

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

Annual Financial Report

For the Year Ended June 30, 2013

State of Nevada

CITY OF HENDERSON REDEVELOPMENT AGENCY

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FINANCIAL SECTION

P B T K

PIERCY BOWLER
TAYLOR & KERN

Certified Public Accountants
Business Advisors

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

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

We have audited the accompanying 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, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

An audit performed in accordance with applicable professional standards is a process designed to obtain reasonable assurance about whether the Agency's basic financial statements are free from material misstatement. This process involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the basic financial statements to enable the design of 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the basic financial statements.

Management's Responsibility for the Financial Statements. Management is responsible for the preparation and fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility. Our responsibility is to express an opinion on the 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 basic financial statements are free from material misstatement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion. In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of and for the year ended June 30, 2013, and the changes in financial position, and the budgetary comparison information for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters. Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and postemployment benefits other than pensions, schedule of funding progress on pages 3-8 and 37-38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United

States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information. Our audit was conducted for the purpose of forming our opinion on the financial statements that collectively comprise the Agency's basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*. In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2013, 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* in considering the Agency's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Perry Boulton Taylor & Kern". The signature is written in a cursive, flowing style.

Las Vegas, Nevada
November 6, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF HENDERSON REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2013

As management of the City of Henderson Redevelopment Agency's (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, 2013.

Financial Highlights

The assets of the Agency's governmental activities exceeded its liabilities at the close of the most recent fiscal year by \$16,435,061 (net position).

The Agency's total liabilities on the Statement of Net Position decreased by \$4,325,870 (23.4%) 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 ending fund balance of \$29,418,639, a decrease of \$1,864,115 in comparison with the prior year restated amount. The decrease is a result of expenditures exceeding property tax increment for redevelopment projects. Approximately 48.3% of fund balance is restricted for future redevelopment activities.

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 Position presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 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 9 and 10 of this report.

CITY OF HENDERSON REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

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 governmental funds 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 11 through 14 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 financial statements. The notes to the basic financial statements can be found on pages 17 through 36 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 \$16,435,061 (net position).

CITY OF HENDERSON REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

Summary Statement of Net Position

| | Governmental Activities | |
|----------------------------------|-------------------------|----------------------|
| | 2013 | 2012 (Restated) |
| Assets | | |
| Current, restricted and other | \$ 30,585,828 | \$ 35,436,987 |
| Capital | | 1,996,214 |
| Total assets | <u>30,585,828</u> | <u>37,433,201</u> |
| Liabilities | | |
| Current | 890,475 | 2,008,477 |
| Long-term | <u>13,260,292</u> | <u>16,468,160</u> |
| Total liabilities | <u>14,150,767</u> | <u>18,476,637</u> |
| Net position | | |
| Net investment in capital assets | | 1,996,214 |
| Restricted | <u>16,435,061</u> | <u>16,960,350</u> |
| Total net position | <u>\$ 16,435,061</u> | <u>\$ 18,956,564</u> |

Total net position of the Agency at June 30, 2013, was \$16,435,061. Of the total liabilities of \$14,150,767, approximately 89.3% relate to long-term liabilities of the Agency.

Summary Statement of Changes in Net Position

| | Governmental Activities | |
|---------------------------------------|-------------------------|------------------|
| | 2013 | 2012 Restated |
| Revenues | | |
| Program revenues | | |
| Charges for services | \$ 120,975 | \$ |
| General revenues | | |
| Property taxes | 4,648,687 | 5,124,360 |
| Unrestricted investment income | 175,446 | 315,669 |
| Decrease in fair value of investments | (307,553) | |
| Miscellaneous | <u>151,346</u> | <u>61,305</u> |
| Total revenues | <u>4,788,901</u> | <u>5,501,334</u> |
| Expenses | | |
| General government | 9,187,693 | 5,152,467 |
| Interest expense and fiscal charges | <u>694,430</u> | <u>767,013</u> |
| Total expenses | <u>9,882,123</u> | <u>5,919,480</u> |

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

Summary Statement of Changes in Net Position

| | Governmental Activities | |
|--|-------------------------|------------------|
| | 2013 | 2012 Restated |
| Transfers | \$ (81,937) | \$ |
| Special and extraordinary items | | |
| Advances forgiven by the City of Henderson | 2,653,656 | |
| Change in net position | (2,521,503) | (418,146) |
| Net position, beginning of year | 18,956,564 | 20,357,860 |
| Net position, end of year | \$ 16,435,061 | \$ 18,956,564 |

Total revenues were \$4,788,901 for the year ended June 30, 2013, consisting primarily of property taxes, while total expenses were \$9,882,123. There was a \$307,553 net decrease in the fair value of investments. This is due to the GASB 31 adjustment which requires an adjustment to market value for investments. The excess of expenses over revenues resulted in a decrease in net position of \$2,521,503

At the end of the current fiscal year, the Agency is able to report a positive balance in Net Position.

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 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, restricted fund balance for future redevelopment activities 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 restricted fund balance for future redevelopment activities to fund expenditures. Restricted fund balance for future redevelopment activities represents 271% of total fund expenditures, including debt service expenditures. This increased restricted fund balance for future redevelopment activities will give the Agency's General Fund sufficient cash to meet its near-term operational obligations.

General Fund Budgetary Highlights

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

Revenue estimates increased by approximately \$411,920, which consisted of an increase in tax increment revenue of \$250,000 due to revenue being realized in Eastside even though the area's current assessed value is below the base year value, as well as fines and forfeitures revenue resulting from the termination of an Owner Participation Agreement with forfeiture of the construction deposit.

Budgeted expenditures were decreased by approximately \$235,928, the majority representing a decrease in program costs as a result of fewer participants in the offered programs during fiscal year 2013.

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

Capital Asset and Debt Administration

Capital Assets

The Agency does not have any capital assets as of June 30, 2013. Additional information on the Agency's capital assets is provided in Note 6 of the notes to financial statements.

Long-term Liabilities

At the end of the fiscal year, the Agency had total bonded debt outstanding of \$12,360,000. Of this amount, \$9,005,000 is considered tax allocation debt of senior bonds and \$3,355,000 is tax allocation debt of junior bonds. The remainder of long term liabilities includes compensated absences and post employee benefits.

| Outstanding Long-term Liabilities | | Governmental Activities | |
|--|--|-------------------------|----------------------|
| | | 2013 | 2012 |
| Long-term liabilities, due within one year | | | |
| Bonds and notes payable | | \$ 680,000 | \$ 650,000 |
| Compensated absences | | 10,888 | 8,821 |
| Long-term liabilities, due in more than one year | | | |
| Bonds and notes payable | | 11,680,000 | 12,360,000 |
| Due to other governments | | 621,261 | 3,209,916 |
| Compensated absences | | 142,901 | 120,895 |
| Other postemployment benefits | | 125,242 | 118,528 |
| Total long-term liabilities | | <u>\$ 13,260,292</u> | <u>\$ 16,468,160</u> |

Upon issuance of Financial Guaranty Insurance Policy, in June 2002, Standard & Poor's Ratings Service and Moody's Investor Service assigned the Senior 2002 Bonds Ratings of "AAA" and "Aaa", respectively. Standard & Poor's assigned an underlying rating of "BBB+" and last affirmed that rating in February 2012.

Additional information on the Agency's long-term liabilities 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 rely heavily upon tax increment, or the incremental value of ad valorem tax and personal property tax above the base year, as a primary revenue source. In Clark County, assessed values have decreased significantly over the past four years.

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.

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CITY OF HENDERSON REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

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 2013-2014 fiscal year.

Requests for Information

The financial report is designed to provide a general overview of the Agency's finances for all those with an interest in the Agency's finances. 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 512, Henderson, Nevada 89009-5050.

BASIC FINANCIAL STATEMENTS

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

CITY OF HENDERSON REDEVELOPMENT AGENCY

STATEMENT OF NET POSITION

JUNE 30, 2013

| | Governmental Activities |
|--|----------------------------|
| ASSETS | |
| Cash and cash equivalents, unrestricted | \$ 7,934,758 |
| Cash and cash equivalents, restricted | 473,858 |
| Investments | 8,816,451 |
| Accounts receivable, net | 5,475 |
| Interest receivable | 31,068 |
| Due from other governments | 36,731 |
| Land held for development | <u>13,287,487</u> |
| Total assets | <u>30,585,828</u> |
| LIABILITIES | |
| Accounts payable and other accrued liabilities | 59,370 |
| Accrued wages | 12,700 |
| Tax increment payable to developers | 473,858 |
| Interest payable | 344,547 |
| Long-term liabilities, due within one year | |
| Bonds and notes payable | 680,000 |
| Compensated absences | 10,888 |
| Long-term liabilities, due in more than one year | |
| Bonds and notes payable | 11,680,000 |
| Due to other governments | 621,261 |
| Compensated absences | 142,901 |
| Other postemployment benefits | <u>125,242</u> |
| Total liabilities | <u>14,150,767</u> |
| NET POSITION | |
| Restricted for | |
| Land development | 13,287,487 |
| Debt service | 1,376,862 |
| Contractual obligations | 89,201 |
| Economic stabilization | 455,374 |
| Future redevelopment activities | <u>1,226,137</u> |
| Total net position | <u>\$ 16,435,061</u> |

See notes to basic financial statements.

CITY OF HENDERSON REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

| FUNCTION/PROGRAM | Expenses | Program Revenues | | Net (Expenses) Revenues and Change in Net Position |
|--|---------------------|-------------------------|--|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| | | | | Governmental Activities |
| Governmental activities | | | | |
| General government | \$ 9,187,693 | \$ 120,975 | \$ | \$ (9,066,718) |
| Debt service | | | | |
| Interest expense and fiscal charges | <u>694,430</u> | | | <u>(694,430)</u> |
| Total function/program | <u>\$ 9,882,123</u> | <u>\$ 120,975</u> | <u>\$</u> | <u>\$ (9,761,148)</u> |
| GENERAL REVENUES | | | | |
| Property taxes | | | | 4,648,687 |
| Unrestricted investment income | | | | 175,446 |
| Decrease in fair value of investments | | | | (307,553) |
| Miscellaneous | | | | <u>151,346</u> |
| Total general revenues | | | | <u>4,667,926</u> |
| Transfers | | | | <u>(81,937)</u> |
| SPECIAL AND EXTRAORDINARY ITEMS | | | | |
| Advances forgiven by the City of Henderson | | | | <u>2,653,656</u> |
| CHANGE IN NET POSITION | | | | <u>(2,521,503)</u> |
| NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED | | | | 19,775,591 |
| Adjustment | | | | <u>(819,027)</u> |
| NET POSITION BEGINNING OF YEAR, AS ADJUSTED | | | | <u>18,956,564</u> |
| NET POSITION, END OF YEAR | | | | <u>\$ 16,435,061</u> |

See notes to basic financial statements.

FUND FINANCIAL STATEMENTS

CITY OF HENDERSON REDEVELOPMENT AGENCY

GOVERNMENTAL FUND BALANCE SHEET JUNE 30, 2013

| | <u>General Fund</u> |
|--|----------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 7,934,758 |
| Restricted cash and cash equivalents | 473,858 |
| Investments | 8,816,451 |
| Accounts receivable, net | 5,475 |
| Interest receivable | 31,068 |
| Notes receivable, net | 216,084 |
| Due from other governments | 36,731 |
| Land held for development | <u>13,287,487</u> |
| Total assets | <u>\$ 30,801,912</u> |
| LIABILITIES | |
| Accounts payable and other accrued liabilities | \$ 59,370 |
| Accrued wages | 12,700 |
| Tax increment payable to developers | 473,858 |
| Due to other governments | <u>621,261</u> |
| Total liabilities | 1,167,189 |
| DEFERRED INFLOWS OF RESOURCES | |
| Unavailable revenue, notes receivable | <u>216,084</u> |
| Total liabilities and deferred inflows of resources | <u>1,383,273</u> |
| FUND BALANCES | |
| Restricted for | |
| Land development | 13,287,487 |
| Debt service | 1,376,862 |
| Contractual commitments | 89,201 |
| Economic stabilization | 455,374 |
| Future redevelopment activities | <u>14,209,715</u> |
| Total fund balances | <u>29,418,639</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 30,801,912</u> |

See notes to basic financial statements.

CITY OF HENDERSON REDEVELOPMENT AGENCY

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES JUNE 30, 2013

| | |
|-----------------------------------|---------------|
| FUND BALANCES, GOVERNMENTAL FUNDS | \$ 29,418,639 |
|-----------------------------------|---------------|

Amounts reported in the statement of net position are different because:

Long-term liabilities, including bonds payable are not due and payable in the current period; and therefore, are not reported in governmental funds:

| | | |
|-------------------------------|------------------|--------------|
| Bonds and notes payable | \$ (12,360,000) | |
| Compensated absences payable | (153,789) | |
| Other postemployment benefits | <u>(125,242)</u> | |
| | | (12,639,031) |

Other liabilities are not due and payable in the current period; and therefore, are not reported in governmental funds:

| | | |
|------------------|------------------|------------------|
| Interest payable | <u>(344,547)</u> | <u>(344,547)</u> |
|------------------|------------------|------------------|

| | |
|---------------------------------------|----------------------|
| NET POSITION, GOVERNMENTAL ACTIVITIES | \$ <u>16,435,061</u> |
|---------------------------------------|----------------------|

CITY OF HENDERSON REDEVELOPMENT AGENCY

GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2013

| | <u>General Fund</u> |
|---|----------------------|
| REVENUES | |
| Property taxes | \$ 4,648,687 |
| Fines and forfeitures | 100,000 |
| Investment income | 175,446 |
| Decrease in fair value of investments | (307,553) |
| Rental fees | 51,430 |
| Miscellaneous | <u>120,891</u> |
| Total revenues | <u>4,788,901</u> |
| EXPENDITURES | |
| General government | |
| General operations | |
| Salaries and wages | 706,168 |
| Employee benefits | 269,652 |
| Services and supplies | 495,110 |
| Capital outlay | 219 |
| Program costs | |
| Services and supplies | <u>2,405,119</u> |
| Total general government | <u>3,876,268</u> |
| Debt service | |
| Principal payments | 650,000 |
| Interest and fiscal charges | <u>702,789</u> |
| Total debt service | <u>1,352,789</u> |
| Total expenditures | <u>5,229,057</u> |
| DEFICIENCY OF REVENUES UNDER EXPENDITURES | <u>(440,156)</u> |
| OTHER FINANCING SOURCES (USES) | |
| Loss on land sales | (3,426,519) |
| Transfers out | <u>(81,937)</u> |
| Total other financing sources (uses) | <u>(3,508,456)</u> |
| SPECIAL AND EXTRAORDINARY ITEMS | |
| Advances forgiven by the City of Henderson | <u>2,084,497</u> |
| CHANGE IN FUND BALANCE | <u>(1,864,115)</u> |
| FUND BALANCE, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED | 31,666,824 |
| Adjustment | <u>(384,070)</u> |
| FUND BALANCE, BEGINNING OF YEAR, AS ADJUSTED | <u>31,282,754</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 29,418,639</u> |

See notes to basic financial statements.

CITY OF HENDERSON REDEVELOPMENT AGENCY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

CHANGE IN FUND BALANCE, GOVERNMENTAL FUND

\$ (1,864,115)

Amounts reported in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is capitalized and depreciated over their estimated useful lives:

Expenditures for capital assets

\$ 290,985

290,985

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases liabilities in the statement of net position. Repayment of debt principal is an expenditure in governmental funds, but the repayment reduces liabilities in the statement of net position. This is the amount by which repayments exceeded debt issued

Debt principal repayments

650,000

650,000

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 governmental funds:

Change in other postemployment benefits

(6,714)

Change in compensated absences payable

(24,073)

Change in accrued interest

577,518

Transfer of capital assets to City of Henderson

(2,145,104)

(1,598,373)

CHANGE IN NET POSITION, GOVERNMENTAL ACTIVITIES

\$ (2,521,503)

CITY OF HENDERSON REDEVELOPMENT AGENCY

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL FOR THE YEAR ENDED JUNE 30, 2013

| | Original Budget | Final Budget | Actual | Variance |
|---|----------------------|----------------------|----------------------|---------------------|
| REVENUES | | | | |
| Property taxes | \$ 4,226,512 | \$ 4,476,832 | \$ 4,648,687 | \$ 171,855 |
| Fines and forfeitures | | 100,000 | 100,000 | |
| Investment income | 110,000 | 111,000 | 175,446 | 64,446 |
| Decrease in fair value of investments | | | (307,553) | (307,553) |
| Rental fees | 80,000 | 80,000 | 51,430 | (28,570) |
| Miscellaneous | | 60,600 | 120,891 | 60,291 |
| Total revenues | <u>4,416,512</u> | <u>4,828,432</u> | <u>4,788,901</u> | <u>(39,531)</u> |
| EXPENDITURES | | | | |
| General government | | | | |
| General operations | | | | |
| Salaries and wages | 770,072 | 743,823 | 706,168 | 37,655 |
| Employee benefits | 330,667 | 321,916 | 269,652 | 52,264 |
| Services and supplies | 577,008 | 577,008 | 495,110 | 81,898 |
| Capital outlay | | 219 | 219 | |
| Total general operations | <u>1,677,747</u> | <u>1,642,966</u> | <u>1,471,149</u> | <u>171,817</u> |
| Program costs | | | | |
| Services and supplies | <u>3,292,871</u> | <u>3,091,724</u> | <u>2,405,119</u> | <u>686,605</u> |
| Total program costs | <u>3,292,871</u> | <u>3,091,724</u> | <u>2,405,119</u> | <u>686,605</u> |
| Total general government | <u>4,970,618</u> | <u>4,734,690</u> | <u>3,876,268</u> | <u>858,422</u> |
| Debt service | | | | |
| Principal payments | 650,000 | 650,000 | 650,000 | |
| Interest and fiscal charges | <u>702,789</u> | <u>702,789</u> | <u>702,789</u> | |
| Total debt service | <u>1,352,789</u> | <u>1,352,789</u> | <u>1,352,789</u> | |
| Total expenditures | <u>6,323,407</u> | <u>6,087,479</u> | <u>5,229,057</u> | <u>858,422</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Loss on land sales | | (3,424,750) | (3,426,519) | (1,769) |
| Transfers out | | | (81,937) | (81,937) |
| Total other financing sources (uses) | | <u>(3,424,750)</u> | <u>(3,508,456)</u> | <u>(83,706)</u> |
| SPECIAL AND EXTRAORDINARY ITEMS | | | | |
| Advances forgiven by the City of Henderson | | <u>2,078,656</u> | <u>2,084,497</u> | <u>5,841</u> |
| CHANGE IN FUND BALANCE | <u>(1,906,895)</u> | <u>(2,605,141)</u> | <u>(1,864,115)</u> | <u>741,026</u> |
| FUND BALANCE, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED | | | 31,666,824 | |
| Adjustment | | | (384,070) | |
| FUND BALANCE, BEGINNING OF YEAR, AS ADJUSTED | <u>29,576,830</u> | <u>32,408,932</u> | <u>31,282,754</u> | <u>(1,126,178)</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 27,669,935</u> | <u>\$ 29,803,791</u> | <u>\$ 29,418,639</u> | <u>\$ (385,152)</u> |

See notes to basic financial statements.

**NOTES TO BASIC
FINANCIAL STATEMENTS**

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

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 significant accounting policies are described below.

Reporting Entity

In evaluating how to define the financial reporting entity, management considered all potential component units using standards prescribed under GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. Component units would include any legally separate organizations for which the City Council is financially accountable. Financial accountability would result where the City Council appoints a voting majority of the organization's governing body and 1) is able to impose its will on that organization, or 2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City. Financial accountability may also result where an organization is fiscally dependent on the City. Based on these criteria, no component units or other reportable organizations other than the Agency were identified.

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 four City Council members and the Mayor of the City. As a component unit of the City, the Agency participates in the City's pooled cash, investments, other postemployment 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:

The City's Comprehensive Annual Financial Report (CAFR) may be obtained by writing to the following address:

City of Henderson, Finance Department
240 Water Street, Mail Stop Code 512
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.

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

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

Government-wide and Fund Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the Agency. Eliminations have been made to minimize the double counting of internal activities.

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.

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.

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 unearned revenue in the fund financial statements balance sheet. Unearned revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned 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.

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

Assets, Liabilities and Equity

Cash, Cash Equivalents 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.

Cash and cash equivalents include currency on hand, demand deposits with banks and other highly liquid investments with original maturities of three months or less, from the date of acquisition, which are readily convertible to cash. Since all cash is pooled with the rest of the City's cash and is available upon demand, all cash and investments in those funds are considered cash equivalents.

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 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.

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 Disposition and Development 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 or an agreed-upon sales price if a disposition agreement has been made with a developer.

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

Capital Assets

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 value at the date of donation. As of June 30, 2013, the Agency has no capital assets.

Compensated Absences

It is the Agency's policy to permit employees to accumulate earned but unused vacation and sick pay benefits, which are collectively referred to as compensated absences. 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.

Long-term Liabilities

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

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.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. At June 30, 2013, the Agency does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Agency has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet the governmental funds report unavailable revenues from notes receivable. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

Equity Classifications

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

Net Investment in Capital Assets - 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.

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

Restricted Net Position - Net position with constraints placed on its 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.

Unrestricted Net Position - All other net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Governmental fund equity is characterized as fund balance and is classified as follows:

Nonspendable - Includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This classification includes inventories, prepaid items, assets held for sale and long-term receivables.

Restricted - Includes constraints placed on the use of these resources that are either externally imposed by creditors (such as debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions or enabling legislation). For the Agency, all fund balance is considered restricted per Nevada Revised Statute 279, *Redevelopment of Communities*.

Committed - Includes amounts that can only be used for a specific purpose because of a formal action (ordinance) by the Redevelopment Agency Board, which is the Agency's highest level of decision making authority. Those constraints remain binding unless removed or changed in the same manner employed to previously commit those resources.

Assigned - Includes amounts that are constrained by the Agency's intent to be used for specific purposes, but do not meet the criteria to be classified as restricted or committed. The Agency Board delegates authority to assign fund balances amounts to the Agency's Treasurer. Constraints imposed on the use of assigned amounts can be removed without formal action by the Agency Board.

Unassigned - This is the residual classification of fund balance in the General Fund, which has not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other governmental funds might report a negative unassigned fund balance as a result of overspending for specific purposes for which amount has been restricted, committed or assigned.

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

The Agency Board adopted its Financial Stabilization policy on August 16, 2011, effective June 30, 2011. The policy states that the Agency will accumulate for economic stabilization 1% tax increment revenue per year with a target balance of 8.3% of the ensuing fiscal year's budgeted tax increment revenue. Accumulated balances maintained for economic stabilization may be made available to compensate for shortfalls in actual revenues of 2.0% or greater, as compared to the final budget filed with the Nevada Department of Taxation, or in the event of a natural disaster or terrorist attack as declared by the Agency Board. None of these circumstances are expected to occur routinely.

Estimates

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

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

Note 2. Stewardship and Accountability

Budgetary Information

An annual budget is legally adopted for the General Fund of the Agency on a basis of accounting consistent with GAAP.

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.

Unencumbered appropriations lapse at year end. Encumbered appropriations are approved by the Agency Board and carried forward in the ensuing year's budget.

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.

Prior Period Adjustment

Outstanding notes in the Henderson Redevelopment Agency for housing rehabilitation and other loans amounted to \$384,070 at June 30, 2012. Revenue previously recognized for these deferred inflows has been corrected in the current year as an adjustment to beginning fund balance/net position.

Cumulative Effect of Change in Accounting Principle

Effective July 1, 2012, the Agency has adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The adoption of GASB 65 requires retroactive adjustment to amounts previously reported as deferred charges associated with bond issuance costs in the governmental activities of the entity-wide statement of net position. The cumulative effect of this change in accounting principle is reported in the current year as an adjustment to beginning net position.

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

Fund balance or net position as of July 1, 2012, has been retroactively adjusted as follows:

| | General Fund | Governmental Activities |
|--|---------------|----------------------------|
| Fund balance or net position, as previously reported | \$ 31,666,824 | \$ 19,775,591 |
| Adjustments | | |
| Cumulative effect of GASB Statement 65 adoption | | (434,957) |
| Deferral of notes receivable | (384,070) | (384,070) |
| Total adjustments | (384,070) | (819,027) |
| Fund balance or net position, as adjusted | \$ 31,282,754 | \$ 18,956,564 |

Note 3. Cash, Cash Equivalents and Investments

Deposits

The NRS 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. All deposits are covered by federal depository insurance or subject to collateralization.

The NRS 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 Chief Financial Officer 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.

Investments

The NRS 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).

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

At June 30, 2013, the Agency had the following investments:

| | Credit Rating | Cost | Fair Value | Weighted Average Maturity (Years) |
|---|---------------|---------------------|---------------------|-----------------------------------|
| Pooled cash, cash equivalents and investments held by the City of Henderson, Nevada * | N/A | \$ <u>8,893,994</u> | \$ <u>8,816,451</u> | 5.27 |

* Certain pooled U. S. Agency securities have call provisions, which, if exercised, would shorten the maturity of these investments.

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.

For the fiscal year ended June 30, 2013, the change in notes receivable, net of allowances for doubtful collection, is as follows:

| | Balance July 1, 2012 | Increases | Decreases | Balance June 30, 2013 |
|---|-------------------------|-----------------|---------------------|--------------------------|
| Notes receivable | | | | |
| Home Program Advances | | | | |
| Principal | \$ 363,804 | \$ | \$ (363,804) | \$ |
| Interest | | 4,207 | (4,207) | |
| | <u>363,804</u> | <u>4,207</u> | <u>(368,011)</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% | | | | |
| Principal | 20,266 | | (20,266) | |
| Interest | | 246 | (246) | |
| | <u>20,266</u> | <u>246</u> | <u>(20,512)</u> | |
| Advances to an LLC, maximum amount is \$775,000, payments deferred for five years. Accrued interest at 6.23% per year | | | | |
| Principal | | | | |
| Interest | | | | |
| | | | | |
| 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 | | | | |
| Principal | 108,000 | | (108,000) | |
| Interest | | | | |
| | <u>108,000</u> | | <u>(108,000)</u> | |
| Total notes receivable | | | | |
| Principal | 492,070 | | (492,070) | |
| Interest | | 4,453 | (4,453) | |
| | <u>\$ 492,070</u> | <u>\$ 4,453</u> | <u>\$ (496,523)</u> | <u>\$</u> |

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

Home program advances - Due to the economic downturn, many loan recipients have defaulted on their loans. The Agency carries a second position on the property serving as collateral; however, in most cases, the property serving as collateral for the loan was not sufficient to cover the first deed of trust. Policies were put in place in fiscal year 2012 regarding loan defaults. If the original loan amount is less than \$15,000, the cost to take legal action would outweigh the benefit of potential loan fulfillment. Therefore, in fiscal year 2013, \$73,419 was written off and recorded as a program expenditure. In addition, in fiscal 2013, the Agency determined that the likelihood of full payment is uncertain; therefore, all loans have been fully reserved. Future payments, if any, will be recorded as program income in the year received.

Advances to individuals and business - One Revolving Loan and one Emergency Assistance Loan remain with current principal balances outstanding; however, due to the uncertainty of payment, all loans have been fully reserved. Future payments, if any, will be recorded as program income in the year received.

Advances to an LLC - Due to the downturn in the economy and uncertainty regarding repayment, the \$775,000 note, including all accrued interest thereon, had been fully reserved as of June 30, 2010. On October 18, 2011, the Agency amended its agreements extending the existing loan for two additional years and reduced interest to zero for this extension period. The loan matured on October 5, 2013, and is currently in default.

Sale of land to an LLC - On July 31, 2012, the developer and Agency mutually agreed to terminate the agreement and settle the amount due on the note. The Agency retained the initial construction deposit and released its interest in the property held as collateral. The developer quitclaimed the three parcels to the Agency.

Note 5. Land Held for Development

For the fiscal year ended June 30, 2013, land held for development consists of the following:

| | Balance July 1, 2012 | Increases | Decreases | Balance June 30, 2013 |
|---------------------------------|-------------------------|-------------------|-----------------------|--------------------------|
| Land held for development | | | | |
| Downtown Redevelopment Area | | | | |
| Water Street Commons | \$ 4,178,738 | | | \$ 4,178,738 |
| Lake Mead Parkway | 195,721 | | | 195,721 |
| Lake Mead/Water | | 134,500 | | 134,500 |
| Texas/Atlantic Parking | 425,181 | | | 425,181 |
| Pinnacle | 3,934,751 | | (3,934,751) | |
| Water Street Plaza | 846,142 | 65,495 | | 911,637 |
| Basic/Lead | 752,988 | | | 752,988 |
| Other | 787,181 | 55,358 | (35,450) | 807,089 |
| | <u>11,120,702</u> | <u>255,353</u> | <u>(3,970,201)</u> | <u>7,405,854</u> |
| Eastside Redevelopment Area | <u>5,881,633</u> | | | <u>5,881,633</u> |
| Total land held for development | <u>\$ 17,002,335</u> | <u>\$ 255,353</u> | <u>\$ (3,970,201)</u> | <u>\$ 13,287,487</u> |

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

Note 6. Capital Assets

For the year ended June 30, 2013, capital asset activity consists primarily of completing construction of a park, which was transferred to the City upon completion. As of June 30, 2013, all capital assets have been transferred to the City.

For the year ended June 30, 2013, capital asset activity was as follows:

| | Balance July 1, 2012 | Increases | Decreases | Balance June 30, 2013 |
|---|-------------------------|------------|----------------|--------------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated or amortized | | | | |
| Construction in progress | \$ 1,996,214 | \$ 148,890 | \$ (2,145,104) | \$ |

Note 7. Due to Other Governments

On August 19, 2008, the Agency reevaluated the \$791,592 advance from the City dated September 15, 2004. 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, plus 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, that was originally as of that date. The Agency continues to owe the principal amount of \$621,261, which accrues interest at 6% and is payable in full on September 15, 2012, with the option to extend the maturity date two additional three year periods at the sole option of the City. Interest was accrued through May 1, 2009, and is payable upon maturity or at extension date. On February 15, 2011, the Agency Board and City Council approved an extension of this note to September 7, 2015, and also approved a resolution to subordinate this Note to any future bond issuance. Accrued interest of \$173,953 is included as a liability on the Statement of Net Position. On March 20, 2012, the City Council approved a second extension of the note to September 7, 2018, and waived the interest effective May 1, 2009.

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 accrued at 4.8% per year, and all outstanding principal and interest was originally due and payable on the earlier of the sale of the Pinnacle Building property, or November 20, 2012. On February 15, 2011, the Agency Board and City Council approved an extension to September 30, 2015, and also approved a resolution to subordinate this Note to any future bond issuances. On June 5, 2012, the City Council approved an extension of the note to November 20, 2018, and waived the interest effective June 20, 2012. On February 12, 2013, the Redevelopment Agency Board approved the sale of the Pinnacle Building property for \$510,000 with the City receiving the funds. The City Council approved the write-off of the remaining balance of the loan and interest owed by the Agency, which resulted in a gain of \$2,653,656.

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

For the year ended June 30, 2013, amounts due to other governments comprised solely of advances from the City.

| | Balance July 1, 2012 | Increases | Decreases | Balance June 30, 2013 |
|--|-------------------------|-----------|-----------------------|--------------------------|
| Governmental activities | | | | |
| Due to other governments | | | | |
| \$791,592 note payable, principal and interest deferred until September 2018, as amended, interest accrued at 6.0% through May 1, 2009 | \$ 621,260 | | | \$ 621,260 |
| \$2,588,656 note payable, interest accrued at 4.8% through June 20, 2012 | 2,588,656 | | (2,588,656) | |
| Total governmental activities | <u>\$ 3,209,916</u> | | <u>\$ (2,588,656)</u> | <u>\$ 621,260</u> |

The principal balance of \$621,260, plus accrued interest of \$173,029 is due September 7, 2018.

Note 8. Other Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2013, was as follows:

| | Balance July 1, 2012 | Increases | Decreases | Balance June 30, 2013 | Due Within One Year |
|--|-------------------------|------------------|---------------------|--------------------------|------------------------|
| Governmental activities | | | | | |
| General obligation bonds | | | | | |
| \$4,295,000 2002 tax allocation junior bonds due in annual installments through October 2025, interest varies between 5.1% and 7.2% | \$ 3,515,000 | | \$ (160,000) | \$ 3,355,000 | \$ 165,000 |
| \$12,045,000 tax allocation senior bonds due in annual installments through October 2025; interest varies between 3.5% and 5.25% | 9,495,000 | | (490,000) | 9,005,000 | 515,000 |
| Total general obligation bonds | 13,010,000 | | (650,000) | 12,360,000 | 680,000 |
| Compensated absences | 129,716 | 24,073 | | 153,789 | 10,888 |
| Other postemployment benefits | 118,528 | 6,714 | | 125,242 | |
| Total governmental activities | <u>\$ 13,258,244</u> | <u>\$ 30,787</u> | <u>\$ (650,000)</u> | <u>\$ 12,639,031</u> | <u>\$ 690,888</u> |

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

Compensated absences and other postemployment benefits are liquidated by the general fund.

At June 30, 2013, the annual requirements to pay principal and interest on all bonds outstanding were as follows:

| For the Year Ended June 30, | General Obligation Bonds | |
|-------------------------------|--------------------------|---------------------|
| | Principal | Interest |
| Governmental activities | | |
| 2014 | \$ 680,000 | \$ 669,121 |
| 2015 | 715,000 | 633,882 |
| 2016 | 755,000 | 595,851 |
| 2017 | 790,000 | 555,099 |
| 2018 | 835,000 | 511,432 |
| 2019 - 2023 | 4,915,000 | 1,790,937 |
| 2024 - 2028 | <u>3,670,000</u> | <u>328,294</u> |
| Total governmental activities | <u>\$ 12,360,000</u> | <u>\$ 5,084,616</u> |

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 PERS as provided by NRS 286.110.

Benefits, as required by NRS, 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. Benefit 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.

A member who retired on or after July 1, 1977, or is an active member whose effective date of membership is before July 1, 1985, and who has 36 years of service is entitled to a benefit of up to 90% of his/her average compensation. When members are eligible for the earlier retirement due to the increased service years, the ceiling limitation on monthly benefit allowances increases from the normal 75% to a maximum of 90% of average compensation. Members become fully vested as to benefits upon completion of 5 years of service.

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

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 City 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.

Contribution rates and amounts contributed for the previous three years were as follows:

| <u>For the Year Ended June 30,</u> | <u>Contribution Rate</u> | <u>Required Contribution and Amount Contributed</u> |
|------------------------------------|------------------------------|---|
| 2011 | 21.50 % | \$ 205,546 |
| 2012 | 23.75 % | 221,771 |
| 2013 | 23.75 % | 167,715 |

Note 10. Other Postemployment Benefits (OPEB)

Plan Description

The Agency participates with the City to provide other post employment benefits to its eligible retirees who are not eligible for Medicare can purchase health care coverage through two plans offered by the City: a self-funded PPO and a fully-insured medical plan (Health Plan of Nevada). The City also offers its retirees dental, vision and life insurance benefits which is mandated by Nevada Revised Statutes.

Effective May 1, 2013, the City Self Funded Health Plan no longer offers medical, prescription, dental or vision coverage for Medicare eligible retirees and their Medicare eligible dependents. Medicare eligible retirees have been moved to Extend Health for their medical, dental and vision coverage. Medicare eligible retirees will retain their post 65 term life insurance policy valued at \$25,000 with the premium paid by the City.

Funding Policy

The City has an eight member Insurance Committee that reviews and determines the funding requirements and plan options as noted above. The Agency's current funding policy for its OPEB liability is pay as you go.

Annual OPEB Cost and Net OPEB Obligation

The Agency's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation:

| | City of Henderson Plans |
|--|----------------------------|
| Annual required contribution (ARC) | \$ 10,486 |
| Interest on net OPEB obligation | 3,348 |
| Adjustment to ARC | <u>(3,830)</u> |
| Annual OPEB cost | 10,004 |
| OPEB contributions made | <u>(3,290)</u> |
| Increase in net OPEB obligation | 6,714 |
| Net OPEB obligation, beginning of year | <u>118,528</u> |
| Net OPEB obligation, end of year | <u>\$ 125,242</u> |

Annual OPEB cost, employer contributions, the percentage of annual cost contributed to the plan and the net OPEB obligation for the years ended June 30, 2013, 2012 and 2011 were as follows:

| For the Year Ended June 30, | Annual OPEB Cost | OPEB Contributions Made | Percentage Contributed | Net OPEB Obligation |
|-----------------------------|---------------------|-------------------------------|---------------------------|------------------------|
| City of Henderson Plans | | | | |
| 2011 | \$ 12,947 | \$ 1,244 | 9.6 % | \$ 91,790 |
| 2012 | 26,973 | 235 | 0.9 % | 118,528 |
| 2013 | 10,004 | 3,290 | 32.9 % | 125,242 |

Funded Status and Funding Progress

The funded status of the OPEB plans as of the most recent actuarial valuation date was as follows:

| Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL as a Percent of Covered Payroll |
|---|------------------------------|---|---|--------------|---------------------------|--|
| City of Henderson Plans July 1, 2011 | N/A ¹ | \$ 271,778 | \$ 271,778 | 0.0 % | \$ 939,873 | 28.9 % |

1. No assets have been placed in trust.

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

In the July 1, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate, a projected salary increase of 2% with no inflation rate used in the valuation. Included in the valuation is a health care cost trend rate assumption of 10.00% in the year July 1, 2011 to June 30, 2012, grading down by 0.5% each year until an ultimate health care cost trend rate of 5.00% is reached. The unfunded actuarial accrued liability is being amortized over a period of 30 years on an open basis, assuming a level percentage of projected payroll.

The required schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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.

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.

Cornerstone Redevelopment Area

CS Lot 1 Land Purchase Note

On June 1, 2001, the Agency entered into a development agreement and executed the CS Lot 1 Land Purchase Promissory Note in the amount of \$3,100,000 (the CS Lot 1 Note), which is payable solely from 25% of the related site tax increment from the development area. Interest accrues at 9.5% unless the Cornerstone Developer fails to meet the Private Improvement Schedule set forth in the CS Lot 1 Note (interest is currently tolling). The proceeds from the CS Lot 1 Note were used to purchase land, upon which a public improvement project was built by the Cornerstone Developer. Any unpaid principal and interest that remains outstanding thirty (30) years after the date of the adoption of the Cornerstone Redevelopment Plan (*i.e.*, as of June 1, 2031) will be forgiven and deemed paid in full. At June 30, 2013, the balance on the CS Lot 1 Note was \$2,526,578.

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

During fiscal 2013, the Agency received site tax increment revenue and paid an assignee of the Cornerstone Developer \$156,153, which was charged to program costs. Additionally, the Agency received site tax increment revenue of \$357 that was charged to program cost, but will not be disbursed to the developer until fiscal 2014, and is shown as Tax Increment Payable to Developers.

Series B Bonds Note

The Agency also executed a \$6,250,000 promissory note on May 9, 2002 (the Series B Note), which bears interest at 6.9% (beginning December 1, 2002) and is payable over sixteen years. The note is equal to the proceeds of the Series B LID Bonds issued by the City. A separate agreement executed by the Cornerstone Developer and the City assigned all payments on the Series B Note to the City as an offset to the principal and interest payments the City is obligated to pay on the Series B LID Bonds. Accordingly, the Agency is currently obligated to make payments on the Series B Note to the City, who in turn uses the proceeds to fund the payments due on the Series B LID bonds. The percentage of site tax increment from which the note is to be repaid is 40%. The amount of principal and interest owed to the City for fiscal 2013 was \$304,840 and \$220,577, respectively. During fiscal 2013, the Agency received site tax increment revenue and paid the City \$233,840 (in principal and interest), which was charged to program costs. The remaining balance owed to the City of \$291,577 was added to the shortfall note obligation discussed in the following section for the payment that the Agency was unable to completely fulfill. Additionally, the Agency's site tax increment received for the interest-only payment exceeded the payment by \$116,926 along with site tax increment revenue of \$59,282 received that was accrued to program cost, but will not be disbursed until fiscal 2014 and is shown as Tax Increment Payable to Developers.

In February 2013, the City issued \$7,770,000 in Limited Obligation Refunding Bonds, Series 2013. These proceeds were placed in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on \$8,585,000 of refunded debt. This is estimated to save the Agency \$600,000 over the remaining life of the bonds.

Shortfall Note

The Agency also executed a "shortfall" promissory note (the Shortfall Promissory Note), which provides that property owners will advance the Agency the amount of the payments due on the Series B Note when due, reduced by the available site tax increment received by the Agency. Interest on the Shortfall Promissory Note accrues at 6.9% unless the Cornerstone Developer fails to meet the Private Improvements Schedule set forth in the note (interest is currently tolling). 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 Note. During fiscal 2013, property owners effectively advanced the Agency \$291,577 for payment due on the Series B Note as discussed in the previous section, as well as paid off LIDs of \$363,458, totaling \$655,124. At June 30, 2013, the balance on the Shortfall Promissory Note was \$3,432,129.

On February 19, 2013, the Promissory Note was amended and restated in connection with the assessments levied in the City of Henderson to accommodate the refinancing of the Series B LID Bonds.

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

Tuscany Redevelopment Area

Lynn Investments LLC Note

On April 16, 2002, the Agency and Commerce and Associates, LLC (Commerce) entered into an Owner Participation Agreement (the Commerce OPA), which provides that the Agency reimburse Commerce up to \$40 million for public improvements, payable from 85% of the tax increment received from the Tuscany redevelopment project area (the Commerce Note). Interest on the Commerce Note was originally 8.5%, but tolls when the accumulated assessed value fails to equal or exceed the minimums per the Commerce Note. The original schedule for completion of all public and private improvements per the Commerce OPA was by December 31, 2006. However, Commerce received four amendments which extended the time for completion to December 15, 2011.

The amendments also increased the Agency's reimbursement commitment to \$60 million, payable from 90% of the tax increment received from the Tuscany redevelopment project area, until such time that the 18% low income housing set aside is required by NRS. At that time, the Agency's reimbursement commitment increases to 95% of tax increment remaining after the low income housing set aside. The amendments also modified the Commerce 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 now 5.25% per annum compounded annually.

On June 15, 2010, the Agency entered into Amendment #4 to the Commerce OPA, which resulted in the release of \$7,507,500 of accumulated site tax increment to Nevada Construction Services (NCS). NCS disbursed \$5,220,480 to contractors completing the final public improvements during fiscal year 2011, with the residual returned to the Agency for ultimate disbursement to Alfred Thomas, assignee to the Commerce Note, and Commerce on May 16, 2011, in the following amounts:

| | |
|----------------------------------|----------------------|
| NCS Disbursements to Contractors | \$ 5,220,480 |
| Thomas Alfred | 7,000,000 |
| Commerce | <u>463,230</u> |
| | <u>\$ 12,683,710</u> |

On May 9, 2012, an amendment to the Commerce Note was completed to increase the principal balance for all verified public improvement costs totaling \$59,912,690, less what the Agency had already paid toward principal (\$12,683,710), for a new principal balance of \$47,228,980.

On June 25, 2012, the Agency agreed to an assignment of the proceeds to Mr. Alfred Thomas from future tax increment beginning October 1, 2012, until such time that the Agency is notified in writing by the Assignor and Assignee that Commerce's note to Mr. Thomas is paid in full.

On October 31, 2012, staff approved an amendment to the assignment of proceeds from Commerce Associates, LLC and Mr. Thomas to an LLC that Mr. Thomas formed, Venice Funding, LLC. The Amendment also increases the amount of the original loan between Commerce and Venice Funding from \$5 million to \$15 million and converts it to a secured revolving credit facility, extending the maturity date from June 30, 2012 to October 31, 2017. The remainder of the terms of the assignment did not change.

On April 23, 2013, staff approved an amendment where Commerce Associates, LLC transferred all of their rights under the note to Lynn Investments, LLC. The assignment of the proceeds under the note to Venice Funding, LLC remains intact.

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

During fiscal 2013, the Agency made interest payments on the Lynn Note of \$1,776,643 and at June 30, 2013, the outstanding balance on the Lynn Note is \$49,902,163. All unpaid principal and interest that remains owed thirty (30) years after the date of adoption of the Tuscany Redevelopment Plan will be forgiven and deemed paid in full.

Since the last semi-annual payment, through June 30, 2013, the Agency has collected additional tax increment with \$282,269 being Commerce's share which has been accrued and reported as Tax Increment Payable to Developers.

Eastside Redevelopment Area

LandWell Note

On October 16, 2007, the Agency and LandWell, LLC (LandWell) entered into an Owner Participation Agreement (the LandWell OPA), which provides that the Agency reimburse LandWell up to \$170 million for public improvements from 50% of the tax increment received from the project (the LandWell Note) on October 1 and April 1. The LandWell Note bears interest at 8%, but interest will toll when accrued interest reaches \$39 million in total.

On May 15, 2012, the Agency and LandWell completed the first amendment to the LandWell OPA which increases the percentage of tax increment received from the project from 50% to 75%, and reduces the interest rate on the LandWell Note from 8% to 6%. It also formalizes LandWell's obligation to reimburse the City of Henderson City Attorney's office for \$3,948,896 in legal fees related to environmental work (the City Attorney Note). The Agency will reimburse the City for all funds held to date for LandWell, and up to \$500,000 annually from future tax increment proceeds related to the LandWell Note. Interest on the \$3.9 million receivable from LandWell accrues at 3%. If on October 1, 2020, there has not been sufficient tax increment collected to pay off the amount remaining to the City Attorney's office, LandWell is required to pay the remaining balance on or before October 15, 2020. Additionally, the amendment includes LandWell's obligation to reimburse the City of Henderson Public Works department of \$298,587 for the construction of a sewer main servicing the project.

During fiscal 2013, the Agency paid the City \$23,723 related to LandWell.

At June 30, 2013, the outstanding balances of the Eastside Redevelopment Notes are as follows:

| | |
|------------------------|---------------------|
| City Attorney's Office | \$ 3,189,337 |
| LandWell | <u>714,936</u> |
| | <u>\$ 3,904,273</u> |

At June 30, 2013, \$15,024 has been received in site tax increment since the last semi-annual payment and has been placed in a restricted cash account as well as recorded as a program expense and a liability (Tax Increment Payable to Developers).

All unpaid principal and interest on the LandWell Note that remains owed thirty (30) years after the date of adoption of the Eastside Redevelopment Plan will be forgiven and deemed paid in full.

Other Contractual Commitments

As of June 30, 2013, the Agency had outstanding encumbrances in the General Fund in the amount of \$89,201. These encumbrances are classified as Restricted Fund Balance.

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

Note 13. Recently Issued Accounting Pronouncements

In March 2012, the GASB issued Statement No. 66, *Technical Corrections-2012*, effective for periods beginning after December 15, 2012. The objective of this statement is to improve accounting and financial reporting by state and local governmental entities by resolving conflicting guidance that resulted from the issuance of two pronouncements (Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*). Management has not yet completed its assessment of this statement.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, effective for periods beginning after June 15, 2013. The objective of this statement is to improve financial reporting by state and local governmental pension plans. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. Management has not yet completed its assessment of this statement.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2014. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. Management has not yet completed its assessment of this statement.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for periods beginning after December 15, 2013. The objective of this statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The term government combinations is used in this statement to refer to a variety of arrangements including mergers and acquisitions. Government combinations also include transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. Transfers of operations may be present in shared service arrangements, reorganizations, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide those services. Management has determined this statement will not have an effect on financial position, results of operations or cash flows.

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for periods beginning after June 15, 2013. The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees and to enhance comparability of financial statements among such governments by requiring consistent reporting by those governments. This statement also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. Management has not yet completed its assessment of this statement.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HENDERSON REDEVELOPMENT AGENCY

REQUIRED SUPPLEMENTARY INFORMATION OTHER POST EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS FOR THE YEAR ENDED JUNE 30, 2013

| Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL as a Percent of Covered Payroll |
|-------------------------|------------------------------|---|---|--------------|---------------------------|--|
| City of Henderson Plans | | | | | | |
| July 1, 2007 | N/A ¹ \$ | 266,842 \$ | 266,842 | 0.0 % | 724,152 | 36.8 % |
| July 1, 2009 | N/A ¹ | 243,870 | 248,870 | 0.0 % | 896,001 | 27.8 % |
| July 1, 2011 | N/A ¹ | 271,778 | 271,778 | 0.0 % | 939,873 | 28.9 % |

¹. No assets have been placed in trust.

CITY OF HENDERSON REDEVELOPMENT AGENCY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2013

Note 1. Other Postemployment Benefits

Effective May 1, 2013, the City Self Funded Health Plan no longer offers medical, prescription, dental or vision coverage for Medicare eligible retirees and their Medicare eligible dependents. Medicare eligible retirees have been moved to Extend Health for their medical, dental and vision coverage. Medicare eligible retirees will retain their post 65 term life insurance policy valued at \$25,000 with the premium paid by the City.

Except as noted above, for the year ended June 30, 2013, no significant events occurred that would have affected the information presented in the accompanying schedule of funding progress.

Additional information related to other postemployment benefits can be found in Note 10 to the basic financial statements.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HENDERSON REDEVELOPMENT AGENCY

GENERAL FUND COMBINING BALANCE SHEET - BY PROJECT AREA JUNE 30, 2013

| | Downtown | Tuscany | Cornerstone | Eastside | Lakemoor | Revolving | Administration | Total General Fund |
|--|----------------------|-------------------|---------------------|----------------------|---------------|------------------|------------------|----------------------|
| ASSETS | | | | | | | | |
| Cash and cash equivalents | \$ 4,060,008 | | \$ 354,891 | \$ 3,428,865 | \$ 349 | \$ 82,686 | \$ 7,959 | \$ 7,934,758 |
| Restricted cash and cash equivalents | | 282,269 | 176,565 | 15,024 | | | | 473,858 |
| Investments | 3,414,206 | 333,190 | 676,260 | 4,382,223 | 445 | | 10,127 | 8,816,451 |
| Accounts receivable, net | | | | 5,475 | | | | 5,475 |
| Interest receivable | 11,796 | 1,292 | 2,660 | 15,312 | 1 | | 7 | 31,068 |
| Notes receivable, net | 140,763 | | | 75,321 | | | | 216,084 |
| Due from other governments | 19,627 | 5,098 | 7,391 | 4,614 | 1 | | | 36,731 |
| Land held for development | 7,405,854 | | | 5,881,633 | | | | 13,287,487 |
| Total assets | \$ 15,052,254 | \$ 621,849 | \$ 1,217,767 | \$ 13,808,467 | \$ 796 | \$ 82,686 | \$ 18,093 | \$ 30,801,912 |
| LIABILITIES | | | | | | | | |
| Accounts payable and other accrued liabilities | \$ 16,599 | | \$ 31,501 | \$ 5,475 | | \$ 65 | \$ 5,730 | \$ 59,370 |
| Accrued wages | | | | | | | 12,700 | 12,700 |
| Tax increment payable to developers | | 282,269 | 176,565 | 15,024 | | | | 473,858 |
| Due to other governments | 621,261 | | | | | | | 621,261 |
| Total liabilities | 637,860 | 282,269 | 208,066 | 20,499 | | 65 | 18,430 | 1,167,189 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | | | |
| Unavailable revenue, notes receivable | 140,763 | | | 75,321 | | | | 216,084 |
| Total liabilities and deferred inflows of resources | 778,623 | 282,269 | 208,066 | 95,820 | | 65 | 18,430 | 1,383,273 |
| FUND BALANCE | | | | | | | | |
| Restricted for | | | | | | | | |
| Land development | 7,405,854 | | | 5,881,633 | | | | 13,287,487 |
| Debt service | 1,376,862 | | | | | | | 1,376,862 |
| Contractual commitments | 73,701 | | | 15,500 | | | | 89,201 |
| Economic stabilization | 243,780 | | | 211,594 | | | | 455,374 |
| Future redevelopment activities | 5,173,434 | 339,580 | 1,009,701 | 7,603,920 | 796 | 82,621 | (337) | 14,209,715 |
| Total fund balance | 14,273,631 | 339,580 | 1,009,701 | 13,712,647 | 796 | 82,621 | (337) | 29,418,639 |
| Total liabilities, deferred inflows of resources and fund balance | \$ 15,052,254 | \$ 621,849 | \$ 1,217,767 | \$ 13,808,467 | \$ 796 | \$ 82,686 | \$ 18,093 | \$ 30,801,912 |

CITY OF HENDERSON REDEVELOPMENT AGENCY

GENERAL FUND

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BY PROJECT AREA FOR THE YEAR ENDED JUNE 30, 2013

| | Downtown | Tuscany | Cornerstone | Eastside | Lakemoor | Revolving | Administration | Total General Fund |
|---|--------------------|------------------|------------------|------------------|------------|-----------------|--------------------|--------------------|
| REVENUES | | | | | | | | |
| Property taxes | \$ 1,791,683 | \$ 1,816,285 | \$ 710,541 | \$ 329,836 | \$ 342 | | \$ | \$ 4,648,687 |
| Fines and forfeitures | 100,000 | | | | | | | 100,000 |
| Investment income | 65,529 | 8,117 | 14,970 | 86,810 | 7 | | 13 | 175,446 |
| Decrease in fair value of investments | (115,241) | (15,419) | (26,261) | (150,301) | (10) | | (321) | (307,553) |
| Rental fees | | | | | | 51,430 | | 51,430 |
| Miscellaneous | 52,325 | | | 68,538 | | | 28 | 120,891 |
| Total revenues | <u>1,894,296</u> | <u>1,808,983</u> | <u>699,250</u> | <u>334,883</u> | <u>339</u> | <u>51,430</u> | <u>(280)</u> | <u>4,788,901</u> |
| EXPENDITURES | | | | | | | | |
| General government | | | | | | | | |
| General operations | | | | | | | | |
| Salaries and wages | | | | | | | 706,168 | 706,168 |
| Employee benefits | | | | | | | 269,652 | 269,652 |
| Services and supplies | 35,437 | | | 7,744 | | 21,852 | 430,077 | 495,110 |
| Capital outlay | | | | 219 | | | | 219 |
| Program costs | | | | | | | | |
| Services and supplies | 147,495 | 1,642,216 | 414,086 | 187,724 | | | 13,598 | 2,405,119 |
| Total general government | <u>182,932</u> | <u>1,642,216</u> | <u>414,086</u> | <u>195,687</u> | | <u>21,852</u> | <u>1,419,495</u> | <u>3,876,268</u> |
| Debt service | | | | | | | | |
| Principal payments | 650,000 | | | | | | | 650,000 |
| Interest and fiscal charges | 702,789 | | | | | | | 702,789 |
| Total debt service | <u>1,352,789</u> | | | | | | | <u>1,352,789</u> |
| Total expenditures | <u>1,535,721</u> | <u>1,642,216</u> | <u>414,086</u> | <u>195,687</u> | | <u>21,852</u> | <u>1,419,495</u> | <u>5,229,057</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>358,575</u> | <u>166,767</u> | <u>285,164</u> | <u>139,196</u> | <u>339</u> | <u>29,578</u> | <u>(1,419,775)</u> | <u>(440,156)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | | | |
| Loss on land sales | (3,426,519) | | | | | | | (3,426,519) |
| Transfers out | | | (81,937) | | | | | (81,937) |
| Transfers between project areas | (278,826) | (331,629) | (485,527) | (303,009) | | (20,352) | 1,419,343 | |
| Total other financing sources (uses) | <u>(3,705,345)</u> | <u>(331,629)</u> | <u>(567,464)</u> | <u>(303,009)</u> | | <u>(20,352)</u> | <u>1,419,343</u> | <u>(3,508,456)</u> |

(Continued)

CITY OF HENDERSON REDEVELOPMENT AGENCY

GENERAL FUND

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BY PROJECT AREA (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2013

| | <u>Downtown</u> | <u>Tuscany</u> | <u>Cornerstone</u> | <u>Eastside</u> | <u>Lakemoor</u> | <u>Revolving</u> | <u>Administration</u> | <u>Total General Fund</u> |
|---|----------------------|-------------------|---------------------|----------------------|-------------------|-------------------|-----------------------|---------------------------|
| SPECIAL AND EXTRORDINARY ITEMS | | | | | | | | |
| Advances forgiven by the City of Henderson | <u>2,084,497</u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u>2,084,497</u> |
| CHANGE IN FUND BALANCE | <u>(1,262,273)</u> | <u>(164,862)</u> | <u>(282,300)</u> | <u>(163,813)</u> | <u>339</u> | <u>9,226</u> | <u>(432)</u> | <u>(1,864,115)</u> |
| FUND BALANCE, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED | 15,753,456 | 504,442 | 1,292,001 | 14,042,978 | 457 | 73,395 | 95 | 31,666,824 |
| Adjustment | <u>(217,552)</u> | <u> </u> | <u> </u> | <u>(166,518)</u> | <u> </u> | <u> </u> | <u> </u> | <u>(384,070)</u> |
| FUND BALANCE, BEGINNING OF YEAR, AS ADJUSTED | <u>15,535,904</u> | <u>504,442</u> | <u>1,292,001</u> | <u>13,876,460</u> | <u>457</u> | <u>73,395</u> | <u>95</u> | <u>31,282,754</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 14,273,631</u> | <u>\$ 339,580</u> | <u>\$ 1,009,701</u> | <u>\$ 13,712,647</u> | <u>\$ 796</u> | <u>\$ 82,621</u> | <u>\$ (337)</u> | <u>\$ 29,418,639</u> |

COMPLIANCE SECTION

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the 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, the 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, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 6, 2013.

Internal Control over Financial Reporting. In planning and performing our audit of the basic financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

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 Agency's basic financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2013 - 001, to be a material weakness.

Compliance and Other Matters. As part of obtaining reasonable assurance about whether the Agency's basic financial statements are free from 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 basic financial statement amounts, including whether the funds established by the Agency, as listed in Nevada Revised Statutes (NRS) 354.624 (5)(a)(1 through 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 Agency's Response to Findings. The Agency's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Agency's response was not subjected to the

auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Purpose of this Report. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Perry Bowler Taylor & Law

Las Vegas, Nevada
November 6, 2013

CITY OF HENDERSON REDEVELOPMENT AGENCY

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2013

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*

2013 - 001

Criteria

In the governmental fund balance sheet, deferred inflows of resources (previously reported as unearned revenue) should be reported related to notes receivable, reflecting resources that are not currently available.

Condition

In prior years, the Agency reported notes receivable but did not report deferred inflows of resources.

Effect

In prior years, the Agency's deferred inflows of resources were materially understated, and fund balance was materially overstated. This resulted in a restatement of previously reported balances.

Cause

The external financial reporting controls did not function as intended, due to ineffective monitoring for compliance therewith.

Recommendation

The external financial reporting controls should include a review of all notes receivable reported in the governmental fund to ensure that they are appropriately offset by deferred inflows of resources.

Management's response

Management informed us that they have been keenly aware of this issue for the past three fiscal years and has discussed it with the auditors each year. The notes receivable in previous years were offset in the financials with a reservation of fund balance; this presentation was confirmed with GASB. As a result of the implementation of GASB 65, fund balance is no longer off set and these amounts are reported as deferred inflows. The Agency does not consider this a material weakness.

