freeze and employee buyout program, while still delivering award-winning service to residents. Compared with other local municipalities, the City of Henderson continues to maintain the lowest employee-to-resident ratio at 7 employees per 1,000 residents. Historically, combined with conservative budgeting, the City has had the ability to sustain municipal service levels.

Henderson has a tax rate of \$.7108 per \$100 in assessed valuation. This property tax rate has remained relatively steady for the past nineteen years and continues to be one of the lowest in the State of Nevada.

Long Term Financial Planning. The City has an annual performance planning process. These plans include the following, but are contingent upon available funds:

- Provide efficient public services while maintaining one of the lowest employee-to-citizen ratios in the Las Vegas Valley
- Maintain the City of Henderson property tax at the same low rate for 19 years
- Continued development and enhancements of the citywide asset management program

The City of Henderson 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 2010 include, but are contingent upon available funding: Municipal Facilities to fund the completion of the Heritage Park Senior Center and several maintenance/renovation projects at City recreation centers and fire stations. The City will continue to partner with the Clark County Regional Flood Control District, the Regional Transportation Commission and developers to fund projects to include flood channels, street projects, and parks.

Under virtually any population growth scenario, existing revenue generating sources such as sales and property taxes and traditional bond financing for capital projects, would be hard pressed to keep up with the normal demand for streets, storm sewers, fire stations, and other facilities. Large capital improvement projects take many years to plan, finance, and complete. Funding for these projects will be needed long before the number of residents moving into the area will support the facility construction costs. It might be several years before population growth is sufficient to generate the revenue needed for ongoing operating expenses.

The City is monitoring the impact of the property tax legislation passed during the 2005 Legislative session. The State passed a law to impose a cap on the increase in the taxable value of property. For primary residences, a 3% cap was implemented and an 8% cap on land, commercial buildings, business personal property, and other property. Property values, which had been increasing at above historical average rates for several years, have started to decline in light of oversupply of resale and foreclosure homes. This tax abatement reduced the amount of property tax dollars for the City by an estimated \$10 million for fiscal year 2010. Due to decreases in assessed value in our city, the abatement amount has been decreasing. The amount of abatement for subsequent years will depend upon assessed value of property.

An ongoing challenge facing the City is the economic impact of the housing slowdown and the impact it has had on sales tax revenues. The decline in residential construction activity has resulted in a drop in sales of building supplies and other home-improvement related items. The City's Consolidated Tax collection, of which 85% is related to sales tax, was down 16% in fiscal year 2009 compared to fiscal year 2008. In addition the State of Nevada is now retaining an additional \$890,000 per year that had previously been remitted to the City.

Cash Management Policies and Practices. Cash temporarily idle during the year was invested in U. S. Treasury and agency obligations, banker's acceptances, and the State Treasurer's investment pool. The average yield on investments was approximately 3.46%.

The City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, investments were either in U.S. Treasury and agency obligations; insured by Federal Depository Insurance; or collateralized. One hundred percent of the categorized investments held by the City at June 30, 2009 are classified in the category of lowest credit risk as defined by the Governmental Accounting Standards Board. Investment income includes changes (appreciation or depreciation) in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in

the case of temporary changes in the fair value of investments that the government intends to hold to maturity.

Risk Management. The City has obtained \$10,000,000 in excess Commercial General Liability Insurance with a \$1,000,000 self-insured retention (SIR). In addition, the City continues to maintain the following coverage: a \$640 million blanket property insurance policy on all buildings and building contents with a \$100,000 deductible; a \$100,000,000 Boiler & Machinery policy with a \$100,000 deductible; \$5.4 million Inland Marine coverage on a scheduled basis for heavy equipment with a \$50,000 deductible; a \$250,000 Commercial Crime policy with a \$2,500 deductible that covers employee dishonesty, forgery and alteration; and a \$10.8 million Fire Engine and Equipment Physical Damage policy with a \$10,000 deductible.

The City maintains its self-insurance fund to cover all claims made or occurring prior to the effective date of the excess liability policy and all claims that fall under the \$1,000,000 SIR. The City's Risk Management division works with the City Attorney's office; an outside claims adjusting firm; the excess insurance company and its administrator; and, applicable departments in handling claims filed against the City. In addition the City obtains an actuarial analysis on a biannual basis. At June 30, 2009 the Self Insurance Fund had \$5,813,288 in working capital. No current claims are expected to be settled in a manner which would adversely affect the fund's financial condition.

On July 1, 1992 the city became self insured for employee health benefits, providing medical dental and vision care. The City maintains a specific stop loss policy of \$100,000 per participant, per plan year with plan benefits subject to a \$2,000,000 lifetime maximum is maintained. A third party administrator is used to pay claims.

On April 1, 1993 the City became self insured for worker's compensation claims. A third party administrator is utilized for claim payment. The City has a \$1,500,000 SIR for all public safety employees and a \$1,000,000 SIR for all other employees per occurrence, with the maximum on all claims at statutory limits for the coverage period from April 1, 2009 through April 1, 2010.

Pension Information. The employees of the City are covered by the State of Nevada Public Employees' Retirement System. The City does not exercise any control over the plan and is not liable for any of the plan's unfunded obligations. The Plan was established on July 1, 1948 by the Nevada Legislature and is governed by the Public Employees' Retirement Board, whose seven members are appointed by the Governor.

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, 2008.

This was the 27th 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.

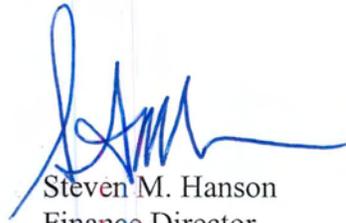
The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the Finance Department's Accounting Division staff as well as certain members of the City Manager's staff, Public Works Department, and the Neighborhood Services staff. We would 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 Gallina, LLP, 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,



Mark T. Calhoun
City Manager



Steven M. Hanson
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Henderson
Nevada

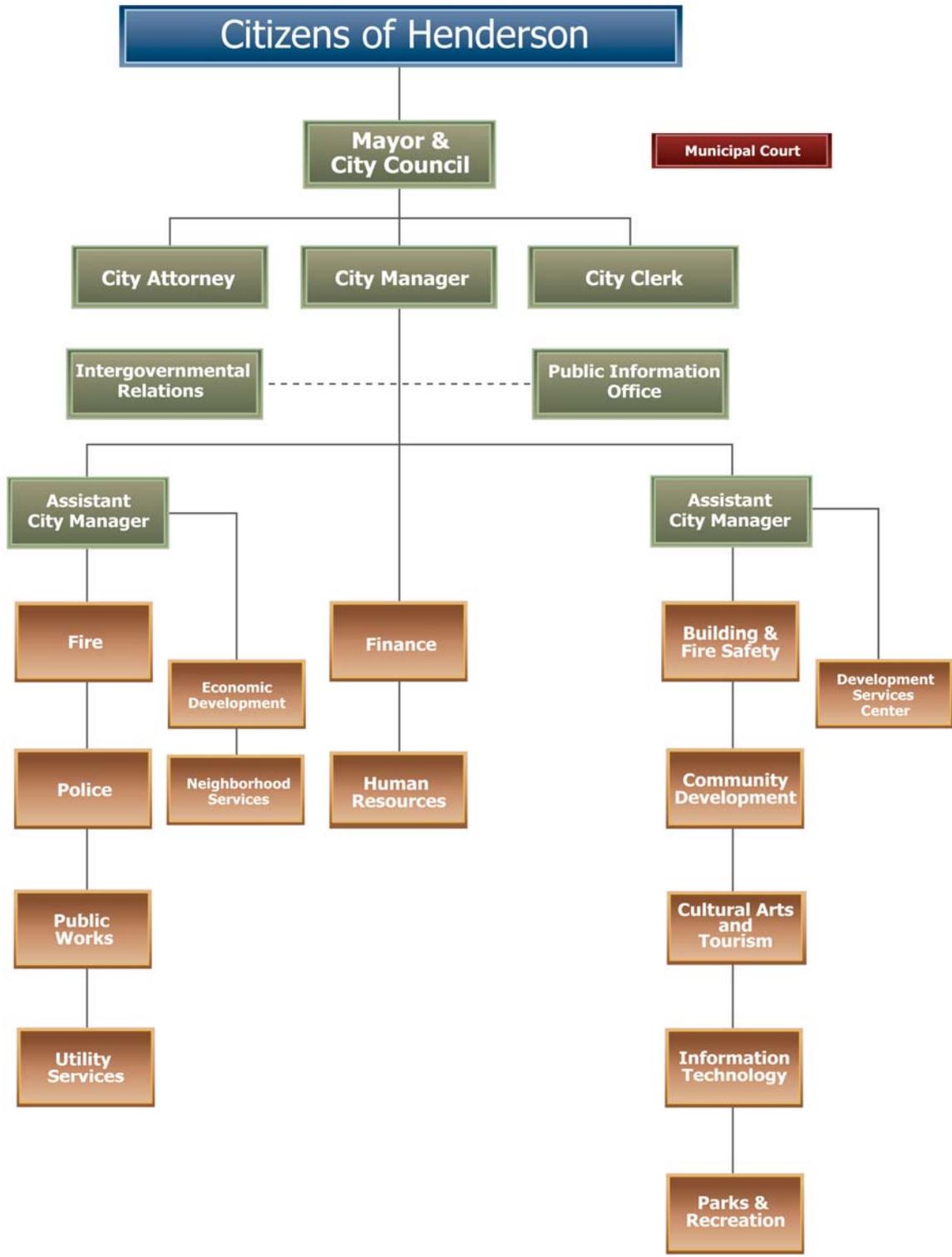
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



MAYOR AND COUNCIL

Andy A. Hafen, Mayor
Steven D. Kirk, Councilman
Gerri Schroder, Councilwoman
Kathleen Boutin, Councilwoman
Debra March, Councilwoman

CITY OFFICIALS

Mark T. Calhoun, City Manager
Elizabeth Macias Quillin, City Attorney
Monica M. Simmons, City Clerk



INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor
Members of the City Council and
City Manager
City of Henderson, Nevada

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Henderson, Nevada, as of and for the year ended June 30, 2009, which collectively comprise the City of Henderson's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of City of Henderson. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 City'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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Henderson, Nevada, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2009, on our consideration of City of Henderson's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.