



City of Needles, California Request for City Council Action

☒ CITY COUNCIL ☐ NPUA ☐ SARDA ☒ Regular ☐ Special

Meeting Date: January 9, 2024

Title: Presentation by Michael Fink, CPA with Fechter & Company of the City audit report for the fiscal year ended June 30, 2022

Background: The fiscal year 2021/22 City audit report has been completed by Fechter & Company. The audit report will be presented via teleconference by Michael Fink, CPA.

Attached are the 2022 Audit Results Presentation materials, and audit report for the fiscal year ended June 30, 2022.

Fiscal Impact: None.

Recommendation: Accept and file the City fiscal year ended June 30, 2022 audit report completed by Fechter & Company.

Submitted By: Barbara DiLeo, Finance Department

City Management Review:

Rita J. May

Date: 1/4/2023

Approved: ☐


Not Approved: ☐

Tabled: ☐

Other: ☐


Agenda Item: 2

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City of Needles California

Presentation of the June 30, 2022 Audit
to City Council
January 9, 2024




**FECHTER
& COMPANY**
Certified Public Accountants

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Fechter & Company Certified Public Accountants

- Firm is located in Sacramento
- Founded in 2005
- Engagement Staffing:
 - Michael Fink, CPA – Engagement Partner
 - Sandy Sup, CPA – In-charge Accountant, Audit Manager
 - Scott German, CPA – Quality Control Partner



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Audit Engagement


- Fifth year of auditing the City
- Scope of Audit
 - We audited all funds EXCEPT
 - Needles Public Utility Authority (NPUA)
 - Measure I Fund
 - Transit Fund
- Financial Statement Audit defined:
 - A Financial Statement audit is defined as an independent examination of the organization's financial statements and disclosures by independent auditors with the goal of providing a materially true and fair view of the organization's financial performance.



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Required Communications City Management's responsibilities

- Qualitative Aspects of Accounting
 - City Management's responsibilities
 - Accurate preparation of financial statements
 - Establishing internal controls - the systems and policies necessary to achieve accurate financial reporting.
 - Selection of significant accounting policies are summarized in Note 1 to the Financial Statements.
- Maintaining Supporting Records and Documents
 - Selection of estimates which are integral to the financial statements
 - Depreciation
 - Pension
 - OPEB
 - Compensated Absences




Required Communications

Fechter & Company Responsibilities

- Express an opinion as to whether your financial statements are fairly presented in all material respects in conformity with Generally Accepted Accounting Principles (GAAP).
- Conducted in Accordance with Generally Accepted Auditing Standards (GAAS)
 - Evaluate and test estimates used by the City
 - Evaluate appropriateness of accounting policies used by the City
 - Evaluate overall presentation of the financial statements
- Our engagement as auditors and the performance of the audit does not relieve management or those charged with governance of their responsibilities.

An audit provides reasonable assurance, NOT absolute assurance on the accuracy of the financial statements.




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Required Communications

Difficulties Encountered

- There were some difficulties encountered during the audit, other than the typical delay in receiving the audited statements for the NPUA Audit:
 - There was a change in management and our primary contact for the audit.
 - Certain procedures had to be reperfomed or changed during the course of the audit, based on availability of documentation and results of other procedures performed.
 - There were material transactions in funds that were originally held to be under the scope of the NPUA component unit audit.
 - There was a change in the status of the City's requirement for a Single Audit, and significant changes to audit planning and engagement procedures were needed.



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Required Communications

Corrected/Uncorrected Misstatements

24 Audit Adjustments Recorded:

- An increase in the number of adjustments from last year. Some of these adjustments were the function of new accounting pronouncements (GASB 87, leases).
- 3 of these adjustments, with a net income effect of approximately \$183k, were to incorporate the audited financial statements of the NPUA and the Transit Funds into the City's financial statements.
- The most significant adjustment was to record the reclassification of a reported \$1,205,000 capital outlay expense to a prepaid contract expense in relation to the Arizona Bridge Project that had not yet begun during FY22.




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Required Communications

Other Items

- Disagreements with Management
 - None
- Consultations with Other Accountants
 - None that we are aware of.
- Management Representation Letter
 - Letter was signed by the City Manager and the Acting Director of Finance.
- Other Findings or Issues
 - We were able to issue a clean opinion on the financial statements after the posting of substantial audit adjustments and removal of the Single Audit component. The Single Audit component was not required by the audit agreement and accounting over long-term construction projects. In order to remain compliant with a Single Audit in future years where approved expenditures are disbursed, it will be imperative that controls and policies are in place that will ultimately result in an accurate Schedule of Expenditures of Federal Awards at the outset of that audit engagement.
- Other Matters
 - None



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Summary of Audit Results

- Independent Auditor's Report on Financial Statements
- Report on Internal Control Over Financial Reporting and Compliance
- Schedule of Findings and Questioned Costs

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Summary of Audit Results Independent Auditor's Report on Financial Statements

- Unmodified (or clean) Opinion on the financial statements
- Limited procedures and no opinion on:
 - Management's Discussion and Analysis
 - Supplemental Information
 - Budget vs Actual
 - OPEB – Required Supplemental Disclosures
 - Pension – Required Supplemental Disclosures

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Financial Statement Overview

- Three statements presented:
 - Government-wide
 - ALL activity for all fund types reported on a full accrual basis.
 - Governmental Funds
 - Activities supported primarily by tax and assessments revenue.
 - Enterprise or Proprietary Funds
 - Business-type activities primarily supported by user fees.

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Revenue Highlights

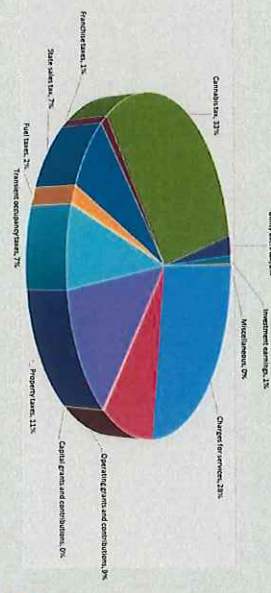
2022 Revenues by Fund

Fund Type	Percentage
General Fund	32%
Sales Tax	25%
Property Tax	20%
Grants	10%
Intergovernmental	5%
Other	8%

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Revenue Highlights

2022 Revenues excluding NPFA



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Statement of Net Position Highlights: Cash and Investments

Unrestricted cash and investments are as follows:

	2022	2021
Governmental	\$ 5,510,154	\$ 8,417,821
Business activities	\$ 16,115,756	\$ 13,514,861
Total unrestricted	\$ 21,625,910	\$ 21,932,682

In 2022, total unrestricted cash and investments decreased by 2% or \$306,772

These assets represented 29% of all City assets in 2022.

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Statement of Net Position Highlights: Other significant asset categories

	2022	2021
Net Capital Assets	\$ 37,290,196	\$ 37,510,328
Accounts Receivable	\$ 3,908,207	\$ 2,759,166
Prepaid Items	\$ 5,471,147	\$ 3,715,200

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Statement of Net Position Highlights: Net Pension Liability

	2022	2021
Governmental	\$ 1,288,346	\$ 3,045,936
Business activities	\$ 1,044,347	\$ 1,648,064
Total City Liability	\$ 2,332,693	\$ 4,694,000

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Statement of Net Position Highlights:
Other Post-Employment Benefits Liability

	<u>2022</u>	<u>2021</u>
Governmental	\$ 771,235	\$ 758,722
Business activities	\$ 625,171	\$ 410,522
Total City Liability	\$ 1,396,406	\$ 1,169,244



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Thank you
We appreciated the opportunity to be
of service to the City of Needles

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CITY OF NEEDLES, CALIFORNIA

Annual Financial Report and
Required Supplemental Information
With
Independent Auditor's Report Thereon

June 30, 2022

CITY OF NEEDLES, CALIFORNIA

Annual Financial Report

June 30, 2022

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Needles, California

Report on the Financial Statements***Opinion***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Needles, California (the City), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City Needles, California's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Needles, California, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof 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 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 City of Needles, California 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 City of Needles, California'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 opinions. 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 generally accepted auditing standards 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 generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- 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.
- 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 City of Needles, California's internal control. Accordingly, no such opinion is expressed.
- 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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Needles, California'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.

To the City Council
City of Needles, California

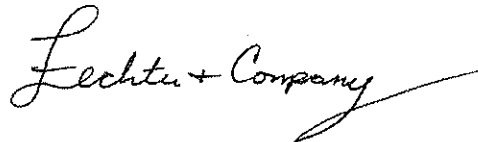
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the schedule of the City's proportionate share of net pension liability, and the schedule of the City's contributions for the miscellaneous and safety plan, as listed under the Table of Contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2023, on our consideration of the City of Needles, California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 City of Needles, California'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 City of Needles, California's internal control over financial reporting and compliance.

Fechter & Company
Certified Public Accountants

A handwritten signature in cursive script that reads "Fechter & Company". The signature is written in dark ink and is positioned below the printed name of the firm.

Sacramento, California
November 30, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF NEEDLES, CALIFORNIA
Management's Discussion & Analysis
June 30, 2022

Within this section of the annual financial report, the City of Needles, California's management presents this discussion and analysis of the City's financial performance for the fiscal year ended June 30, 2022. The financial statements and footnotes follow this section, and should be read in conjunction with this discussion and analysis.

The discussion below includes the City's governmental funds (the general fund, the public financing authority, the Interstate Commerce I-40/J Street Project fund, and other nonmajor governmental funds), as well as the City's proprietary funds (the NPUA, Sanitation, Golf Course, Transit fund, and internal service funds).

Financial Highlights

- The City's net position (excess of assets and deferred outflows of resources over liabilities and deferred inflows of resources) increased from \$46.0 million to \$51.3 million for the fiscal year. General governmental operations experienced an increase of \$379,351, including transfers to business-type activities of \$2.1 million. The change in net position resulting from business-type activities for the fiscal year was an increase of \$4.9 million.
- Total net position comprises the following:
 - (1) Capital assets, net of related debt, of \$28.8 million include property and equipment, net of accumulated depreciation, reduced by outstanding debt related to the purchase or construction of such capital assets.
 - (2) Net position of \$1.8 million that is restricted as to their use by outside factors such as debt covenants, grantors, laws, or regulations.
 - (3) Net position of \$20.6 million that is not restricted as to its use and is available to fund the City's operations.
- The City's governmental funds reflect fund balances totaling \$19.4 million at June 30, 2022. This represents a decrease of \$723,350 for the fiscal year.
- The City's total liabilities decreased from \$25.2 million to \$21.5 million. This increase is due primarily to decreases of \$0.9 million in accounts payable, \$1.2 million in long-term debt, and \$2.4 million in net pension liability.

CITY OF NEEDLES, CALIFORNIA
Management's Discussion & Analysis
June 30, 2022

Overview of the Financial Statements

Management's Discussion and Analysis serves as an introduction to the City's basic financial statements. The basic financial statements include government-wide financial statements, fund financial statements, and notes to the financial statements. In addition, there is certain supplemental information included with the financial statements and notes thereto.

Government-wide Financial Statements

The City's government-wide financial statements include: (1) a *Statement of Net Position*, and (2) a *Statement of Activities*.

These financial statements present the City's current and long-term financial information. At the government-wide level, the financial statements are similar to normal operating financial statements, using the full accrual basis of accounting and eliminating or reclassifying internal activities.

The *Statement of Net Position* presents all of the City's assets and liabilities, with the difference presented as *net position*. The evaluation of whether the City's financial status is improving or not can be measured by changes in net position over time. Increases in net position generally represent improvement in financial position.

The *Statement of Activities* reflects the change in the City's net position during the current fiscal year. This statement includes all revenues and expenses for the year, regardless of when the cash is received or paid. The statement shows the costs of the City's functions and activities, then shows how much of those costs are funded by program revenues or grants, with the remaining amount dependent on the City's general revenues.

Both of the above statements report governmental activities of the City that are funded by taxes and intergovernmental grants, and business-type activities that are funded primarily by charges to users. Governmental activities include general government administration, public safety, parks and recreation, and public services. Business-type activities include power and water, wastewater, refuse collection, public transportation, and a municipal golf course. Financial statements for fiduciary activities (such as a pension plan) are not included in the government-wide financial statements, as the assets of those activities are not available to fund the City's programs and activities.

The financial reporting entity includes the City's funds and organizations for which the City is accountable. The City itself is considered the primary government, and the organizations for which the City is accountable are considered component units. The component units are legally separate from the City, but are governed by the same individuals who govern the City. There are three such component units: (1) the Needles Public Utility Authority, (2) the Needles Redevelopment Agency, and (3) the Needles Public Financing Authority. All three of these component units are blended into the City's financial statements. More comprehensive information about the City's component units can be found in the notes to the financial statements following this discussion and analysis.

CITY OF NEEDLES, CALIFORNIA
Management's Discussion & Analysis
June 30, 2022

Fund Financial Statements

Fund level financial statements are intended to present the financial position and activities of individual funds within the City. A fund is a self-balancing set of accounts used to ensure that resources intended to fund specific activities or objectives are in fact properly utilized. Fund level financial statements focus on significant funds, with major funds reported separately, and non-major funds aggregated into a single presentation.

There are three primary types of funds, as follows:

Governmental funds are reported in fund level financial statements, and include the governmental types of activities previously mentioned.

The City's major governmental funds include the general fund and the Needles Public Financing Authority.

The fund level statements differ significantly from the government-wide financial statements, as the fund level statements focus on current resources, uses of those resources, and resources remaining at the end of the fiscal year.

The government-wide financial statements include the current resources and use of those resources, as well as the long-term financial information for the City. A reconciliation of the fund level balance sheet and statement of revenues, expenditures, and changes in fund balance to the government-wide statements follows the fund level financial statements.

The basic financial statements include budgetary information for the general fund and the Needles Public Financing Authority. This supplemental information is included to reflect the City's compliance with the approved budget.

Proprietary funds are also reported in fund level financial statements, and include those activities for which the costs incurred are intended to be recovered through charges to the users of the services provided. Proprietary funds include *enterprise* funds and *internal service* funds. The functions of enterprise funds are basically the same as the business-type activities reported in the government-wide financial statements. Enterprise funds recover costs primarily through charges to external customers. The City's enterprise funds include the electric, water and wastewater utility, sanitation, public transportation, and the golf course.

Internal service funds provide services to other departments within the City, and charge these departments for such service. Internal service funds include water, wastewater, electricity, and fleet services. Because the public utility dominates the City's financial position, the internal service funds are included within the business-type activities in the government-wide financial statements.

CITY OF NEEDLES, CALIFORNIA
Management's Discussion & Analysis
June 30, 2022

Fund Financial Statements, continued

Proprietary funds present their financial position and their activities similar to private companies. Accordingly, the fund level financial statements utilize the same focus as that used for the government-wide financial statements. The major difference is that individual proprietary funds are only presented at the fund level. The City's major proprietary funds include the Needles Public Utility Authority, the sanitation fund, and the golf course. The remaining non-major proprietary funds are aggregated into a single presentation at the fund level.

Fiduciary funds such as trust and agency funds are reported in fiduciary fund financial statements. Such statements are excluded from the government-wide financial statements. Fiduciary fund financial statements report resources that are unavailable to finance City programs. The focus of fiduciary fund financial statements is similar to that for proprietary funds.

Notes to the Financial Statements

Following the government-wide and fund level financial statements are various notes to such statements. These notes are critical to a reader's understanding of the City and its financial position and performance.

Financial Analysis for the City as a Whole

The accumulation of consistently presented financial information allows a reader to understand the City's financial position and determine whether there is improvement or deterioration.

One measure of continued improvement is the change in net position. The City's net position increased by about \$5.3 million, primarily because of continued positive results from the NPUA and cannabis tax revenue, though a decrease from the prior year's approximate \$6.8 million change in net position.

The following table shows summarized information regarding the City's assets, liabilities, net position, and the changes therein for the fiscal year ended June 30, 2022:

	Governmental Activities		Business-Type Activities		Totals		Amount Change	Percent Change
	2022	2021	2022	2021	2022	2021		
Current and other assets	\$ 21,377,414	\$ 22,653,001	\$ 12,449,779	\$ 7,772,155	\$ 33,827,193	\$ 30,425,156	\$ 3,402,037	11.2%
Non-current assets	17,126,027	16,375,513	23,325,280	23,592,213	40,451,307	39,967,726	483,581	1.2%
Total assets	38,503,441	39,028,514	35,775,059	31,364,368	74,278,500	70,392,882	3,885,618	5.5%
Deferred outflows of resources	678,185	827,709	549,743	447,848	1,227,928	1,275,557	(47,629)	-3.7%
Long-term liabilities	150,000	290,000	11,128,554	12,151,516	11,278,554	12,441,516	(1,162,962)	-9.3%
Other liabilities	4,197,642	6,421,738	6,002,127	6,293,589	10,199,769	12,715,327	(2,515,558)	-19.8%
Total liabilities	4,347,642	6,711,738	17,130,681	18,445,105	21,478,323	25,156,843	(3,678,520)	-14.6%
Deferred inflows of resources	1,700,165	365,694	1,036,638	137,228	2,736,803	502,922	2,233,881	444.2%
Net Position:								
Invested in capital assets, net of related debt	16,770,481	16,375,513	12,106,236	11,719,630	28,876,717	28,095,143	781,574	2.8%
Restricted	1,793,519	1,354,643	-	-	1,793,519	1,354,643	438,876	32.4%
Unrestricted	14,569,819	15,048,635	6,051,247	1,510,253	20,621,066	16,558,888	4,062,178	24.5%
Total net position	\$ 33,133,819	\$ 32,778,791	\$ 18,157,483	\$ 13,229,883	\$ 51,291,302	\$ 46,008,674	\$ 5,282,628	11.5%

CITY OF NEEDLES, CALIFORNIA
Management's Discussion & Analysis
June 30, 2022

Financial Analysis for the City as a Whole, continued

Net position was positive for both governmental activities and business-type activities in 2022 and 2021. Overall, net position increased by about \$5.3 million due to the current year change in operations. The increase in net position from business-type activity operations was about \$4.9 million. There were transfers to business-type funds of \$2.1 million so the actual operating results of the business-type activities, excluding the transfers, was a positive \$2.8 million. Governmental activities expenses increased by about \$300 thousand.

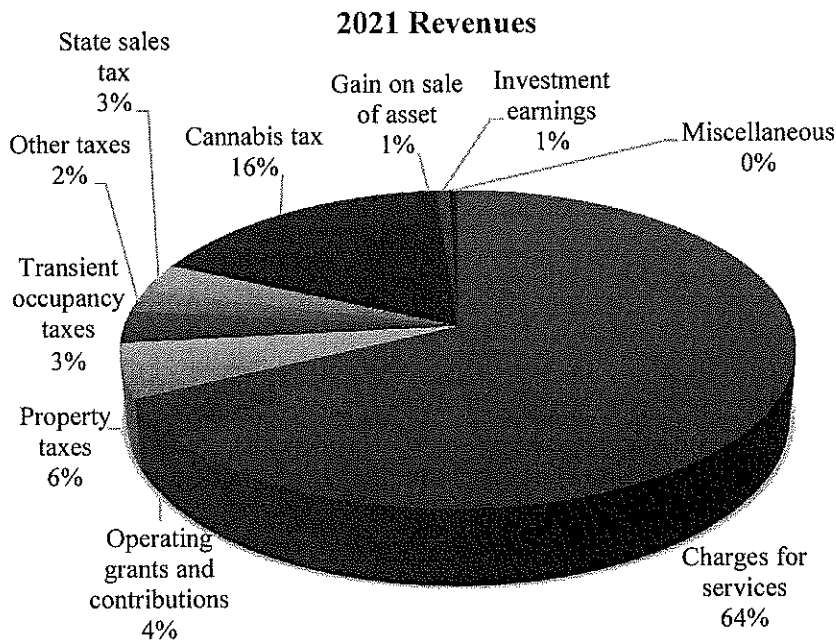
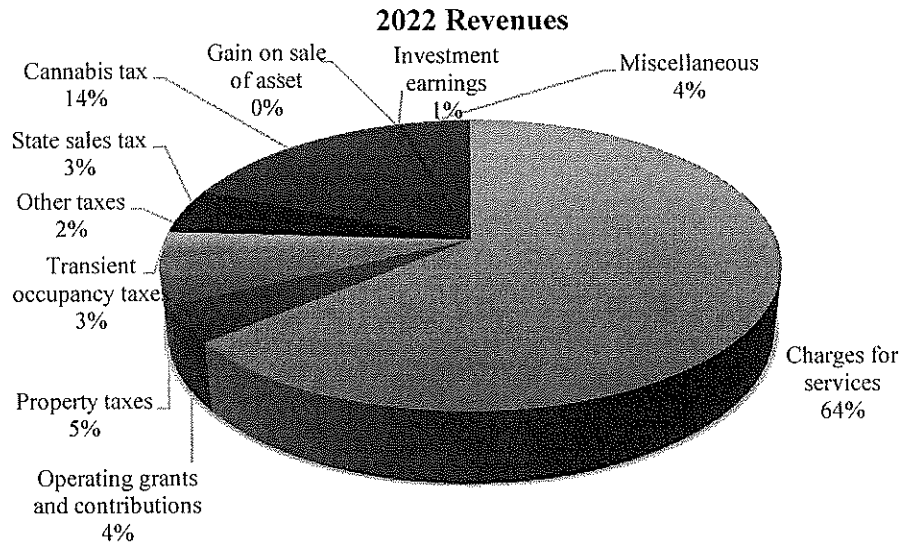
Governmental activities revenues increased by about \$900 thousand. Property taxes and transient occupancy taxes continued to play a significant role in the City's results, totaling about \$2.6 million in revenues for fiscal year 2022. This represents an increase of \$0.1 million from the previous fiscal year. However, the most significant governmental activity revenue was cannabis taxes, reaching \$4.8 million.

To assist in analyzing the City's operating results, comparative data is accumulated and presented. The following table summarizes the City's changes in net position for the year ended June 30, 2022:

	Governmental Activities		Business-Type Activities		Totals		Amount Change	Percent Change
	2022	2021	2022	2021	2022	2021		
Revenues								
Program revenues								
Charges for services	\$ 1,976,091	\$ 1,859,894	\$ 19,492,224	\$ 16,241,031	\$ 21,468,315	\$ 18,100,925	\$ 3,367,390	18.6%
Operating grants and contributions	869,064	714,708	496,274	468,178	1,365,338	1,182,886	182,452	15.4%
Capital grants and contributions	-	-	1,368,659	94,682	1,368,659	94,682	1,273,977	1345.5%
General revenues								
Property taxes	1,668,459	1,548,925	-	-	1,668,459	1,548,925	119,534	7.7%
Transient occupancy taxes	983,675	937,710	-	-	983,675	937,710	45,965	4.9%
Fuel taxes	237,833	217,245	-	-	237,833	217,245	20,588	9.5%
State sales tax	975,304	813,617	-	-	975,304	813,617	161,687	19.9%
Franchise taxes	157,725	166,900	-	-	157,725	166,900	(9,175)	-5.5%
Cannabis tax	4,821,894	4,573,688	-	-	4,821,894	4,573,688	248,206	5.4%
Utility users tax	319,322	253,396	-	-	319,322	253,396	65,926	26.0%
Gain on sale of asset	(3,000)	-	3,950	248,052	950	248,052	(247,102)	-99.6%
Investment earnings	100,574	159,096	31,519	44,791	132,093	203,887	(71,794)	-35.2%
Miscellaneous	29,968	30,086	-	-	29,968	30,086	(118)	-0.4%
Total revenues	12,136,909	11,275,265	21,392,626	17,096,734	33,529,535	28,371,999	5,157,536	18.2%
Expenses								
General government	1,093,193	1,328,114	-	-	1,093,193	1,328,114	(234,921)	-17.7%
Public safety	4,475,791	3,998,857	-	-	4,475,791	3,998,857	476,934	11.9%
Public works	2,093,095	2,050,020	-	-	2,093,095	2,050,020	43,075	2.1%
Parks and recreation	1,361,679	1,326,773	-	-	1,361,679	1,326,773	34,906	2.6%
Community development	624,417	638,170	-	-	624,417	638,170	(13,753)	-2.2%
Interest on long-term debt	16,500	26,625	-	-	16,500	26,625	(10,125)	-38.0%
Public Utility Authority	-	-	15,881,492	9,576,053	15,881,492	9,576,053	6,305,439	65.8%
Sanitation	-	-	1,272,614	1,186,491	1,272,614	1,186,491	86,123	7.3%
Golf Course	-	-	853,683	896,911	853,683	896,911	(43,228)	-4.8%
Other	-	-	574,443	539,631	574,443	539,631	34,812	6.5%
Total expenses	9,664,675	9,368,559	18,582,232	12,199,086	28,246,907	21,567,645	6,679,262	31.0%
Increase (decrease) in net position before transfers	2,472,234	1,906,706	2,810,394	4,897,648	5,282,628	6,804,354	(1,521,726)	-22.4%
Transfers	(2,117,206)	835,702	2,117,206	(835,702)	-	-	-	0.0%
Change in net position	355,028	2,742,408	4,927,600	4,061,946	5,282,628	6,804,354	(1,521,726)	-22.4%
Beginning net position	32,778,791	30,036,383	13,229,883	9,167,937	46,008,674	39,204,320	6,804,354	17.4%
Ending net position	\$ 33,133,819	\$ 32,778,791	\$ 18,157,483	\$ 13,229,883	\$ 51,291,302	\$ 46,008,674	\$ 5,282,628	11.5%

CITY OF NEEDLES, CALIFORNIA
Management's Discussion & Analysis
June 30, 2022

The following charts show graphic representations of the City's revenues for the fiscal years ended June 30, 2022 and 2021:

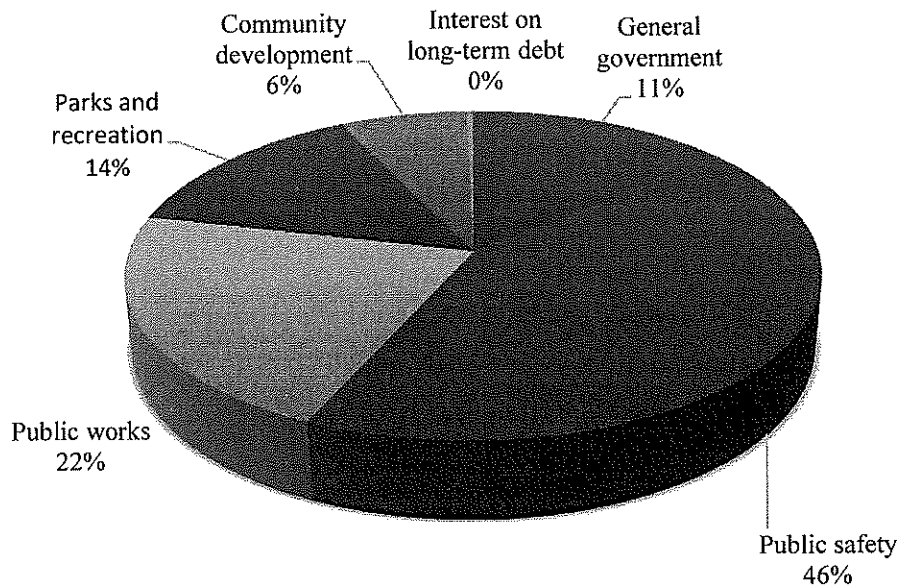


As displayed in the charts above, the revenues from charges for services comprises 64% of the City's revenues for 2022 and 2021. The majority of the charges for services is attributed to the public utility authority, which makes up approximately 52% of all revenues in 2022 and 51% of all revenues in 2021.

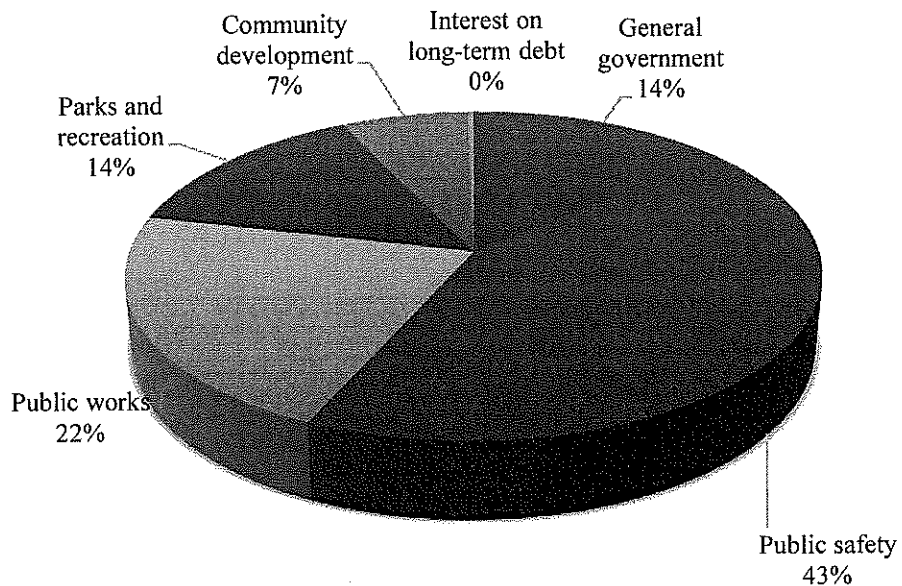
CITY OF NEEDLES, CALIFORNIA
Management's Discussion & Analysis
June 30, 2022

The following charts show graphic representations of the City's governmental functional expenses for the fiscal years ended June 30, 2022 and 2021:

2022 Governmental Expenses



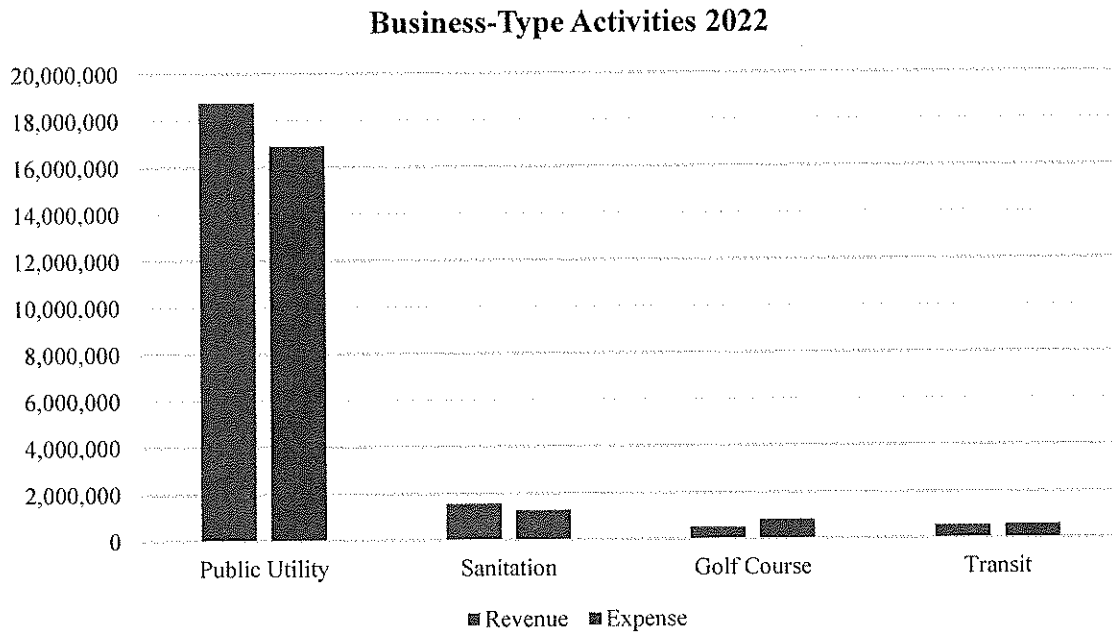
2021 Governmental Expenses



CITY OF NEEDLES, CALIFORNIA
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The City contracts with the County of San Bernardino for public safety services. These expenses are funded primarily through general revenues. Parks and recreation expenses are significant for the City, as it is the City's responsibility to maintain the marinas, public swimming pool, skate park, and cemetery.

The following chart depicts the operating revenues (including grants) and expenses of the City's business-type activities for the year ended June 30, 2022:



The public utility authority contributes the majority of the City's revenues, and produced operating income of about \$1.8 million. Interest expense of \$0.4 million on the revenue refinancing bonds and net transfers out of about \$0.5 million figured into the public utility's increase in net position of about \$1.4 million for the fiscal year.

The City's business-type activities also include refuse collection, a golf course, and public transportation. All business-type activities are designed to be self-supporting, and costs are expected to be fully recovered by user fees and other revenues. Refuse collection activities are contracted out to a private company. The sanitation fund increased its net position by \$156,952. The golf course fund, which normally reflects an operating deficit, also reflected an increase in total net position of \$3.3 million as a result of transfers-in of \$3.6 million. The transit fund reflected a decrease in net position of \$34,776 for the fiscal year ended June 30, 2022.

CITY OF NEEDLES, CALIFORNIA
Management's Discussion & Analysis
June 30, 2022

Financial Analysis of the City's Funds

Governmental funds

Governmental funds focus on the availability of resources on a short-term basis, showing inflows and outflows and resulting in an ending balance of spendable resources.

City officials compare these available resources to the upcoming financial obligations. The ending fund balance for governmental funds at June 30, 2022, was \$19.5 million. Of this total, \$6.3 million was unassigned and is available to fund any City requirements. Nonspendable fund balances of \$11.0 million represent assets that cannot be converted to cash, such as inventory, prepaid expenses, advances to other funds, and land held for resale.

There are restricted fund balances totaling \$0.7 million, committed fund balances of \$0.9 million, and assigned fund balances of \$0.5 million.

Governmental fund balances decreased by \$0.7 million from the previous year. Revenues exceeded expenditures by about \$1.3 million, but there was a net transfers-out by approximately \$2.1 million.

Major Governmental Funds

The City's General Fund is the primary governmental fund in use, and accounts for about 83% of governmental revenues and about 83% of governmental expenses. The General Fund's fund balance decreased by \$2.5 million from the previous year. General Fund revenues increased by \$0.5 million and expenses decreased by about \$1.5 million. Net transfers decreased by approximately \$4.6 million.

The Public Financing Authority (PFA) exists to service various long-term obligations. The PFA collects interest income, and makes principal and interest payments. The PFA's fund balance increased by \$24 during the fiscal year, ending at \$161,777.

Other Governmental Funds

All other governmental funds are considered non-major. Such funds include special revenue funds, debt service funds, and capital projects funds. Together, these funds experienced an increase in fund balances of about \$1.8 million. Total ending fund balances for these funds was \$2,630,045.

Proprietary funds

Proprietary fund financial statements are similar to those prepared for private companies, with both short-term and long-term information included in the statements. Also, proprietary funds have the same focus as the government-wide financial statements.

CITY OF NEEDLES, CALIFORNIA
Management's Discussion & Analysis
June 30, 2022

Major Proprietary Funds

The Needles Public Utility Authority (NPUA) is by far the most significant fund for the City, comprising 83% of total assets and about 89% of total revenues. NPUA provides power, water, and wastewater to the City's businesses and residents. All fixed assets of the utility are carried on NPUA's books, as well as the revenue bonds issued to finance the acquisition of the utility.

General Fund Budgetary Highlights

The original budget adopted for the General Fund totaled \$10,803,409 in revenues and \$10,730,317 in expenditures. The budget was amended once during the fiscal year primarily to reflect increases in revenues of \$222,300 and increases in expenditures as follows: general government expenditures of \$55,701, public safety expenditures of \$465,464, public works of \$969,390, parks and recreation expenditures of \$89,894, and transfers to other funds of \$2,680,741.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2022, the City had approximately \$37.3 million invested in capital assets, \$16.7 million of which was in governmental activities and \$20.6 million of which was in business-type activities.

The notes to the financial statements include more detail about changes in capital assets, accumulated depreciation, ongoing construction, and commitments outstanding at the end of the fiscal year.

Capital Assets, Net of Accumulated Depreciation are as follows:

	Governmental Activities		Business-Type Activities		Totals		Amount Change	Percent Change
	2022	2021	2022	2021	2022	2021		
Non-Depreciable Assets								
Land	\$ 346,403	\$ 349,403	\$ 3,209,553	\$ 3,209,553	\$ 3,555,956	\$ 3,558,956	\$ (3,000)	-0.1%
Construction in progress	212,318	183,251	755,887	167,403	968,205	350,654	617,551	176.1%
Total non-depreciable assets	558,721	532,654	3,965,440	3,376,956	4,524,161	3,909,610	614,551	15.7%
Depreciable Assets								
Structures and improvements	15,884,389	15,739,082	15,181,319	16,443,804	31,065,708	32,182,886	(1,117,178)	-3.5%
Equipment and vehicles	327,371	103,777	1,372,956	1,314,055	1,700,327	1,417,832	282,495	19.9%
Total depreciable assets	16,211,760	15,842,859	16,554,275	17,757,859	32,766,035	33,600,718	(834,683)	-2.5%
Total	\$16,770,481	\$16,375,513	\$20,519,715	\$21,134,815	\$37,290,196	\$37,510,328	\$ (220,132)	-0.6%

CITY OF NEEDLES, CALIFORNIA
Management's Discussion & Analysis
June 30, 2022

Long-term debt

At the end of the fiscal year, the City's total long-term debt obligations were \$11.3 million. Of this total, \$150,000 is in the governmental activities and remaining balance is in the business-type activities.

There is a balance of \$150,000 in tax allocation bonds issued by the PFA, the proceeds of which were lent to RDA. Repayment is being made from the loan payments paid by the Redevelopment Agency to the PFA. Finally, the governmental activities debt also includes certificates of participation, the proceeds of which were used to construct a wastewater treatment plant.

The business-type activities debt consists of revenue bonds issued by the public utility authority. These bonds are being repaid from the utility's operating revenues. There is also a note payable in the sanitation fund resulting from an agreement with San Bernardino County related to a municipal landfill.

The following table depicts the City's outstanding long-term debt obligations at June 30, 2022 and 2021:

	Governmental Activities		Business-Type Activities		Totals		Amount Change	Percent Change
	2022	2021	2022	2021	2022	2021		
Tax allocation bonds	\$150,000	\$290,000	\$ -	\$ -	\$ 150,000	\$ 290,000	\$ (140,000)	-48.3%
Revenue refunding bonds	-	-	10,878,983	11,872,583	10,878,983	11,872,583	(993,600)	-8.4%
Sanitation note payable	-	-	249,571	278,933	249,571	278,933	(29,362)	-10.5%
Total	<u>\$150,000</u>	<u>\$290,000</u>	<u>\$11,128,554</u>	<u>\$12,151,516</u>	<u>\$11,278,554</u>	<u>\$12,441,516</u>	<u>\$(1,162,962)</u>	-9.3%

Economic Conditions and Budgeting

New businesses within the City of Needles continue to grow bringing with them job opportunities. The City of Needles continues to work closely with various cannabis companies both established and in the process of starting a business. To-date there is 271,106 square feet of new industrial space built to house the cannabis-related businesses involved in cultivation, manufacturing, distribution, retail, and laboratory testing. These businesses now generate over 510 direct jobs in the community. This growth in business has continued the increase in demand for utilities due to the industrial and commercial uses. It has also positively affected the property assessment roll which has increased from the 2017 roll of \$124 million, to be valued at \$535.8 million in 2023.

In Fiscal Year 2022, the City completed Year 3, of the Street Pavement Project. This is part of a 15-year pavement management plan.

The City's rehabilitated historic El Garces Intermodal Transportation Facility continues to attract tourists to the downtown area. The Chamber of Commerce opened a Visitor Center in Fiscal Year 2023 to assist the City's goal in attracting tourism downtown. A few small retail businesses have opened in the downtown area including a coffee shop and a sandwich shop.

CITY OF NEEDLES, CALIFORNIA
Management's Discussion & Analysis
June 30, 2022

A brand new 3-story, 46,000 square foot, 80-room Hampton by Hilton Hotel at 1803 Needles Highway, the former site of the El Rancho Motel on a 2-acre property, completed construction and is now open to the public which has brought 30-50 new jobs to the City.

Contacting the City's Financial Management

This financial report is designed to provide the citizens, taxpayers, customers, investors, and creditors of the City of Needles, California with a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City's Finance Department at 817 Third Street, Needles, California 92363.

You may also contact the City's Finance Department for the separately issued financial statements of the Needles Public Utility Authority, the Needles Public Financing Authority, and the Needles Transit System.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF NEEDLES, CALIFORNIA
STATEMENT OF NET POSITION
JUNE 30, 2022

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and investments	\$ 5,510,154	\$ 16,115,756	\$ 21,625,910
Restricted cash	1,311,444	-	1,311,444
Accounts receivable, net	435,730	3,472,477	3,908,207
Due from other governments	396,146	163,136	559,282
Internal balances	12,305,471	(12,305,471)	-
Inventory	-	769,050	769,050
Prepaid items	1,236,316	4,234,831	5,471,147
Land held for resale	182,153	-	182,153
Intangible assets	-	2,439,190	2,439,190
Operating lease receivables	283,116	-	283,116
Right of use assets, net	72,430	366,375	438,805
Capital assets, net	16,770,481	20,519,715	37,290,196
TOTAL ASSETS	38,503,441	35,775,059	74,278,500
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	627,568	508,712	1,136,280
Deferred outflows of resources related to OPEB	50,617	41,031	91,648
TOTAL DEFERRED OUTFLOWS OF RESOURCES	678,185	549,743	1,227,928
LIABILITIES			
Accounts payable	562,595	905,603	1,468,198
Due to other governments	239,247	-	239,247
Accrued liabilities	297,144	90,630	387,774
Deposits payable	681,854	2,447,928	3,129,782
Compensated absences	184,177	274,039	458,216
Accrued interest	-	174,970	174,970
Other liabilities	-	70,596	70,596
Estimated claims liability	100,000	-	100,000
Net pension liability	1,288,346	1,044,347	2,332,693
Other post-employment benefits liability	771,235	625,171	1,396,406
Long-term liabilities:			
Lease liability	73,044	368,843	441,887
Due within one year	150,000	1,063,496	1,213,496
Due in more than one year	-	10,065,058	10,065,058
TOTAL LIABILITIES	4,347,642	17,130,681	21,478,323
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	1,278,837	1,036,638	2,315,475
Revenues not available to fund current obligations	421,328	-	421,328
TOTAL DEFERRED INFLOWS OF RESOURCES	1,700,165	1,036,638	2,736,803
NET POSITION			
Net investment in capital assets, net of related debt	16,770,481	12,106,236	28,876,717
Restricted for:			
Capital projects	119,431	-	119,431
Debt service	161,777	-	161,777
Community development projects	1,512,311	-	1,512,311
Unrestricted	14,569,819	6,051,247	20,621,066
TOTAL NET POSITION	\$ 33,133,819	\$ 18,157,483	\$ 51,291,302

The accompanying notes are an integral part of these financial statements.

CITY OF NEEDLES, CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED
JUNE 30, 2022

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
General government	\$ 1,093,193	\$ 1,005,189	\$ 124,080	\$ -	\$ 36,076	\$ -	\$ 36,076
Public safety	4,475,791	-	203,738	-	(4,272,053)	-	(4,272,053)
Public works	2,093,095	908,139	440,319	-	(744,637)	-	(744,637)
Parks and recreation	1,361,679	36,205	-	-	(1,325,474)	-	(1,325,474)
Community development	624,417	26,558	100,927	-	(496,932)	-	(496,932)
Interest on long-term debt	16,500	-	-	-	(16,500)	-	(16,500)
Total governmental activities	<u>9,664,675</u>	<u>1,976,091</u>	<u>869,064</u>	<u>-</u>	<u>(6,819,520)</u>	<u>-</u>	<u>(6,819,520)</u>
Business-type activities:							
Public utility authority	15,881,492	17,402,128	-	1,345,100	-	2,865,736	2,865,736
Sanitation	1,272,614	1,549,566	-	-	-	276,952	276,952
Golf course	853,683	499,535	-	-	-	(354,148)	(354,148)
Transit	574,443	40,995	496,274	23,559	-	(13,615)	(13,615)
Total business-type activities	<u>18,582,232</u>	<u>19,492,224</u>	<u>496,274</u>	<u>1,368,659</u>	<u>-</u>	<u>2,774,925</u>	<u>2,774,925</u>
Total primary government	<u>\$ 28,246,907</u>	<u>\$ 21,468,315</u>	<u>\$ 1,365,338</u>	<u>\$ 1,368,659</u>	<u>(6,819,520)</u>	<u>2,774,925</u>	<u>(4,044,595)</u>
General revenues:							
Taxes:							
Property taxes					1,668,459	-	1,668,459
Transient occupancy taxes					983,675	-	983,675
Fuel taxes					237,833	-	237,833
State sales tax					975,304	-	975,304
Franchise taxes					157,725	-	157,725
Cannabis tax					4,821,894	-	4,821,894
Utility users tax					319,322	-	319,322
Gain/(loss) on sale of asset					(3,000)	3,950	950
Interest revenue					100,574	31,519	132,093
Miscellaneous					29,968	-	29,968
Transfers					(2,117,206)	2,117,206	-
Total general revenues, special items, and transfers					<u>7,174,548</u>	<u>2,152,675</u>	<u>9,327,223</u>
Change in net position					355,028	4,927,600	5,282,628
Net position - beginning					<u>32,778,791</u>	<u>13,229,883</u>	<u>46,008,674</u>
Net position - ending					<u>\$ 33,133,819</u>	<u>\$ 18,157,483</u>	<u>\$ 51,291,302</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

CITY OF NEEDLES, CALIFORNIA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2022

	General	Public Financing Authority	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 3,917,915	\$ 161,777	\$ 1,430,462	\$ 5,510,154
Restricted cash	1,020,371	-	291,073	1,311,444
Accounts receivable, net	435,730	-	-	435,730
Due from other funds	2,872,798	-	-	2,872,798
Due from other governments	194,424	-	201,722	396,146
Inventory	-	-	-	-
Prepaid items	28,721	-	1,207,595	1,236,316
Land held for resale	-	-	182,153	182,153
Advances to other funds	9,582,749	-	-	9,582,749
TOTAL ASSETS	\$ 18,052,708	\$ 161,777	\$ 3,313,005	\$ 21,527,490
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 432,899	\$ -	\$ 129,696	\$ 562,595
Accrued liabilities	250,092	-	47,052	297,144
Deposits	681,854	-	-	681,854
Due to other funds	-	-	150,076	150,076
Due to other governments	-	-	239,247	239,247
Advances from other funds	-	-	-	-
Total liabilities	1,364,845	-	566,071	1,930,916
DEFERRED INFLOWS OF RESOURCES				
Revenues not available to fund current obligations	-	-	138,212	138,212
FUND BALANCES				
Fund balances - nonspendable	9,611,470	-	1,389,748	11,001,218
Fund balances - restricted	-	161,777	491,877	653,654
Fund balances - committed	350,000	-	554,160	904,160
Fund balances - assigned	-	-	569,146	569,146
Fund balances - unassigned	6,726,393	-	(396,209)	6,330,184
Total fund balances	16,687,863	161,777	2,608,722	19,458,362
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 18,052,708	\$ 161,777	\$ 3,313,005	\$ 21,527,490

The accompanying notes are an integral part of these financial statements.

CITY OF NEEDLES, CALIFORNIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2022

Fund balances - total governmental funds		\$ 19,458,362
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets and lease assets used in governmental activities are not current financial resources and therefore are not reported in the funds:		
Governmental capital assets	30,976,917	
Less: Accumulated depreciation	(14,206,436)	
Governmental right-to-use lease assets	84,754	
Less: Accumulated amortization	<u>(12,324)</u>	
		16,842,911
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds:		
Net pension liability	(1,288,346)	
Deferred outflows of resources related to pensions	627,568	
Deferred outflows of resources related to OPEB	50,617	
Deferred inflows of resources	(1,278,837)	
Compensated absences	(184,177)	
Bonds payable, net	(150,000)	
Lease liability	(73,044)	
Estimated claims liability	(100,000)	
Net OPEB liability	<u>(771,235)</u>	
		<u>(3,167,454)</u>
Net position of governmental activities		<u><u>\$ 33,133,819</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEEDLES, CALIFORNIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED
JUNE 30, 2022

	General	Public Financing Authority	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes	\$ 8,681,718	\$ -	\$ 86,936	\$ 8,768,654
Licenses, permits, and fees	456,932	-	-	456,932
Intergovernmental	124,080	-	1,890,956	2,015,036
Charges for services	433,994	-	62,763	496,757
Fines and forfeitures	271,988	-	-	271,988
Use of money and property	100,084	32	458	100,574
Other revenues	28,343	-	1,625	29,968
Total revenues	10,097,139	32	2,042,738	12,139,909
EXPENDITURES:				
Current:				
General government	1,328,893	-	-	1,328,893
Public safety	4,439,739	-	189,223	4,628,962
Public works	711,414	-	1,013,204	1,724,618
Parks and recreation	1,102,219	-	153,779	1,255,998
Community development	93,902	-	134,698	228,600
Capital outlay	1,267,255	-	176,550	1,443,805
Debt service:				
Principal retirement	-	140,000	-	140,000
Interest and fiscal charges	-	16,500	-	16,500
Total expenditures	8,943,422	156,500	1,667,454	10,767,376
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,153,717	(156,468)	375,284	1,372,533
Other Financing Sources (Uses):				
Transfers in	1,650,656	156,492	1,694,931	3,502,079
Transfers out	(5,327,026)	-	(292,259)	(5,619,285)
Total other financing sources (uses)	(3,676,370)	156,492	1,402,672	(2,117,206)
Excess (Deficiency) of Revenues and Other Financing Sources Over (under) Expenditures and Other Financing Uses	(2,522,653)	24	1,777,956	(744,673)
Fund balances - beginning	19,210,516	161,753	830,766	20,203,035
Fund balances - ending	\$ 16,687,863	\$ 161,777	\$ 2,608,722	\$ 19,458,362

The accompanying notes are an integral part of these financial statements.

**CITY OF NEEDLES, CALIFORNIA
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED
JUNE 30, 2022**

Net change in fund balances - total governmental funds \$ (744,673)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in
the statement of activities the cost of those assets is allocated over
their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets, infrastructure, and other related capital asset adjustments	1,410,345	
Less: current year depreciation	<u>(1,012,377)</u>	
		397,968

Expenditures in the statement of activities that do not require the use of
current financial resources are not reported as expenditures in the funds:

Change in the liability for compensated absences	(21,579)	
Change in net pension liability	(617,906)	
Change in OPEB liability	(158,769)	

Repayment of bond or note principal is an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the statement of
net position.

	<u>140,000</u>	
Change in net position of governmental activities		<u><u>\$ (1,004,959)</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEEDLES, CALIFORNIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2022

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds	Internal Service Funds
ASSETS						
Current assets:						
Cash and investments	\$ 12,823,256	\$ 1,782,014	\$ 296,727	\$ 179,328	\$ 15,081,325	\$ 1,034,431
Accounts receivable, net	3,215,298	255,077	-	-	3,470,375	2,102
Due from other funds	792,655	-	-	-	792,655	9,877
Due from other governments	47,670	-	-	115,466	163,136	-
Inventory	763,723	-	5,327	-	769,050	-
Prepaid items	871,110	-	1,685	-	872,795	3,362,036
Total current assets	18,513,712	2,037,091	303,739	294,794	21,149,336	4,408,446
Non-current assets:						
Intangible assets	2,439,190	-	-	-	2,439,190	-
Right of use assets, net	125,125	-	213,787	-	338,912	27,463
Capital assets, net	19,040,919	-	543,399	410,693	19,995,011	524,704
Total non-current assets	21,605,234	-	757,186	410,693	22,773,113	552,167
TOTAL ASSETS	40,118,946	2,037,091	1,060,925	705,487	43,922,449	4,960,613
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows of resources related to pensions	472,351	-	36,361	-	508,712	-
Deferred outflows of resources related to OPEB	38,098	-	2,933	-	41,031	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	510,449	-	39,294	-	549,743	-
LIABILITIES						
Current liabilities:						
Accounts payable	318,856	192,032	56,685	48,187	615,760	289,843
Accrued payroll	-	-	-	-	-	90,630
Compensated absences	268,713	-	-	-	268,713	5,326
Deposits	2,447,428	500	-	-	2,447,928	-
Due to other funds	28,745	2,853,930	-	-	2,882,675	642,579
Deferred revenue	-	-	-	60,937	60,937	-
Accrued interest	174,970	-	-	-	174,970	-
Advance payable - current	41,914	-	-	-	41,914	-
Bonds/note payable - current	1,032,323	31,173	-	-	1,063,496	-
Other liabilities	-	-	4,794	-	4,794	4,865
Total current liabilities	4,312,949	3,077,635	61,479	109,124	7,561,187	1,033,243
Non-current liabilities:						
Net pension liability	969,701	-	74,646	-	1,044,347	-
Other post-employment benefits liability	580,486	-	44,685	-	625,171	-
Advance payable - non-current	9,540,835	-	-	-	9,540,835	-
Lease liability	126,274	-	214,747	-	341,021	27,822
Bonds/note payable - non-current	9,846,660	218,398	-	-	10,065,058	-
Total non-current liabilities	21,063,956	218,398	334,078	-	21,616,432	27,822
TOTAL LIABILITIES	25,376,905	3,296,033	395,557	109,124	29,177,619	1,061,065
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows of resources related to pensions	962,543	-	74,095	-	1,036,638	-
NET POSITION						
Net investment in capital assets	10,599,977	-	543,399	410,693	11,554,069	552,167
Restricted for debt service	-	-	-	-	-	-
Unrestricted (deficit)	3,689,970	(1,258,942)	87,168	185,670	2,703,866	3,347,381
TOTAL NET POSITION	\$ 14,289,947	\$ (1,258,942)	\$ 630,567	\$ 596,363	\$ 14,257,935	\$ 3,899,548

The accompanying notes are an integral part of these financial statements.

CITY OF NEEDLES, CALIFORNIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED
JUNE 30, 2022

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES						
Charges for services-Public Utility Authority	\$ 16,320,432	\$ -	\$ -	\$ -	\$ 16,320,432	\$ -
Charges for services-Other enterprise funds	-	1,549,566	459,375	40,995	2,049,936	14,322,946
Other fees and sales	-	-	40,206	-	40,206	-
Other revenues	1,081,696	-	(46)	-	1,081,650	3,556
Total operating revenues	17,402,128	1,549,566	499,535	40,995	19,492,224	14,326,502
OPERATING EXPENSES						
Personnel costs	-	-	(21,673)	-	(21,673)	2,720,078
Contractual services	-	1,120,993	388,189	-	1,509,182	550,679
Power and utilities	-	-	162,295	-	162,295	6,770,754
Maintenance and operations	15,070,057	120,000	202,232	498,234	15,890,523	2,544,362
Administrative and management	-	15,713	53,513	17,287	86,513	475,812
Insurance	-	(31)	2,944	587	3,500	109,553
Depreciation and amortization	1,351,882	-	48,858	58,335	1,459,075	139,454
Total operating expenses	16,421,939	1,256,675	836,358	574,443	19,089,415	13,310,692
Operating income (loss)	980,189	292,891	(336,823)	(533,448)	402,809	1,015,810
NON-OPERATING REVENUES (EXPENSES)						
Interest revenue	11,049	-	-	81	11,130	20,389
Government grants	1,345,100	-	-	496,274	1,841,374	-
Gain on sale of asset	-	-	3,950	-	3,950	-
Interest expense and fiscal charges	(466,029)	(15,939)	(17,325)	-	(499,293)	(9,334)
Total non-operating revenues (expenses)	890,120	(15,939)	(13,375)	496,355	1,357,161	11,055
Income (loss) before capital contributions and transfers	1,870,309	276,952	(350,198)	(37,093)	1,759,970	1,026,865
Capital contributions - AB 2766	-	-	-	15,000	15,000	-
Capital contributions - State of good repair	-	-	-	8,559	8,559	-
Transfers in	1,328,236	-	3,632,095	12	4,960,343	5,695
Transfers out	(1,778,927)	(120,000)	-	(21,254)	(1,920,181)	(928,651)
Net capital contributions and transfers	(450,691)	(120,000)	3,632,095	2,317	3,063,721	(922,956)
Change in net position	1,419,618	156,952	3,281,897	(34,776)	4,823,691	103,909
Net position - beginning	12,870,329	(1,415,894)	(2,651,330)	631,139	9,434,244	3,795,639
Prior year adjustments	-	-	-	-	-	-
Net position - beginning, as restated	12,870,329	(1,415,894)	(2,651,330)	631,139	9,434,244	3,795,639
Net position - ending	\$ 14,289,947	\$ (1,258,942)	\$ 630,567	\$ 596,363	\$ 14,257,935	\$ 3,899,548

The accompanying notes are an integral part of these financial statements.

CITY OF NEEDLES, CALIFORNIA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED
JUNE 30, 2022

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities:						
Cash collected from customers	\$ 15,941,655	\$ 1,479,475	\$ 499,535	\$ 87,686	\$ 18,008,351	\$ 14,332,692
Cash payments to suppliers for goods and services	(14,869,980)	(1,243,798)	(744,691)	(544,481)	(17,402,950)	(13,324,129)
Cash payments to employees for services	-	-	(47,985)	-	(47,985)	(2,720,269)
Net cash provided (used) by operating activities	<u>1,071,675</u>	<u>235,677</u>	<u>(293,141)</u>	<u>(456,795)</u>	<u>557,416</u>	<u>(1,711,706)</u>
Cash Flows From Noncapital Financing Activities:						
Operating grants received	-	-	-	496,274	496,274	-
Decrease (increase) in due from other funds	(269,004)	-	-	-	(269,004)	(9,877)
Increase (decrease) in due to other funds/advances	(29,400)	240,000	-	-	210,600	513,921
Operating transfers in	1,328,236	-	3,632,095	12	4,960,343	5,695
Operating transfers out	(1,778,927)	(120,000)	-	(21,254)	(1,920,181)	(928,651)
Net cash (used) provided by noncapital financing activities	<u>(749,095)</u>	<u>120,000</u>	<u>3,632,095</u>	<u>475,032</u>	<u>3,478,032</u>	<u>(418,912)</u>
Cash Flows from Capital and Financing Activities:						
Acquisition and construction of capital assets	(940,690)	-	(127,657)	-	(1,068,347)	(209,790)
Principal paid on bonds/note payable	(993,600)	(29,362)	-	-	(1,022,962)	-
Proceeds from sale of asset	-	-	3,950	-	3,950	-
Capital grants received	1,345,100	-	-	23,558	1,368,658	-
Interest paid	(482,010)	(15,939)	-	-	(497,949)	-
Net cash (used) provided by capital and related financing activities	<u>(1,071,200)</u>	<u>(45,301)</u>	<u>(123,707)</u>	<u>23,558</u>	<u>(1,216,650)</u>	<u>(209,790)</u>
Cash Flows from Investing Activities:						
Interest on investments	11,049	-	-	82	11,131	20,389
Net cash provided by investing activities	<u>11,049</u>	<u>-</u>	<u>-</u>	<u>82</u>	<u>11,131</u>	<u>20,389</u>
Net increase (decrease) in cash and cash equivalents	<u>(737,571)</u>	<u>310,376</u>	<u>3,215,247</u>	<u>41,877</u>	<u>2,829,929</u>	<u>(2,320,019)</u>
Cash and cash equivalents, beginning of year	13,560,827	1,471,638	(2,918,520)	137,451	12,251,396	1,263,465
Cash and cash equivalents, end of year	<u>\$ 12,823,256</u>	<u>\$ 1,782,014</u>	<u>\$ 296,727</u>	<u>\$ 179,328</u>	<u>\$ 15,081,325</u>	<u>\$ (1,056,554)</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities						
Operating income (loss)	\$ 980,189	\$ 292,891	\$ (336,823)	\$ (533,448)	\$ 402,809	\$ 1,015,810
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization	1,351,882	-	48,858	58,335	1,459,075	139,454
Adjustment of beginning balances	-	-	-	-	-	-
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable	(1,280,418)	(70,091)	-	-	(1,350,509)	6,190
Decrease in due from other governments	(47,670)	-	-	(9,273)	(56,943)	-
(Increase) decrease in inventory	(59,882)	-	(4,032)	-	(63,914)	-
Decrease (increase) in prepaid expenses	(221,109)	3,775	41,530	876	(174,928)	(3,080,404)
Increase in deferred outflows	(140,920)	-	39,025	-	(101,895)	-
Increase (decrease) in accounts payable	(93,992)	9,102	26,984	(29,249)	(87,155)	143,947
Decrease in accrued liabilities	-	-	(3,972)	-	(3,972)	63,488
Increase (decrease) in deposits payable	(132,385)	-	-	-	(132,385)	-
Increase (decrease) in deferred revenue	-	-	-	55,964	55,964	-
Increase (decrease) in net pension liability	(390,151)	-	(213,566)	-	(603,717)	-
Increase (decrease) in OPEB liability	241,756	-	(27,107)	-	214,649	-
Decrease in deferred inflows	849,313	-	151,488	-	1,000,801	-
Increase in compensated absences payable	15,062	-	(15,526)	-	(464)	(191)
Net cash provided (used) by operating activities	<u>\$ 1,071,675</u>	<u>\$ 235,677</u>	<u>\$ (293,141)</u>	<u>\$ (456,795)</u>	<u>\$ 557,416</u>	<u>\$ (1,711,706)</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of the City of Needles, California (City) are discussed in subsequent sections of this Note. The remaining Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended June 30, 2022.

B. FINANCIAL REPORTING ENTITY – BASIS OF PRESENTATION

Description of the Reporting Entity

The City was incorporated on October 30, 1913, as a General Law City. The City became a Charter City on January 28, 1959, and operates under a Council-Manager form of government. The City Council consists of seven members elected by the citizens of the City. The City provides the following services to its citizens: public safety (police and fire), highways and streets, electric, water, wastewater, sanitation, public transportation, health and social services, cemetery, culture-recreation, public improvements, community development (planning, building, zoning), and general administrative services.

The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City, as distinct from legal relationships. Blended component units, although legally separate entities, are in substance part of the City's operations and so data from these units are combined with data of the primary government.

Each blended component unit has a June 30, 2022 fiscal year-end, and issues separate audited financial statements. The City has no discretely presented component units.

Management has determined that the following component units should be blended: Needles Transit Authority, Needles Public Financing Authority, and the Needles Public Utility Authority. Additional detailed financial information for each of these entities can be obtained from the City of Needles Finance Department at 817 Third Street, Needles, California, 92363.

Needles Redevelopment Agency

The City established the Needles Redevelopment Agency (Agency) on August 16, 1984, as a separate legal entity in accordance with state law. The City Council declared by Ordinance that the City Council would serve as the Board of Directors of the Agency.

The primary purpose of the Agency is to eliminate blighted areas by encouraging development of residential, commercial, industrial, recreational, and public facilities. The City Council members designate management and have financial accountability for the Agency.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

B. FINANCIAL REPORTING ENTITY – BASIS OF PRESENTATION, continued

Needles Redevelopment Agency, continued

Pursuant to the provisions of ABX126, the Redevelopment Agency of the City of Needles was dissolved effective February 1, 2012. The County of San Bernardino currently serves as the successor agency to the former redevelopment agency, and is responsible for revenue collection, maintaining the bond reserves, disposing of any excess property, and fulfilling the remaining obligations of the dissolved Agency through the maturity of the bond debt in August 2022.

Needles Public Financing Authority

The Needles Public Financing Authority (NPFA) was formed on March 7, 1992 for the sole purpose of providing financing for various City capital projects. The Financing Authority is governed by a seven-member board, which consists of members of the City Council.

Needles Public Utility Authority

The Needles Public Utility Authority (NPUA) was formed on January 6, 1997, for the purpose of owning, operating, and maintaining the Utility Enterprise. The Utility Enterprise consists of the Water, Sewer, and Electric Enterprise Funds serving the City and the surrounding area. A seven member Board that consists of members of the City Council governs the Utility Authority.

Other Governmental Agencies

Other governmental agencies providing various levels of service to the City include the State of California, County of San Bernardino, as well as various special districts and school districts.

Each of the above agencies has an independent elected governing board or is dependent on an independently elected governing board other than the City Council. Accordingly, financial data and transactions of these agencies are not included within the scope of this financial report.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

B. FINANCIAL REPORTING ENTITY – BASIS OF PRESENTATION, continued

Government Wide and Fund Financial Statements

Government-Wide Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities such as employee pension plans. Individual funds are not displayed but the statements distinguish governmental activities, which are generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part by fees charged to external customers.

The statement of activities reports the expenses of a given function, offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity.

Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to the specified program purposes. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION, continued

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources subject to accrual include: property taxes, sales tax, transient occupancy tax, franchise taxes (fees), intergovernmental revenues, and investment income.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, the City's policy is to use restricted resources first, then unrestricted resources as necessary. Restricted assets and liabilities payable from restricted assets that are considered current in nature are reported as current assets and liabilities in the financial statements.

Assets that are restricted for acquisition or construction of non-current assets, or are restricted for liquidation of long-term debt, are considered non-current.

D. FUND TYPES AND MAJOR FUNDS

Governmental Funds

The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources not reported in other funds.

Needles Public Financing Authority – This fund accounts for the accumulation of financial resources for the payment of principal and interest on the City's general obligation debt. Revenues come from interest on invested funds.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

D. FUND TYPES AND MAJOR FUNDS, continued

Proprietary Funds

The City reports the following major enterprise funds:

Needles Public Utility Authority – This fund accounts for the operating activities of the City’s public utility operations.

Sanitation Fund – This fund accounts for the operating activities of the City’s refuse collection service, which is contracted to a third-party service provider.

River’s Edge Golf Course – This fund accounts for the operating activities of the City’s municipal golf course.

Transit Funds – These three funds (Needles Area Transit, Dial-A-Ride, and Dial-A-Ride Medical Transport) account for the operating activities of the City’s public transportation system.

Other Fund Types

The City also reports the following fund types:

Internal Service Funds – These funds are used to account for the financing of goods or services provided by one department to other departments within the City on a cost-reimbursement basis. These include vehicle maintenance (fleet management), business office, and information technology. These are proprietary funds reported with business-type activities in the government-wide statements, as the majority of the activities are charged to other proprietary funds.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

E. ASSETS, LIABILITIES, AND FUND BALANCES/NET POSITION

CASH AND INVESTMENTS

The City maintains and controls one major cash and investment pool. Each fund's portion of the pool is displayed on its respective balance sheet as "cash and equivalents".

In addition, non-pooled cash and investments are separately held and reflected in respective funds or component units as "cash with fiscal agents" or "restricted cash".

For purposes of the accompanying statement of cash flows, the City considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value, which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value.

Securities traded on a national or international exchange are reported at the last reported sales price based on current exchange rates. Cash deposits are reported at carrying amount which reasonably approximates fair value.

INVENTORY OF SUPPLIES

Inventories in governmental funds consist of expendable supplies held for consumption stated on an average cost basis. They are reported at cost, which is recorded as an expenditure at the time the inventory items are used. Proprietary fund inventories and similar component unit inventories are recorded at the lower of cost or market value on an average cost basis. Inventories are reported similarly in the fund financial statements and the government-wide financial statements.

PREPAID EXPENSES

Prepaid items represent payments made to vendors that benefit future reporting periods, and are reported on the consumption basis. Prepaid items are reported similarly in the fund financial statements and the government-wide financial statements.

LAND HELD FOR RESALE

Land held for resale is valued at the lower of cost or market.

CAPITAL ASSETS, DEPRECIATION, AND AMORTIZATION

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and reported in the government-wide financial statements.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

E. ASSETS, LIABILITIES, AND FUND BALANCES/NET POSITION, continued

CAPITAL ASSETS, DEPRECIATION, AND AMORTIZATION, continued

Proprietary and component unit capital assets are also reported in their respective funds and component unit financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with a cost of \$5,000 or more. The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method.

When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives for depreciable assets are as follows:

Buildings	20 – 30 years
Improvements, other than buildings	5 – 15 years
Mobile equipment	5 – 7 years
Furniture, machinery, and equipment	5 – 7 years

LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND DISCOUNTS/PREMIUMS

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as a liability. Bond issuance costs, bond discounts and premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

Governmental fund financial statements recognize debt proceeds and premiums as other financing sources of the current fiscal period. Issuance costs are reported as expenditures of the current fiscal period.

UNAVAILABLE REVENUE

Under the modified accrual basis of accounting, it is not enough that revenue has been earned if it is to be recognized in the current period. Revenue must also be available to finance expenditures of the current period. Governmental funds report revenues in connection with receivables for revenues not considered available to liquidate as deferred inflows of resources in the current period. Unavailable revenues in the current year represent the pre-need deposits for burial at the City Cemetery.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

E. ASSETS, LIABILITIES, AND FUND BALANCES/NET POSITION, continued

COMPENSATED ABSENCES

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Sick leave accrues to full-time, permanent employees to specified maximums. The estimated liabilities include required salary-related payments. Compensated absences are reported as accrued in the government-wide, proprietary, fiduciary, and component unit financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees.

FUND BALANCES

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, governmental fund types report fund equity in one of five categories, as follows:

Nonspendable – Fund balances that cannot be spent because they are either:

- Not in Spendable Form—generally, amounts that are not expected to be converted to cash, such as inventories or prepaid amounts. This classification also includes some long-term amounts such as property acquired for resale or the long-term portion of loans receivable.
- Legally or Contractually Required to be Maintained Intact—amounts that are required to be maintained intact, such as the principal of a permanent fund.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the City manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.

Unassigned – This is the residual classification for the general fund (i.e., everything that is not in another classification or in another fund).

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

E. ASSETS, LIABILITIES, AND FUND BALANCES/NET POSITION, continued

FUND BALANCES, continued

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

Prior to the issuance of GASB Statement 54, the governmental fund financial statements reported reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes. The General Fund reserve for restricted purposes included fund balances/net position restricted for related assets, including advances to other funds and interest receivable. The Capital Projects Fund reserve for restricted purposes included fund balances/net position restricted for waterway construction, low-to-moderate income housing, street improvement, and wastewater resources projects.

F. REVENUES, EXPENDITURES, AND EXPENSES

UTILITY BILLINGS

The NPUA bills individuals and businesses for electric, water, and sewer services on a monthly basis. The billings are considered delinquent when they are not paid by the due date indicated on the billing, which is generally 20 days after the billing date. The City reserves an amount as uncollectible based on historical collection rates. The amount of the estimated uncollectible billings at June 30, 2022 was \$395,125.

USE OF ESTIMATES

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. These estimates include assessing the collectability of accounts receivable, the use and recoverability of inventory, and the useful lives and impairment of tangible and intangible assets, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

F. REVENUES, EXPENDITURES, AND EXPENSES, continued

PROPERTY TAX REVENUES

All property taxes are collected and allocated by the County of San Bernardino to the various taxing entities. Property taxes are determined annually as of March 1 and attach as an enforceable lien on real property as of July 1. Taxes are due November 30 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The County of San Bernardino bills and collects the property taxes and remits them to the City in installments during the year. City property tax revenues are recognized when available and measurable. The City considers property tax as available if it is received within 60 days after the year-end.

PENSIONS

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

G. NEW ACCOUNTING PRONOUNCEMENTS

GASB 87

Governmental Accounting Standards Board issued Statement No. 87 (GASB 87) in June 2017, which became effective for the City of Needles July 1, 2021. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities for obligations exceeding 12 months.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The County is permitted by State Law (Proposition 13) to levy taxes at 1% of full market value (at time of purchase) and can increase the market value no more than 2% per year. The City receives a share of this basic levy proportionate to what it received in the 1976 and 1978 period. Property tax rates for bond debt service are determined by the City, with collections and allocations made by the County.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, continued

Deficit Fund Balance/Net Position – Primary Government

Deficit fund balances/net position as of June 30, 2022, not visible in the basic financial statements because they are grouped with other funds, are as follows:

Community Development Block Grant	\$ 2,962
Housing and Community Development Grant	104,719
State Recreation Grants	65,849
Safe Routes to School	2,479
Redevelopment Agency	72,493

Budgets and Budgetary Accounting

The City prepared and adopted annual operating budgets for the General fund, all Special Revenue funds, and all Capital Projects funds. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. The City Council reviews the proposed budget at a specially scheduled session, which is open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interested persons.
3. The budget is legally adopted through passage of a resolution.
4. The City Manager is authorized to transfer funds within departmental budgets between major object classifications and between capital projects in the same fund. The City Council must authorize transfers between funds, between departments, and from the fund balances reserved for specific purposes.
5. Annual budgets presented are legally adopted and amended as required for the General, Special Revenue, and Capital Projects funds. All budgets presented are prepared on a basis consistent with GAAP.
6. Budgeted amounts are reflected after all applicable amendments and revisions.
7. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the department level. The legal level of budgetary control is at the level called "department". A "department" for legal appropriation purposes may be a single organization (i.e., City Attorney), or an entire department having multiple organizations (i.e., Parks and Recreation), or an entire fund (i.e., Special Fund for Capital Outlay). All departments and funds should complete the year within legally authorized expenditures.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 3 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Deposits with Financial Institutions

Custodial credit risk for deposits with financial institutions is the risk that, in the event of a failure of the financial institution, the City's deposits will not be returned or the City will not be able to obtain collateral securities pledged by the financial institutions.

Custodial credit risk is not covered by bond indentures, although the indentures usually require the issuer to maintain reserve accounts with the trustee bank named in the indenture.

The City's policy, in accordance with the State of California Government Code, is to require financial institutions to collateralize the City's deposits at 110% of the deposit amount with U.S. government securities in the City's name.

California law allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total deposit. The City, at management's discretion, may waive the 110% collateral requirements for deposits which are federally insured up to \$100,000. Federal insurance provides up to \$250,000 of coverage for each depositor.

At June 30, 2022, the book balance of the City's deposits was \$22.9 million and the bank balance was \$23.6 million. Of the bank balance, \$500,000 was insured and \$23.1 million was collateralized.

Investments

Credit risk is the risk that an issuer of a security or a counterparty to the investment will not be able to fulfill its obligations with respect to the investment. The City does not have a formal policy with respect to credit risk.

Instead, the City follows State of California law, which authorizes the City to invest in obligations of U.S. Government agencies and U.S. Government securities, certificates of deposit, municipal securities, and the Local Agency Investment Fund (LAIF) of the State of California.

Interest rate risk is the risk that a change in interest rates will have an adverse effect on the fair value of an investment. Concentration of credit risk is the risk of loss attributable to a concentration of funds in a single issue or issuer. The City's investments include only certificates of deposit or investments in LAIF. Accordingly, the City does not have a formal policy with respect to interest rate risk, the matching of investment maturities with anticipated future cash flows or concentration of credit risk.

The City's investments are stated at cost, which approximates fair value. The City's investment in the LAIF is \$4,436,248. The total amount invested by all public agencies in LAIF is \$231,867 million. The LAIF is managed by the State Treasurer. Of that amount, one hundred percent (100%) is invested in non-derivative financial products, and zero percent in derivative financial products.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 3 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS, continued

Investments, continued

Investments by all public agencies at June 30, 2022 include \$2,350 million in structured notes and \$2,052 million in asset-backed securities.

Structured notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options. They are issued by corporations and by government-sponsored enterprises such as the Federal National Mortgage Association and the Federal Home Loan Bank System or an international agency such as the World Bank.

Asset-backed securities entitle the purchaser to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMOs), small business loans, or credit card receivables (such as ABCP).

The City's cash and investments, which includes all funds including the NPUA, at June 30, 2022 were as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
California LAIF	\$ 4,436,248	\$ 4,436,248
Petty cash and cash drawers	4,798	4,798
Cash in banks	<u>18,496,308</u>	<u>18,496,308</u>
Total Cash and Investments	<u><u>\$ 22,937,354</u></u>	<u><u>\$ 22,937,354</u></u>

Reserve Requirements

The Tax Allocation Revenue Bonds 1992 Series A agreement requires a minimum balance of \$164,500 in the reserve fund. At June 30, 2022, the reserve fund totaled \$161,777. The cash for the deposit was provided by the bond proceeds and is to be used for future debt service.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 3 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS, continued

Investments at Fair Value

GASB Statement No. 72 requires all investments to be categorized under a fair value hierarchy. The City determines the fair value of its investments based upon both observable and unobservable inputs. The City categorizes its fair value measurements within the fair value hierarchy in accordance with Generally Accepted Accounting Principles. The levels within the hierarchy are as follows:

- Level 1 – quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 – inputs (other than quoted prices included within Level 1) that are observable for an asset or liability, either directly or indirectly. These inputs can include quoted prices for similar assets or liabilities in active or inactive markets, or market-corroborated inputs.
- Level 3 – unobservable inputs for an asset or liability, which generally results in a government using the best information available and may include the government's own data.

The remaining investments not categorized under the fair value hierarchy are shown at Net Asset Value (NAV). These are investments in non-governmental entities for which a readily determinable fair value is not available, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed. Investments at NAV are commonly calculated by subtracting the fair value of liabilities from the fair value of assets.

The City considers its investment in the California LAIF to be a level 2 investment.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 4 – CAPITAL ASSETS

A summary of the changes in capital assets follows:

	Balance July 1, 2021	Additions	Deletions	Transfers/ Reclassifications	Balance June 30, 2022
<i>Governmental Activities</i>					
Capital assets, not being depreciated:					
Land	\$ 349,403	\$ -	\$ (3,000)	\$ -	\$ 346,403
Construction in progress	183,251	29,066	-	-	212,317
Total capital assets, not being depreciated	<u>532,654</u>	<u>29,066</u>	<u>(3,000)</u>	<u>-</u>	<u>558,720</u>
Capital assets being depreciated:					
Structures and improvements	28,290,961	1,107,894	-	-	29,398,855
Equipment	761,084	273,384	(15,127)	-	1,019,341
Total capital assets being depreciated	<u>29,052,045</u>	<u>1,381,278</u>	<u>(15,127)</u>	<u>-</u>	<u>30,418,196</u>
Less accumulated depreciation for:					
Structures and improvements	(12,551,879)	(962,586)	-	-	(13,514,465)
Equipment	(657,307)	(49,790)	15,127	-	(691,970)
Total accumulated depreciation	<u>(13,209,186)</u>	<u>(1,012,376)</u>	<u>15,127</u>	<u>-</u>	<u>(14,206,435)</u>
Total capital assets being depreciated, net	<u>15,842,859</u>	<u>368,902</u>	<u>-</u>	<u>-</u>	<u>16,211,761</u>
Capital assets, net	<u>\$ 16,375,513</u>	<u>\$ 397,968</u>	<u>\$ (3,000)</u>	<u>\$ -</u>	<u>\$ 16,770,481</u>
<i>Business-Type Activities</i>					
Capital assets not being depreciated:					
Land	\$ 3,209,553	\$ -	\$ -	\$ -	\$ 3,209,553
Construction in progress	167,403	588,484	-	-	755,887
Total capital assets, not being depreciated	<u>3,376,956</u>	<u>588,484</u>	<u>-</u>	<u>-</u>	<u>3,965,440</u>
Capital assets being depreciated:					
Structures and improvements	42,903,292	282,035	-	-	43,185,327
Equipment	1,947,617	9,900	-	21,902	1,979,419
Total capital assets being depreciated	<u>44,850,909</u>	<u>291,935</u>	<u>-</u>	<u>21,902</u>	<u>45,164,746</u>
Less accumulated depreciation for:					
Structures and improvements	(26,559,439)	(1,422,667)	-	(21,902)	(28,004,008)
Equipment	(533,610)	(72,853)	-	-	(606,463)
Total accumulated depreciation	<u>(27,093,049)</u>	<u>(1,495,520)</u>	<u>-</u>	<u>(21,902)</u>	<u>(28,610,471)</u>
Total capital assets being depreciated, net	<u>17,757,860</u>	<u>(1,203,585)</u>	<u>-</u>	<u>-</u>	<u>16,554,275</u>
Capital assets, net	<u>\$ 21,134,816</u>	<u>\$ (615,101)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,519,715</u>

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 4 – CAPITAL ASSETS, continued

Depreciation Expense

Depreciation expense was charged to functions of the primary government as follows:

<i>Governmental Activities</i>		<i>Business-Type Activities</i>	
Public safety	\$ 3,303	Public Utility Authority	\$ 1,248,873
Public works	398,947	Golf course	48,858
Parks and recreation	209,356	Transit	58,335
Community development	400,770	Internal service funds	139,454
	<u>\$1,012,376</u>		<u>\$ 1,495,520</u>

NOTE 5 – INTANGIBLE ASSETS

Changes in the intangible assets for the year ended June 30, 2022 were as follows:

	Balance July 1, 2021	Additions	Balance June 30, 2022
Cost:			
Water rights	\$ 2,662,807	\$ -	\$ 2,662,807
Canal construction cost sharing	728,366	-	728,366
Total cost	<u>3,391,173</u>	<u>-</u>	<u>3,391,173</u>
Less accumulated amortization:			
Water rights	(490,687)	-	(490,687)
Canal construction cost sharing	(443,086)	(18,210)	(461,296)
Total accumulated amortization	<u>(933,773)</u>	<u>(18,210)</u>	<u>(951,983)</u>
Intangible assets, net	<u>\$ 2,457,400</u>	<u>\$ (18,210)</u>	<u>\$ 2,439,190</u>

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 6 – LONG-TERM OBLIGATIONS

The City has the following long-term obligations at June 30, 2022:

Bonds Payable and Certificates of Participation

1992 Series A Tax Allocation Bonds

The bonds were issued to provide monies to enable the Financing Authority to fund a loan to the Redevelopment Agency. The bonds are payable solely from the loan payments to be made to the Financing Authority by the Redevelopment Agency and from the reserve account created under the Loan Agreement and investment earnings thereon. Tax revenues of the Agency from its redevelopment project secure repayment of the loan.

Principal payments are due annually until 2023, with interest payments at rates ranging from 5.40% to 7.50% made payable semi-annually.

\$ 150,000

Bonds Payable – Enterprise Funds

2016 Revenue Refunding Bonds

In December 2016 the Utility Authority issued \$15,488,000 in revenue bonds bearing interest at 3.86%. Principal payments in various amounts are due annually through February 2031.

\$ 10,878,983

Long-Term Debt – Schedule of Maturities

Debt service requirements for long-term debt for governmental activities are as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	<u>\$ 150,000</u>	<u>\$ 5,625</u>	<u>\$ 155,625</u>

Future interest expense is considerably lower than past years because there is only a partial year's activity until the final payment will be made.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 6 – LONG-TERM OBLIGATIONS, continued

Debt service requirements for 2016 Revenue Refunding Bonds are as follows:

Years Ending June 30:	Principal	Interest	Total
2023	\$ 1,032,323	\$ 410,062	\$ 1,442,385
2024	1,072,556	369,830	1,442,386
2025	1,114,355	328,030	1,442,385
2026	1,157,784	284,600	1,442,384
2027-2031	6,501,965	709,962	7,211,927
	<u>\$ 10,878,983</u>	<u>\$ 2,102,484</u>	<u>\$ 12,981,467</u>

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2022:

Description and Purpose	Balance July 1, 2021	Increase/ Issued	Decrease/ Refund	Balance June 30, 2022	Due Within One Year
Primary Government					
<i>Governmental Activities:</i>					
Tax allocation 1992 bonds	\$ 290,000	\$ -	\$ (140,000)	\$ 150,000	\$ 150,000
<i>Business-Type Activities:</i>					
Revenue Bonds:					
NPUA 2016 bonds	11,872,583	-	(993,600)	10,878,983	1,032,323
Notes Payable:					
Sanitation fund	278,933	-	(29,362)	249,571	31,173
Total Business-Type Activities	<u>12,151,516</u>	<u>-</u>	<u>(1,022,962)</u>	<u>11,128,554</u>	<u>1,063,496</u>
Total Primary Government	<u>\$12,441,516</u>	<u>\$ -</u>	<u>\$(1,162,962)</u>	<u>\$11,278,554</u>	<u>\$ 1,213,496</u>

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 7 – OBLIGATION UNDER AGREEMENT WITH COUNTY OF SAN BERNARDINO

The note payable in the Sanitation Enterprise Fund resulted from an agreement the City made with the County of San Bernardino (County) on January 30, 1996. The County agreed to accept the landfill into the County landfill system and to serve as lead agency for the cleanup, closure, and post-closure activities for the landfill.

The City agreed to reimburse the County \$665,195 for its share of the cleanup, closure, and post-closure costs, to provide in-kind services for post-closure activities, to assist the County in obtaining approval from regulatory agencies for a “monolithic soil cover”, and in seeking recovery from other parties who may be responsible for the costs of cleanup, closure, and post-closure.

Per the agreement, interest shall accrue on the unpaid balance at 6% per annum compounded annually commencing on January 1 of the year following the year in which the landfill is deemed closed.

The landfill ceased accepting waste in 1994, and was closed in 2002. The Closure Agreement calls for annual principal payments of \$50,000 over a 15 year period.

The City settled this obligation with the County by agreeing to pay a principal amount of \$447,361 beginning on July 1, 2014. Payments are \$3,775 per month for 180 months ending on June 1, 2029. This debt bears interest at 6% per annum.

Future payments under this debt are as follows:

Years Ending June 30:	Principal	Interest	Total
2023	\$ 31,173	\$ 14,128	\$ 45,301
2024	33,062	12,239	45,301
2025	35,135	10,166	45,301
2026	37,302	7,999	45,301
2027-2029	112,899	9,707	122,606
	<u>\$ 249,571</u>	<u>\$ 54,239</u>	<u>\$ 303,810</u>

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 8 – UTILITY ENTERPRISE

As disclosed in Note 1, the Needles Public Utility Authority (NPUA) was formed on January 6, 1997, for the purpose of owning, operating, and maintaining the Utility Enterprise. On March 6, 1997, NPUA purchased the Utility Enterprise (consisting of the Water, Sewer, and Electric Funds) from the City for \$65,000,000.

To fund the acquisition, NPUA issued 1997 revenue bonds totaling \$21,145,000, of which \$17,941,092 was used as an initial down payment for the acquisition. These bonds were fully paid during the year ended June 30, 2017, with the proceeds of 2016 revenue refunding bonds issued by the NPUA. The 2016 Revenue Refunding bonds were issued in the face amount of \$15,488,000 and are more fully described in Note 6 above.

The balance of \$47,058,908 was financed by the City and evidenced by an advance from the City to the NPUA. This is being repaid with an annual purchase payment of \$685,300 through the year 2065. As a component unit, the NPUA is included as part of the City's reporting entity (see Note 1). Accordingly, the Utility Enterprise assets and liabilities acquired by NPUA are included in the financial statements at net book value rather than fair market value (acquisition price) and the note, which approximates the step-up to the fair market value, is shown as an interfund advance from the general fund to the NPUA (see Note 12).

The City and NPUA entered into a separate agreement wherein the City has agreed to continue to manage and administer the utility operations. As a result, the City performs the customer billing and collection function and pays the expenses related to the utility operations. NPUA reimburses the City on a monthly basis for expenses incurred.

NOTE 9 –LEASE OBLIGATIONS AND RECEIVABLES

The City maintains several equipment operating leases which commenced during or before the fiscal year ended June 30, 2022. The City leases 9 vehicles serving the Code Enforcement, Public Works, Utility Office, Water, Wastewater, and Electric departments which commenced in 2021 and expire during the fiscal year ended June 30, 2027. Upon expiration, there is a \$400 processing fee for each vehicle, which has been included in the total lease obligation being amortized. There is also an ongoing lease for 60 golf carts utilized by the Golf Course which began in August 2021 and will expire August 2026. The City leased a copy machine July 2021 for the administrative offices which expires July 2026. None of the lease agreements carry any residual value guarantees or include any variable payments.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 9 –LEASE OBLIGATIONS AND RECEIVABLES, continued

The following is a schedule of the intangible right-to-use assets for governmental activities and business-type activities, along with their related accumulated amortization as of June 30, 2022:

	<u>Balance</u>
<i>Governmental Activities</i>	
Equipment	\$ 84,754
Less: Accumulated amortization	<u>(12,324)</u>
Total right-to-use assets, net of amortization	<u><u>\$ 72,430</u></u>
 <i>Business-Type Activities</i>	
Equipment	\$ 414,520
Less: Accumulated amortization	<u>(48,145)</u>
Total right-to-use assets, net of amortization	<u><u>\$ 366,375</u></u>

The operating lease liability activity for the capitalized right-to-use assets is as follows:

	<u>Balance</u> <u>July 1, 2021</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2022</u>	<u>Current</u> <u>Portion</u>
<i>Governmental Activities</i>					
Equipment Leases:					
Vehicles	<u>\$ -</u>	<u>\$ 84,754</u>	<u>\$ (11,710)</u>	<u>\$ 73,044</u>	<u>\$ 17,416</u>
 <i>Business-Type Activities</i>					
Equipment Leases:					
Vehicles	\$ -	\$ 172,680	\$ (29,151)	\$ 143,529	\$ 37,400
Golf Carts	-	229,058	(14,311)	214,747	43,729
Copy Machine	<u>-</u>	<u>12,782</u>	<u>(2,215)</u>	<u>10,567</u>	<u>2,479</u>
 Total Right-to-Use Assets:	<u><u>\$ -</u></u>	<u><u>\$ 414,520</u></u>	<u><u>\$ (45,677)</u></u>	<u><u>\$ 368,843</u></u>	<u><u>\$ 83,608</u></u>

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 9 –LEASE OBLIGATIONS AND RECEIVABLES, continued

The following is a schedule of future equipment lease payments as of June 30, 2022:

<i>Governmental Activities</i>			
Fiscal Year Ended	Liability		Total
June 30,	Reduction	Interest	Payments
2023	\$ 17,416	\$ 2,735	\$ 20,151
2024	18,093	2,068	20,161
2025	18,801	1,350	20,151
2026	11,932	671	12,603
2027	6,802	204	7,006
Total	<u>\$ 73,044</u>	<u>\$ 7,027</u>	<u>\$ 80,071</u>

<i>Business-Type Activities</i>			
Fiscal Year Ended	Liability		Total
June 30,	Reduction	Interest	Payments
2023	\$ 83,608	\$ 10,067	\$ 93,674
2024	85,980	7,528	93,508
2025	88,141	4,965	93,106
2026	69,093	2,498	71,592
2027	42,021	610	42,631
Total	<u>\$ 368,843</u>	<u>\$ 25,668</u>	<u>\$ 394,511</u>

Additionally, the City leases its property to other agencies in the course of making services available to the community. The material leases that fall under the scope of GASB 87 include the City subleasing BLM land to the County of San Bernardino to operate the Marina, RV park, and other recreational services. It also leases the Needles Chamber of Commerce building to the Needles Area Chamber of Commerce nonprofit corporation for operating the Chamber of Commerce and Visitor's Center. The lease with the County first commenced in 1960, and has since been amended to extend through June 2048, while the lease with the Needles Area Chamber of Commerce expires April 2026.

Implicit interest rates were calculated for each operating lease agreement based on value, payments, and term for each lease asset and liability which ranged from 2.75% to 5.94%. The City recognized \$64,482 in total operating lease expense in the fiscal year ended June 30, 2022. A total of \$91,464 in both short-term and long-term rental income was recognized during the fiscal year ended June 30, 2022.

NOTE 10 – RESTRICTED FUND BALANCES AND NET POSITION

Certain proprietary fund and similar component unit assets are restricted for construction funded through long-term debt or Federal grant revenues. Net position restricted for debt service include the excess of assets over certain liabilities restricted for the debt service on revenue bonds. Cash is restricted for deposits in bank accounts legally restricted for specified uses such as the payment of currently maturing debt service and annual fiscal fees on long-term debt. These are reported with current assets.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 10 – RESTRICTED FUND BALANCES AND NET POSITION, continued

The fund balances of the governmental funds have been classified into the five categories of fund balance specified in GASB Statement No. 54. The City's fund balances at June 30, 2022 are as follows:

	General Fund	Public Financing Authority	Other Governmental Funds	Total
Fund Balances:				
Nonspendable:				
Prepaid items	\$ 28,721	\$ -	\$ 1,207,595	\$ 1,236,316
Land held for resale	-	-	182,153	182,153
Advances receivable	9,582,749	-	-	9,582,749
Subtotal	<u>9,611,470</u>	<u>-</u>	<u>1,389,748</u>	<u>11,001,218</u>
Restricted:				
Debt service	-	161,777	-	161,777
Public works	-	-	330,050	330,050
Cemetery	-	-	183,150	183,150
Subtotal	<u>-</u>	<u>161,777</u>	<u>513,200</u>	<u>674,977</u>
Committed:				
General government	350,000	-	-	350,000
Public safety	-	-	172,547	172,547
Public works	-	-	381,613	381,613
Subtotal	<u>350,000</u>	<u>-</u>	<u>554,160</u>	<u>904,160</u>
Assigned:				
Public works	-	-	145,152	145,152
Community development	-	-	423,994	423,994
Subtotal	<u>-</u>	<u>-</u>	<u>569,146</u>	<u>569,146</u>
Unassigned	<u>6,726,393</u>	<u>-</u>	<u>(396,209)</u>	<u>6,330,184</u>
Total	<u><u>\$ 16,687,863</u></u>	<u><u>\$ 161,777</u></u>	<u><u>\$ 2,630,045</u></u>	<u><u>\$ 19,479,685</u></u>

There was a significant increase in prepaid expense due to the City's prepayment to the Arizona Department of Transportation in advance of beginning construction for the Arizona bridge project.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 11 – LIABILITY, WORKERS’ COMPENSATION, AND PURCHASED INSURANCE

A. Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

The City is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 123 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The California JPIA began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

B. Primary Self-Insurance Programs of the Authority

Each member pays an annual contribution at the beginning of the coverage period. A retrospective adjustment is then conducted annually thereafter, for coverage years 2012-13 and prior. Coverage years 2013-14 and forward are not subject to routine annual retrospective adjustment. The total funding requirement for self-insurance programs is based on an actuarial analysis. Costs are allocated to individual agencies based on payroll and claims history, relative to other members of the risk-sharing pool.

Primary Liability Program

Claims are pooled separately between police and general government exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$100,000 for each occurrence and is evaluated as a percentage of the pool’s total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$100,000 to \$500,000 for each occurrence and is evaluated as a percentage of the pool’s total incurred costs within the second layer. (4) Incurred costs from \$500,000 to \$50 million, are distributed based on the outcome of cost allocation within the first and second loss layers.

The overall coverage limit for each member, including all layers of coverage, is \$50 million per occurrence. Subsidence losses also have a \$50 million per occurrence limit. The coverage structure is composed of a combination of pooled self-insurance, reinsurance, and excess insurance. Additional information concerning the coverage structure is available on the Authority’s website: <https://cjpia.org/coverage/risk-sharing-pools/>.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 11 – LIABILITY, WORKERS’ COMPENSATION, AND PURCHASED INSURANCE,
continued

B. Primary Self-Insurance Programs of the Authority, continued

Workers’ Compensation Program

Claims are pooled separately between public safety (police and fire) and general government exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$75,000 for each occurrence and is evaluated as a percentage of the pool’s total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$75,000 to \$200,000 for each occurrence and is evaluated as a percentage of the pool’s total incurred costs within the second layer. (4) Incurred costs from \$200,000 to statutory limits are distributed based on the outcome of cost allocation within the first and second loss layers.

For Fiscal Year 2021-22, the Authority’s pooled retention is \$1 million per occurrence, with reinsurance to statutory limits under California Workers’ Compensation Law. Employer’s Liability losses are pooled among members to \$1 million. Coverage from \$1 million to \$5 million is purchased through reinsurance policies, and Employer’s Liability losses from \$5 million to \$10 million are pooled among members.

C. Purchased Insurance

Pollution Legal Liability Insurance

The City participates in the pollution legal liability insurance program which is available through the Authority. The policy covers sudden and gradual pollution of scheduled property, streets, and storm drains owned by the City. Coverage is on a claims-made basis. There is a \$250,000 deductible. The Authority has an aggregate limit of \$20 million.

Property Insurance

The City of Needles participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. City of Needles property is currently insured according to a schedule of covered property submitted by the City of Needles to the Authority. City of Needles property currently has all-risk property insurance protection in the amount of \$35,202,504. There is a \$10,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$2,500 deductible.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 11 – LIABILITY, WORKERS' COMPENSATION, AND PURCHASED INSURANCE,
continued

C. Purchased Insurance, continued

Earthquake and Flood Insurance

The City purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the Authority. City property currently has earthquake protection in the amount of \$20,165,283. There is a deductible of 5% per unit of value with a minimum deductible of \$100,000.

Crime Insurance

The City purchases crime insurance coverage in the amount of \$1,000,000 with a \$2,500 deductible. The fidelity coverage is provided through the Authority.

Special Event Tenant User Liability Insurance

The City further protects against liability damages by requiring tenant users of certain property to purchase low-cost tenant user liability insurance for certain activities on city property. The insurance premium is paid by the tenant user and is paid to the City according to a schedule. The City then pays for the insurance. The insurance is facilitated by the Authority.

D. Adequacy of Protection

During the past three fiscal years, none of the above programs of protection experienced settlements or judgments that exceeded pooled or insured coverage. There were also no significant reductions in pooled or insured liability coverage in 2021-22.

NOTE 12 – BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

In general, outstanding balances between funds are presented in the financial statements as either "Due to/from other funds" (i.e., the current portion of interfund loans) or "Advances to/from other funds" (i.e., the non-current portion of interfund loans).

These balances include outstanding charges by one fund to another fund for goods or services or for other miscellaneous receivables/payables between funds. Balances between governmental funds and business-type funds are reflected in the government-wide financial statements as "internal balances".

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 12 – BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY, continued

DUE TO/FROM OTHER FUNDS

The composition of due to/from other funds as of June 30, 2022 are as follows:

Governmental Activities

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	I40/J Street Project	\$ -	Reimbursement of expenses
	NPUA	18,868	
	Sanitation	2,853,930	Temporary cash borrowing
Total Governmental Funds		<u>\$ 2,872,798</u>	

Business-Type Activities

Receivable Fund	Payable Fund	Amount	Purpose
NPUA	Internal Service Funds	\$ 642,579	Reimbursement of expenses
	All American Canal	150,076	
Electric		9,877	
Total Proprietary Funds		<u>\$ 802,532</u>	

ADVANCES TO/FROM OTHER FUNDS

The City entered into a Purchase Obligation with the NPUA in which the NPUA agreed to pay the City \$685,300 each February 1st, including interest imputed at 6.714% through February 2012. Starting February 2013, the annual payment was reduced to \$673,036 as a result of the \$400,000 prepayments made in 2012. The annual payment was further reduced to \$666,983 in fiscal year 2016 as a result of the additional prepayment made in 2013 amounting to \$350,000. The balance of the obligation at June 30, 2022 was \$9,582,749.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 12 – BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY, continued

ADVANCES TO/FROM OTHER FUNDS, continued

Annual maturities of the Purchase Obligation are presented below:

Years Ending June 30:	Principal	Interest	Total
2023	\$ 41,914	\$ 643,386	\$ 685,300
2024	44,728	640,572	685,300
2025	47,731	637,569	685,300
2026	50,936	634,364	685,300
2027-2031	310,808	3,115,692	3,426,500
2032-2036	430,130	2,996,370	3,426,500
2037-2041	595,259	2,831,241	3,426,500
2042-2046	823,784	2,602,716	3,426,500
2047-2051	1,140,041	2,286,459	3,426,500
2052-2056	1,577,710	1,848,790	3,426,500
2067-2061	2,183,405	1,243,095	3,426,500
2062-2065	2,336,303	404,871	2,741,174
	<u>\$ 9,582,749</u>	<u>\$19,885,125</u>	<u>\$ 29,467,874</u>

TRANSFERS

Transfers and payments within the reporting entity are primarily for the purpose of providing cash to meet operating and debt service needs or to fund the construction or purchase of capital assets.

The government-wide statement of activities eliminates transfers reported within the segregated governmental and business-type activities columns. Only transfers *between* the two columns appear in this statement.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 12 – BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY, continued

TRANSFERS, continued

The following schedule reports transfers and payments within the reporting entity:

Transfer To	Transfer From	Amount	Purpose
General Fund (GF)	Sanitation Fund	\$ 120,000	Fund operations
	Other Governmental Funds	135,756	Gas tax
	Transit Fund	21,252	Fund operations
	NPUA	646,023	Utility purchase
	Internal Service Funds	727,625	Fair share allocation
Total General Fund		<u>1,650,656</u>	
Public Financing Authority	Other Governmental Funds	156,492	Transfer of RDA debt payment
Other Governmental Funds	General Fund	<u>183,096</u>	Cemetery Fund from General Fund
Total Governmental Funds		<u>\$ 1,990,244</u>	
NPUA	Internal Service Funds	\$ 1,328,236	Transfer of capital assets
Golf Course Fund	General Fund	3,632,095	Fund operations
Transit	Other Governmental Funds	<u>12</u>	Fund operations
Total Proprietary Funds		<u>\$ 4,960,343</u>	

NOTE 13 – DEFINED BENEFIT PENSION PLAN

Plan Description – All qualified permanent and probationary employees are eligible to participate in the City's Employee Pension Plan, a cost sharing multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website. The plans in existence for employees hired before January 1, 2013, ("Classic" plans) are closed to new entrants.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 13 – DEFINED BENEFIT PENSION PLAN, continued

The Plans' provisions and benefits in effect at June 30, 2022, are summarized as follows:

	Miscellaneous Plan	
	Prior to January 1, 2013	On or After January 1, 2013
Hire date		
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	55	62
Benefits as a % of annual salary	2.000%	2.000%
Required employee contribution rates	7.000%	6.750%
Required employer contribution rates	10.484%	7.732%

	Safety Plan
	Prior to January 1, 2013
Hire date	
Benefit formula	3% @ 50
Benefit vesting schedule	5 years of service
Benefit payments	monthly for life
Retirement age	50
Benefits as a % of annual salary	3.000%
Required employee contribution rates	0.000%
Required employer contribution rates	0.000%

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2022, the contributions recognized as part of pension expense for each Plan were \$690,883.

Net Pension Liability

As of June 30, 2022, the City reported a net pension liability of \$2,311,158 for its proportionate share of the net pension liability of the Miscellaneous Plan and \$21,535 for its proportionate share of the net pension liability of the Safety Plan.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 13 – DEFINED BENEFIT PENSION PLAN, continued

Net Pension Liability, continued

The City's net pension liability for the Miscellaneous Plan and the Safety Plan (the Plans) is measured as the proportionate share of the net pension liability. The net pension liability of the Plans is measured as of June 30, 2021, and the total pension liability for the Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020, rolled forward to June 30, 2021, using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for the Plans as of June 30, 2021 and 2022 was as follows:

	Miscellaenous Plan	Safety Plan	Total
Proportion June 30, 2021	0.10716%	0.00261%	0.04314%
Proportion June 30, 2022	0.12172%	0.00061%	0.04313%
Change	0.01456%	-0.00200%	-0.00001%

Actuarial Assumptions – The total pension liabilities in the June 30, 2020 actuarial valuations were determine using the following actuarial assumptions:

	Miscellaenous Plan	Safety Plan
Valuation date	June 30, 2020	June 30, 2020
Measurement date	June 30, 2021	June 30, 2021
Actuarial cost method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount rate	7.15%	7.15%
Inflation	2.50%	2.50%
Payroll growth	2.75%	2.75%
Projected salary increase	3.3% - 14.2% ¹	3.3% - 14.2% ¹
Investment rate of return	7.15% ²	7.15% ²
Mortality	Society of Actuaries Scale BB ³	

¹ Depending on age, service, and type of employment

² Net of pension plan investment expenses, including inflation

³ The mortality table used was developed based on CalPERS' specific data

In 2018, demographic assumptions and inflation rate were changed in accordance with the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. Further details of the Experience Study can be found on the CalPERS website.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 13 – DEFINED BENEFIT PENSION PLAN, continued

Net Pension Liability, continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund.

The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10 ⁽¹⁾	Real Return Years 11+ ⁽²⁾
Global equity	50.0%	4.80%	5.98%
Fixed income	28.0%	1.00%	2.62%
Inflation assets	0.0%	0.77%	1.81%
Private equity	8.0%	6.30%	7.23%
Real assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
	<u>100.00%</u>		

⁽¹⁾ An expected inflation of 2.00% used for this period.

⁽²⁾ An expected inflation of 2.92% used for this period.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 13 – DEFINED BENEFIT PENSION PLAN, continued

Net Pension Liability, continued

Discount Rate – The discount rate used to measure the total pension liability was 7.15% for each plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS performed stress tests on plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension investment expense and inflation) are developed for each major asset class.

The long-term expected rate of return includes both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 13 – DEFINED BENEFIT PENSION PLAN, continued

Changes in the Net Pension Liability

The changes in the Net Pension Liability for each Plan measured as of June 30, 2021 is as follows:

	Total Pension Liability	Fiduciary Net Position	Pension Liability/ (Asset)
<u>Miscellaneous Plan</u>			
Balance at June 30, 2020	\$ 19,945,925	\$ 15,425,717	\$ 4,520,208
Changes in the Year:			
Service cost	465,002	-	465,002
Interest on the total pension liability	1,402,218	-	1,402,218
Changes in benefit terms	1,019	-	1,019
Changes in assumptions	-	-	-
Difference between expected and actual experience	175,860	-	175,860
Change in proportion	(264,886)	(405,784)	140,898
Net plan to plan resource movement	-	51,426	(51,426)
Contributions - employer	-	725,904	(725,904)
Contributions - employee	-	201,875	(201,875)
Net investment income	-	3,413,154	(3,413,154)
Benefits payments, including refunds of employee contributions	(957,966)	(940,837)	(17,129)
Administrative expense	-	(15,442)	15,442
Other miscellaneous income	-	-	-
Net Changes	<u>821,247</u>	<u>3,030,296</u>	<u>(2,209,049)</u>
Balance at June 30, 2021	<u><u>\$ 20,767,172</u></u>	<u><u>\$ 18,456,013</u></u>	<u><u>\$ 2,311,159</u></u>

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 13 – DEFINED BENEFIT PENSION PLAN, continued

Changes in the Net Pension Liability, continued

	Total Pension Liability	Fiduciary Net Position	Pension Liability/ (Asset)
<u>Safety Plan</u>			
Balance at June 30, 2020	\$ 1,172,212	\$ 998,420	\$ 173,792
Changes in the Year:			
Service cost	22,164	-	22,164
Interest on the total pension liability	78,655	-	78,655
Changes in benefit terms	18	-	18
Changes in assumptions	-	-	-
Difference between expected and actual experience	19,790	-	19,790
Change in proportion	(74,348)	(36,150)	(38,198)
Net plan to plan resource movement	-	15,107	(15,107)
Contributions - employer	-	18,186	(18,186)
Contributions - employee	-	-	-
Net investment income	-	209,970	(209,970)
Benefits payments, including refunds of employee contributions	(57,373)	(65,014)	7,641
Administrative expense	-	(935)	935
Other miscellaneous income	-	-	-
Net Changes	<u>(11,094)</u>	<u>141,164</u>	<u>(152,258)</u>
Balance at June 30, 2021	<u>\$ 1,161,118</u>	<u>\$ 1,139,584</u>	<u>\$ 21,534</u>

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate –

The following presents the City's proportionate share of the net pension liability for the Miscellaneous and Safety Plans, calculated using the discount rate for the Plans, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Discount Rate Minus 1%	Current Discount Rate	Discount Rate Plus 1%
<u>Employer's Net Pension Liability/(Asset)</u>			
Miscellaneous Plan	\$ 5,053,066	\$ 2,311,158	\$ 44,462
Safety Plan	<u>177,832</u>	<u>21,535</u>	<u>(106,843)</u>
Total	<u>\$ 5,230,898</u>	<u>\$ 2,332,693</u>	<u>\$ (62,381)</u>

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 13 – DEFINED BENEFIT PENSION PLAN, continued

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

Annual Pension Cost – For 2022, the City recognized net pension expense of \$315,597. At June 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ -
Differences between expected and actual experience	262,851	-
Differences between projected and actual earnings on plan investments	-	2,030,336
Differences between the employer's contributions and the employer's proportionate share of contributions	-	285,139
Change in employer's proportion	182,546	-
Pension contributions subsequent to the measurement date	690,883	-
Total	<u>\$ 1,136,280</u>	<u>\$ 2,315,475</u>

The \$690,883 deferred outflow of resources related to pension contributions made subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows and deferred inflows will be recognized as pension expense as follows:

Years Ending June 30:	Miscellaneous	Safety	Total
2023	\$ (391,900)	\$ (29,385)	\$ (421,285)
2024	(408,501)	(20,285)	(428,786)
2025	(450,004)	(8,937)	(458,941)
2026	(557,538)	(3,527)	(561,065)
	<u>\$ (1,807,943)</u>	<u>\$ (62,134)</u>	<u>\$ (1,870,077)</u>

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 14 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. The City has elected to use the GASB 75 “lookback” method where assets and liabilities are measured as of the prior fiscal year-end, but applied to the current fiscal year. For this report, the following timeframes are used:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2021

Plan Description – In addition to providing pension benefits, the City provides certain health care benefits for retired employees. Classified employees retiring after 20 or more years of service and after having reached age 58 or older are provided medical insurance coverage until the retiree becomes eligible for Medicare. Unclassified employees retiring at age 55 or later with 20 or more years of service are paid \$300 per month for medical insurance coverage until the retiree becomes eligible for Medicare. Five retirees received post-retirement health care benefits during the fiscal year ended June 30, 2022.

Contributions – The contribution requirements of the City are established and may be amended by the City council. While GASB Statement 75 requires that the liability for all post-employment benefits be measured, it does not require that an agency “pre-fund” the accrued liability. The City will pay for the post-employment healthcare cost on a “pay-as-you-go” basis. The provisions of GASB Statement 75 determine the amount that must be presented as an annual expense and accrued liability on the City’s financial statements. The contributions made on behalf of the plan members for the year ended June 30, 2022 were \$91,648.

Significant Assumptions – Significant assumptions are as follows:

Discount rate	1.92%
Expected return on plan assets	N/A
Inflation rate	2.25%
Mortality	Mortality rates were based on assumptions for Public Agency Miscellaneous members published in the December 2017 CalPERS Experience Study. These tables include 15 years of static mortality improvement using 90% of scale MP-2016.
Health care cost trend rate	6.70% for fiscal year 2022, gradually decreasing over several decades to an ultimate rate of 3.70% in fiscal year 2075 and later years.

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 14 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY, continued

Participants eligible for OPEB were as follows:

	Valuation Date 6/30/2021
Active employees electing coverage	45
Active employees waiving coverage	4
Retirees electing coverage	4
Total	<u>53</u>

Changes in the Net OPEB Liability

The table below shows the changes in the total OPEB liability, the Plan Fiduciary Net Position, and the net OPEB liability during the measurement period ending on June 30, 2021, for the City's reporting date of June 30, 2022:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (c) = (a) - (b)
Balance at June 30, 2021	\$ 1,169,244	\$ -	\$ 1,169,244
Changes recognized for the measurement period:			
Service cost	60,909	-	60,909
Interest	29,150	-	29,150
Differences between expected and actual experience	196,696	-	196,696
Change of assumptions	21,133	-	21,133
Employer contributions	-	80,726	(80,726)
Benefit payments	(80,726)	(80,726)	-
Net changes	<u>227,162</u>	<u>-</u>	<u>227,162</u>
Balance at June 30, 2022	<u>\$ 1,396,406</u>	<u>\$ -</u>	<u>\$ 1,396,406</u>

Sensitivity of the City's Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

	1% Decrease 0.92%	Discount Rate 1.92%	1% Increase 2.92%
Net OPEB liability	\$ 1,507,596	\$ 1,396,406	\$ 1,291,733

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 14 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY, continued

Sensitivity of the City's Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Net OPEB liability	\$ 1,243,486	\$ 1,396,406	\$ 1,579,224

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2022, the City's deferred outflows of resources and deferred inflows of resources related to were OPEB from the following sources:

	<u>Deferred Outflows of Resources⁽¹⁾</u>	<u>Deferred Inflows of Resources</u>
Contributions between measurement date and reporting date	\$ 91,648	\$ -

⁽¹⁾ Includes estimated implicit rate subsidy of \$40,162.

Deferred outflows from contributions between measurement date and reporting date will be recognized as OPEB expense in the year ended June 30, 2022.

Net OPEB Expense

For the year ended June 30, 2022, the City's OPEB expense/(income) was \$111,192. Detail of the expense is shown below:

Service cost	\$ 60,909
Interest cost	29,150
Changes of assumptions	<u>21,133</u>
Net OPEB Expense (Income)	<u><u>\$ 111,192</u></u>

CITY OF NEEDLES, CALIFORNIA
Notes to the Financial Statements
June 30, 2022

NOTE 15 – RELATED PARTY TRANSACTIONS

The City acts as the manager and operator of the Authority's Enterprises under a Management Agreement. The City receives a management fee equal to its actual costs and direct overhead incurred in connection with the management and operation of the Enterprises. Such costs include, but are not limited to, salaries, insurance, and retirement benefits of City employees providing services to the Enterprises. Each July 1, the Management Agreement is extended for one year, unless either party notifies the other that it does not intend to extend the term of the Agreement. Total payments made to the City for operating the Enterprises for the year ended June 30, 2022 amounted to \$14,128,998. This amount includes payment of Fair Share Allocation (FSA) and purchase of electric power and capital assets.

In exchange for the City providing rights of way and rights of access to all real property owned by the City and necessary for the Authority to operate the Enterprises, the City collected an annual franchise fee from the Authority. The amount of the franchise fee was determined by the City, the payment of which is subordinate to the Authority's annual debt service. In August 2010, the Authority's Board approved the increase in franchise fee from 5% of gross revenues to 7.5% of gross revenues for two years, and then 5% thereafter. In November 2012, the voters of the City of Needles approved Measure T eliminating 2.5% of the franchise fee that the City of Needles charges the Authority and established a utility user tax of up to 2.5% to be applied to electric, water, and sewer charges. In fiscal year 2017, the City underwent a study to determine the utilities' actual usage of rights of way and rights of access to all real property owned by the City. After the study, the City eliminated the franchise fee and created the Fair Share Allocation (FSA). The FSA and utility user tax amounted to \$727,625 for the year ended June 30, 2022.

NOTE 16 – COVID-19

In January 2020, the virus SARS-CoV-2 was detected in the United States of America. This virus, responsible for the Coronavirus disease COVID-19, has proven to be extremely virulent. The early months of COVID affected the City's Sales tax and Transient Occupancy Taxes (TOT) revenue. However, the subsequent months showed recovery as the City remained busy with visitors nesting in their second homes in Needles during and following the quarantine. As a result, overall, the virus has not had a significant financial impact on the City. While the State of Emergency expired on February 28, 2023, the long-term impact in the State of California continues to be uncertain.

NOTE 17 – EVALUATION OF SUBSEQUENT EVENTS – MANAGEMENT REVIEW

Management has evaluated subsequent events through November 30, 2023, the date which the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF NEEDLES, CALIFORNIA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED
JUNE 30, 2022**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
Budgetary fund balance July 1, 2021	\$ 19,210,516	\$ 19,210,516	\$ 19,210,516	\$ -
Resources (inflows):				
Taxes	8,247,431	8,395,731	8,681,718	285,987
Licenses, permits, and fees	363,000	414,000	456,932	42,932
Intergovernmental	11,900	11,900	124,080	112,180
Charges for services	120,000	120,000	433,994	313,994
Fines and forfeitures	213,500	236,500	271,988	35,488
Use of money and property	106,938	106,938	100,084	(6,854)
Transfers from other funds	1,733,290	1,733,290	1,650,656	(82,634)
Other revenues	7,350	7,350	28,343	20,993
Amounts available for appropriation	30,013,925	30,236,225	30,958,311	722,086
Charges to appropriations (outflows):				
General government:				
City attorney	80,000	80,000	224,382	(144,382)
City manager	204,293	205,293	168,097	37,196
Finance and administration	528,654	528,654	492,619	36,035
City clerk	201,933	201,933	169,820	32,113
Planning and zoning	299,577	304,327	29,149	275,178
Engineer	247,804	269,415	116,046	153,369
Community development	45,270	73,610	89,751	(16,141)
Senior center	55,404	55,404	39,029	16,375
Parks and recreation:				
Aquatics	180,845	180,845	327,455	(146,610)
Parks	466,589	546,633	406,758	139,875
Jack Smith Park Marina	135,838	139,888	133,654	6,234
Recreation	347,431	353,231	234,352	118,879
Public safety:				
Police	2,944,931	3,216,842	3,481,517	(264,675)
Animal control	234,591	236,591	185,276	51,315
Building and safety	379,635	513,288	317,698	195,590
Code enforcement	571,775	629,675	455,248	174,427
Public works:				
Streets	3,650,127	4,318,920	1,942,149	2,376,771
Sanitation	155,620	456,217	130,422	325,795
Nondepartmental:				
Transfers to other funds	1,132,211	3,812,952	5,327,026	(1,514,074)
Total charges to appropriations	11,862,528	16,123,718	14,270,448	1,853,270
Budgetary fund balance June 30, 2022	\$ 18,151,397	\$ 14,112,507	\$ 16,687,863	\$ 2,575,356

**CITY OF NEEDLES, CALIFORNIA
RECONCILIATION BETWEEN BUDGETARY AMOUNTS AND GAAP
GENERAL FUND
FOR THE YEAR ENDED
JUNE 30, 2022**

Explanation of Difference between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 30,958,311
--	---------------

Difference - budget to GAAP:

The fund balances at the beginning of the year are budgetary resources but are not current-year revenues for financial reporting purposes	(19,210,516)
---	--------------

Transfers in are budgetary resources but are reported as an "Other financing source" and not as a current-year revenue	<u>(1,650,656)</u>
---	--------------------

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds	<u><u>\$ 10,097,139</u></u>
--	-----------------------------

Charges to appropriations

Actual amounts (budgetary basis) from the budgetary comparison schedule	\$ 14,270,448
--	---------------

Transfers out are a budgetary charge to appropriations but are reported as an "Other financing use" and not as a current-year expense	<u>(5,327,026)</u>
---	--------------------

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds	<u><u>\$ 8,943,422</u></u>
--	----------------------------

**CITY OF NEEDLES, CALIFORNIA
BUDGETARY COMPARISON SCHEDULE
PUBLIC FINANCING AUTHORITY
FOR THE YEAR ENDED
JUNE 30, 2022**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget
Budgetary fund balance July 1, 2021	\$ 161,753	\$ 161,753	\$ 161,753	\$ -
Resources (inflows):				
Use of money and property	-	-	32	32
Amounts available for appropriation	161,753	161,753	161,785	32
Charges to appropriations (outflows):				
Principal retirement	-	-	140,000	(140,000)
Interest and fiscal charges	-	-	16,500	(16,500)
Total charges to appropriations	-	-	156,500	(156,500)
Budgetary fund balance June 30, 2022	<u>\$ 161,753</u>	<u>\$ 161,753</u>	<u>\$ 5,285</u>	<u>\$ (156,468)</u>

Explanation of Difference between Budgetary Inflows and Outflows and GAAP Revenues:

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation"
from the budgetary comparison schedule \$ 161,785

Difference - budget to GAAP:

The fund balances at the beginning of the year are budgetary resources but
are not current-year revenues for financial reporting purposes (161,753)

Total revenues as reported on the statement of revenues,
expenditures, and changes in fund balance - governmental funds \$ 32

CITY OF NEEDLES, CALIFORNIA
Required Supplementary Information
Pensions - Miscellaneous Plan
June 30, 2022

**Schedule of the City's proportionate share of the
Net Pension Liability:**

Last 10 Fiscal years*

Measurement Date	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018
City's proportion of the net pension liability	0.03302%	0.08325%	0.09839%	0.10014%	0.10036%
City's proportionate share of the net pension liability	\$ 2,054,707	\$ 2,283,923	\$ 3,417,806	\$ 3,947,484	\$ 3,782,261
City's covered payroll	\$ 2,347,411	\$ 2,129,947	\$ 2,150,169	\$ 2,183,340	\$ 2,366,448
City's proportionate share of the net pension liability as a percentage of its covered payroll	87.53%	107.23%	158.96%	180.80%	159.83%
Plan Fiduciary net position as a percentage of the total pension liability	87.06%	85.73%	79.32%	78.17%	79.63%

Measurement Date	June 30, 2019	June 30, 2020	June 30, 2021
City's proportion of the net pension liability	0.10034%	0.10716%	0.10216%
City's proportionate share of the net pension liability	\$ 4,139,617	\$ 4,520,208	\$ 2,311,158
City's covered payroll	\$ 2,366,583	\$ 2,566,584	\$ 2,921,443
City's proportionate share of the net pension liability as a percentage of its covered payroll	174.92%	176.12%	79.11%
Plan Fiduciary net position as a percentage of the total pension liability	78.47%	77.34%	77.34%

CALPERS - Schedule of City's contributions:

Last 10 Fiscal Years*

Measurement Date	<u>June 30, 2014</u>	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2018</u>
Actuarially determined contribution	\$ 174,760	\$ 357,824	\$ 363,108	\$ 386,723	\$ 448,179
Contributions in relation to the actuarially determined contribution	<u>174,760</u>	<u>357,824</u>	<u>363,108</u>	<u>386,723</u>	<u>448,179</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 2,347,411	\$ 2,129,947	\$ 2,150,169	\$ 2,183,340	\$ 2,366,448
Contributions as a percentage of covered payroll	7.44%	16.80%	16.89%	17.71%	18.94%
Measurement Date	<u>June 30, 2019</u>	<u>June 30, 2020</u>	<u>June 30, 2021</u>		
Actuarially determined contribution	\$ 500,300	\$ 583,707	\$ 665,567		
Contributions in relation to the actuarially determined contribution	<u>500,300</u>	<u>583,707</u>	<u>665,567</u>		
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
City's covered payroll	\$ 2,366,583	\$ 2,566,584	\$ 2,921,443		
Contributions as a percentage of covered payroll	21.14%	22.74%	22.78%		

* Fiscal year ended June 30, 2015 was the first year of implementation.
Additional years will be presented as they become available.

CITY OF NEEDLES, CALIFORNIA
Required Supplementary Information
Pensions - Safety Plan
June 30, 2022

**Schedule of the City's proportionate share of the
Net Pension Liability:**

Last 10 Fiscal years*

Measurement Date	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018
City's proportion of the net pension liability	0.00000%	0.00026%	0.00191%	0.00218%	0.00225%
City's proportionate share of the net pension liability	\$ -	\$10,757	\$99,001	\$130,042	\$131,962
City's covered payroll	-	-	-	-	-
City's proportionate share of the net pension liability as a percentage of its covered payroll	N/A	N/A	N/A	N/A	N/A
Plan Fiduciary net position as a percentage of the total pension liability	N/A	99.23%	92.89%	91.21%	90.91%
Measurement Date	June 30, 2019	June 30, 2020	June 30, 2021		
City's proportion of the net pension liability	0.00246%	0.00261%	0.00443%		
City's proportionate share of the net pension liability	\$153,418	\$173,792	\$21,535		
City's covered payroll	-	-	-		
City's proportionate share of the net pension liability as a percentage of its covered payroll	N/A	N/A	N/A		
Plan Fiduciary net position as a percentage of the total pension liability	86.96%	85.17%	85.17%		

CALPERS - Schedule of City's contributions:

Last 10 Fiscal Years*

Measurement Date	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018
Actuarially determined contribution	\$ -	\$ 4,120	\$ -	\$ 4,758	\$ 33,776
Contributions in relation to the actuarially determined contribution	-	4,120	-	4,758	33,776
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A
Measurement Date	June 30, 2019	June 30, 2020	June 30, 2021		
Actuarially determined contribution	\$ -	\$ 22,750	\$ 25,316		
Contributions in relation to the actuarially determined contribution	-	22,750	25,316		
Contribution deficiency (excess)	\$ -	\$ -	\$ -		
City's covered payroll	\$ -	\$ -	\$ -		
Contributions as a percentage of covered payroll	N/A	N/A	N/A		

* Fiscal year ended June 30, 2015 was the first year of implementation.
Additional years will be presented as they become available.

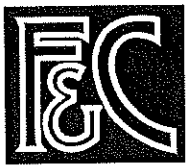
CITY OF NEEDLES, CALIFORNIA
Required Supplementary Information
Schedule of Changes in Net OPEB Liability
June 30, 2022

Last 10 Fiscal years*

	2018	2019	2020	2021	2022
Net OPEB liability					
Service cost	\$ 45,161	\$ 42,518	\$ 44,458	\$ 50,497	\$ 60,909
Interest	37,348	44,070	45,273	35,320	29,150
Differences between expected and actual experience	-	-	127,243	-	196,696
Change in assumptions	(59,030)	(5,315)	(266,725)	54,488	21,133
Benefit payments	(53,510)	(70,393)	(70,629)	(92,073)	(80,726)
Net change in Net OPEB liability	(30,031)	10,880	(120,380)	48,232	227,162
Net OPEB liability - beginning	1,260,633	1,230,602	1,241,482	1,121,102	1,169,334
Net OPEB liability - ending	<u>\$ 1,230,602</u>	<u>\$ 1,241,482</u>	<u>\$ 1,121,102</u>	<u>\$ 1,169,334</u>	<u>\$ 1,396,496</u>
Covered payroll	\$ 2,433,924	\$ 2,767,083	\$ 2,713,144	\$ 2,767,083	\$ 2,921,443
Net OPEB liability (asset) as a percentage of covered payroll	50.6%	44.9%	41.3%	42.3%	47.8%
Plan fiduciary net position as a % of the total OPEB liability	0.00%	0.00%	0.00%	0.00%	0.00%

* Fiscal year ended June 30, 2018 was the first year of implementation.
Additional years will be presented as they become available.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS



**INDEPENDENT AUDITOR'S 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 City Council
City of Needles, California

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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Needles, California (the City), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 30, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 entity'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 items 2022-01.

To the City Council
City of Needles, California

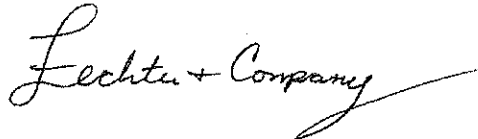
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 that are required to be reported under *Government Auditing Standard*.

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

Fechter & Company
Certified Public Accountants

A handwritten signature in cursive script that reads "Fechter & Company". The signature is written in dark ink and has a long, sweeping horizontal line extending to the right.

Sacramento, California
November 30, 2023

CITY OF NEEDLES, CALIFORNIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2022

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2022-01

Significant Audit Adjustment over Construction Expenditures

Criteria

Management’s assertions at the outset of the audit indicated the City is subject to a Single Audit due to expending greater than \$750,000 in federal funds. A significant audit adjustment was needed which postponed the need for a Single Audit until fiscal year ended June 30, 2023.

Condition

There were significant amounts of missing documentation relating to the Arizona Bridge Project at the commencement of the engagement. Through extended procedures during the course of audit fieldwork, we were able to determine that the City’s payments to the Arizona Department of Transportation during fiscal year 2021-22 fell outside the scope of the agreement with the California Department of Transportation, only serving as a prepayment for an upcoming project that had not yet commenced. No approved expenditure of federal awards had been issued and no actual work had been completed until the fiscal year ended June 30, 2023 and beyond. An audit adjustment was necessary to reclassify the \$1.2 million of expenditures to prepaid expense in order to account for the disbursement in accordance with Generally Accepted Accounting Principles (GAAP).

Context

The City regularly participates in various grant programs that reimburse certain project expenditures. This requires the City to remit amounts to contractors and/or subcontractors in advance, and obtain approval before recuperating certain costs of a project. This can create a timing difference between the revenue and expense recognition as it relates to some multi-year grant programs. Cash flows for ongoing construction projects funded by grant awards may be independent of the restrictions, obligations, and availability of the underlying financial resources, and must be accounted for in accordance with GAAP.

CITY OF NEEDLES, CALIFORNIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2022

SECTION II – FINANCIAL STATEMENT FINDINGS, CONTINUED

Cause

Management does not have strong processes and controls in place to monitor the performance of contract obligations. Grant awards that include timing or purpose restrictions are generally being handled on a cash basis. Additionally, the California Department of Transportation does not facilitate effective lines of communication to disseminate the necessary information to comply with grant and reporting requirements, and there are significant delays in their responses to inquiries from City management or outside accountants.

Effect of condition

The delays and inconsistencies in obtaining sufficient audit evidence over grant awards and expenditures resulted in changes to our audit approach and required additional work beyond the scope of the planned audit. There were significant adjustments needed to reclassify the reported Arizona Bridge Project expenditures from capital outlay to prepaid expense in accordance with GAAP. We removed the single audit reporting sections from the Annual Financial Report based on updated information provided by management and California Department of Transportation.

Recommendation

We recommend the City maintain a schedule of primary contacts for each grant program. We also recommend that administrative and accounting personnel collaborate in maintaining a schedule of open and ongoing grants or other contracts that carry performance obligations to ensure compliance and accounting in accordance with GAAP.

Views of responsible officials and planned corrective actions

The City of Needles found itself in a unique position beginning in FY 22. We were awarded grants for multiple large projects. At the time, we did not have sufficient staff for all the additional planning and paperwork involved. We realized quickly that we needed a Project Manager and hired one in early FY 23. We also added a position in Finance that can help track project expenses and reimbursements received.

Our Project Manager has been able to plan and organize all of our grant and other large projects. She sends reimbursement requests timely and has been successful at receiving the grant funds we are due.

The Project Manager, with the help of Department heads, will maintain a comprehensive list of open and ongoing grants that include the primary contacts and any performance obligations required.

SECTION III - STATUS OF PRIOR YEAR FINDINGS

None noted.