



City of Needles, California Request for City Council Action

☒ CITY COUNCIL ☐ NPUA ☐ SARDA ☒ HACN ☒ Regular ☐ Special

Meeting Date: August 8, 2023

Title: Housing Authority of the City of Needles audit report for the fiscal year ended June 30, 2022.

Background: The fiscal year ending June 30, 2022 HACN audit report has been completed by Smith Marion & Co.

Attached is the audit report for the fiscal year ended June 30, 2022.

Fiscal Impact: None.

Recommendation: Accept and file the Housing Authority of the City of Needles fiscal year ended June 30, 2022 audit report completed by Smith Marion & Co.

Submitted By: Barbara DiLeo, Finance Dept.

City Management Review: For Review **Date:** 8/2/2023

Approved: ☐

Not Approved: ☐

Tabled: ☐

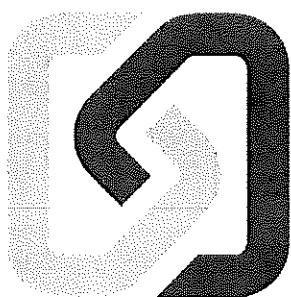
Other: ☐

Agenda Item: 8

HOUSING AUTHORITY OF THE CITY OF NEEDLES

**The Auditors Communication with Those Charged with
Governance**

Year Ended June 30, 2022



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1940 orange tree lane #100
redlands, ca 92374



June 27, 2023

The Governing Body of
Housing Authority of the City of Needles

We have audited the financial statements of Housing Authority of the City of Needles ("Authority") as of and for the year ended June 30, 2022, and have issued our report thereon dated June 27, 2023.

This report summarizes our communications with those charged with governance as required by our professional standards to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process.

REQUIRED COMMUNICATIONS

Professional standards require the auditor to provide the Governing Body (the Board or those charged with governance) with additional information regarding the scope and results of the audit that may assist the Board in overseeing the financial reporting and disclosure processes which the management of the Authority is responsible. We summarize these required communications as follows:

AUDITORS' RESPONSIBILITIES UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES (US GAAS) AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (GAGAS)

Our responsibilities are included in our audit engagement letter.

The financial statements are the responsibility of the Authority's management as prepared with the oversight of those charged with governance. Our audit was designed in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, to obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. We were not engaged to perform an audit of the Authority's internal control over financial reporting.

Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we will express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.



INDEPENDENCE

We are not aware of any relationships between Smith Marion & Co., and our related entities, and the Authority, or any other matters that in our professional judgment, may reasonably be thought to bear on our independence.

We confirm that we are independent with respect to the Authority within the meaning of the applicable published rules and pronouncements, its interpretations, and rulings.

THE ADOPTION OF, OR A CHANGE IN SIGNIFICANT ACCOUNTING POLICIES

We determined that the Board is informed about the initial selection of, and any changes in significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements.

There was no adoption of, or changes in significant accounting policies.

AUDITORS' JUDGEMENT ABOUT THE QUALITY OF THE AUTHORITY'S ACCOUNTING PRINCIPLES

We discussed our judgment about the quality, not just the acceptability, of the Authority's accounting principles as applied in its financial reporting, including the consistency of the accounting policy and their application and the clarity and completeness of the financial statements and related disclosures.

SENSITIVE ACCOUNTING ESTIMATES

Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations.

We determined that the Board is informed about management's process for formulating particularly sensitive estimates and about the basis to our conclusions regarding the reasonableness of those estimates.

There were no sensitive estimates management's judgment is called upon in.

FINANCIAL STATEMENT DISCLOSURES

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users.

There were no sensitive disclosures management's judgment is called upon in.

IDENTIFIED OR SUSPECTED FRAUD

We are not aware of any matters that require communication. Furthermore, the Authority's management has represented to us that they were not aware of any fraud or illegal acts for the period from July 01, 2021 to June 30, 2022 (see *Management's Representation Letter*).



SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE AUDIT

There were no serious difficulties encountered in dealing with management in performing the audit.

REPRESENTATIONS REQUESTED FROM MANAGEMENT

We have requested certain written representations from management in a separate letter dated June 27, 2023 (see *Management's Representation Letter*).

UNCORRECTED MISSTATEMENTS, RELATED TO ACCOUNTS AND DISCLOSURES, CONSIDERED BY MANAGEMENT TO BE IMMATERIAL

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. The uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

MATERIAL CORRECTED MISSTATEMENTS, RELATED TO ACCOUNTS AND DISCLOSURES

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures.

As a result of our audit procedures, material misstatements were brought to the attention of management and were corrected during the current period (see *Adjusting Journal Entry Report*).

DISAGREEMENTS WITH MANAGEMENT

There were no material disagreements with the Authority's management on financial accounting and reporting matters during the audit.

CONSULTATIONS WITH OTHER ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters (see *Management Representation Letter*).



MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO RETENTION

In the normal course of our professional association with the Authority, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Authority's auditors.

SIGNIFICANT RISKS IDENTIFIED

For purposes of this communication, professional standards require us to communicate to you significant risks identified during our audit.

The following significant risks were identified in our audit procedures:

Management override of controls (*required by US GAAS*) - Even though internal control over financial reporting (hereinafter referred to as internal controls or simply as controls) may appear to be well-designed and effective, controls that are otherwise effective can be overridden by management in every entity. Many financial statement frauds have been perpetrated by intentional override by senior management of what might otherwise appear to be effective internal controls. Because management is primarily responsible for the design, implementation, and maintenance of internal controls, the entity is always exposed to the danger of management override of controls.

Improper revenue recognition (*required by US GAAS*) - Revenue recognition is one of only two matters that must always, under AU-C 240 (the fraud risk standard), be considered a high-risk area, requiring expanded audit attention. Revenue recognition fraud schemes have been responsible for more investigations, restatements, and litigation against outside accountants than any other single cause. Revenue recognition is an accounting principle that asserts that revenue must be recognized as it is earned. Proper revenue recognition is imperative because it relates directly to the integrity of a company's financial reporting. The intent of the principle around revenue recognition is to standardize the revenue policies used by companies. This standardization allows external entities to easily compare the income statements of different companies in the same industry. Because revenue is one of the most important measures used by external entities to assess a company's performance, it is crucial that financial statements be consistent and credible.

GASB 87 implementation (*new significant standard*) - Implementation of certain new accounting standards raise substantial risk of material misstatement based on their complexity, lack of guidance, level of effort required and novelty.

Entities use a variety of leasing arrangements to stabilize cash flows and reduce risk and uncertainty. The newly issued GASB Statement 87 on leases fundamentally changes lease recognition, measurement, and related disclosures for both government lessees and lessors. The major changes outlined in GASB 87 are: (1) Leases will be classified as "short-term," "contracts that transfer ownership," and "all other."; (2) Leases that extend beyond 12 months will have a balance sheet impact on both the lessee and lessor; (3) For leases other than short-term leases and contracts that transfer ownership, the lessee will recognize an intangible right to use lease asset, and the lessor will continue to depreciate and account for the lease asset; (4) Financial statement disclosures and schedules will be required for contracts that transfer ownership and non-short-term leases; and (5) There will be no disclosure requirement for short-term lease outflows. GASB 87's provisions go into effect for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. Implementation is very time-intensive, especially for Entity's that have a number of agreements that are currently recorded as operating leases.



SIGNIFICANT UNUSUAL TRANSACTIONS

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit.

During our audit procedures, we did not become aware of significant unusual transaction that should be brought to your attention.

OTHER SIGNIFICANT MATTERS, FINDINGS, OR ISSUES

During prior audit procedures, we became aware of certain matters that should be brought to your attention. A listing of these matters is discussed in a separate report to management dated June 27, 2023 (see *Management Letter*).

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

We reviewed the supplemental information to the financial statements to ensure consistency with the audited financial statements.

RESTRICTION ON USE

This report is intended solely for the information and use of the individuals charged with governance, and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

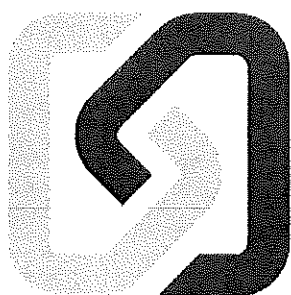
Sincerely,

Smith Marion : 

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Financial Statements and Independent Auditors' Report

Year Ended June 30, 2022



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HOUSING AUTHORITY OF THE CITY OF NEEDLES

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HOUSING AUTHORITY OF THE CITY OF NEEDLES

List of Principal Officials

The following table lists the Board Members as of June 30, 2022:

Chairperson.....	Darla Walters
Treasurer.....	Sheryl Porter
Officer.....	Tamera Kissell
Officer.....	Norma J Williams
Officer.....	Sharon Hartley
Tenant Commissioner.....	Zachary Lopez
Tenant Commissioner.....	Stella Brodbeck (Bernal)

In addition to the above Commissioners, the Administrator of Housing Authority of the City of Needles is Sara O' May, who served as the Executive Director.

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INDEPENDENT AUDITORS' REPORT

The Governing Body of
Housing Authority of the City of Needles

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of the business-type activities Housing Authority of the City of Needles (Authority), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of June 30, 2022, and the changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

(1) Exercise professional judgment and maintain professional skepticism throughout the audit; (2) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements; (3) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed; (4) Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; (5) Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

REQUIRED SUPPLEMENTARY INFORMATION

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, 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.



SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements.


The schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the financial statements.

In addition, the accompanying statement and certification of actual costs, required by the U.S. Department of Housing and Urban Development, is presented for the purpose of additional analysis and are not a required part of the basic financial statements.

That information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the 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 June 27, 2023, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's 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 Authority's internal control over financial reporting and compliance.

Smith Marion : 

June 27, 2023
Redlands, CA

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Management's Discussion and Analysis (Required Supplemental Information – Unaudited)

June 30, 2022

The Housing Authority of the City of Needles's (Authority, we, us, our) Management's Discussion and Analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of our financial activity, (c) identify changes in our financial position and its resulting ability to address the next and subsequent year challenges, and (d) identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with our financial statements.

FINANCIAL HIGHLIGHTS

At the close of the most recent fiscal year, the assets of the Authority exceeded its liabilities by \$896,699 (*net position*). This amount includes \$742,126 of unrestricted net position that may be used to meet the Authority's ongoing obligations to clients and creditors.

As of June 30, 2022, the Housing Authority's operating cash balance was \$655,457, while investments totaled \$92,999.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual financial report consists of two parts: management's discussion and analysis and the basic financial statements. The Authority follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the activities and operations of the Authority. While detailed sub-fund information is not presented, separate accounts are maintained for each program of the Authority.

The financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows and notes to the financial statements. The statement of net position provides a record or snapshot of the assets and liabilities at the close of the fiscal year. It presents the financial position of the Authority on a full accrual historical cost basis. The statement of revenues, expenses and changes in net position presents the results of the business activities over the course of the fiscal year. The statement of cash flows is related to the other financial statements by the way it links changes in assets and liabilities to the effects on cash and cash equivalents over the course of the fiscal year. The notes to the financial statements provide useful information regarding the Authority's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies, and subsequent events.

HOUSING AUTHORITY OF THE CITY OF NEEDLES
Management's Discussion and Analysis (Required Supplemental Information – Unaudited)
June 30, 2022

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Position

The following table reflects the condensed Statement of Net Position compared to prior year.

	2022	2021	Change	
			Dollar	Percentage
Cash and equivalents	\$ 676,913	\$ 643,425	\$ 33,488	5.2%
Other current assets	111,926	105,776	6,150	5.8%
Total current assets	788,839	749,201	39,638	5.3%
Net capital assets	144,867	159,646	(14,779)	(9.3%)
Other non-current assets	-	-	-	0.0%
Total non-current assets	144,867	159,646	(14,779)	(9.3%)
Total assets	933,706	908,847	24,859	2.7%
Deferred outflows of resources	-	-	-	0.0%
Total	\$ 933,706	\$ 908,847	\$ 24,859	2.7%
Current liabilities	\$ 37,007	\$ 22,977	\$ 14,030	61.1%
Non-current liabilities	-	-	-	0.0%
Total liabilities	37,007	22,977	14,030	61.1%
Deferred inflows of resources	-	-	-	0.0%
Net investment in capital assets	144,867	159,646	(14,779)	(9.3%)
Restricted net position	9,706	10,715	(1,009)	(9.4%)
Unrestricted net position	742,126	715,509	26,617	3.7%
Total net position	896,699	885,870	10,829	1.2%
Total	\$ 933,706	\$ 908,847	\$ 24,859	2.7%

Assets

Overall, there were no significant changes in any asset classes from FY22 to FY21.

Building and improvements had an addition for a new AC unit for \$6,189.

Liabilities

Overall, there were no significant changes in any liability classes from FY22 to FY21.

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Management's Discussion and Analysis (Required Supplemental Information – Unaudited)

June 30, 2022

Revenues, Expenses, and Changes in Net Position

The following schedule compares the revenues and expenses for the current and previous fiscal year.

	2022	2021	Change	
			Dollar	Percentage
Net rental revenue	\$ 231,342	\$ 221,703	\$ 9,639	4.3%
Operating grants and subsidies	305,277	336,194	(30,917)	(9.2%)
Other operating revenues	2,523	3,591	(1,068)	(29.7%)
Total operating revenues	539,142	561,488	(22,346)	(4.0%)
Depreciation expense	(20,968)	(20,505)	(463)	2.3%
Housing Assistance Payments	(100,107)	(104,081)	3,974	(3.8%)
Other operating expenses	(397,332)	(380,897)	(16,435)	4.3%
Total operating expenses	(518,407)	(505,483)	(12,924)	2.6%
Operating Income (Loss)	20,735	56,005	(35,270)	63.0%
Investment income	(9,906)	1,193	(11,099)	(>100%)
Interest expense	-	-	-	0.0%
Other non-operating items	-	-	-	0.0%
Income (Loss)	10,829	57,198	(46,369)	81.1%
Special items	-	-	-	0.0%
Net operating transfers	-	-	-	0.0%
Capital contributions	-	-	-	0.0%
Change in Net Position	\$ 10,829	\$ 57,198	\$ (46,369)	81.1%

Revenues

Other operating revenue decreased by \$1k or 30% from FY21 to FY22, primarily due to a reduction in port-in voucher administrative fees. Also attributable to the decrease was a reduction in non-rent related tenant charges.

Expenses

Other operating expenses increased by \$16.4k or 4.3% from FY21 to FY22, primarily due to an increase in ordinary maintenance and operation expenses incurred.

HOUSING AUTHORITY OF THE CITY OF NEEDLES
Management's Discussion and Analysis (Required Supplemental Information – Unaudited)
June 30, 2022

CAPITAL ASSETS

As of June 30, 2022, the Authority's investment in capital assets totaled \$144,867, net of depreciation. This investment includes land, buildings, equipment, and vehicles. This amount represents a net decrease of \$14,779 or (9%) from the previous fiscal year, as a result of current year additions not exceeding the current year depreciation of \$20,968.

	2022	2021	Change	
			Dollar	Percentage
Land	\$ 2,381	\$ 2,381	\$ -	0%
Construction in progress	-	-	-	0%
Buildings and improvements	3,153,543	3,147,354	6,189	0%
Equipment and furnishings	81,618	81,618	-	0%
Accumulated depreciation	(3,092,675)	(3,071,707)	(20,968)	1%
Net Capital Assets	\$ 144,867	\$ 159,646	\$ (14,779)	(9%)

DEBT ADMINISTRATION

The Authority currently carries no long-term debt.

ECONOMIC FACTORS

Significant economic factors affecting us are as follows:

- Federal funding by the Department of Housing and Urban Development.
- Local labor supply and demand, which can affect salary and wage rates.
- Local inflation, recession, and employment trends, which can affect resident incomes and therefore the amount of rental income.

FINANCIAL CONTACT

Our financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Housing Authority's finances and to show the Housing Authority's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact the Executive Director Julie Bigham.

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Statement of Net Position

June 30, 2022

Assets and Deferred Outflows of Resources

Operating cash	\$ 655,457
Restricted cash	21,456
Total cash and equivalents	<u>676,913</u>
Net accounts receivable	18,927
Investments - operating	92,999
Total current assets	<u>788,839</u>
Capital assets, at cost	
Land	2,381
Buildings and improvements	3,153,543
Equipment and furnishings	81,618
Total acquisition costs	<u>3,237,542</u>
Less: accumulated depreciation	<u>(3,092,675)</u>
Net capital assets	<u>144,867</u>
Total non-current assets	<u>144,867</u>
Total assets	<u>933,706</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 933,706</u>

Liabilities, Deferred Inflows of Resources, and Net Position

Accounts payable	\$ 22,830
Deposits held in trust, contra	11,750
Accrued wages payable	173
Accrued vacations payable, current portion	2,254
Total current liabilities	<u>37,007</u>
Total liabilities	<u>37,007</u>
Net investment in capital assets	144,867
Restricted net position	9,706
Unrestricted net position	742,126
Total net position	<u>896,699</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 933,706</u>

See accompanying notes.

HOUSING AUTHORITY OF THE CITY OF NEEDLES
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2022

Tenant rental revenue, net of collection losses	\$ 231,342
Operating grants and subsidies	305,277
Other revenue	<u>2,523</u>
Total operating revenues	<u>539,142</u>
Administrative	152,921
Tenant services	11,402
Utilities	80,167
Ordinary maintenance and operations	145,658
Protective services	600
Insurance premiums	6,584
Housing Assistance Payments	100,107
Depreciation	<u>20,968</u>
Total operating expenses	<u>518,407</u>
Operating income (loss)	20,735
Gain/(loss) on investments	<u>(9,906)</u>
Total non-operating revenues (expenses)	<u>(9,906)</u>
Change in Net Position	<u>\$ 10,829</u>
Net position, beginning of year	\$ 885,870
Change in net position	<u>10,829</u>
Net Position, End of Year	<u>\$ 896,699</u>

See accompanying notes.

HOUSING AUTHORITY OF THE CITY OF NEEDLESStatement of Cash Flows
Year Ended June 30, 2022

Cash receipts from tenants	\$ 215,838
Cash receipts from grants	305,277
Cash payments for Housing Assistance Payments	(100,107)
Cash payments to suppliers for goods and services	(169,910)
Cash payments for wages and benefits	(213,992)
Other cash payments and receipts	<u>2,523</u>
Net cash from operating activities	<u>39,629</u>
Acquisition and construction of capital assets	<u>(6,189)</u>
Net cash from capital and related financing activities	<u>(6,189)</u>
Net (purchases)/proceeds of investments	<u>48</u>
Net cash from investing activities	<u>48</u>
Net change in cash and equivalents	33,488
Cash at beginning of period	<u>643,425</u>
Cash at End of Period	<u>\$ 676,913</u>
<i>Reconciliation of cash to the statement of net position:</i>	
Cash and equivalents - operating	\$ 655,457
Restricted cash and equivalents	<u>21,456</u>
Total Cash and Equivalents	<u>\$ 676,913</u>
Reconciliation of operating income (loss) to net cash from operating activities:	
Operating income (loss)	\$ 20,735
Adjustments to reconcile operating income (loss) to net cash from operating activities:	
Depreciation	20,968
Changes in operating assets and liabilities:	
Accounts receivable	(16,104)
Accounts payable	13,322
Accrued wages and benefits	108
Deposits held in trust, contra	<u>600</u>
Net Cash from Operating Activities	<u>\$ 39,629</u>

See accompanying notes.

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Notes to Financial Statements

NOTE 01 - NATURE OF BUSINESS AND ORGANIZATION

The Housing Authority of the City of Needles (Authority) was established in 1942, under the U.S. Housing Act of 1937, and the State of California Housing Authority Law of 1938. The Authority is a nonprofit government agency which is chartered by the State of California to administer the development, rehabilitation or financial of affordable housing programs. The area of jurisdiction of the Authority is the City of Needles.

The primary mission of the Authority is to assist low and moderate-income families, including elderly and disabled persons, by operating programs which provide them decent, safe, and sanitary housing at affordable costs.

Under the United States Housing Act of 1937, as amended, the U.S. Department of Housing and Urban Development (HUD) has direct responsibility for administering low-income housing programs in the United States. Accordingly, HUD has contracted with the Authority to administer certain HUD funds.

Our operations are comprised of the Housing Choice Voucher Program. This program is designed to aid very low-income families in obtaining decent, safe, and sanitary rental housing. We administer contracts with independent landlords that own property and rent that property to families that have applied for housing assistance. We subsidize the family's rent through a Housing Assistance Payment made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides Annual Contributions Funding to enable us to structure a lease that sets the participants' rent at 30% of household income.

Additionally, our operations are comprised of the Low Rent Housing Program. This program is designed to provide very low-income families in obtaining decent, safe, and sanitary rental housing. operates The Low Rent Housing Program operates the Authority's own rental housing units subsidized by HUD through an Annual Contributions Contract (ACC). Funding is provided by tenant rent payments and subsidies provided by HUD based upon a formula that takes into consideration factors such as: prior formula funding, population of the area, number of dwelling units, bedroom sizes, building height and building age, utility costs, and rental income.

The Low Rent Housing Program is supplemented by the Capital Fund Program. The purpose of this program is to utilize funds granted by HUD for remodeling and upgrading the facilities in the Low Rent Housing Program, as well as to support overall operations. These grant funds are authorized by HUD each year but can be spent over the course of several years.

Reporting Entity

As described in GASB Statement No. 34, paragraph 134, the Authority is considered a primary government and meets the definition of a Special Purpose Government ("SPG"). The Authority is a legally separate entity that is engaged in only business-type activities. Business-type activities are defined as activities that are financed in whole or in part by fees charged to external parties for goods or services. SPG's engaged only in business-type activities are required to present only the financial statements required for proprietary funds, which includes Management's Discussion and Analysis ("MD&A"), basic financial statements, and Required Supplemental Information ("RSI"). All inter-program activities have been eliminated in these financial statements.

We are an independent agency, with operations separate from those of the City of Needles (City). Our obligations, including loans through direct borrowing or the sale of bonds, are not obligations of the City. The City provides us no funding. Additionally, the City does not hold title to any of our assets, nor does it have any right to our surpluses. The City does not have the ability to exercise influence over our daily operations or approve our budgets.

NOTE 02 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Accrual Basis of Accounting**

The financial statements are presented using the accrual basis of accounting with an economic resources measurement focus. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. As permitted by accounting principles generally accepted in the United States of America (GAAP), the Authority has elected to apply all relevant Government Accounting Standards Board (GASB) pronouncements.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from grant agreements, providing services, and producing and delivering goods in connection with the ongoing principal operations. The principal operating revenues of the Authority include program specific grants, rental income from tenants of the various housing projects. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles as applied to governmental units requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash on hand, demand deposits at financial institutions, investments in Money Market funds, and Certificates of Deposit.

Restricted Cash

Restricted cash consists of cash set aside by HUD for the Housing Choice Voucher Program, reserves, and escrows, as well as other cash and investments that are restricted for specific purposes.

Accounts Receivable from Tenants

Accounts receivable consists of all amounts earned at year end and not yet received. Allowances for uncollectible accounts are based upon historical trends and periodic aging of accounts receivable.

In accordance with Governmental Accounting Standards Board Statement No. 34, revenues in proprietary funds should be reported as net of all related allowances, which include amounts pertaining to uncollectible accounts. Therefore, the increase and decrease in the estimate of uncollectible accounts should be reported net of revenue instead of bad debt expense. The Authority reported no bad debt expense for the year ended June 30, 2022.

Capital Assets

Capital assets purchased or acquired with an original cost of \$1,500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation of exhaustible capital assets is charged as an expense against operations utilizing the straight-line method. Accumulated depreciation is reported on the Statement of Net Position.

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Notes to Financial Statements

The estimated useful lives for each major class of depreciable fixed assets are as follows:

Building	20 - 50 years
Vehicles and other equipment	5 - 7 years
Computers	5 years

Impairment of Capital Assets

The Authority reviews its capital assets for impairment whenever events or changes in circumstances indicate that there has been a decline in service utility that is large in magnitude and outside of the normal life cycle of the capital asset being evaluated. As of June 30, 2022, there has been no impairment of the capital assets.

Tenant Security Deposits

Security deposits consist of amounts held in trust with the Authority in order for tenants to secure apartment leases.

Compensated Absences

Compensated absences are absences for which employees will be paid, i.e., vacation and other approved leaves, with the exception of those employees that are terminated on grounds of gross misconduct. The Authority accrues the liability for those absences for which the employee has earned the rights to the benefits. Accrued amounts are based on the current salary rates.

Deferred Outflows/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 statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority currently 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, deferred inflows of resources, 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 Authority currently does not have any items that qualify for reporting in this category.

Unearned Revenue

Unearned revenues, if any, consist of rental payments made by tenants in advance of their due date, and rental supplements to be paid to owners of private dwellings during the first month of the next fiscal year.

Income Taxes

The Authority is not subject to federal or state income taxes.

Leasing Activities

We are the lessor of dwelling units to eligible residents. The rents under the leases are determined generally by the residents' income as adjusted for eligible deductions regulated by HUD, although the residents may opt for a flat rent. Leases may be cancelled at any time or renewed annually. We may cancel the leases only for a cause. Revenues associated with these leases are reported in the accompanying financial statements and related schedules within dwelling rent revenue.

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Notes to Financial Statements

Net Position

In the statement of net position, equity is classified as net position and displayed in three components: (1) Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any notes or other borrowings attributable to those capital assets. (2) Restricted net position consists of assets with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation. (3) Unrestricted net position – All other assets that do not meet the definition of “restricted” or “net investment in capital assets”.

When both restricted and unrestricted net positions are available for use, generally it is our policy to use restricted resources first.

Fair Value Measurements

Generally Accepted Accounting Principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of quoted prices (unadjusted) for identical assets and liabilities in active markets that a government can access at the measurement date, Level 2 inputs consist of inputs other than quoted prices that are observable for an asset or liability, either directly or indirectly, and Level 3 inputs that have the lowest priority and consist of unobservable inputs for an asset or liability. The Authority’s investments have been measured using Level 1 inputs.

Investment Policy

Our investment policy, HUD and the California Government Code do not address legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposit made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure such deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Authorized Investments

Investments of the Authority are limited to investment types prescribed by HUD in PIH Notice 1996-33 or as amended by future HUD notices.

Additionally, the Authority limits investment types to those that are authorized in accordance with Section 53601 of the California Government Code.

Subsequent Events

We evaluated subsequent events through June 30, 2022, the date these financial statements were issued.

Subsequent to year end, the City of Needles City Council assumed the Board of Commissioners role for the Authority by passage of a City Resolution on February 15, 2023, in accord with the California Health and Safety Code section 34290. As a result, the Authority will be considered a component unit of the City.

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Notes to Financial Statements

NOTE 03 - RESTRICTED CASH

Restricted cash was comprised of the following as of yearend:

Tenant security deposits	\$ 11,750
Restricted cash with offsetting liabilities	<u>11,750</u>
Cash balances associated with the HCV HAP equity	9,706
Restricted cash reflected in restricted net position	<u>9,706</u>
Total Restricted Cash and Equivalents	<u>\$ 21,456</u>

NOTE 04 - ACCOUNTS RECEIVABLE

The following provides a breakdown of accounts receivables as of yearend:

Receivables from HUD	\$ 79
Tenant receivables	17,524
Allowance for doubtful accounts - tenants	<u>(70)</u>
Net tenant receivables	<u>17,454</u>
Fraud recovery receivables	1,394
Net fraud recovery receivables	<u>1,394</u>
Net Accounts Receivable	<u>\$ 18,927</u>

NOTE 05 - CAPITAL ASSETS

A summary of the Capital Asset activity for the year ended June 30, 2022, is provided below:

	6/30/21	Additions	Deletions	6/30/22
Non-Depreciable				
Land	\$ 2,381	\$ -	\$ -	\$ 2,381
	<u>2,381</u>	<u>-</u>	<u>-</u>	<u>2,381</u>
Depreciable				
Buildings and improvements	3,147,354	6,189	-	3,153,543
Equipment and furnishings	81,618	-	-	81,618
	<u>3,228,972</u>	<u>6,189</u>	<u>-</u>	<u>3,235,161</u>
Total acquisition costs	3,231,353	6,189	-	3,237,542
Accumulated depreciation	<u>(3,071,707)</u>	<u>(20,968)</u>	<u>-</u>	<u>(3,092,675)</u>
Net Capital Assets	<u>\$ 159,646</u>	<u>\$ (14,779)</u>	<u>\$ -</u>	<u>\$ 144,867</u>

All land and buildings of the Public Housing Program are encumbered by a Declaration of Trust in favor of the United States of America as security for obligations guaranteed by the federal government and to protect other interests of the federal government.

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Notes to Financial Statements

NOTE 06 - NET POSITION

Net investment in capital assets as of yearend consists of the following:

Land	\$ 2,381
Buildings and improvements	3,153,543
Equipment and furnishings	81,618
Less:	
Accumulated depreciation	<u>(3,092,675)</u>
Net Investment in Capital Assets	<u>\$ 144,867</u>

Restricted net position as of yearend consists of the following:

Restricted cash and equivalents	\$ 21,456
Less:	
Tenant security deposit, contra	<u>(11,750)</u>
Restricted Net Position	<u>\$ 9,706</u>

NOTE 07 - PENSION PLAN

The Authority contributes to the Aergon Transamerica Annuity Retirement Plan, a defined contribution pension plan, for its full-time employees.

Benefit terms, including contribution requirements, for Authority are established and may be amended by the Needles Housing Authority Board of Commissioners. For each employee in the pension plan, the Authority is required to contribute 10 percent of their annual salary, exclusive of overtime pay to an individual employee account. Employees are permitted to make contributions to the pension plan, up to applicable Internal Revenue Code limits. For the year ended June 30, 2022, employee contributions totaled \$0, and the Authority recognized pension expense of \$8,064.

Employees are immediately vested in their own contributions and earnings on those contributions and become vested in Authority contributions and earnings on Authority contributions after completion of 12 months of creditable service with the Authority. There are no non-vested contributions made by the Authority and therefore no forfeitures.

The Authority has made all required contributions for the year ended June 30, 2022. There are no liabilities related to the pension contributions.

NOTE 08 - BUSINESS RISKS AND CONCENTRATIONS

Concentration – Major Contributor

For the year ended June 30, 2022, approximately 58% of operating revenues reflected in the financial statements are from HUD. The Authority operates in a heavily regulated environment. The operations of the Authority are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress, or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related costs and the additional administrative burden to comply with the changes.

Risk Management

The Authority is exposed to various risk of losses related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Claims liabilities are reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. There were no claims in excess of commercial coverage during the previous three years. These losses include an estimate of claims that have been incurred but not reported. At June 30, 2022, there were no liabilities to be reported.

As of June 30, 2022, the Authority was a participating member of the Housing Authorities Risk Retention Pool (HARRP), a risk-management pool, which provides the following coverage: property; general liability; official's liability; auto liability; employee liability for dishonesty or forgery; and employee liability for theft, disappearance and destruction.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Our policy is to manage this exposure to declines in fair values by limiting the weighted average maturity of its investments portfolio.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. It is our policy to follow the HUD regulations by only having direct investments and investments through mutual funds to direct obligations, guaranteed obligations, or obligations of the agencies of the United States of America.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, our deposits may not be returned. Our policy for custodial credit risk requires collateral to be held in our name by its agent or by the bank's trust department.

NOTE 09 - CONTINGENCIES AND COMMITMENTS

Government Examinations

The Authority is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the Authority in the current and prior years.

Construction Contracts

During the normal course of business, the Authority is engaged in various construction contracts for rehabilitation and modernization of various properties owned by the Authority.

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2022

Program Title	ALN	Cluster Title	Award Type	Pass-Through No.	Expenditures	Amounts Passed Through to Sub-
Section 8 Housing Choice Vouchers	14.871	HVC	Direct		\$ 120,249	\$ -
COVID-19 Section 8 Housing Choice Vouchers	14.871	HVC	Direct		3,298	-
<i>Total Section 8 Housing Choice Vouchers</i>					<u>123,547</u>	<u>-</u>
Public and Indian Housing	14.850		Direct		149,251	-
COVID-19 Public and Indian Housing	14.850		Direct		32,479	-
<i>Total Public and Indian Housing</i>					<u>181,730</u>	<u>-</u>
Total Federal Financial Assistance					<u>\$ 305,277</u>	<u>\$ -</u>
<i>Federal Grantor:</i>						Expenditures
US Department of Housing and Urban Development						<u>\$ 305,277</u>
Total Federal Financial Assistance						<u>\$ 305,277</u>
<i>Cluster Title:</i>						Expenditures
Housing Voucher Cluster						<u>\$ 123,547</u>
<i>Award Type:</i>						Expenditures
Direct						<u>\$ 305,277</u>
Total Federal Financial Assistance						<u>\$ 305,277</u>

NOTE 01 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal awards activity of the Authority under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of our operations, it is not intended to and does not present our financial position, changes in net positions, or cash flows.

NOTE 02 - INDIRECT COST RATE

The Authority has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Statement and Certification of Actual Costs

June 30, 2022

1. The Actual Costs of the Authority was as follows:

Grant	Funds Approved	Funds Disbursed	Funds Expended	Balance
CA16P022501-18	\$ 119,358	\$ -	\$ -	\$ 119,358
CA16P022501-19	\$ 123,997	\$ -	\$ -	\$ 123,997
CA16P022501-20	\$ 133,733	\$ -	\$ -	\$ 133,733
CA16P022501-21	\$ 138,738	\$ -	\$ -	\$ 138,738
CA16P022501-22	\$ 169,829	\$ -	\$ -	\$ 169,829

2. The distribution of costs as shown on the Financial Statement of Costs accompanying the Actual Cost Certificate submitted to HUD for approval, is in agreement with the Authority's records.
3. For the above completed grants, all costs have been paid and all related liabilities have been discharged through payment.

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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*

To the Governing Body of
Housing Authority of the City of Needles

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 business-type activities of the Housing Authority of the City of Needles (Authority), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 27, 2023.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item(s) 2022-001, 2022-002, 2022-003, that we consider to be significant deficiencies.



REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying *schedule of findings and questioned costs* as item(s) 2022-003.

AUTHORITY'S RESPONSE TO FINDINGS

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Their response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith Marion : 

June 27, 2023
Redlands, CA

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Schedule of Findings and Questioned Costs

Year Ended June 30, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

- | | | |
|--|-----------------------|------------------------|
| 1. Type of Auditor Report on the financial statements: | <div>Unmodified</div> | |
| 2. Internal control over financial reporting: | | |
| a. Material weakness(es) identified? | <div></div> Yes | <div>x</div> No |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | <div>x</div> Yes | <div></div> None noted |
| 3. Noncompliance material to financial statements? | <div></div> Yes | <div>x</div> No |

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2022-001

Significant Deficiency in Internal Controls over Accounts Payable – Unrecorded Liability(s)

Criteria: Accounting principles generally accepted in the United States of America (GAAP) under the accrual basis of accounting method, requires expenses to be recorded at the time liabilities are incurred.

Condition and Context: During the audit for the year ended June 30, 2022, it was discovered that controls over accounts payable were not operating in compliance with the above stated criteria. The executive director at the time did not properly maintain the account payable schedule. We tested an amount of \$49,243.22 out of the total population \$68,974 in disbursements for the month following the fiscal year and the total of unrecorded liability amounted to \$15,970, 32% of the amount tested. If projected to the whole population, we estimate an error of \$22,369, which may materially affect the financial statements.

Effect or Potential Effect: Unrecorded liabilities significantly affect a company's financial position leading to an understatement of expenses and understatement of liabilities.

Cause: Insufficient oversight and supervision of accounts payable processes lead to errors and inconsistencies. This led to expenses to not being recorded at the time they were incurred.

Recommendation: Management and the Board should develop procedures that ensure they have proper record keeping procedures over invoices from vendors. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with unrecorded liability(s), such as implementing processes, and controls to track and manage payables effectively. Regular reconciliation and timely payment practices are essential for maintaining good schedules.

Views of Responsible Official(s): Management agrees with the finding and have outlined a plan of action in the Corrective Action Plan section of this report.

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Finding 2022-002

Significant Deficiency in Internal Controls over Board Minutes – Missing Signature(s)

Criteria: California Government Code Section 54953: This law requires local government bodies, such as city councils and school boards, to keep minutes of their meetings.

The Public Housing Program (24 CFR Part 903) require public housing agencies to keep minutes of their board meetings, which must include certain information such as the date, time, location, and actions taken at the meeting. These minutes must be made available for public inspection and kept on file for at least three years.

The Housing Choice Voucher Program (24 CFR Part 982) require public housing agencies to keep records of all board meetings, including any resolutions, motions, or other official actions taken. These records must be retained for at least six years.

To ensure the authenticity and accuracy of the minutes, it is customary for the minutes to be signed by the person who presided over the meeting (usually the chairperson) and the person who recorded the minutes (usually the secretary or a designated note-taker).

By signing the minutes, the participants acknowledge that they have reviewed and approved the accuracy of the minutes. This also helps to establish the official record of what was discussed and agreed upon during the meeting, which can be important in legal disputes or audits. Additionally, signing the minutes can help to discourage any unauthorized changes or alterations to the record.

Condition and Context: We noted multiple instances where the minutes of the board meeting were not signed.

Effect or Potential Effect: Not signing board minutes can have negative effects and consequences for an organization, including: (1) Lack of Authenticity: The signature of the presiding officer and the secretary on the minutes indicates that they have reviewed and approved the accuracy of the minutes. Without their signatures, the authenticity of the minutes can be called into question, which may lead to challenges or disputes about what was discussed or agreed upon during the meeting; (2) Legal Implications: Board minutes may be used as evidence in legal proceedings, such as in the case of a shareholder lawsuit or an audit by a regulatory agency. If the minutes are not signed, it may be more difficult to establish their authenticity and accuracy in court; (3) Compliance Issues: In some cases, not signing board minutes may be a violation of legal or regulatory requirements. For example, California Corporations Code Section 8320 requires corporations to keep minutes of meetings of the board and committees of the board, and failure to comply with this requirement can result in penalties or fines; and (4) Risk of Alterations: Without signatures, the minutes may be more susceptible to alterations or changes, either intentionally or accidentally. This can undermine the integrity of the minutes and lead to confusion or disputes about what actually occurred during the meeting.

Cause: The Executive Director at the time the minutes were recorded was solely responsible for signing them. The ED was continually absent, leaving many essential duties incomplete.

Identification of a Repeat Finding: This finding was identified in the prior year audit as 2021-002.

Recommendation: The Auditor recommends that the Board develop procedures that ensure that their board minutes are properly reviewed, approved, and signed to comply with all legal and regulatory requirements, and to maintain the integrity of their record-keeping.

Views of Responsible Official(s): Management agrees with the finding and have outlined a plan of action in the Corrective Action Plan section of this report.

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Schedule of Findings and Questioned Costs

Year Ended June 30, 2022

Finding 2022-003

Noncompliance and Significant Deficiency in Internal Controls over Reporting – Missed REAC Deadlines

Criteria: The Uniform Financial Reporting Standards (UFRS), at 24 CFR 5.801, require Authorities to file an audited submission to the Real Estate Assessment Center (REAC) no later nine months after fiscal year end.

Condition and Context: During the audit for the year ended June 30, 2022, we noted that neither the unaudited nor the audited REAC submissions had been filed.

Effect or Potential Effect: Failure to report timely can have several negative effects, including: (1) Loss of funding: Non-compliance with federal grant requirements can result in the loss of future funding opportunities or even the revocation of existing funding; (2) Damage to reputation: Failure to comply with federal grant requirements can damage the organization's reputation and lead to a loss of public trust; (3) Audit findings: Non-compliance can result in increased scrutiny and potential sanctions from grantor agencies; and (4) Delayed funding: Failure to timely report financial information can delay the release of future grant funds.

Cause: The Executive Director at the time was solely responsible for submitting the information to REAC and coordinating the audit. The ED was continually absent, leaving many essential duties incomplete.

Identification of a Repeat Finding: This finding was identified in the prior year audit as 2021-003.

Recommendation: To correct the issue of missing reporting deadlines, the Auditor has the following recommendations: (1) Develop a reporting calendar: Create a reporting calendar that includes all reporting deadlines, the required documents, and the person responsible for submitting the reports. The calendar should be shared with all relevant staff and regularly updated; (2) Assign clear responsibilities: Assign clear responsibilities for each reporting task and ensure that staff understand their roles and deadlines. Consider designating a point person to oversee the reporting process and monitor progress; (3) Establish a reporting process: Develop a reporting process that outlines the steps required to complete and submit reports, including who needs to be involved, what information is needed, and how the report will be reviewed and approved; (4) Provide training and resources: Provide training and resources to staff to help them understand the reporting requirements and how to prepare and submit reports. This can include training sessions, webinars, and written guidance; and (5) Monitor progress and address issues: Regularly monitor progress and address any issues that arise. If deadlines are missed, determine the cause, and develop strategies to prevent similar issues in the future.

Views of Responsible Official(s): Management agrees with the finding and have outlined a plan of action in the Corrective Action Plan section of this report.

THE HOUSING AUTHORITY OF THE CITY OF NEEDLES, CALIFORNIA

908 Sycamore Drive • Needles, California 92363
Telephone (760) 326-3222 • Fax (760) 326-2741 • TDD (760) 326-5868
nha@citlink.net

CORRECTIVE ACTION PLAN

Name of auditee: Housing Authority of the City of Needles

Name of audit firm: Smith Marion and Co. Inc.

Period covered by the audit: Year Ended June 30, 2022

CAP Prepared by

Name: Julie Bigham

Position: Executive Director

Telephone Number: (760) 326-3222

Current Findings on the Schedule of Findings, Questioned Costs, and Recommendations.

Finding 2022-001

a. Comments on the Finding and Each Recommendation:

The Authority concurs with the finding.

b. Action(s) Taken or Planned on the Finding:

The Executive Director overseeing this process resulting in the finding has since been replaced. A process is now in place to ensure that the accounts payable aging report is accurate and updated properly for all invoices sent to the Authority.

Finding 2022-002

a. Comments on the Finding and Each Recommendation:

The Authority concurs with the finding.

b. Action(s) Taken or Planned on the Finding:

The Executive Director overseeing this process resulting in the finding has since been replaced. A process is now in place to ensure that board minutes are signed in a timely manner.

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c. Status of Corrective Actions on Findings Reported in the Prior Audit Schedule of Findings, Questioned Costs, and Recommendations.

Corrective action on this finding is enforced starting as of December 2022. Former Executive Director was in office during the audit period and was responsible for signing the board minutes. They remained in office until Julie Bigham assumed position of Executive Director in December 2022. This issue might appear for upcoming fiscal year 2023 audit, but only until December 2022.

Finding 2022-003

a. Comments on the Finding and Each Recommendation:

The Authority concurs with the finding.

b. Action(s) Taken or Planned on the Finding:

The Executive Director overseeing this process resulting in the finding has since been replaced. A process is now in place to ensure that the required REAC submissions are completed in a timely manner.

c. Status of Corrective Actions on Findings Reported in the Prior Audit Schedule of Findings, Questioned Costs, and Recommendations.

Corrective action on this finding is enforced starting as of December 2022. Former Executive Director Sara O' May was in office during the audit period and was responsible for REAC submissions to be filed in a timely manner. Julie Bigham understands the importance of REAC submissions being done on time and will enforce this for upcoming submission.

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Status of Prior Audit Findings
Year Ended June 30, 2022

Financial Statement Findings:

Prior Year Findings No.	Findings Title	Status/Current Year Finding No.
2021-001	Significant Deficiency in Internal Controls over Cash Disbursements - Missing Invoice(s)	Resolved
2021-002	Significant Deficiency in Internal Controls over Board Minutes - Missing Signature(s).	Repeat/2022-002
2021-003	Noncompliance and Significant Deficiency in Internal Controls over Financial Reporting - Missed REAC Deadlines	Repeat/2022-003
2021-004	Significant Deficiency in Internal Controls over Financial Reporting - Bank Reconciliations	Resolved

Federal Award Findings and Question Costs:

Prior Year	Findings Title	Status/ Current Year
N/A	There were no prior findings reported.	N/A