

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Financial Statements and Independent Auditors' Report

Year Ended June 30, 2023



smithmarion
connected . focused . understandable

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Table of Contents

List of Principal Officials.....	1
Independent Auditors’ Report.....	2
Management’s Discussion and Analysis (Required Supplemental Information – Unaudited)	5
Financial Statements	9
Statement of Net Position	9
Statement of Revenues, Expenses, and Changes in Net Position.....	10
Statement of Cash Flows	11
Notes to Financial Statements.....	13
Supplemental Information	21
Schedule of Expenditures of Federal Awards	21
Statement and Certification of Actual Costs	22
Compliance Information.....	23
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23
Schedule of Findings and Questioned Costs.....	25
Corrective Action Plan	26
Status of Prior Audit Findings	27

HOUSING AUTHORITY OF THE CITY OF NEEDLES

List of Principal Officials

The following table lists the Board Members as of June 30, 2023:

Chairman	Janet Jernigan
Vice Chairman	Kirsten Merritt
Commissioner	Joanne Pogue
Commissioner	Jamie N. McCorkle
Commissioner	Henry Longbrake
Commissioner	Tona Belt
Commissioner	Ellen Campbell

In addition to the above Commissioners, the Administrator of Housing Authority of the City of Needles is Julie Bigham, who served as the Executive Director.

• t: (909) 307-2323
• f: (909) 825-9900
• 1940 orange tree lane #100
• redlands, ca 92374



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), a component unit of the City of Needles, California, as of and for the year ended June 30, 2023, 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, 2023, 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 March 15, 2024, 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.

March 15, 2024
Redlands, CA

HOUSING AUTHORITY OF THE CITY OF NEEDLES

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

June 30, 2023

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 \$989,640 (*net position*). This amount includes \$701,491 of unrestricted net position that may be used to meet the Authority's ongoing obligations to clients and creditors.

As of June 30, 2023, the Housing Authority's operating cash balance was \$592,608, while investments totaled \$91,330.

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.

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Position

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

			Change	
	2023	2022	Dollar	Percentage
Cash and equivalents	\$ 603,808	\$ 676,913	\$ (73,105)	(10.8%)
Other current assets	119,890	111,926	7,964	7.1%
Total current assets	723,698	788,839	(65,141)	(8.3%)
Net capital assets	288,149	144,867	143,282	98.9%
Other non-current assets	-	-	-	0.0%
Total non-current assets	288,149	144,867	143,282	98.9%
Total assets	1,011,847	933,706	78,141	8.4%
Deferred outflows of resources	-	-	-	0.0%
Total	\$ 1,011,847	\$ 933,706	\$ 78,141	8.4%
Current liabilities	\$ 22,207	\$ 37,007	\$ (14,800)	(40.0%)
Non-current liabilities	-	-	-	0.0%
Total liabilities	22,207	37,007	(14,800)	(40.0%)
Deferred inflows of resources	-	-	-	0.0%
Net investment in capital assets	288,149	144,867	143,282	98.9%
Restricted net position	-	9,706	(9,706)	(100.0%)
Unrestricted net position	701,491	742,126	(40,635)	(5.5%)
Total net position	989,640	896,699	92,941	10.4%
Total	\$ 1,011,847	\$ 933,706	\$ 78,141	8.4%

Assets

Overall, there was a significant change in net capital assets from FY22 to FY23 due to additions in construction in progress, buildings, and improvements.

Building and improvements disposals for the year was \$32,926, which included AC units that were replaced by new AC units for \$70,013.

Liabilities

Overall, there were no significant changes in any liability classes from FY22 to FY23.

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Management's Discussion and Analysis (Required Supplemental Information – Unaudited)
June 30, 2023

Revenues, Expenses, and Changes in Net Position

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

	2023	2022	Change	
			Dollar	Percentage
Net rental revenue	\$ 229,743	\$ 231,342	\$ (1,599)	(0.7%)
Operating grants and subsidies	310,425	305,277	5,148	1.7%
Other operating revenues	4,692	2,523	2,169	86.0%
Total operating revenues	544,860	539,142	5,718	1.1%
Depreciation expense	(24,712)	(20,968)	(3,744)	17.9%
Housing assistance payments	(130,561)	(100,107)	(30,454)	30.4%
Other operating expenses	(472,491)	(397,332)	(75,159)	18.9%
Total operating expenses	(627,764)	(518,407)	(109,357)	21.1%
Operating income (loss)	(82,904)	20,735	(103,639)	>100%
Investment income	-	(9,906)	9,906	(100.0%)
Interest expense	-	-	-	0.0%
Other non-operating items	(4,175)	-	(4,175)	(>100%)
Income (loss) before contributions and other items	(87,079)	10,829	(97,908)	>100%
Special items	-	-	-	0.0%
Net operating transfers	-	-	-	0.0%
Capital contributions	119,000	-	119,000	>100%
Change in net position	\$ 31,921	\$ 10,829	\$ 21,092	(>100%)

Revenues

Other operating revenue increased by \$2k or 86% from FY22 to FY23, primarily due to an increase 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 \$75k or 18.9% from FY22 to FY23, primarily due to an increase in ordinary maintenance and operation expenses incurred. High maintenance labor and contract costs attributed to a \$49k increase of this expense line item.

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Management's Discussion and Analysis (Required Supplemental Information – Unaudited)
June 30, 2023

CAPITAL ASSETS

As of June 30, 2023, the Authority's investment in capital assets totaled \$288,149, net of depreciation. This investment includes land, construction in progress, buildings, equipment, and vehicles. This amount represents a net increase of \$143,282 or 99% from the previous fiscal year, as a result of current year additions exceeding the current year depreciation of \$24,712.

	2023	2022	Change	
			Dollar	Percentage
Land	\$ 2,381	\$ 2,381	\$ -	0%
Construction in progress	39,341	-	39,341	>100%
Buildings and improvements	3,190,630	3,153,543	37,087	1%
Equipment and furnishings	81,618	81,618	-	0%
Accumulated depreciation	(3,025,821)	(3,092,675)	66,854	(2%)
Net capital assets	\$ 288,149	\$ 144,867	\$ 143,282	99%

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 Patrick Martinez.

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Statement of Net Position

June 30, 2023

Assets and deferred outflows of resources

Operating cash	\$ 592,608
Restricted cash	11,200
Total cash and equivalents	<u>603,808</u>
Net accounts receivable	15,447
Investments - operating	91,330
Prepaid expenses and other current assets	13,113
Total current assets	<u>723,698</u>
Capital assets, at cost	
Land	2,381
Construction-in-progress	39,341
Buildings and improvements	3,190,630
Equipment and furnishings	81,618
Total acquisition costs	<u>3,313,970</u>
Less: Accumulated depreciation	<u>(3,025,821)</u>
Net capital assets	288,149
Total non-current assets	<u>288,149</u>
Total assets	<u>1,011,847</u>
Total assets and deferred outflows of resources	<u>\$ 1,011,847</u>

Liabilities, deferred inflows of resources, and net position

Accounts payable	\$ 1,982
Unearned revenues	3,579
Deposits held in trust, contra	11,200
Accrued wages payable	3,341
Accrued vacations payable, current portion	2,105
Total current liabilities	<u>22,207</u>
Total liabilities	<u>22,207</u>
Net investment in capital assets	288,149
Unrestricted net position	701,491
Total net position	<u>989,640</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 1,011,847</u>

See accompanying notes.

HOUSING AUTHORITY OF THE CITY OF NEEDLES
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2023

Tenant rental revenue, net of collection losses	\$ 229,743
Operating grants and subsidies	310,425
Other revenue	4,692
Total operating revenues	<u>544,860</u>
Administrative	190,680
Utilities	74,306
Ordinary maintenance and operations	194,343
Protective services	600
Insurance premiums	12,562
Housing assistance payments	130,561
Depreciation	24,712
Total operating expenses	<u>627,764</u>
Operating income (loss)	(82,904)
Gains (losses) on disposition of assets	(4,175)
Total non-operating revenues (expenses)	<u>(4,175)</u>
Income (loss) before contributions and other items	(87,079)
Capital contributions	119,000
Change in net position	<u><u>\$ 31,921</u></u>
Net position, beginning of year	\$ 896,699
Change in net position	31,921
Prior-period restatements	61,020
Net position, end of year	<u><u>\$ 989,640</u></u>

See accompanying notes.

HOUSING AUTHORITY OF THE CITY OF NEEDLESStatement of Cash Flows
Year Ended June 30, 2023

Cash receipts from tenants	\$ 242,578
Cash receipts from grants	304,099
Cash payments for Housing Assistance payments	(130,561)
Cash payments to suppliers for goods and services	(286,608)
Cash payments for wages and benefits	(214,445)
Other cash payments and receipts	6,487
Net cash from operating activities	<u>(78,450)</u>
Acquisition and construction of capital assets	(109,354)
Gains (losses) on disposition of assets	(4,175)
Capital contributions received	119,000
Net cash from capital and related financing activities	<u>5,471</u>
Net (purchases)/proceeds of investments	<u>(126)</u>
Net cash from investing activities	<u>(126)</u>
Net change in cash and equivalents	(73,105)
Cash at beginning of period	<u>676,913</u>
Cash at end of period	<u>\$ 603,808</u>
<i>Reconciliation of cash to the statement of net position:</i>	
Cash and equivalents - operating	\$ 592,608
Restricted cash and equivalents	<u>11,200</u>
Total cash and equivalents	<u>\$ 603,808</u>

See accompanying notes.

HOUSING AUTHORITY OF THE CITY OF NEEDLESStatement of Cash Flows
Year Ended June 30, 2023Reconciliation of operating income (loss) to net cash
from operating activities:

Operating income (loss) \$ (82,904)

Adjustments to reconcile operating income (loss) to
net cash from operating activities:

Depreciation 24,712

Bad debt 1,849

(Gain)/Loss on disposition of property and equipment 2,380

Realized and unrealized gains/losses on investments 1,795

Changes in operating assets and liabilities:

Accounts receivable 1,631

Prepaid expenses and other assets (13,113)

Accounts payable (20,848)

Accrued wages and benefits 3,019

Deposits held in trust, contra (550)

Unearned revenues 3,579

Net cash from operating activities**\$ (78,450)***See accompanying notes.*

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 a component unit of the City of Needles (City). Although the Authority is a legally separate SPG, it does not have a separately elected governing body from that of the City and is not fiscally independent of other state and local governments. Fiscally independent means that the Authority may, without the approval or consent of another governmental entity, determine or modify its own budget, control collection and disbursements of funds, maintain responsibility for funding deficits and operating deficiencies, and issue bonded debt.

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, 2023.

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.

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, 2023, 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.

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 deposits 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 March 15, 2024, the date these financial statements were issued.

NOTE 03 - RESTRICTED CASH

Restricted cash was comprised of the following as of yearend:

Tenant security deposits	\$ 11,200
Restricted cash with offsetting liabilities	<u>11,200</u>
Total restricted cash and equivalents	<u>\$ 11,200</u>

NOTE 04 - ACCOUNTS RECEIVABLE

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

Receivables from HUD	\$ 7,799
Tenant receivables	9,498
Allowance for doubtful accounts - tenants	<u>(1,850)</u>
Net tenant receivables	<u>7,648</u>
Net accounts receivable	<u>\$ 15,447</u>

NOTE 05 - CAPITAL ASSETS

A summary of the capital asset activity for the year ended June 30, 2023, is provided below:

	6/30/22	Additions	Deletions	6/30/23
Non-Depreciable				
Land	\$ 2,381	\$ -	\$ -	\$ 2,381
Construction in process	<u>-</u>	<u>39,341</u>	<u>-</u>	<u>39,341</u>
	<u>2,381</u>	<u>39,341</u>	<u>-</u>	<u>41,722</u>
Depreciable				
Buildings and improvements	3,153,543	70,013	(32,926)	3,190,630
Equipment and furnishings	<u>81,618</u>	<u>-</u>	<u>-</u>	<u>81,618</u>
	<u>3,235,161</u>	<u>70,013</u>	<u>(32,926)</u>	<u>3,272,248</u>
Total acquisition costs	3,237,542	109,354	(32,926)	3,313,970
Accumulated depreciation	<u>(3,092,675)</u>	<u>(24,712)</u>	<u>91,566</u>	<u>(3,025,821)</u>
Net capital assets	<u>\$ 144,867</u>	<u>\$ 84,642</u>	<u>\$ 58,640</u>	<u>\$ 288,149</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.

NOTE 06 - NET POSITION

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

Land	\$ 2,381
Construction in progress	39,341
Buildings and improvements	3,190,630
Equipment and furnishings	81,618
Less:	
Accumulated depreciation	<u>(3,025,821)</u>
Net investment in capital assets	<u>\$ 288,149</u>

Restricted net position as of yearend consists of the following:

Restricted cash and equivalents	\$ 11,200
Less:	
Tenant security deposit, contra	<u>(11,200)</u>
Restricted net position	<u>\$ -</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, 2023, employee contributions totaled \$0, and the Authority recognized pension expense of \$7,290.

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, 2023. There are no liabilities related to the pension contributions.

NOTE 08 - BUSINESS RISKS AND CONCENTRATIONS*Concentration – Major Contributor*

For the year ended June 30, 2023, approximately 57% 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, 2023, there were no liabilities to be reported.

As of June 30, 2023, 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.

NOTE 10 - PRIOR YEAR RESTATEMENT

During the fiscal year ended June 30, 2023, one restatement to beginning net position was required. Below is a description of the item and effect on beginning net position:

Accumulated depreciation – correction of an error

During the audit, it was discovered that accumulated depreciation was overstated by \$61,020. In 2019, an asset had been over depreciated by \$22,185, and in 2013, an asset was written off for impairment for \$38,835 but no adjustment was made to accumulated depreciation. These corrections to accumulated depreciation resulted in a decrease to the beginning net position by \$61,020.

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Program Title	ALN	Cluster Title	Award Type	Pass-Through No.	Expenditures	Amounts Passed Through to Sub-Recipients
Section 8 Housing Choice Vouchers	14.871	HVC	Direct		\$ 146,087	\$ -
Public and Indian Housing	14.850		Direct		39,473	-
Public Housing Capital Fund	14.872		Direct		243,865	-
Total Federal Financial Assistance					\$ 429,425	\$ -
<i>Federal Grantor:</i>						Expenditures
US Department of Housing and Urban Development						\$ 429,425
Total Federal Financial Assistance					\$ 429,425	
<i>Cluster Title:</i>						Expenditures
Housing Voucher Cluster						\$ 146,087
<i>Award Type:</i>						Expenditures
Direct						\$ 429,425
Indirect						-
Total Federal Financial Assistance					\$ 429,425	

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, 2023. 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 the operation of the Authority, it is not intended to and does not present the financial position, changes in net positions, or cash flows of the Authority.

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
Year Ended June 30, 2023

Grant	Funds Approved	Funds Disbursed	Funds Expended	Balance	Form HUD- 53001 Submitted *
CA16P022501-18	\$ 119,358	\$ 119,000	\$ 119,000	\$ 358	No
CA16P022501-19	\$ 123,997	\$ -	\$ -	\$ 123,997	No
CA16P022501-20	\$ 133,733	\$ -	\$ -	\$ 133,733	No
CA16P022501-21	\$ 139,371	\$ 124,865	\$ 124,865	\$ 14,506	No
CA16P022501-22	\$ 170,410	\$ -	\$ -	\$ 170,410	No
CA16P022501-23	\$ -	\$ -	\$ -	\$ -	No

* The distribution of costs as shown on the respective HUD Form 53001 submitted to HUD for approval, is in agreement with the Authority's records. Additionally, all costs have been paid and all related liabilities have been discharged through payment.

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, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 15, 2024.

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) **2023-001** that we consider to be significant deficiencies.



REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

March 15, 2024
Redlands, CA

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

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

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2023-001

Prior Period Restatement to Accumulated Depreciation – Significant Deficiency

Criteria: Timely and accurate reporting of financial activity is a requirement under generally accepted accounting principles as a fundamental concept.

Condition and Context: During the audit for the year ended June 30, 2023, accumulated depreciation in the prior year was overstated by \$61,020 due to a miscalculation in the depreciation schedule from 2013 and 2019.

Effect or Potential Effect: A prior period adjustment was made during the current fiscal year to reduce accumulated depreciation in the current year and decrease equity to reflect it as if it were in the prior year.

Cause: Controls were not in place to review fixed asset listing at or near year end to ensure that all asset accounts are being properly recorded.

Recommendation: Accountants should be reviewing capital assets and depreciation to ensure they are properly recorded.

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, 2023

CAP Prepared by

Name: Patrick Martinez

Position: Executive Director

Telephone Number: (760) 326-3222

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

Finding 2023-001

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 fixed assets listing report is accurate and updated properly for all assets owned by the Authority.

HOUSING AUTHORITY OF THE CITY OF NEEDLES

Status of Prior Audit Findings
Year Ended June 30, 2023

Financial Statement Findings:

Prior Year Findings No.	Findings Title	Status/ Current Year Finding No.
2022-001	Significant Deficiency in Internal Controls over Accounts Payable - Unrecorded Liability(s)	Resolved
2022-002	Significant Deficiency in Internal Controls over Board Minutes - Missing Signature(s)	Resolved
2022-003	Noncompliance and Significant Deficiency in Internal Controls over Reporting - Missed REAC Deadlines	Resolved