

**CITY OF NEEDLES, CALIFORNIA**

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

June 30, 2020

# CITY OF NEEDLES, CALIFORNIA

## Annual Financial Report

June 30, 2020

### TABLES OF CONTENTS

	<u>Page</u>
<b>FINANCIAL SECTION</b>	
Independent Auditor's Report.....	1-3
Management's Discussion and Analysis.....	4-15
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position .....	16
Statement of Activities .....	17
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position .....	19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	21
Statement of Net Position – Proprietary Funds .....	22
Statement of Revenues, Expenses, and Changes In Net Position – Proprietary Funds .....	23
Statement of Cash Flows – Proprietary Funds .....	24
Notes to Financial Statements .....	25-62
Required Supplementary Information Section:	
Budgetary Comparison Schedule – General Fund.....	63
Reconciliation Between Budgetary Amounts and GAAP – General Fund .....	64
Budgetary Comparison Schedule – Public Financing Authority .....	65
Required Supplementary Information – Pensions – Miscellaneous Plan .....	66
Required Supplementary Information – Pensions – Safety Plan .....	67
Required Supplementary Information – Schedule of Changes in the Net OPEB Liability .....	68
<b>OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS</b>	
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 <i>Government Auditing Standards</i> .....	69-70
Schedule of Findings and Questioned Costs.....	71-73

## **FINANCIAL SECTION**

## **INDEPENDENT AUDITOR'S REPORT**

To the City Council  
City of Needles, California

### **Report on the Financial Statements**

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, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Needles, California's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Needles Public Utility Authority (NPUA), the Needles Area Transit fund, and the Dial-a-Ride funds, which represent 82.4% and 89.4% of the assets and revenues, respectively, of the business-type activities. We also did not audit the financial statements of the Measure I fund, which represents 0.9% and 1.6% of the assets and revenues, respectively, of the governmental activities. The financial statements of the NPUA, the Measure I fund, and the Needles Area Transit and Dial-a-Ride funds were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the City funds described above, is based on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

To the City Council  
City of Needles, California

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Basis for Qualified Opinion**

As discussed in Note 4 to the financial statements, the City does not maintain an inventory of the amounts reflected as capital assets in the accompanying financial statements. The amount that should be recorded is not known. Accordingly, we were unable to satisfy ourselves as to the reported amount of capital assets as of June 30, 2020, or the related amount of depreciation expense for the year then ended.

### **Qualified Opinion**

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, 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, 2020, 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.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-15, the budgetary comparison information on pages 63-65, the schedule of the City's proportionate share of the net pension liability and schedule of the City's contributions for the miscellaneous and safety plan on pages 66-67, and the other postemployment benefits (OPEB) plan schedule of changes in the net OPEB liability on page 68, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

To the City Council  
City of Needles, California

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 June 11, 2021, 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, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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, LLP

A handwritten signature in black ink that reads "Fechter + Company, CPAs, LLP". The script is cursive and fluid, with the plus sign and "CPAs, LLP" written in a slightly more formal but still handwritten style.

Sacramento, California  
June 11, 2021

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **CITY OF NEEDLES, CALIFORNIA**

### **Management's Discussion & Analysis June 30, 2020**

Within this section of the annual financial report, the City's management presents this discussion and analysis of the City's financial performance for the fiscal year ended June 30, 2020. 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 \$42.2 million (restated) to \$46.1 million for the fiscal year. General governmental operations experienced an increase of \$1.3 million, including transfers from business type activities of \$1.0 million. The change in net position resulting from business type activities for the fiscal year was an increase of \$2.6 million.
- Total net position comprises the following:
  - (1) Capital assets, net of related debt, of \$28.3 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 \$2.4 million that is restricted as to their use by outside factors such as debt covenants, grantors, laws, or regulations.
  - (3) Net position of \$15.5 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 \$17.5 million at June 30, 2020. This represents an increase of \$1.1 million for the fiscal year.
- The City's total liabilities decreased from \$23.3 million to \$21.6 million. This decrease is due primarily to debt retirement of \$1.1 million.



# CITY OF NEEDLES, CALIFORNIA

## Management's Discussion & Analysis June 30, 2020

### 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, 2020

#### *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, 2020

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 such improvement or decline is the change in net position. The City's net position, increased by about \$3.9 million primarily because of positive results from the NPUA, and an increase in cannabis tax revenue.

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, 2020:

	Governmental Activities		Business-Type Activities		Totals		Amount Change	Percent Change
	2020	2019	2020	2019	2020	2019		
Current and other assets	\$ 18,513,361	\$ 17,824,823	\$ 2,314,885	\$ 1,411,785	\$ 20,828,246	\$ 19,236,608	\$ 1,591,638	8.3%
Capital assets	20,025,311	20,027,960	26,338,895	25,630,494	46,364,206	45,658,454	705,752	1.5%
Total assets	38,538,672	37,852,783	28,653,780	27,042,279	67,192,452	64,895,062	2,297,390	3.5%
Deferred outflows of resources	650,232	821,690	602,623	594,111	1,252,855	1,415,801	(162,946)	-11.5%
Long-term liabilities	420,000	540,000	13,135,502	14,081,959	13,555,502	14,621,959	(1,066,457)	-7.3%
Other liabilities	3,980,377	4,573,430	4,100,307	4,141,350	8,080,684	8,714,780	(634,096)	-7.3%
Total liabilities	4,400,377	5,113,430	17,235,809	18,223,309	21,636,186	23,336,739	(1,700,553)	-7.3%
Deferred inflows of resources	397,677	498,111	272,651	261,242	670,328	759,353	(89,025)	-11.7%
Net Position:								
Invested in capital assets, net of related debt	20,025,311	20,027,960	8,252,056	7,152,963	28,277,367	27,180,923	1,096,444	4.0%
Restricted	1,699,047	2,462,866	700,281	700,281	2,399,328	3,163,147	(763,819)	-24.1%
Unrestricted	12,666,492	10,572,106	2,795,606	1,298,595	15,462,098	11,870,701	3,591,397	30.3%
Total net position	\$ 34,390,850	\$ 33,062,932	\$ 11,747,943	\$ 9,151,839	\$ 46,138,793	\$ 42,214,771	\$ 3,924,022	9.3%

# CITY OF NEEDLES, CALIFORNIA

## Management's Discussion & Analysis June 30, 2020

Net position was positive for both governmental activities and business-type activities in 2020 and 2019. Overall, net position increased by about \$3.9 million due to the current year change in operations. The increase in net position from business-type activity operations was about \$2.6 million. There were transfers to governmental funds of \$1.0 million so the actual operating results of the business-type activities, excluding the transfers, was a positive \$3.6 million. Governmental activities expenses increased by about \$0.7 million. Governmental activities revenues increased by about \$1.5 million.

Property taxes and transient occupancy taxes continued to play a significant role in the City's results, totaling over \$2.2 million in revenues for fiscal year 2020. This represents an increase of \$3,811 from the previous fiscal year. However, the most significant increase was in cannabis taxes which increased \$1,263,824 from fiscal year 2019 to 2020.

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, 2020:

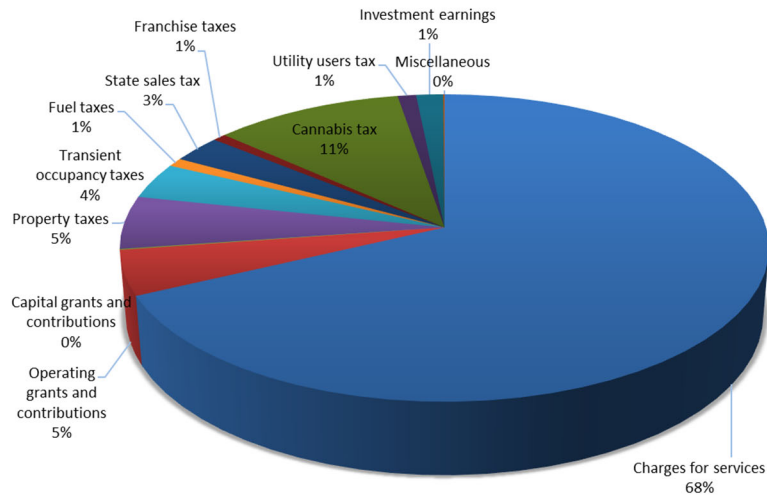
	Governmental Activities		Business-Type Activities		Totals		Amount Change	Percent Change
	2020	2019	2020	2019	2020	2019		
<b>Revenues</b>								
Program revenues								
Charges for services	\$ 1,565,486	\$ 1,521,119	\$ 14,337,957	\$ 13,580,361	\$ 15,903,443	\$ 15,101,480	\$ 801,963	5.3%
Operating grants and contributions	613,901	774,988	486,676	377,214	1,100,577	1,152,202	(51,625)	-4.5%
Capital grants and contributions	-	-	22,585	189,601	22,585	189,601	(167,016)	-88.1%
General revenues								
Property taxes	1,304,546	1,320,889	-	-	1,304,546	1,320,889	(16,343)	-1.2%
Transient occupancy taxes	883,589	863,435	-	-	883,589	863,435	20,154	2.3%
Fuel taxes	210,894	209,569	-	-	210,894	209,569	1,325	0.6%
State sales tax	664,610	494,193	-	-	664,610	494,193	170,417	34.5%
Franchise taxes	177,787	182,358	-	-	177,787	182,358	(4,571)	-2.5%
Cannabis tax	2,513,269	1,249,445	-	-	2,513,269	1,249,445	1,263,824	101.2%
Utility users tax	244,546	229,426	-	-	244,546	229,426	15,120	6.6%
Investment earnings	281,926	131,729	76,206	72,213	358,132	203,942	154,190	75.6%
Miscellaneous	15,803	9,459	-	-	15,803	9,459	6,344	67.1%
Total revenues	8,476,357	6,986,610	14,923,424	14,219,389	23,399,781	21,205,999	2,193,782	10.3%
<b>Expenses</b>								
General government	892,097	942,379	-	-	892,097	942,379	(50,282)	-5.3%
Public safety	3,542,629	3,192,508	-	-	3,542,629	3,192,508	350,121	11.0%
Public works	1,867,512	1,636,138	-	-	1,867,512	1,636,138	231,374	14.1%
Parks and recreation	1,128,138	1,133,424	-	-	1,128,138	1,133,424	(5,286)	-0.5%
Community development	638,162	435,742	-	-	638,162	435,742	202,420	46.5%
Interest on long-term debt	69,343	85,270	-	-	69,343	85,270	(15,927)	-18.7%
Public Utility Authority	-	-	8,751,221	8,504,842	8,751,221	8,504,842	246,379	2.9%
Sanitation	-	-	1,104,868	1,041,485	1,104,868	1,041,485	63,383	6.1%
Golf Course	-	-	938,724	708,626	938,724	708,626	230,098	32.5%
Other	-	-	543,065	486,254	543,065	486,254	56,811	11.7%
Total expenses	8,137,881	7,425,461	11,337,878	10,741,207	19,475,759	18,166,668	1,309,091	7.2%
Increase (decrease) in net position before transfers	338,476	(438,851)	3,585,546	3,478,182	3,924,022	3,039,331	884,691	29.1%
Transfers	989,442	1,125,922	(989,442)	(1,125,922)	-	-	-	0.0%
Change in net position	1,327,918	687,071	2,596,104	2,352,260	3,924,022	3,039,331	884,691	29.1%
Beginning net position, restated	33,062,932	32,375,861	9,151,839	6,799,579	42,214,771	39,175,440	3,039,331	7.8%
Ending net position	\$ 34,390,850	\$ 33,062,932	\$ 11,747,943	\$ 9,151,839	\$ 46,138,793	\$ 42,214,771	\$ 3,924,022	9.3%

# CITY OF NEEDLES, CALIFORNIA

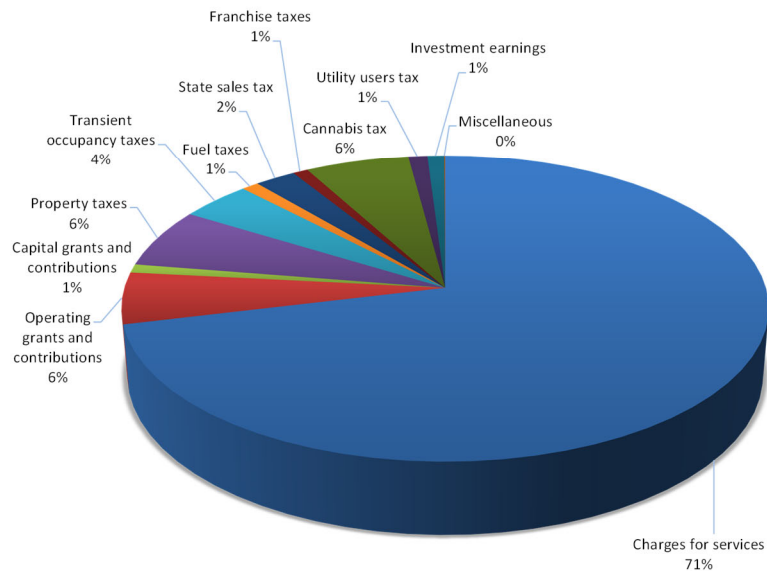
## Management's Discussion & Analysis June 30, 2020

The following charts show graphic representations of the City's revenues for the fiscal years ended June 30, 2020 and 2019:

**2020 Revenues**



**2019 Revenues**



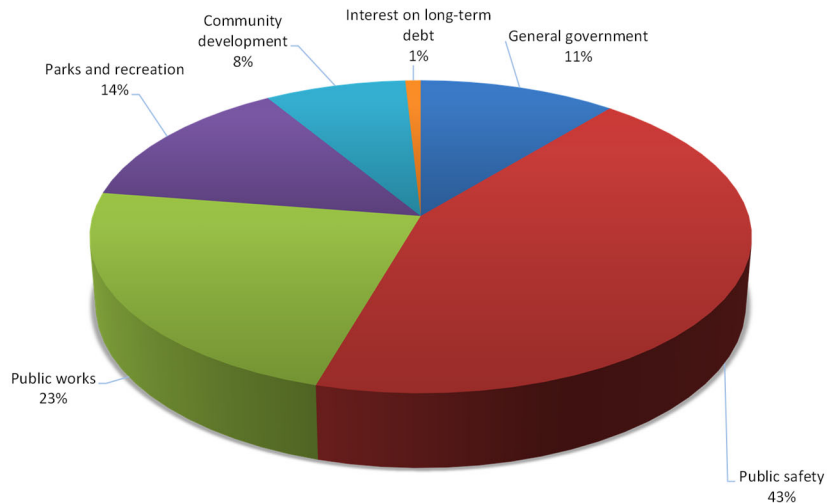
As displayed in the charts above, the revenues from the public utility authority, which is included in charges for services, are very significant for the City, making up nearly 54% of all revenues in 2020 and 57% of all revenues in 2019.

# CITY OF NEEDLES, CALIFORNIA

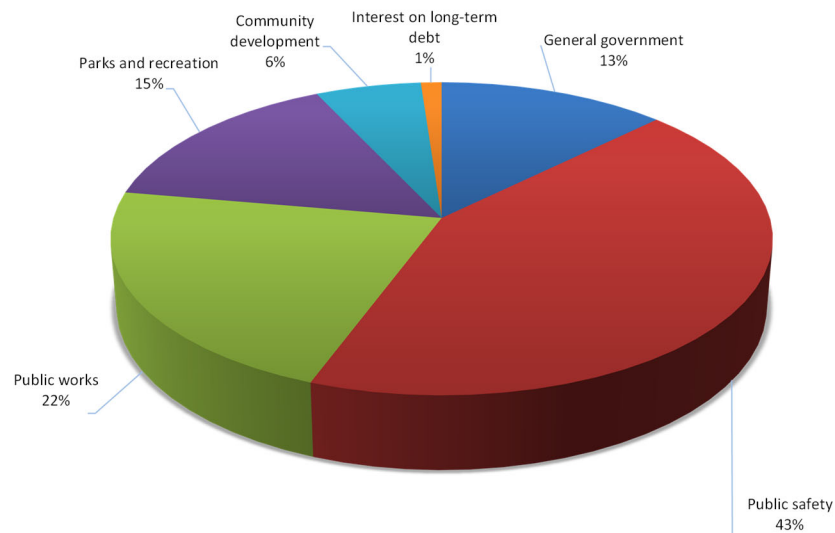
## Management's Discussion & Analysis June 30, 2020

The following charts show graphic representations of the City's governmental functional expenses for the fiscal years ended June 30, 2020 and 2019:

**2020 Governmental Expenses**



**2019 Governmental Expenses**

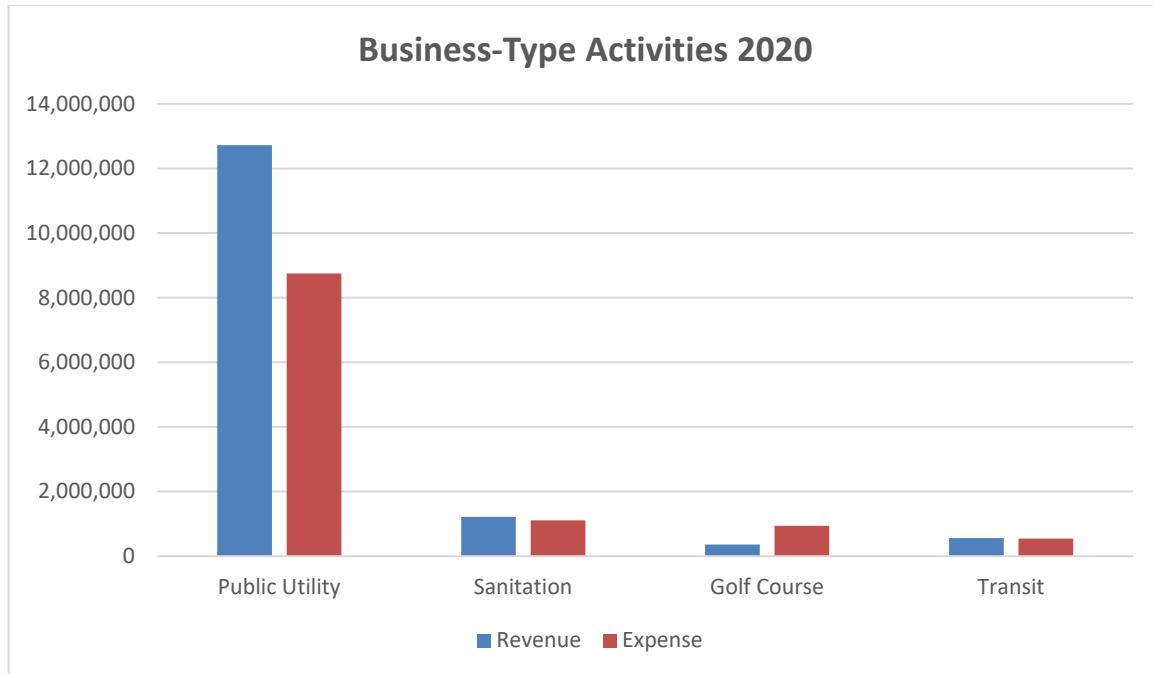


## CITY OF NEEDLES, CALIFORNIA

### Management's Discussion & Analysis June 30, 2020

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, 2020:



The public utility authority contributes the majority of the City's revenues, and produced operating income of about \$3.1 million. Interest expense of \$0.5 million on the revenue refinancing bonds and net transfers out of about \$0.4 million figured into the public utility's increase in net position of about \$2.3 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, golf course, and transit funds reflected a decrease in net position of \$11,309, \$195,500, and \$8,228, respectively, for the fiscal year ended June 30, 2020.

# CITY OF NEEDLES, CALIFORNIA

## Management's Discussion & Analysis June 30, 2020

### 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, 2020, was \$17.5 million. Of this total, \$5.6 million was unassigned and is available to fund any City requirements. Nonspendable fund balances of \$9.9 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 \$0.5 million, committed fund balances of \$0.9 million, and assigned fund balances of \$1.3 million.

Governmental fund balances increased by \$1.1 million from the previous year. Revenues exceeded expenditures by about \$0.1 million and net transfers accounted for approximately \$1.0 million of the increase.

#### *Major Governmental Funds*

The City's General Fund is the primary governmental fund in use, and accounts for about 80% of governmental revenues and about 76% of governmental expenses. The General Fund's fund balance increased by \$1,245,356 from the previous year. General Fund revenues increased by \$1,866,206 and expenses increased by about \$1,312,290. Net transfers decreased by 232,488.

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 decreased by \$927 during the fiscal year, ending at \$162,082.

#### *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 a decrease in fund balances of \$133,987. Total ending fund balances for these funds was \$1,254,319.



# CITY OF NEEDLES, CALIFORNIA

## Management's Discussion & Analysis June 30, 2020

### 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.

### Major Proprietary Funds

The Needles Public Utility Authority (NPUA) is by far the most significant fund for the City, comprising 57% of total assets and about 54% 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 \$6,604,570 in revenues and \$6,820,004 in expenditures. The budget was amended once during the fiscal year to primarily to reflect increases in expenditures as follows: general government expenditures of \$6,300, public safety expenditures of \$11,608, public works of \$696,997, parks and recreation expenditures of \$30,240, and transfers to other funds of \$110,000.

### Capital Assets and Debt Administration

#### Capital Assets

At June 30, 2020, the City had about \$43.9 million invested in capital assets, \$20.0 million of which was in governmental activities and \$23.9 million of which was in business-type activities. This is approximately the same as 2019.

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. It should be noted that the City does not maintain a complete list of capital assets, that is, it does not include all of the City's land nor does it include capital assets acquired prior to July 1, 1987.

Capital Assets, Net of Accumulated Depreciation are as follows:

	Governmental Activities		Business-Type Activities		Totals		Amount Change	Percent Change
	2020	2019	2020	2019	2020	2019		
<b>Non-Depreciable Assets</b>								
Land	\$ 174,651	\$ 174,651	\$ 3,212,347	\$ 3,212,347	\$ 3,386,998	\$ 3,386,998	\$ -	0.0%
Construction in progress	998,353	823,353	2,618,074	2,618,074	3,616,427	3,441,427	175,000	5.1%
Total non-depreciable assets	1,173,004	998,004	5,830,421	5,830,421	7,003,425	6,828,425	175,000	2.6%
<b>Depreciable Assets</b>								
Infrastructure	8,466,177	8,073,305	-	-	8,466,177	8,073,305	392,872	4.9%
Buildings and improvements	10,372,270	10,930,757	1,300,611	1,071,645	11,672,881	12,002,402	(329,521)	-2.7%
Equipment and vehicles	13,860	25,894	16,732,255	16,234,611	16,746,115	16,260,505	485,610	3.0%
Total depreciable assets	18,852,307	19,029,956	18,032,866	17,306,256	36,885,173	36,336,212	548,961	1.5%
Total	\$ 20,025,311	\$ 20,027,960	\$ 23,863,287	\$ 23,136,677	\$ 43,888,598	\$ 43,164,637	\$ 723,961	1.7%

## CITY OF NEEDLES, CALIFORNIA

### Management's Discussion & Analysis June 30, 2020

#### *Long-term debt*

At the end of the fiscal year, the City's total long-term debt obligations were \$13.6 million. Of this total, \$0.4 million is in the governmental activities and \$13.2 million is in the business-type activities.

There is a balance of \$420,000 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, 2020 and 2019:

	Governmental Activities		Business-Type Activities		Totals		Amount Change	Percent Change
	2020	2019	2020	2019	2020	2019		
Tax allocation bonds	\$ 420,000	\$ 540,000	\$ -	\$ -	\$ 420,000	\$ 540,000	\$ (120,000)	-22.2%
Revenue refunding bonds	-	-	12,828,913	13,749,371	12,828,913	13,749,371	(920,458)	-6.7%
Sanitation note payable	-	-	306,589	332,588	306,589	332,588	(25,999)	-7.8%
Total	\$ 420,000	\$ 540,000	\$13,135,502	\$14,081,959	\$13,555,502	\$14,621,959	\$ (1,066,457)	-7.3%

#### **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 under the new laws in California that allows for adult-recreational use. In the last 24 months, there has been 211,327 square feet of new industrial space built to house the cannabis-related businesses involved in cultivation, processing, and laboratory extraction work. These businesses now generate over 470 direct jobs in the community.

This growth in business has continued the increase in demand for utilities due to the industrial and commercial uses. The early months of COVID, affected Sales tax and TOT revenue. However, the summer months showed recovery as the City remained busy with visitors nesting in their second homes in Needles during quarantine.

The City maintains a cost of living that is 41% lower than the average in California, and 19% lower than the national average. Development Impact Fees remain at a reduced rate of 50% to continue to stimulate further growth.

In FY 20 the City completed Year 1, Phase A of the Street Pavement Project. Phase B will continue in FY 21.

## **CITY OF NEEDLES, CALIFORNIA**

### **Management's Discussion & Analysis June 30, 2020**

The City's rehabilitated historic El Garces Intermodal Transportation Facility continues to attract tourists to the downtown area. Several tenants have leased office space in the El Garces, and a planned visitor center is scheduled to open in late FY 21.

Arrowhead Credit Union recently merged (took over) the operations of Desert Communities Credit Union. Arrowhead is a \$1.4 billion asset size institution with over 163,000 members and about 20 branch operations. Arrowhead's presence in Needles brings additional financial opportunity to residents and businesses for lending and deposit services.

#### **Contacting the City's Financial Management**

---

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors 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**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2020**

	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS</b>			
Cash and investments	\$ 4,393,777	\$ 10,709,959	\$ 15,103,736
Restricted cash	652,252	-	652,252
Accounts receivable, net	649,484	2,134,091	2,783,575
Due from other governments	424,201	93,754	517,955
Internal balances	12,174,070	(12,174,070)	-
Inventory	8,953	632,206	641,159
Prepaid items	28,471	918,945	947,416
Land held for resale	182,153	-	182,153
Intangible assets	-	2,475,608	2,475,608
Capital assets, net	20,025,311	23,863,287	43,888,598
<b>TOTAL ASSETS</b>	<b>38,538,672</b>	<b>28,653,780</b>	<b>67,192,452</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pensions	617,798	572,564	1,190,362
Deferred outflows of resources related to OPEB	32,434	30,059	62,493
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>650,232</b>	<b>602,623</b>	<b>1,252,855</b>
<b>LIABILITIES</b>			
Accounts payable	14,182	332,819	347,001
Due to other governments	239,247	-	239,247
Accrued liabilities	172,045	29,620	201,665
Deposits payable	487,361	591,198	1,078,559
Compensated absences	157,604	309,895	467,499
Accrued interest	-	221,136	221,136
Other liabilities	-	11,440	11,440
Estimated claims liability	100,000	-	100,000
Net pension liability	2,228,086	2,064,949	4,293,035
Other post-employment benefits liability	581,852	539,250	1,121,102
Long-term liabilities:			
Due within one year	130,000	983,986	1,113,986
Due in more than one year	290,000	12,151,516	12,441,516
<b>TOTAL LIABILITIES</b>	<b>4,400,377</b>	<b>17,235,809</b>	<b>21,636,186</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions	294,193	272,651	566,844
Revenues not available to fund current obligations	103,484	-	103,484
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>397,677</b>	<b>272,651</b>	<b>670,328</b>
<b>NET POSITION</b>			
Net investment in capital assets	20,025,311	8,252,056	28,277,367
Restricted for:			
Capital projects	188,874	-	188,874
Debt service	162,082	700,281	862,363
Community development projects	1,348,091	-	1,348,091
Unrestricted (deficit)	12,666,492	2,795,606	15,462,098
<b>TOTAL NET POSITION</b>	<b>\$ 34,390,850</b>	<b>\$ 11,747,943</b>	<b>\$ 46,138,793</b>

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

**CITY OF NEEDLES**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2020**

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 Activites	Business- Type Activites	Total
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
General government	\$ 892,097	\$ 694,671	\$ 11,921	\$ -	\$ (185,505)	\$ -	\$ (185,505)
Public safety	3,542,629	-	165,138	-	(3,377,491)	-	(3,377,491)
Public works	1,867,512	851,673	431,842	-	(583,997)	-	(583,997)
Parks and recreation	1,128,138	18,111	-	-	(1,110,027)	-	(1,110,027)
Community development	638,162	1,031	5,000	-	(632,131)	-	(632,131)
Interest on long-term debt	69,343	-	-	-	(69,343)	-	(69,343)
Total governmental activities	<u>8,137,881</u>	<u>1,565,486</u>	<u>613,901</u>	<u>-</u>	<u>(5,958,494)</u>	<u>-</u>	<u>(5,958,494)</u>
Business-type activities:							
Public utility authority	8,751,221	12,721,913	-	-	-	3,970,692	3,970,692
Sanitation	1,104,868	1,213,559	-	-	-	108,691	108,691
Golf course	938,724	357,568	-	-	-	(581,156)	(581,156)
Transit	543,065	44,917	486,676	22,585	-	11,113	11,113
Total business-type activities	<u>11,337,878</u>	<u>14,337,957</u>	<u>486,676</u>	<u>22,585</u>	<u>-</u>	<u>3,509,340</u>	<u>3,509,340</u>
Total primary government	<u>\$19,475,759</u>	<u>\$15,903,443</u>	<u>\$ 1,100,577</u>	<u>\$ 22,585</u>	<u>(5,958,494)</u>	<u>3,509,340</u>	<u>(2,449,154)</u>
General revenues:							
Taxes:							
Property taxes					1,304,546	-	1,304,546
Transient occupancy taxes					883,589	-	883,589
Fuel taxes					210,894	-	210,894
State sales tax					664,610	-	664,610
Franchise taxes					177,787	-	177,787
Cannabis tax					2,513,269	-	2,513,269
Utility users tax					244,546	-	244,546
Interest revenue					281,926	76,206	358,132
Miscellaneous					15,803	-	15,803
Transfers					989,442	(989,442)	-
Total general revenues, special items, and transfers					<u>7,286,412</u>	<u>(913,236)</u>	<u>6,373,176</u>
Change in net position					1,327,918	2,596,104	3,924,022
Net position - beginning					<u>33,062,932</u>	<u>9,151,839</u>	<u>42,214,771</u>
Net position - ending					<u>\$ 34,390,850</u>	<u>\$ 11,747,943</u>	<u>\$ 46,138,793</u>

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

## **FUND FINANCIAL STATEMENTS**



**CITY OF NEEDLES**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2020**

	General	Public Financing Authority	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 3,236,025	\$ 162,082	\$ 995,670	\$ 4,393,777
Restricted cash	334,444	-	317,808	652,252
Accounts receivable, net	649,484	-	-	649,484
Due from other funds	2,646,027	-	141,308	2,787,335
Due from other governments	154,495	-	269,706	424,201
Inventory	8,953	-	-	8,953
Prepaid items	28,450	-	21	28,471
Land held for resale	-	-	182,153	182,153
Advances to other funds	9,658,832	-	-	9,658,832
<b>TOTAL ASSETS</b>	<b>\$ 16,716,710</b>	<b>\$ 162,082</b>	<b>\$ 1,906,666</b>	<b>\$ 18,785,458</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 14,182	\$ -	\$ -	\$ 14,182
Accrued liabilities	134,526	-	37,519	172,045
Deposits	487,361	-	-	487,361
Due to other funds	-	-	272,097	272,097
Due to other governments	-	-	239,247	239,247
Advances from other funds	-	-	-	-
<b>Total liabilities</b>	<b>636,069</b>	<b>-</b>	<b>548,863</b>	<b>1,184,932</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Revenues not available to fund current obligations	-	-	103,484	103,484
<b>FUND BALANCES</b>				
Fund balances - nonspendable	9,696,235	-	182,174	9,878,409
Fund balances - restricted	-	162,082	304,494	466,576
Fund balances - committed	350,000	-	593,071	943,071
Fund balances - assigned	-	-	625,135	625,135
Fund balances - unassigned	6,034,406	-	(450,555)	5,583,851
<b>Total fund balances</b>	<b>16,080,641</b>	<b>162,082</b>	<b>1,254,319</b>	<b>17,497,042</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 16,716,710</b>	<b>\$ 162,082</b>	<b>\$ 1,906,666</b>	<b>\$ 18,785,458</b>

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

**CITY OF NEEDLES**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**BALANCE SHEET TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2020**

**Fund balances - total governmental funds** \$ 17,497,042

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

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in  
the funds:

Governmental capital assets	28,269,926	
Less: Accumulated depreciation	(8,244,615)	
	20,025,311	20,025,311

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	(2,228,086)	
Deferred outflows of resources related to pensions	617,798	
Deferred outflows of resources related to OPEB	32,434	
Deferred inflows of resources	(294,193)	
Compensated absences	(157,604)	
Bonds payable, net	(420,000)	
Estimated claims liability	(100,000)	
Net OPEB liability	(581,852)	
	(3,131,503)	(3,131,503)

**Net position of governmental activities** **\$ 34,390,850**

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

**CITY OF NEEDLES**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	General	Public Financing Authority	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Taxes	\$ 5,610,560	\$ -	\$ -	\$ 5,610,560
Licenses, permits, and fees	343,501	-	-	343,501
Intergovernmental	11,921	-	1,656,647	1,668,568
Charges for services	377,035	-	27,042	404,077
Fines and forfeitures	151,922	-	-	151,922
Use of money and property	243,116	35,073	3,737	281,926
Other revenues	15,078	-	725	15,803
Total revenues	6,753,133	35,073	1,688,151	8,476,357
<b>EXPENDITURES:</b>				
Current:				
General government	957,324	-	-	957,324
Public safety	3,408,171	-	115,392	3,523,563
Public works	551,342	-	851,669	1,403,011
Parks and recreation	802,192	-	84,626	886,818
Community development	47,025	-	240,130	287,155
Capital outlay	597,277	-	510,866	1,108,143
Debt service:				
Principal retirement	-	-	120,000	120,000
Interest and fiscal charges	-	36,000	33,343	69,343
Total expenditures	6,363,331	36,000	1,956,026	8,355,357
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	389,802	(927)	(267,875)	121,000
<b>Other Financing Sources (Uses):</b>				
Transfers in	2,205,928	-	854,718	3,060,646
Transfers out	(1,350,374)	-	(720,830)	(2,071,204)
Total other financing sources (uses)	855,554	-	133,888	989,442
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over (under) Expenditures and Other Financing Uses</b>	1,245,356	(927)	(133,987)	1,110,442
<b>Fund balances - beginning</b>	14,835,285	163,009	1,388,306	16,386,600
<b>Fund balances - ending</b>	<u>\$ 16,080,641</u>	<u>\$ 162,082</u>	<u>\$ 1,254,319</u>	<u>\$ 17,497,042</u>

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

**CITY OF NEEDLES**  
**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, 2020**

Net change in fund balances - total governmental funds		\$1,110,442
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	841,965	
Less: current year depreciation	<u>(844,614)</u>	
		(2,649)
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		54,999
Change in net pension liability		(56,560)
Change in OPEB liability		101,686
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>120,000</u>
Change in net position of governmental activities		<u><u>\$1,327,918</u></u>

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

**CITY OF NEEDLES**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2020**

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds	Internal Service Funds
<b>ASSETS</b>						
Current assets:						
Cash and investments	\$ 9,426,399	\$ 1,070,768	\$ -	\$ 45,596	\$ 10,542,763	\$ 2,873,468
Accounts receivable, net	1,958,043	167,756	-	-	2,125,799	8,292
Due from other funds	128,658	-	-	-	128,658	-
Due from other governments	-	-	-	93,754	93,754	-
Inventory	629,308	-	1,799	-	631,107	1,099
Prepaid items	631,132	-	6,181	-	637,313	281,632
Total current assets	12,773,540	1,238,524	7,980	139,350	14,159,394	3,164,491
Non-current assets:						
Intangible assets	2,475,608	-	-	-	2,475,608	-
Capital assets, net	20,046,689	-	626,415	527,362	21,200,466	2,662,821
Total non-current assets	22,522,297	-	626,415	527,362	23,676,074	2,662,821
<b>TOTAL ASSETS</b>	<b>35,295,837</b>	<b>1,238,524</b>	<b>634,395</b>	<b>666,712</b>	<b>37,835,468</b>	<b>5,827,312</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred outflows of resources related to pensions	481,858	-	90,706	-	572,564	-
Deferred outflows of resources related to OPEB	25,297	-	4,762	-	30,059	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>507,155</b>	<b>-</b>	<b>95,468</b>	<b>-</b>	<b>602,623</b>	<b>-</b>
<b>LIABILITIES</b>						
Current liabilities:						
Deficit cash balance	-	-	2,706,272	-	2,706,272	-
Accounts payable	104,614	82,188	121	-	186,923	145,896
Accrued payroll	-	-	2,478	-	2,478	27,142
Compensated absences	288,218	-	16,160	-	304,378	5,517
Deposits	590,698	500	-	-	591,198	-
Due to other funds	141,308	2,373,930	-	-	2,515,238	128,658
Deferred revenue	-	-	-	-	-	-
Accrued interest	221,136	-	-	-	221,136	-
Advance payable - current	36,806	-	-	-	36,806	-
Bonds/note payable - current	956,330	27,656	-	-	983,986	-
Other liabilities	-	-	3,788	-	3,788	7,652
Total current liabilities	2,339,110	2,484,274	2,728,819	-	7,552,203	314,865
Non-current liabilities:						
Net pension liability	1,737,820	-	327,129	-	2,064,949	-
Other post-employment benefits liability	453,822	-	85,428	-	539,250	-
Advance payable - non-current	9,622,026	-	-	-	9,622,026	-
Bonds/note payable - non-current	11,872,583	278,933	-	-	12,151,516	-
Total non-current liabilities	23,686,251	278,933	412,557	-	24,377,741	-
<b>TOTAL LIABILITIES</b>	<b>26,025,361</b>	<b>2,763,207</b>	<b>3,141,376</b>	<b>-</b>	<b>31,929,944</b>	<b>314,865</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred inflows of resources related to pensions	229,458	-	43,193	-	272,651	-
<b>NET POSITION</b>						
Net investment in capital assets	4,435,458	-	626,415	527,362	5,589,235	2,662,821
Restricted for debt service	700,281	-	-	-	700,281	-
Unrestricted (deficit)	4,412,434	(1,524,683)	(3,081,121)	139,350	(54,020)	2,849,626
<b>TOTAL NET POSITION</b>	<b>\$ 9,548,173</b>	<b>\$ (1,524,683)</b>	<b>\$ (2,454,706)</b>	<b>\$ 666,712</b>	<b>\$ 6,235,496</b>	<b>\$ 5,512,447</b>

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

**CITY OF NEEDLES**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds	Internal Service Funds
<b>OPERATING REVENUES</b>						
Charges for services-Public Utility Authority	\$ 11,743,749	\$ -	\$ -	\$ -	\$ 11,743,749	\$ -
Charges for services-Other enterprise funds	-	1,206,765	338,193	44,917	1,589,875	8,782,869
Other fees and sales	-	-	19,375	-	19,375	-
Other revenues	978,164	6,794	-	-	984,958	526
Total operating revenues	12,721,913	1,213,559	357,568	44,917	14,337,957	8,783,395
<b>OPERATING EXPENSES</b>					-	
Personnel costs	-	-	476,280	-	476,280	2,097,998
Contractual services	-	965,366	3,000	2,824	971,190	434,102
Power and utilities	-	-	144,557	-	144,557	2,359,276
Maintenance and operations	8,550,876	120,000	221,588	464,260	9,356,724	1,840,587
Administrative and management	-	190	32,119	16,017	48,326	378,225
Insurance	-	10	22,880	1,232	24,122	110,985
Depreciation and amortization	1,030,675	-	38,300	58,732	1,127,707	188,876
Total operating expenses	9,581,551	1,085,566	938,724	543,065	12,148,906	7,410,049
Operating income (loss)	3,140,362	127,993	(581,156)	(498,148)	2,189,051	1,373,346
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Interest revenue	69,139	-	-	655	69,794	6,412
Government grants	-	-	-	486,676	486,676	-
Interest expense and fiscal charges	(543,016)	(19,302)	-	-	(562,318)	-
Total nonoperating (expenses) revenues	(473,877)	(19,302)	-	487,331	(5,848)	6,412
Income (loss) before capital contributions and transfers	2,666,485	108,691	(581,156)	(10,817)	2,183,203	1,379,758
Capital contributions - AB 2766	-	-	-	15,000	15,000	-
Capital contributions - State of good repair	-	-	-	7,585	7,585	-
Transfers in	268,110	-	385,656	20	653,786	-
Transfers out	(632,494)	(120,000)	-	(20,016)	(772,510)	(870,718)
Net capital contributions and transfers	(364,384)	(120,000)	385,656	2,589	(96,139)	(870,718)
Change in net position	2,302,101	(11,309)	(195,500)	(8,228)	2,087,064	509,040
Net position - beginning	7,246,072	(1,513,374)	(2,259,206)	674,940	4,148,432	5,003,407
Net position - ending	\$ 9,548,173	\$ (1,524,683)	\$ (2,454,706)	\$ 666,712	\$ 6,235,496	\$ 5,512,447

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

**CITY OF NEEDLES**  
**COMBINING STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds	Internal Service Funds
<b>Cash Flows From Operating Activities:</b>						
Cash collected from customers	\$ 12,220,967	\$ 1,188,584	\$ 357,568	\$ 44,917	\$ 13,812,036	\$ 8,777,205
Cash payments to suppliers for goods and services	(8,034,615)	(1,082,511)	(421,829)	(477,998)	(10,016,953)	(5,399,294)
Cash payments to employees for services	-	-	(430,222)	-	(430,222)	(2,098,667)
<b>Net cash provided (used) by operating activities</b>	<b>4,186,352</b>	<b>106,073</b>	<b>(494,483)</b>	<b>(433,081)</b>	<b>3,364,861</b>	<b>1,279,244</b>
<b>Cash Flows From Noncapital Financing Activities:</b>						
Operating grants received	-	-	-	444,494	444,494	-
Decrease (increase) in due from other funds	(128,658)	-	-	-	(128,658)	1,470,372
Increase (decrease) in due to other funds/advances	(2,230,805)	240,000	-	-	(1,990,805)	128,658
Operating transfers in	268,110	-	385,656	20	653,786	-
Operating transfers out	(632,494)	(120,000)	-	(20,016)	(772,510)	(870,718)
<b>Net cash (used) provided by noncapital financing activities</b>	<b>(2,723,847)</b>	<b>120,000</b>	<b>385,656</b>	<b>424,498</b>	<b>(1,793,693)</b>	<b>728,312</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>						
Acquisition and construction of capital assets	(1,314,850)	-	(5,200)	-	(1,320,050)	(704,932)
Principal paid on bonds/note payable	(920,458)	(25,999)	-	-	(946,457)	-
Capital grants received	-	-	-	22,585	22,585	-
Interest paid	(543,016)	(19,302)	-	-	(562,318)	-
<b>Net cash (used) provided by capital and related financing activities</b>	<b>(2,778,324)</b>	<b>(45,301)</b>	<b>(5,200)</b>	<b>22,585</b>	<b>(2,806,240)</b>	<b>(704,932)</b>
<b>Cash Flows from Investing Activities:</b>						
Interest on investments	69,139	-	-	674	69,813	6,412
<b>Net cash provided by investing activities</b>	<b>69,139</b>	<b>-</b>	<b>-</b>	<b>674</b>	<b>69,813</b>	<b>6,412</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,246,680)</b>	<b>180,772</b>	<b>(114,027)</b>	<b>14,676</b>	<b>(1,165,259)</b>	<b>1,309,036</b>
Cash and cash equivalents, beginning of year	10,673,079	889,996	(2,592,245)	30,920	9,001,750	1,564,432
Cash and cash equivalents, end of year	<u>\$ 9,426,399</u>	<u>\$ 1,070,768</u>	<u>\$ (2,706,272)</u>	<u>\$ 45,596</u>	<u>\$ 7,836,491</u>	<u>\$ 2,873,468</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>						
Operating income (loss)	\$ 3,140,362	\$ 127,993	\$ (581,156)	\$ (498,148)	\$ 2,189,051	\$ 1,373,346
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization of fixed assets	1,030,675	-	38,300	58,732	1,127,707	188,876
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable	(483,366)	(24,975)	-	20,898	(487,443)	(6,190)
Decrease in due from other governments	-	-	-	-	-	-
(Increase) decrease in inventory	(20,603)	-	1,877	-	(18,726)	-
Decrease (increase) in prepaid expenses	258,846	-	44,693	-	303,539	25,962
Increase in deferred outflows	(12,009)	-	3,497	-	(8,512)	-
Increase (decrease) in accounts payable	(18,236)	3,055	(44,255)	(14,563)	(73,999)	(304,959)
Decrease in accrued liabilities	-	-	1,223	-	1,223	2,878
Increase (decrease) in deposits payable	(17,580)	-	-	-	(17,580)	-
Increase (decrease) in net pension liability	324,481	-	53,525	-	378,006	-
Increase (decrease) in OPEB liability	(10,120)	-	(1,352)	-	(11,472)	-
Decrease in deferred inflows	14,624	-	(3,215)	-	11,409	-
Increase in compensated absences payable	(20,722)	-	(7,620)	-	(28,342)	(669)
<b>Net cash provided (used) by operating activities</b>	<b>\$ 4,186,352</b>	<b>\$ 106,073</b>	<b>\$ (494,483)</b>	<b>\$ (433,081)</b>	<b>\$ 3,364,861</b>	<b>\$ 1,279,244</b>

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

## **NOTES TO FINANCIAL STATEMENTS**



# **CITY OF NEEDLES, CALIFORNIA**

## **Notes to the Financial Statements June 30, 2020**

### **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, 2020.

#### **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, 2020, 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, 2020**

### **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, 2020**

### **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, 2020

### 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, 2020

### 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, 2020**

### **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 reporting entity 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, 2020

### 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, in years, 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

The City does not maintain a complete list of capital assets, that is, it does not include all of the City's land nor does it include capital assets acquired prior to July 1, 1987.

##### 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, 2020

### 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, 2020**

### **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, 2020 was \$192,125.

##### 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, 2020

### 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 1 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.

### 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.

#### **Deficit Fund Balance/Net Position – Primary Government**

Deficit fund balances/net position as of June 30, 2020, not visible in the basic financial statements because they are grouped with other funds, are as follows:

Community Development Block Grant	\$ 2,902
Caltrans Grant Bridge Project	40,001
Housing and Community Development Grant	14,244
Interstate Commerce I-40/J Street	264,612
Dial a Ride Transit	3,247

# **CITY OF NEEDLES, CALIFORNIA**

## **Notes to the Financial Statements June 30, 2020**

### **NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, continued**

#### **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, 2020**

### **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, 2020, the book balance of the City's deposits was \$15.7 million and the bank balance was \$17.0 million. Of the bank balance, \$500,000 was insured and \$16.5 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 \$4,378,824. The total amount invested by all public agencies in LAIF is \$100,979 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, 2020

### NOTE 3 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS, continued

#### Investments, continued

Investments by all public agencies at June 30, 2020 include \$1,725 million in structured notes and \$1,675 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, 2020 were as follows:

	Carrying Amount	Fair Value
California LAIF	\$ 4,378,824	\$ 4,378,824
Petty cash and cash drawers	4,638	4,638
Cash in banks	11,372,526	11,372,526
Total Cash and Investments	<u>\$ 15,755,988</u>	<u>\$ 15,755,988</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, 2020, the reserve fund totaled \$162,082. 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, 2020**

### **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 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, 2020

### NOTE 4 – CAPITAL ASSETS

A summary of the changes in capital assets follows:

	Balance July 1, 2019	Additions	Deletions	Transfers/ Reclassifications	Balance June 30, 2020
<b><i>Governmental Activities</i></b>					
Capital assets not being depreciated:					
Land	\$ 174,651	\$ -	\$ -	\$ -	\$ 174,651
Construction in progress	823,353	175,000	-	-	998,353
Total capital assets, not being depreciated	<u>998,004</u>	<u>175,000</u>	<u>-</u>	<u>-</u>	<u>1,173,004</u>
Capital assets being depreciated:					
Infrastructures	9,181,080	646,120	-	-	9,827,200
Structures and improvements	16,211,047	-	-	-	16,211,047
Equipment	1,037,830	20,845	-	-	1,058,675
Total capital assets being depreciated	<u>26,429,957</u>	<u>666,965</u>	<u>-</u>	<u>-</u>	<u>27,096,922</u>
Less accumulated depreciation for:					
Infrastructure	(1,107,775)	(253,248)	-	-	(1,361,023)
Structures and improvements	(5,280,290)	(558,487)	-	-	(5,838,777)
Equipment	(1,011,936)	(32,879)	-	-	(1,044,815)
Total accumulated depreciation	<u>(7,400,001)</u>	<u>(844,614)</u>	<u>-</u>	<u>-</u>	<u>(8,244,615)</u>
Total capital assets being depreciated, net	<u>19,029,956</u>	<u>(177,649)</u>	<u>-</u>	<u>-</u>	<u>18,852,307</u>
Capital assets, net	<u>\$ 20,027,960</u>	<u>\$ (2,649)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$20,025,311</u>
<b><i>Business-Type Activities</i></b>					
Capital assets not being depreciated:					
Land	\$ 3,212,347	\$ -	\$ -	\$ -	\$ 3,212,347
Construction in progress	2,618,074	-	-	-	2,618,074
Total capital assets, not being depreciated	<u>5,830,421</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,830,421</u>
Capital assets being depreciated:					
Structures and improvements	2,023,034	280,000	-	-	2,303,034
Equipment	41,851,211	1,744,981	-	-	43,596,192
Total capital assets being depreciated	<u>43,874,245</u>	<u>2,024,981</u>	<u>-</u>	<u>-</u>	<u>45,899,226</u>
Less accumulated depreciation for:					
Structures and improvements	(951,389)	(51,034)	-	-	(1,002,423)
Equipment	(25,616,600)	(1,247,337)	-	-	(26,863,937)
Total accumulated depreciation	<u>(26,567,989)</u>	<u>(1,298,371)</u>	<u>-</u>	<u>-</u>	<u>(27,866,360)</u>
Total capital assets being depreciated, net	<u>17,306,256</u>	<u>726,610</u>	<u>-</u>	<u>-</u>	<u>18,032,866</u>
Capital assets, net	<u>\$ 23,136,677</u>	<u>\$ 726,610</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$23,863,287</u>

The capital asset balances shown in the above schedule are estimated amounts. The City does not maintain a complete inventory of capital assets.

# CITY OF NEEDLES, CALIFORNIA

## Notes to the Financial Statements June 30, 2020

### 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>	
General government	\$ 66,917	Public Utility Authority	\$ 1,012,463
Public safety	5,752	Golf course	38,300
Public works	192,842	Transit	58,732
Parks and recreation	231,094	Internal service funds	188,876
Community development	348,009		<u>\$ 1,298,371</u>
	<u>\$ 844,614</u>		

### NOTE 5 – INTANGIBLE ASSETS

Changes in the intangible assets for the year ended June 30, 2020 were as follows:

	Balance July 1, 2019	Additions	Balance June 30, 2020
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	(490,688)	-	(490,688)
Canal construction cost sharing	(406,665)	(18,212)	(424,877)
Total accumulated amortization	<u>(897,353)</u>	<u>(18,212)</u>	<u>(915,565)</u>
Intangible assets, net	<u>\$ 2,493,820</u>	<u>\$ (18,212)</u>	<u>\$ 2,475,608</u>



# CITY OF NEEDLES, CALIFORNIA

## Notes to the Financial Statements June 30, 2020

### NOTE 6 – LONG-TERM OBLIGATIONS

The City has the following long-term obligations at June 30, 2020:

#### **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 in amounts from \$15,000 to \$150,000 are due annually to 2022, with interest payments at rates ranging from 5.40% to 7.50% payable semi-annually.

\$ 420,000

#### **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.

\$ 12,828,913

#### **Long-Term Debt – Schedule of Maturities**

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

Years Ending June 30:	Principal	Interest	Total
2021	\$ 130,000	\$ 26,625	156,625
2022	140,000	16,500	156,500
2023	150,000	5,625	155,625
	<u>\$ 420,000</u>	<u>\$ 48,750</u>	<u>\$ 468,750</u>

# CITY OF NEEDLES, CALIFORNIA

## Notes to the Financial Statements June 30, 2020

### NOTE 6 – LONG-TERM OBLIGATIONS, continued

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

Years Ending June 30:	Principal	Interest	Total
2021	\$ 956,330	\$ 486,056	\$ 1,442,386
2022	993,600	448,785	1,442,385
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
2026-2030	6,258,072	953,853	7,211,925
2031	1,401,677	40,709	1,442,386
	<u>\$ 12,828,913</u>	<u>\$ 3,037,325</u>	<u>\$ 15,866,238</u>

### *Changes in Long-Term Debt*

The following is a summary of changes in long-term debt for the year ended June 30, 2020:

Description and Purpose	Balance July 1, 2019	Increase/ Issued	Decrease/ Refund	Balance June 30, 2020	Due Within One Year
<b>Primary Government</b>					
<i>Governmental Activities:</i>					
Tax allocation 1992 bonds	\$ 540,000	\$ -	\$ 120,000	\$ 420,000	\$ 130,000
<i>Business-Type Activities</i>					
Revenue Bonds:					
NPUA 2016 bonds	13,749,371	-	920,458	12,828,913	956,330
Notes Payable:					
Sanitation fund	332,588	-	25,999	306,589	27,656
Total Business-Type Activities	<u>14,081,959</u>	<u>-</u>	<u>946,457</u>	<u>13,135,502</u>	<u>983,986</u>
Total Primary Government	<u>\$14,621,959</u>	<u>\$ -</u>	<u>\$ 1,066,457</u>	<u>\$13,555,502</u>	<u>\$ 1,113,986</u>

# CITY OF NEEDLES, CALIFORNIA

## Notes to the Financial Statements June 30, 2020

### 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
2021	\$ 27,656	\$ 17,645	\$ 45,301
2022	29,362	15,939	45,301
2023	31,173	14,128	45,301
2024	33,062	12,239	45,301
2025	35,135	10,166	45,301
2026-2029	150,201	17,706	167,907
	<u>\$ 306,589</u>	<u>\$ 87,823</u>	<u>\$ 394,412</u>

# CITY OF NEEDLES, CALIFORNIA

## Notes to the Financial Statements June 30, 2020

### 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 – OPERATING LEASES

The City entered into an agreement with Horizon Technologies to lease 32 radios. The lease commenced on August 18, 2019 and has a term of 18-months with a monthly payment of \$800. After the 18-month term ends, the lease converts to a month-to-month agreement. The City also leases a postage meter from Pitney Bowes. This lease commenced on October 22, 2015 and has a 60-month term with a monthly payment of \$816.

The following is a schedule of future minimum lease payments required as of June 30, 2020:

For Year Ending June 30,	Total
2021	\$ 12,222

The total lease expense for the year ended June 30, 2020 was \$20,468.

# CITY OF NEEDLES, CALIFORNIA

## Notes to the Financial Statements June 30, 2020

### 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.

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, 2020 are as follows:

	General Fund	Public Financing Authority	Other Governmental Funds	Total
Fund Balances:				
Nonspendable:				
Inventory	\$ 8,953	\$ -	\$ -	\$ 8,953
Prepaid items	28,450	-	21	28,471
Land held for resale	-	-	182,153	182,153
Advances receivable	9,658,832	-	-	9,658,832
Subtotal	9,696,235	-	182,174	9,878,409
Restricted:				
Debt service	-	162,082	-	162,082
Public works	-	-	156,646	156,646
Cemetery	-	-	147,848	147,848
Subtotal	-	162,082	304,494	466,576
Committed:				
General government	350,000	-	-	350,000
Public safety	-	-	232,028	232,028
Public works	-	-	361,043	361,043
Subtotal	350,000	-	593,071	943,071
Assigned:				
Public works	-	-	175,469	175,469
Parks and recreation	-	-	75,588	75,588
Community development	-	-	374,078	374,078
Subtotal	-	-	625,135	625,135
Unassigned	6,034,406	-	(450,555)	5,583,851
Total	<u>\$16,080,641</u>	<u>\$162,082</u>	<u>\$ 1,254,319</u>	<u>\$ 17,497,042</u>

# CITY OF NEEDLES, CALIFORNIA

## Notes to the Financial Statements June 30, 2020

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

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

The City of is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 116 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 \$30,000 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 \$30,000 to \$750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs from \$750,000 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 have a sub-limit of \$40 million per occurrence. The coverage structure includes retained risk that is pooled among members, reinsurance, and excess insurance. More detailed information about the various layers of coverage is available on the following website: <https://cjpia.org/protection/coverage-programs>.

# CITY OF NEEDLES, CALIFORNIA

## Notes to the Financial Statements June 30, 2020

### **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 \$50,000 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 \$50,000 to \$100,000 for each occurrence and is evaluated as a percentage of the pool’s total incurred costs within the second layer. (4) Incurred costs from \$100,000 to statutory limits are distributed based on the outcome of cost allocation within the first and second loss layers.

For 2019-20 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 \$50,000 deductible. The Authority has an aggregate limit of \$50 million for the 3-year period from July 1, 2017 through July 1, 2020. Each member of the Authority has a \$10 million sub-limit during the 3-year policy term.

##### Property Insurance

The City participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. City property is currently insured according to a schedule of covered property submitted by the City to the Authority. City property currently has all-risk property insurance protection in the amount of \$35,153,849. 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, 2020

### **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 \$19,987,695. 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 agency 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 2019-20.

### **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, 2020

### 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, 2020 are as follows:

##### Governmental Activities

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	I40/J Street Project	\$ 272,097	Reimbursement of expenses
	Sanitation	2,373,930	Temporary cash borrowing
Total General Fund		<u>2,646,027</u>	
Other Governmental Funds		<u>141,308</u>	Reimbursement of expenses
Total Governmental Funds		<u><u>\$ 2,787,335</u></u>	

##### Business-Type Activities

Receivable Fund	Payable Fund	Amount	Purpose
NPUA	Internal Service Funds	\$ 128,658	Reimbursement of expenses

#### 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, 2020 was \$9,658,832.

# CITY OF NEEDLES, CALIFORNIA

## Notes to the Financial Statements June 30, 2020

### 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
2021	\$ 36,806	\$ 648,494	\$ 685,300
2022	39,277	646,023	685,300
2023	41,914	643,386	685,300
2024	44,728	640,572	685,300
2025	47,731	637,569	685,300
2026-2030	291,253	3,135,247	3,426,500
2031-2035	403,068	3,023,432	3,426,500
2036-2040	557,808	2,868,692	3,426,500
2041-2045	771,955	2,654,545	3,426,500
2046-2050	1,068,314	2,358,186	3,426,500
2051-2055	1,478,447	1,948,053	3,426,500
2056-2060	2,046,034	1,380,466	3,426,500
2061-2065	2,831,497	594,978	3,426,475
	<u>\$ 9,658,832</u>	<u>\$21,179,643</u>	<u>\$30,838,475</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, 2020

### 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	141,216	Gas tax
	Other Governmental Funds	23,700	CDBG
	Other Governmental Funds	459,677	Close out Jack Smith Park to GF
	Other Governmental Funds	96,217	Close out El Garces to GF
	Transit Fund	20,016	Fund operations
	NPUA	632,494	Utility purchase
	Internal Service Funds	712,608	Fair share allocation
Total General Fund		<u>2,205,928</u>	
Other Governmental Funds	General Fund	67,944	Cemetery Fund from General Fund
	General Fund	3,960	North Needles Impact fees from GF
	General Fund	8,805	Jack Smith Park from General Fund
	General Fund	<u>774,009</u>	Write-off Advance to RDA
Total Other Governmental Funds		<u>854,718</u>	
Total Governmental Funds		<u>\$ 3,060,646</u>	
NPUA	Internal Service Funds	268,110	Asset replacement
Golf Course Fund	General Fund	385,656	Fund operations
Transit	Other Governmental Funds	<u>20</u>	Fund operations
Total Proprietary Funds		<u>\$ 653,786</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, 2020

### NOTE 13 – DEFINED BENEFIT PENSION PLAN, continued

The Plans' provisions and benefits in effect at June 30, 2020, 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	6.902%	6.250%
Required employer contribution rates	9.680%	6.985%

	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, 2020, the contributions recognized as part of pension expense for each Plan were \$500,300.

### ***Net Pension Liability***

As of June 30, 2020, the City reported a net pension liability of \$4,139,617 for its proportionate share of the net pension liability of the Miscellaneous Plan and \$153,418 for its proportionate share of the net pension liability of the Safety Plan.

# CITY OF NEEDLES, CALIFORNIA

## Notes to the Financial Statements June 30, 2020

### 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, 2019, 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, 2018, rolled forward to June 30, 2019, 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, 2019 and 2020 was as follows:

	Miscellaenous Plan	Safety Plan	Total
Proportion June 30, 2019	0.10036%	0.00225%	0.04062%
Proportion June 30, 2020	0.10337%	0.00246%	0.04190%
Change	0.00301%	0.00021%	0.00128%

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2018 actuarial valuations were determine using the following actuarial assumptions:

	Miscellaenous Plan	Safety Plan
Valuation date	June 30, 2018	June 30, 2018
Measurement date	June 30, 2019	June 30, 2019
Actuarial cost method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount rate	7.15%	7.15%
Inflation	2.75%	2.75%
Payroll growth	3.00%	3.00%
Projected salary increase	3.3% - 14.2% <sup>1</sup>	3.3% - 14.2% <sup>1</sup>
Investment rate of return	7.15% <sup>2</sup>	7.15% <sup>2</sup>
Mortality	Society of Actuaries Scale BB <sup>3</sup>	

<sup>1</sup> Depending on age, service, and type of employment

<sup>2</sup> Net of pension plan investment expenses, including inflation

<sup>3</sup> The mortality table used was developed based on CalPERS' specific data

In 2018, demographic assumptions and inflation rate were changed in accordance to 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, 2020

### 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 <sup>(1)</sup>	Real Return Years 11+ <sup>(2)</sup>
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>		

<sup>(1)</sup> An expected inflation of 2.00% used for this period.

<sup>(2)</sup> An expected inflation of 2.92% used for this period.

# CITY OF NEEDLES, CALIFORNIA

## Notes to the Financial Statements June 30, 2020

### 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, 2020

### 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, 2019 is as follows:

	Total Pension Liability	Fiduciary Net Position	Pension Liability/ Asset
<u>Miscellaneous Plan</u>			
<b>Balance at June 30, 2018</b>	\$18,563,378	\$14,781,117	\$ 3,782,261
Changes in the Year:			
Service cost	448,012	-	448,012
Interest on the total pension liability	1,296,138	-	1,296,138
Changes in benefit terms	1,372	-	1,372
Changes in assumptions	-	-	-
Difference between expected and actual experience	268,646	-	268,646
Change in proportion	(506,733)	(620,691)	113,958
Net plan to plan resource movement	-	30,479	(30,479)
Contributions - employer	-	625,082	(625,082)
Contributions - employee	-	199,272	(199,272)
Net investment income	-	934,096	(934,096)
Benefits payments, including refunds of employee contributions	(845,715)	(853,705)	7,990
Administrative expense	-	(10,202)	10,202
Other miscellaneous income	-	33	(33)
Net Changes	<u>661,720</u>	<u>304,364</u>	<u>357,356</u>
<b>Balance at June 30, 2019</b>	<u><u>\$ 19,225,098</u></u>	<u><u>\$ 15,085,481</u></u>	<u><u>\$ 4,139,617</u></u>



# CITY OF NEEDLES, CALIFORNIA

## Notes to the Financial Statements June 30, 2020

### 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>			
<b>Balance at June 30, 2018</b>	\$ 1,451,133	\$ 1,319,171	\$ 131,962
Changes in the Year:			
Service cost	23,073	-	23,073
Interest on the total pension liability	79,618	-	79,618
Changes in assumptions	-	-	-
Difference between expected and actual experience	22,783	-	22,783
Change in proportion	(344,038)	(319,137)	(24,901)
Net plan to plan resource movement	-	8,274	(8,274)
Contributions - employer	-	18,186	(18,186)
Contributions - employee	-	-	-
Net investment income	-	63,680	(63,680)
Benefits payments, including refunds of employee contributions	(55,767)	(66,098)	10,331
Administrative expense	-	(694)	694
Other miscellaneous income	-	2	(2)
Net Changes	<u>(274,331)</u>	<u>(295,787)</u>	<u>21,456</u>
<b>Balance at June 30, 2019</b>	<u><u>\$ 1,176,802</u></u>	<u><u>\$ 1,023,384</u></u>	<u><u>\$ 153,418</u></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	\$ 6,725,451	\$ 4,139,617	\$ 2,005,193
Safety Plan	314,691	153,418	21,199
Total	<u><u>\$ 7,040,142</u></u>	<u><u>\$ 4,293,035</u></u>	<u><u>\$ 2,026,393</u></u>

# CITY OF NEEDLES, CALIFORNIA

## Notes to the Financial Statements June 30, 2020

### 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 2020, the City recognized net pension expense of \$610,447. At June 30, 2020, 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	\$ 203,685	\$ 71,202
Differences between expected and actual experience	297,531	22,277
Differences between projected and actual earnings on plan investments	-	74,484
Differences between the employer's contributions and the employer's proportionate share of contributions	-	391,899
Change in employer's proportion	188,846	6,982
Pension contributions subsequent to the measurement date	500,300	-
Total	<u>\$ 1,190,362</u>	<u>\$ 566,844</u>

The \$500,300 deferred outflow of resources related to pension contributions made subsequent to the measurement will be recognized as a reduction of net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows and deferred inflows will be recognized as pension expense as follows:

Years Ending June 30:	Miscellaneous	Safety	Total
2021	\$ 197,395	\$ (9,322)	\$ 188,073
2022	(94,618)	(5,182)	(99,800)
2023	25,352	(5,441)	19,910
2024	14,624	411	15,035
	<u>\$ 142,753</u>	<u>\$ (19,535)</u>	<u>\$ 123,218</u>

# CITY OF NEEDLES, CALIFORNIA

## Notes to the Financial Statements June 30, 2020

### 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, 2018
Measurement Date	June 30, 2019

**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, 2020.

**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, 2020 were \$70,629.

**Significant Assumptions** – Significant assumptions are as follows:

Discount rate	3.13%
Expected return on plan assets	N/A
Inflation rate	2.50%
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	6.40% for FY 2020, gradually decreasing over several decades to an ultimate rate of 4.00% in FY 2076 and later years.

# CITY OF NEEDLES, CALIFORNIA

## Notes to the Financial Statements June 30, 2020

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

Participants eligible for OPEB were as follows:

	Valuation Date 6/30/2019
Active employees electing coverage	39
Active employees waiving coverage	6
Retirees electing coverage	4
Total	49

### 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, 2020 for the City.

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (c) = (a) - (b)
Balance at June 30, 2019	\$ 1,241,482	\$ -	\$ 1,241,482
Changes recognized for the measurement period:			
Service cost	44,458	-	44,458
Interest	45,273	-	45,273
Differences between expected and actual experience	127,243	-	127,243
Change of assumptions	(266,725)	-	(266,725)
Employer contributions	-	70,629	(70,629)
Benefit payments	(70,629)	(70,629)	-
Net changes	(120,380)	-	(120,380)
Balance at June 30, 2020	\$ 1,121,102	\$ -	\$ 1,121,102

### 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 2.62%	Discount Rate 3.62%	1% Increase 4.62%
Net OPEB liability	\$ 1,201,386	\$ 1,121,102	\$ 1,045,921

# CITY OF NEEDLES, CALIFORNIA

## Notes to the Financial Statements June 30, 2020

### 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	\$ 1,021,534	\$ 1,121,102	\$ 1,237,206

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

At June 30, 2020, the City's deferred outflows of resources and deferred inflows of resources to OPEB from the following sources are:

	<u>Deferred Outflows of Resources<sup>(1)</sup></u>	<u>Deferred Inflows of Resources</u>
Contributions between measurement date and reporting date	\$ 62,493	\$ -

<sup>(1)</sup> Includes estimated implicit rate subsidy of \$24,088.

Deferred outflows from contributions between measurement date and reporting date will be recognized as OPEB expense in the year ended June 30, 2020.

#### Net OPEB Expense

For the year ended June 30, 2020, the City's OPEB expense/(income) was -\$49,751. Detail of the expense/(income) is shown below:

Service cost	\$ 44,458
Interest cost	45,273
Recognition of expected vs. actual experience	127,243
Changes of assumptions	<u>(266,725)</u>
Net OPEB Expense (Income)	<u>\$ (49,751)</u>

### 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.

## **CITY OF NEEDLES, CALIFORNIA**

### **Notes to the Financial Statements June 30, 2020**

#### **NOTE 15 – RELATED PARTY TRANSACTIONS, continued**

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, 2020 amounted to \$8,827,310. 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 FY 17 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 \$713,691 for the year ended June 30, 2020.

#### **NOTE 16 – COVID-19**

In January 2020, the virus SARS-CoV-2 was transmitted to the United States from overseas sources. 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 TOT revenue. However, the summer months showed recovery as the City remained busy with visitors nesting in their second homes in Needles during quarantine. As a result, overall, the virus has not had a significant financial impact on the City. However, the impact to the State of California is uncertain and there is currently no way to know the ultimate impact on the City.

#### **NOTE 17 – EVALUATION OF SUBSEQUENT EVENTS – MANAGEMENT REVIEW**

Management has evaluated subsequent events through June 11, 2021, 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**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
Budgetary fund balance July 1, 2019	\$ 14,835,285	\$ 14,835,285	\$ 14,835,285	\$ -
Resources (inflows):				
Taxes	\$ 4,296,781	4,296,781	5,610,560	1,313,779
Licenses, permits, and fees	307,200	301,250	343,501	42,251
Intergovernmental	2,500	2,500	11,921	9,421
Charges for services	120,000	120,000	377,035	257,035
Fines and forfeitures	172,500	172,500	151,922	(20,578)
Use of money and property	86,138	211,511	243,116	31,605
Transfers from other funds	1,611,376	1,604,915	2,205,928	601,013
Other revenues	8,075	8,075	15,078	7,003
	<u>21,439,855</u>	<u>21,439,855</u>	<u>23,794,346</u>	<u>2,241,529</u>
Amounts available for appropriation				
Charges to appropriations (outflows):				
General government:				
City attorney	85,000	90,000	95,326	(5,326)
City manager	171,333	171,333	170,385	948
Finance and administration	420,138	420,138	338,198	81,940
City clerk	131,018	132,018	95,139	36,879
Planning and zoning	195,144	195,144	125,754	69,390
Engineer	151,111	151,111	132,522	18,589
Community development	60,250	60,250	11,171	49,079
Senior center	48,310	48,610	35,854	12,756
Parks and recreation:				
Aquatics	166,174	170,674	111,859	58,815
Parks	353,744	379,484	337,154	42,330
Jack Smith Park Marina	111,501	111,501	107,989	3,512
Recreation	279,270	279,270	245,190	34,080
Public safety:				
Police	2,647,940	2,656,848	2,614,458	42,390
Animal control	168,809	171,509	192,926	(21,417)
Building and safety	307,623	307,623	264,625	42,998
Code enforcement	429,828	429,828	336,162	93,666
Public works:				
Streets	509,766	1,206,763	1,019,504	187,259
Sanitation	129,447	129,447	129,115	332
Nondepartmental:				
Transfers to other funds	453,598	563,598	1,350,374	(786,776)
	<u>6,820,004</u>	<u>7,675,149</u>	<u>7,713,705</u>	<u>(38,556)</u>
Total charges to appropriations				
Budgetary fund balance June 30, 2020	<u>\$ 14,619,851</u>	<u>\$ 13,764,706</u>	<u>\$ 16,080,641</u>	<u>\$ 2,315,935</u>



**CITY OF NEEDLES  
GENERAL FUND  
RECONCILIATION BETWEEN BUDGETARY AMOUNTS AND GAAP  
FOR THE YEAR ENDED JUNE 30, 2020**

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	\$ 23,794,346
--	---------------

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	(14,835,285)
---	--------------

Transfers in are budgetary resources but are reported as an "Other financing source" and not as a current-year revenue	<u>(2,205,928)</u>
---	--------------------

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds	<u><u>\$ 6,753,133</u></u>
--	----------------------------

**Charges to appropriations**

Actual amounts (budgetary basis) from the budgetary comparison schedule	\$ 7,713,705
--	--------------

Transfers out are a budgetary charge to appropriations but are reported as an "Other financing use" and not as a current-year expense	<u>(1,350,374)</u>
---	--------------------

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds	<u><u>\$ 6,363,331</u></u>
--	----------------------------

**CITY OF NEEDLES**  
**BUDGETARY COMPARISON SCHEDULE**  
**PUBLIC FINANCING AUTHORITY**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
Budgetary fund balance July 1, 2017	\$ 163,009	\$ 163,009	\$ 163,009	\$ -
Resources (inflows):				
Use of money and property	-	-	35,073	(35,073)
Amounts available for appropriation	163,009	163,009	198,082	(35,073)
Charges to appropriations (outflows):				
Interest and fiscal charges	-	-	36,000	(36,000)
Total charges to appropriations	-	-	36,000	(36,000)
Budgetary fund balance June 30, 2018	<u>\$ 163,009</u>	<u>\$ 163,009</u>	<u>\$ 162,082</u>	<u>\$ (927)</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 \$ 198,082

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 (163,009)

Total revenues as reported on the statement of revenues,  
expenditures, and changes in fund balance - governmental funds \$ 35,073

**CITY OF NEEDLES**  
Required Supplementary Information  
Pensions - Miscellaneous Plan  
June 30, 2020

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

Last 10 Fiscal years\*

Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
City's proportion of the net pension liability	0.10034%	0.10036%	0.10014%	0.09839%	0.08325%	0.03302%
City's proportionate share of the net pension liability	4,139,617	3,782,261	\$3,947,484	\$3,417,806	\$2,283,923	\$2,054,707
City's covered payroll	2,366,583	2,366,448	2,183,340	2,150,169	2,129,947	2,347,411
City's proportionate share of the net pension liability as a percentage of its covered payroll	174.92%	159.83%	180.80%	158.96%	107.23%	87.53%
Plan Fiduciary net position as a percentage of the total pension liability	78.47%	79.63%	78.17%	79.32%	85.73%	87.06%

**CALPERS - Schedule of City's contributions:**

Last 10 Fiscal Years\*

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

\* Fiscal year ended June 30, 2015 was the first year of implementation.

Additional years will be presented as they become available.

**CITY OF NEEDLES**  
Required Supplementary Information  
Pensions - Safety Plan  
June 30, 2020

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

Last 10 Fiscal years\*

Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
City's proportion of the net pension liability	0.00246%	0.00225%	0.00218%	0.00191%	0.00026%	0.00000%
City's proportionate share of the net pension liability	\$153,418	\$131,962	\$130,042	\$99,001	\$10,757	\$0
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	N/A
Plan Fiduciary net position as a percentage of the total pension liability	86.96%	90.91%	91.21%	92.89%	99.23%	N/A

**CALPERS - Schedule of City's contributions:**

Last 10 Fiscal Years\*

Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Actuarially determined contribution	\$ -	\$ 33,776	\$ 4,758	\$ -	\$ 4,120	\$ -
Contributions in relation to the actuarially determined contribution	-	33,776	4,758	-	4,120	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll	N/A	N/A	N/A	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**  
Required Supplementary Information  
Schedule of Changes in Net OPEB Liability  
June 30, 2020

Last 10 Fiscal years\*

	2020	2019	2018
Net OPEB liability			
Service cost	\$ 44,458	\$ 42,518	\$ 45,161
Interest	45,273	44,070	37,348
Differences between expected and actual experience	127,243	-	-
Change in assumptions	(266,725)	(5,315)	(59,030)
Benefit payments	(70,629)	(70,393)	(53,510)
Net change in Net OPEB liability	(120,380)	10,880	(30,031)
Net OPEB liability - beginning	1,241,482	1,230,602	1,260,633
Net OPEB liability - ending	<u>\$ 1,121,102</u>	<u>\$ 1,241,482</u>	<u>\$ 1,230,602</u>
Covered payroll	\$ 2,713,144	\$ 2,767,083	\$ 2,433,924
Net OPEB liability (asset) as a percentage of covered payroll	41.3%	44.9%	50.6%
liability	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 (City), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 11, 2021.

**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) to determine the 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a material weakness.

Board of Directors  
City of Needles  
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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as item 2020-001.

### **The City of Needles' Response to Findings**

The City of Needles' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Needles' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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, LLP

A handwritten signature in cursive script that reads "Fechter & Company, CPAs, LLP".

Sacramento, California  
June 11, 2021



## CITY OF NEEDLES, CALIFORNIA

### Schedule of Findings and Questioned Costs For the Year Ended June 30, 2020

#### SECTION I – SUMMARY OF AUDITOR’S RESULTS

##### Financial Statements

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

#### SECTION II – FINANCIAL STATEMENT FINDINGS

The following finding represents a material weakness that is required to be reported in accordance with generally accepted government auditing standards.

##### **Finding 2020-001**

##### **Capital Asset Records**

##### Criteria

GASB Statement No. 34 requires the cost of capital assets to be capitalized and depreciated over their useful lives in the City’s government-wide statements.

##### Condition

During the audit, we requested the City to provide us a City-wide depreciation schedule that agreed to the general ledger. The City informed us that they did not maintain a City-wide depreciation schedule and referred us to the predecessor auditor. We requested the schedule from the predecessor auditor and he provided us a schedule. However, the schedule was incomplete and did not agree to the prior year financial statements. In addition, we noted that in the past infrastructure has not been depreciated, which is not in conformity with generally accepted accounting principles (GAAP).

##### Context

The condition noted above was identified during our test of capital assets.

##### Cause

The City has always relied on the outside auditor to maintain its listing of capital assets and depreciation schedule.

##### Repeat Finding

This is a repeat finding from the year ended June 30, 2019.

## **CITY OF NEEDLES, CALIFORNIA**

### **Schedule of Findings and Questioned Costs For the Year Ended June 30, 2020**

#### **SECTION II – FINANCIAL STATEMENT FINDINGS (continued)**

##### **Finding 2020-001 (continued)**

##### **Capital Asset Records (continued)**

##### **Effect of Condition**

Without reliable capital asset record keeping in place, capital asset balances cannot be relied upon. Capital assets comprise a significant portion of the City's assets. In absence of a reliable capital asset system, the City's net position cannot be accurately stated. The City will continue to receive a modified opinion on its financial statements until this condition is remedied.

##### **Recommendation**

We recommend that the City obtain a capital asset valuation on its assets acquired prior to July 1, 1987. In addition, the City should determine which parcels of land it owns. We also recommend that a complete inventory of its capital assets be performed. Going forward, the City should assume the tracking of its own capital assets and maintain a complete depreciation schedule, rather than rely on the outside auditor to do so, and record all capital assets transactions in the general ledger.

##### **Views of responsible officials and planned corrective actions**

The City has made substantial improvements since the end of fiscal year 2020 and is close to rectifying the situation. Due to the pandemic, the City was unable to hire the fixed assets consultant in FY 20. Council awarded the contract for the fixed assets consultant in September 2020. The consultant completed a full asset inventory in FY 21. The journal entry to post FY 20 capital item updates was completed by City staff and submitted to the City auditors on October 13, 2020. After consultation with current, new & prior auditors regarding consensus on capitalization and depreciation, a journal entry to post FY 20 depreciation was completed by City staff and submitted to the City auditors on May 4, 2021. The City expects the corrections to the finding to be fully implemented by June 2021.

# **CITY OF NEEDLES, CALIFORNIA**

## **Schedule of Findings and Questioned Costs For the Year Ended June 30, 2020**

### **SECTION III - STATUS OF PRIOR YEAR FINDINGS**

#### **Finding 2019-001**

##### **Capital Asset Records**

##### **Recommendation**

We recommend that the City obtain a capital asset valuation on its assets acquired prior to July 1, 1987. In addition, the City should determine which parcels of land it owns. We also recommend that a complete inventory of its capital assets be performed. Going forward, the City should assume the tracking of its own capital assets and maintain a complete depreciation schedule, rather than rely on the outside auditor to do so, and record all capital assets transactions in the general ledger.

##### **Status**

In progress.