

**CITY OF HENDERSON, NEVADA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**Prepared by:
Department of Finance**

**Richard A. Derrick
Finance Director**

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For the Year Ended June 30, 2010

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2010

Comprehensive Annual Financial Report

City of Henderson, Nevada

Introductory Section



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

November 23, 2010

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, 2010 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 Piercy Bowler Taylor & Kern, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Henderson for the fiscal year ended June 30, 2010 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, 2010, 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 276,629, 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.

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 20 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, Sunset Station, Fiesta Henderson, and Green Valley Ranch Station.

An ongoing challenge for the public entities in Nevada has been the economic impact of the housing slowdown and the effect it has had on sales tax revenues. Total sales tax collection during the 12 month period ended June 2010 declined 10% compared to the same 12 month period from the prior year.

Property values, which previously had been increasing at above historical average rates for several years, significantly declined due to the excess of foreclosed homes and the related credit crisis. The City is monitoring the housing market and the impact this supply imbalance will have on future property tax revenues. The City is also monitoring other potential Legislative changes that may impact revenue sources.

The decline in residential construction activity has resulted in a drop in sales of building supplies and other home-improvement related items. Sales growth is expected to decline further in late 2010 and remain flat through the first half of 2011.

In August 2010, the official Clark County unemployment estimate was 14.7% with the National rate at 9.6%. In the Southern Nevada area, employers shed a total of approximately 1,500 jobs from July to August. The decline was attributed to a decrease in public sector jobs, which shed approximately 2,700 jobs, but was partially offset by small improvements in a variety of industries, most notably construction, education and health services.

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

The City is highly reliant on the economically-sensitive consolidated tax; a variety of sales taxes collected statewide on liquor, gaming and other items then distributed to municipalities according to a formula based on growth and population. Because of the dependence on consolidated tax, visitor volume is a key leading indicator for the local economy. Visitor volume is expected to remain below historical growth levels due to lower discretionary spending habits of consumers, high unemployment levels and a general decline in consumer confidence as a result of the current U. S. recession. If national employment figures improve and consumer confidence rebounds in 2011, visitor volume, convention attendance, occupancy rates and average daily room rates will all be positively impacted.

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

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 20 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 2011 include, but are contingent upon available funding: Municipal Facilities Acquisition & Construction Fund to fund Detention Center Expansion; General Fund to fund energy performance upgrades to various City facilities; Grants and contributions to fund various parks and recreation projects, including Union Pacific Trial Phase III and Whitney Springs Park; Sewer Fund to fund the Southwest Water Reclamation Facility Phase I; the City will continue to partner with the Clark County Regional Flood Control District, the Regional Transportation Commission, Nevada Department of Transportation, and developers to fund projects to include flood channels and street projects.

In a worst-case scenario, if a prolonged economic downturn occurred, and annual revenues could not support the costs of essential services and infrastructure development, the City could consider several options. The first option could be to increase revenues from existing sources

such as property taxes or creating new taxing sources. The second option could include delaying future growth-related infrastructure development. Other options include expense reductions by various operating means.

The purpose of financial forecasting is to reduce the likelihood of ever having to resort to any worst-case financial alternatives, except in the most extreme circumstances. For this reason, a conservative approach is used to ensure revenues are not overstated, and expenses are not understated.

A city's ability to generate revenue or create new revenue sources is limited by social and economic conditions, state statutes, City Council policy, and public sentiment, which is increasingly being manifested in the form of voter led ballot initiatives.

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 tax revenue has experienced decreases in the past few years due to the continued declines in assessed valuation. The entire Las Vegas Valley has experienced a drop in assessed valuation in the past two consecutive fiscal years. It is unknown when the assessed valuation will stabilize. At this point, the City is projecting zero growth for fiscal year 2011 and 2012 and modest growth for the next several years. The tax abatement described above will reduce the amount of property tax dollars for the City by an estimated \$3 million for fiscal year 2011. Due to decreases in assessed value in our city, the abatement amount has been decreasing. It is estimated that for Fiscal Year 2012, the assessed valuation will have decreased to a point that abatement will be very minimal.

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 10% in fiscal year 2010 compared to fiscal year 2009.

Major Initiatives

In 2008, the City began to prepare a 5-year plan to address the significant economic downturn that the country was facing. A 5-year plan committee was formed which continues to meet on a bi-weekly basis to assess current revenues & expenditures, and discuss options.

Throughout fiscal years 2009 and 2010, several cost cutting strategies were implemented. Employment compensation reductions included: 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, 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, and the elimination of the tuition reimbursement program. Other expenditure reductions included prohibition of non-essential travel, reduction to base operating budgets, stricter cell phone policies, consolidation of service contracts, surrendering of one-time funds, reduction of non-essential services, extension of

vehicle life, reduction to the city vehicle fleet, the closing of City Hall on Fridays, and deferring of capital projects.

Each department has compiled a new contingency plan that may be implemented if the current revenue targets are not met. In addition the City is looking into revenue enhancement opportunities that could be presented to Council for approval.

To date, the City has avoided layoffs, having success with cost reductions, employee buyout packages, and execution of various contingency plans. Compared to other municipalities, the City continues to maintain the lowest employee-to citizen ratio at 6.7 per 1,000 residents. Historically, combined with conservative budgeting, the City has had the ability to sustain municipal service levels.

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, 2009.

This was the 28th consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

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

Respectfully submitted,



Mark T. Calhoun
City Manager



Richard A. Derrick
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, 2009

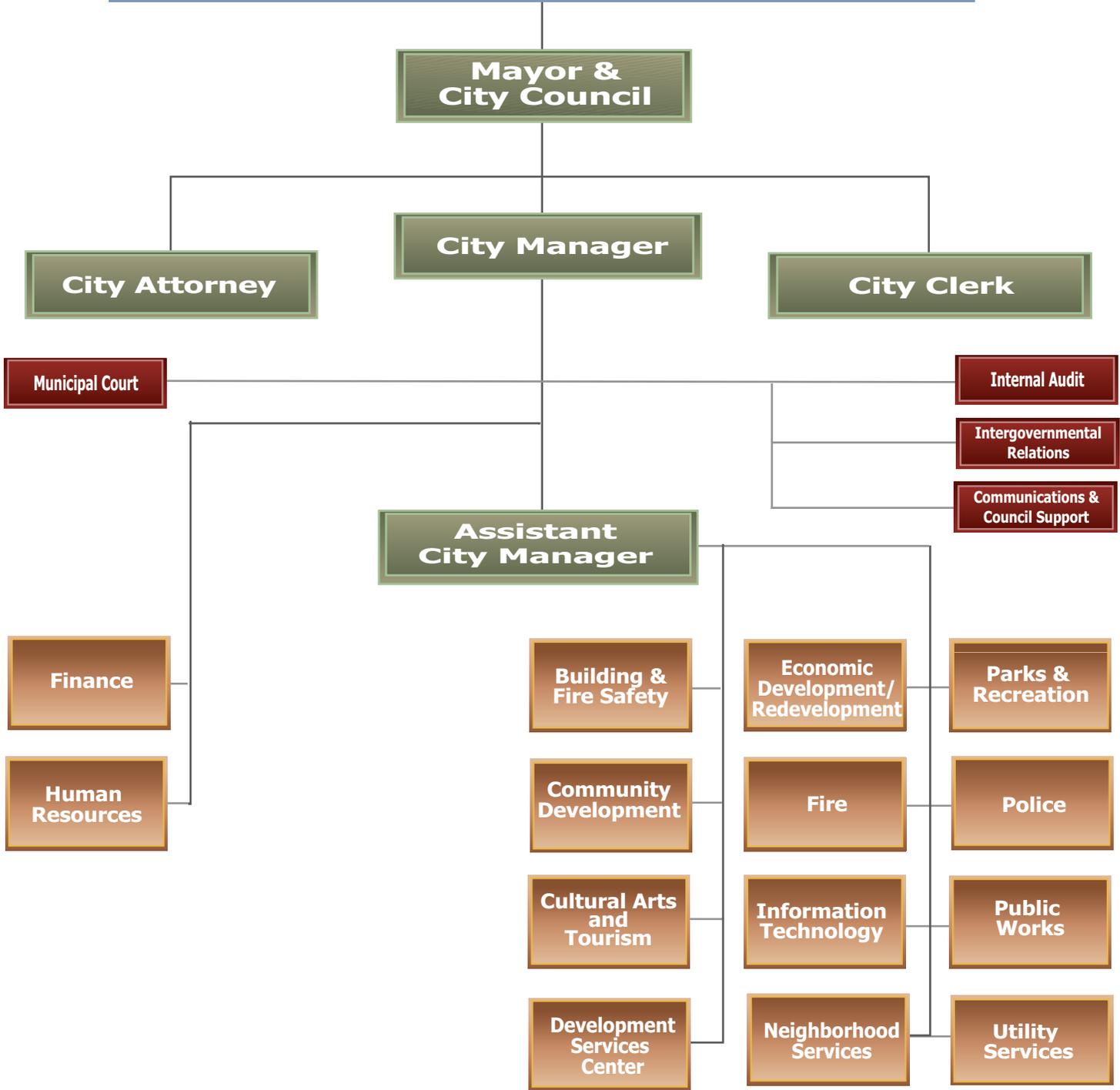
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

Citizens of Henderson



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
Sabrina Mercadante, City Clerk