

**CITY OF NEEDLES, CALIFORNIA**

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

June 30, 2021

**CITY OF NEEDLES, CALIFORNIA**

Annual Financial Report

June 30, 2021

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## **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, 2021, 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 85.0% and 89.0% 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 2.1% 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.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Needles, California, as of June 30, 2021, 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 April 5, 2022, 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

A handwritten signature in black ink that reads "Fechter & Company, CPAs". The signature is written in a cursive, flowing style.

Sacramento, California  
April 5, 2022

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

# CITY OF NEEDLES, CALIFORNIA

## Management's Discussion & Analysis June 30, 2021

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, 2021. 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

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- The City's net position (excess of assets and deferred outflows of resources over liabilities and deferred inflows of resources) increased from \$39.2 million (restated) to \$46.0 million for the fiscal year. General governmental operations experienced an increase of \$2.7 million, including transfers from business type activities of \$0.8 million. The change in net position resulting from business type activities for the fiscal year was an increase of \$4.1 million. The beginning balance of net position decreased by \$4.4 million for governmental activities and \$2.6 million for business type activities due primarily to a restatement of the City's capital asset balances.
- Total net position comprises the following:
  - (1) Capital assets, net of related debt, of \$28.1 million include property and equipment, net of accumulated depreciation, reduced by outstanding debt related to the purchase or construction of such capital assets.
  - (2) Net position of \$1.4 million that is restricted as to their use by outside factors such as debt covenants, grantors, laws, or regulations.
  - (3) Net position of \$16.5 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 \$20.2 million at June 30, 2021. This represents an increase of \$2.7 million for the fiscal year.
- The City's total liabilities increased from \$21.6 million to \$25.2 million. This increase is due primarily to increases of \$2.0 million in accounts payable, \$2.1 million deposits payable, and \$0.4 million in net pension liability which were partially offset by debt retirement of \$1.3 million.

# CITY OF NEEDLES, CALIFORNIA

## Management's Discussion & Analysis June 30, 2021

### Overview of the Financial Statements

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*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, 2021

### *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, 2021

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 \$6.8 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, 2021:

	Governmental Activities		Business-Type Activities		Totals		Amount Change	Percent Change
	2021	Restated * 2020	2021	Restated * 2020	2021	Restated * 2020		
Current and other assets	\$ 22,653,001	\$ 18,513,361	\$ 7,772,155	\$ 2,314,885	\$ 30,425,156	\$ 20,828,246	\$ 9,596,910	46.1%
Non-current assets	16,375,513	15,670,844	23,592,213	23,758,889	39,967,726	39,429,733	537,993	1.4%
Total assets	39,028,514	34,184,205	31,364,368	26,073,774	70,392,882	60,257,979	10,134,903	16.8%
Deferred outflows of resources	827,709	650,232	447,848	602,623	1,275,557	1,252,855	22,702	1.8%
Long-term liabilities	290,000	420,000	12,151,516	13,135,502	12,441,516	13,555,502	(1,113,986)	-8.2%
Other liabilities	6,421,738	3,980,377	6,293,589	4,100,307	12,715,327	8,080,684	4,634,643	57.4%
Total liabilities	6,711,738	4,400,377	18,445,105	17,235,809	25,156,843	21,636,186	3,520,657	16.3%
Deferred inflows of resources	365,694	397,677	137,228	272,651	502,922	670,328	(167,406)	-25.0%
Net Position:								
Invested in capital assets, net of related debt	16,375,513	15,670,844	11,719,630	5,672,050	28,095,143	21,342,894	6,752,249	31.6%
Restricted	1,354,643	1,699,047	-	700,281	1,354,643	2,399,328	(1,044,685)	-43.5%
Unrestricted	15,048,635	12,666,492	1,510,253	2,795,606	16,558,888	15,462,098	1,096,790	7.1%
Total net position	\$ 32,778,791	\$ 30,036,383	\$ 13,229,883	\$ 9,167,937	\$ 46,008,674	\$ 39,204,320	\$ 6,804,354	17.4%

\* Capital assets and net position were restated as of June 30, 2020. Refer to Note 4 for more detail regarding these restatements.

# CITY OF NEEDLES, CALIFORNIA

## Management's Discussion & Analysis June 30, 2021

Net position was positive for both governmental activities and business-type activities in 2021 and 2020. Overall, net position increased by about \$6.8 million due to the current year change in operations. The increase in net position from business-type activity operations was about \$4.1 million. There were transfers to governmental funds of \$0.8 million so the actual operating results of the business-type activities, excluding the transfers, was a positive \$4.9 million. Governmental activities expenses increased by about \$1.2 million. Governmental activities revenues increased by about \$2.8 million.

Property taxes and transient occupancy taxes continued to play a significant role in the City's results, totaling about \$2.5 million in revenues for fiscal year 2021. This represents an increase of \$0.3 million from the previous fiscal year. However, the most significant increase was in cannabis taxes which increased \$2.1 million from fiscal year 2020 to 2021.

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, 2021:

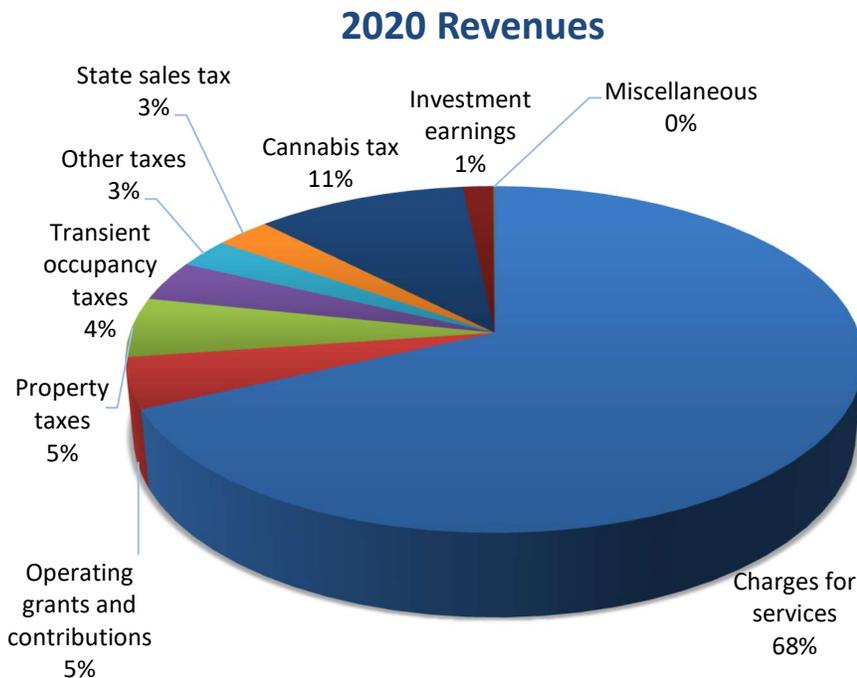
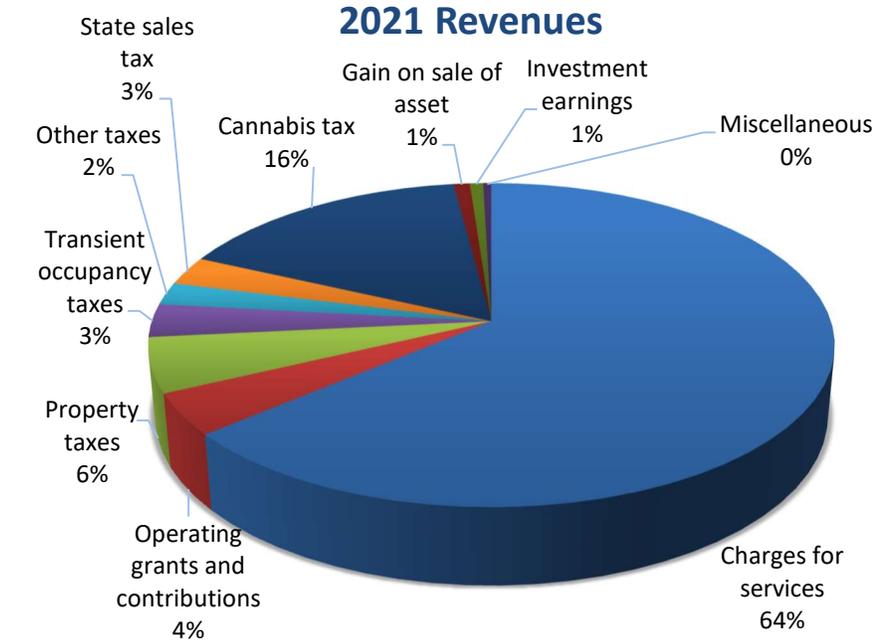
	Governmental Activities		Business-Type Activities		Totals		Amount Change	Percent Change
	2021	2020	2021	2020	2021	2020		
<b>Revenues</b>								
Program revenues								
Charges for services	\$ 1,859,894	\$ 1,565,486	\$ 16,241,031	\$ 14,337,957	\$ 18,100,925	\$ 15,903,443	\$ 2,197,482	13.8%
Operating grants and contributions	714,708	613,901	468,178	486,676	1,182,886	1,100,577	82,309	7.5%
Capital grants and contributions	-	-	94,682	22,585	94,682	22,585	72,097	319.2%
General revenues								
Property taxes	1,548,925	1,304,546	-	-	1,548,925	1,304,546	244,379	18.7%
Transient occupancy taxes	937,710	883,589	-	-	937,710	883,589	54,121	6.1%
Fuel taxes	217,245	210,894	-	-	217,245	210,894	6,351	3.0%
State sales tax	813,617	664,610	-	-	813,617	664,610	149,007	22.4%
Franchise taxes	166,900	177,787	-	-	166,900	177,787	(10,887)	-6.1%
Cannabis tax	4,573,688	2,513,269	-	-	4,573,688	2,513,269	2,060,419	82.0%
Utility users tax	253,396	244,546	-	-	253,396	244,546	8,850	3.6%
Gain on sale of asset	-	-	248,052	-	248,052	-	248,052	-
Investment earnings	159,096	281,926	44,791	76,206	203,887	358,132	(154,245)	-43.1%
Miscellaneous	30,086	15,803	-	-	30,086	15,803	14,283	90.4%
Total revenues	11,275,265	8,476,357	17,096,734	14,923,424	28,371,999	23,399,781	4,972,218	21.2%
<b>Expenses</b>								
General government	1,328,114	892,097	-	-	1,328,114	892,097	436,017	48.9%
Public safety	3,998,857	3,542,629	-	-	3,998,857	3,542,629	456,228	12.9%
Public works	2,050,020	1,867,512	-	-	2,050,020	1,867,512	182,508	9.8%
Parks and recreation	1,326,773	1,128,138	-	-	1,326,773	1,128,138	198,635	17.6%
Community development	638,170	638,162	-	-	638,170	638,162	8	0.0%
Interest on long-term debt	26,625	69,343	-	-	26,625	69,343	(42,718)	-61.6%
Public Utility Authority	-	-	9,576,053	8,751,221	9,576,053	8,751,221	824,832	9.4%
Sanitation	-	-	1,186,491	1,104,868	1,186,491	1,104,868	81,623	7.4%
Golf Course	-	-	896,911	938,724	896,911	938,724	(41,813)	-4.5%
Other	-	-	539,631	543,065	539,631	543,065	(3,434)	-0.6%
Total expenses	9,368,559	8,137,881	12,199,086	11,337,878	21,567,645	19,475,759	2,091,886	10.7%
Increase (decrease) in net position before transfers	1,906,706	338,476	4,897,648	3,585,546	6,804,354	3,924,022	2,880,332	73.4%
Transfers	835,702	989,442	(835,702)	(989,442)	-	-	-	0.0%
Change in net position	2,742,408	1,327,918	4,061,946	2,596,104	6,804,354	3,924,022	2,880,332	73.4%
Beginning net position, restated *	30,036,383	28,708,465	9,167,937	6,571,833	39,204,320	35,280,298	3,924,022	11.1%
Ending net position	\$ 32,778,791	\$ 30,036,383	\$ 13,229,883	\$ 9,167,937	\$ 46,008,674	\$ 39,204,320	\$ 6,804,354	17.4%

\* Net position was restated as of June 30, 2020. Refer to Note 17 for more detail regarding this restatement.

# CITY OF NEEDLES, CALIFORNIA

## Management's Discussion & Analysis June 30, 2021

The following charts show graphic representations of the City's revenues for the fiscal years ended June 30, 2021 and 2020:



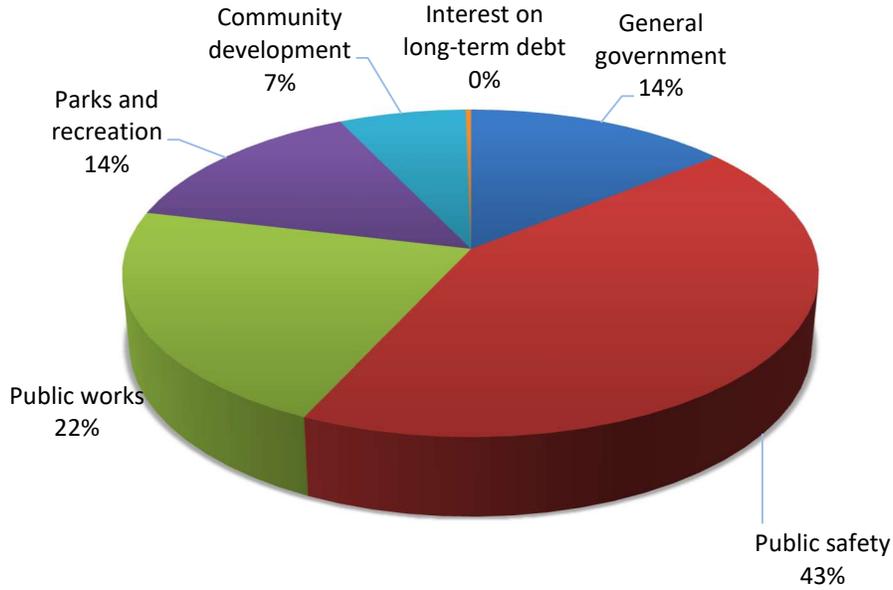
As displayed in the charts above, the revenues from charges for services comprises 64% and 68% of the City's revenues for 2021 and 2020, respectively. The majority of the charges for services is attributed to the public utility authority, which makes up approximately 51% of all revenues in 2021 and 54% of all revenues in 2020.

# CITY OF NEEDLES, CALIFORNIA

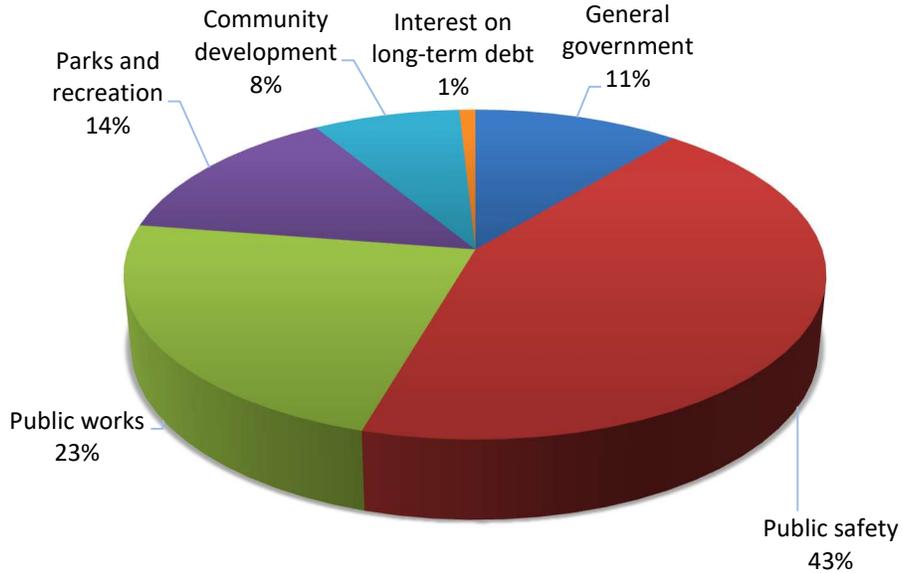
## Management's Discussion & Analysis June 30, 2021

The following charts show graphic representations of the City's governmental functional expenses for the fiscal years ended June 30, 2021 and 2020:

### 2021 Governmental Expenses



### 2020 Governmental Expenses

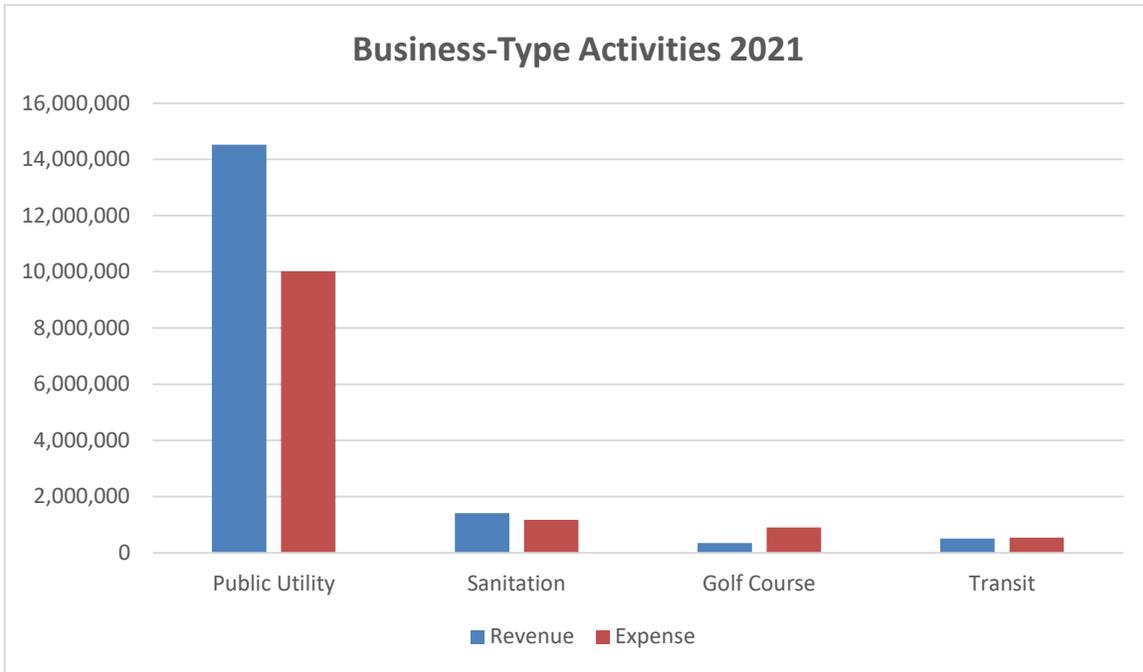


# CITY OF NEEDLES, CALIFORNIA

## Management's Discussion & Analysis June 30, 2021

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, 2021:



The public utility authority contributes the majority of the City's revenues, and produced operating income of about \$4.4 million. Interest expense of \$0.7 million on the revenue refinancing bonds and net transfers out of about \$0.6 million figured into the public utility's increase in net position of about \$4.7 million for the fiscal year.

The City's business-type activities also include refuse collection, a golf course, and public transportation. All business-type activities are designed to be self-supporting, and costs are expected to be fully recovered by user fees and other revenues. Refuse collection activities are contracted out to a private company. The sanitation fund increased its net position by \$108,789. The golf course and transit funds reflected a decrease in net position of \$69,729 and \$35,573, respectively, for the fiscal year ended June 30, 2021.

# CITY OF NEEDLES, CALIFORNIA

## Management's Discussion & Analysis June 30, 2021

### Financial Analysis of the City's Funds

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#### *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, 2021, was \$20.2 million. Of this total, \$8.5 million was unassigned and is available to fund any City requirements. Nonspendable fund balances of \$10.0 million represent assets that cannot be converted to cash, such as inventory, prepaid expenses, advances to other funds, and land held for resale.

There are restricted fund balances totaling \$0.4 million, committed fund balances of \$0.9 million, and assigned fund balances of \$0.4 million.

Governmental fund balances increased by \$2.7 million from the previous year. Revenues exceeded expenditures by about \$1.9 million and net transfers accounted for approximately \$0.8 million of the increase.

#### *Major Governmental Funds*

The City's General Fund is the primary governmental fund in use, and accounts for about 85% of governmental revenues and about 78% of governmental expenses. The General Fund's fund balance increased by \$3,129,875 from the previous year. General Fund revenues increased by \$2,792,817 and expenses increased by about \$999,116. Net transfers increased by 90,818.

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 \$329 during the fiscal year, ending at \$161,753.

#### *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 \$423,553. Total ending fund balances for these funds was \$830,766.

#### *Proprietary funds*

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

# CITY OF NEEDLES, CALIFORNIA

## Management's Discussion & Analysis June 30, 2021

### Major Proprietary Funds

The Needles Public Utility Authority (NPUA) is by far the most significant fund for the City, comprising 56% of total assets and about 51% 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 \$7,093,980 in revenues and \$7,553,619 in expenditures. The budget was amended once during the fiscal year to primarily to reflect increases in revenues of \$1,950,884 and increases in expenditures as follows: general government expenditures of \$109,972, public safety expenditures of \$70,653, public works of \$1,232,858, parks and recreation expenditures of \$86,779, and transfers to other funds of \$132,483.

### Capital Assets and Debt Administration

#### Capital Assets

At June 30, 2021, the City had approximately \$37.5 million invested in capital assets, \$15.8 million of which was in governmental activities and \$17.8 million of which was in business-type activities. During the year, the City engaged an outside firm to perform a comprehensive inventory and valuation of its capital assets. As a result of this engagement, the beginning balances of capital assets as of June 30, 2020 were restated downward by approximately \$6.9 million.

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

Capital Assets, Net of Accumulated Depreciation are as follows:

	Governmental Activities		Business-Type Activities		Totals		Amount Change	Percent Change
	2021	Restated 2020	2021	Restated 2020	2021	Restated 2020		
<b>Non-Depreciable Assets</b>								
Land	\$ 349,403	\$ 349,403	\$ 3,209,553	\$ 3,212,347	\$ 3,558,956	\$ 3,561,750	\$ (2,794)	-0.1%
Construction in progress	183,251	175,000	167,403	-	350,654	175,000	175,654	100.4%
Total non-depreciable assets	532,654	524,403	3,376,956	3,212,347	3,909,610	3,736,750	172,860	4.6%
<b>Depreciable Assets</b>								
Infrastructure	8,936,690	7,907,748	-	-	8,936,690	7,907,748	1,028,942	13.0%
Buildings and improvements	6,802,392	7,151,020	666,888	618,417	7,469,280	7,769,437	(300,157)	-3.9%
Equipment and vehicles	103,777	87,673	17,090,971	17,470,727	17,194,748	17,558,400	(363,652)	-2.1%
Total depreciable assets	15,842,859	15,146,441	17,757,859	18,089,144	33,600,718	33,235,585	365,133	1.1%
Total	\$ 16,375,513	\$ 15,670,844	\$ 21,134,815	\$ 21,301,491	\$ 37,510,328	\$ 36,972,335	\$ 537,993	1.5%

# CITY OF NEEDLES, CALIFORNIA

## Management's Discussion & Analysis June 30, 2021

### *Long-term debt*

At the end of the fiscal year, the City's total long-term debt obligations were \$12.4 million. Of this total, \$0.3 million is in the governmental activities and \$13.1 million is in the business-type activities.

There is a balance of \$290,000 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, 2021 and 2020:

	Governmental Activities		Business-Type Activities		Totals		Amount Change	Percent Change
	2021	2020	2021	2020	2021	2020		
Tax allocation bonds	\$ 290,000	\$ 420,000	\$ -	\$ -	\$ 290,000	\$ 420,000	\$ (130,000)	-31.0%
Revenue refunding bonds	-	-	11,872,583	12,828,913	11,872,583	12,828,913	(956,330)	-7.5%
Sanitation note payable	-	-	278,933	306,589	278,933	306,589	(27,656)	-9.0%
Total	<u>\$ 290,000</u>	<u>\$ 420,000</u>	<u>\$12,151,516</u>	<u>\$13,135,502</u>	<u>\$12,441,516</u>	<u>\$13,555,502</u>	<u>\$ (1,113,986)</u>	-8.2%

### **Economic Conditions and Budgeting**

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New businesses within the City of Needles continue to grow bringing with them job opportunities. The City of Needles continues to work closely with various cannabis companies both established and in the process of starting a business. To-date there is 232,234 square feet of new industrial space built to house the cannabis-related businesses involved in cultivation, manufacturing, distribution, retail, and laboratory testing. These businesses now generate over 503 direct jobs in the community. This growth in business has continued the increase in demand for utilities due to the industrial and commercial uses. It has also positively affected the property assessment roll which has increased from the 2017 roll of \$124 million, to be valued at \$436 million in 2021.

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 to continue to stimulate further growth.

In FY 21 the City completed Year 2, of the Street Pavement Project. This is part of a 15-year pavement management plan.

# **CITY OF NEEDLES, CALIFORNIA**

## **Management's Discussion & Analysis June 30, 2021**

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 FY 23.

A brand new 3-story, 46,000 square foot, 80-room Hampton by Hilton Hotel at 1803 Needles Highway, the former site of the El Rancho Motel on a 2-acre property, is under construction and should be completed in late 2022, bringing 35-50 new jobs to the City.

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

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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, 2021**

	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS</b>			
Cash and investments	\$ 8,417,821	\$ 13,514,861	\$ 21,932,682
Restricted cash	820,816	-	820,816
Accounts receivable, net	637,198	2,121,968	2,759,166
Due from other governments	193,758	106,193	299,951
Internal balances	12,229,717	(12,229,717)	-
Inventory	8,953	706,235	715,188
Prepaid items	162,585	3,552,615	3,715,200
Land held for resale	182,153	-	182,153
Intangible assets	-	2,457,398	2,457,398
Capital assets, net	16,375,513	21,134,815	37,510,328
<b>TOTAL ASSETS</b>	<b>39,028,514</b>	<b>31,364,368</b>	<b>70,392,882</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pensions	777,174	420,505	1,197,679
Deferred outflows of resources related to OPEB	50,535	27,343	77,878
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>827,709</b>	<b>447,848</b>	<b>1,275,557</b>
<b>LIABILITIES</b>			
Accounts payable	1,196,540	1,123,956	2,320,496
Due to other governments	239,247	-	239,247
Accrued liabilities	297,457	42,754	340,211
Deposits payable	604,653	2,580,313	3,184,966
Compensated absences	179,183	279,822	459,005
Accrued interest	-	190,951	190,951
Other liabilities	-	17,207	17,207
Estimated claims liability	100,000	-	100,000
Net pension liability	3,045,936	1,648,064	4,694,000
Other post-employment benefits liability	758,722	410,522	1,169,244
Long-term liabilities:			
Due within one year	140,000	1,022,962	1,162,962
Due in more than one year	150,000	11,128,554	11,278,554
<b>TOTAL LIABILITIES</b>	<b>6,711,738</b>	<b>18,445,105</b>	<b>25,156,843</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions	253,625	137,228	390,853
Revenues not available to fund current obligations	112,069	-	112,069
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>365,694</b>	<b>137,228</b>	<b>502,922</b>
<b>NET POSITION</b>			
Net investment in capital assets	16,375,513	11,719,630	28,095,143
Restricted for:			
Capital projects	50,246	-	50,246
Debt service	161,753	-	161,753
Community development projects	1,142,644	-	1,142,644
Unrestricted (deficit)	15,048,635	1,510,253	16,558,888
<b>TOTAL NET POSITION</b>	<b>\$ 32,778,791</b>	<b>\$ 13,229,883</b>	<b>\$ 46,008,674</b>

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

**CITY OF NEEDLES**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2021**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
General government	\$ 1,328,114	\$ 999,918	\$ 211,271	\$ -	\$ (116,925)	\$ -	\$ (116,925)
Public safety	3,998,857	-	156,893	-	(3,841,964)	-	(3,841,964)
Public works	2,050,020	814,385	346,544	-	(889,091)	-	(889,091)
Parks and recreation	1,326,773	35,133	-	-	(1,291,640)	-	(1,291,640)
Community development	638,170	10,458	-	-	(627,712)	-	(627,712)
Interest on long-term debt	26,625	-	-	-	(26,625)	-	(26,625)
Total governmental activities	<u>9,368,559</u>	<u>1,859,894</u>	<u>714,708</u>	<u>-</u>	<u>(6,793,957)</u>	<u>-</u>	<u>(6,793,957)</u>
Business-type activities:							
Public utility authority	9,576,053	14,446,391	-	71,920	-	4,942,258	4,942,258
Sanitation	1,186,491	1,415,280	-	-	-	228,789	228,789
Golf course	896,911	345,872	-	-	-	(551,039)	(551,039)
Transit	539,631	33,488	468,178	22,762	-	(15,203)	(15,203)
Total business-type activities	<u>12,199,086</u>	<u>16,241,031</u>	<u>468,178</u>	<u>94,682</u>	<u>-</u>	<u>4,604,805</u>	<u>4,604,805</u>
Total primary government	<u>\$21,567,645</u>	<u>\$18,100,925</u>	<u>\$ 1,182,886</u>	<u>\$ 94,682</u>	<u>(6,793,957)</u>	<u>4,604,805</u>	<u>(2,189,152)</u>
General revenues:							
Taxes:							
Property taxes					1,548,925	-	1,548,925
Transient occupancy taxes					937,710	-	937,710
Fuel taxes					217,245	-	217,245
State sales tax					813,617	-	813,617
Franchise taxes					166,900	-	166,900
Cannabis tax					4,573,688	-	4,573,688
Utility users tax					253,396	-	253,396
Gain on sale of asset					-	248,052	248,052
Interest revenue					159,096	44,791	203,887
Miscellaneous					30,086	-	30,086
Transfers					835,702	(835,702)	-
Total general revenues, special items, and transfers					<u>9,536,365</u>	<u>(542,859)</u>	<u>8,993,506</u>
Change in net position					2,742,408	4,061,946	6,804,354
Net position - beginning					34,390,850	11,747,943	46,138,793
Prior year adjustments					(4,354,467)	(2,580,006)	(6,934,473)
Net position - beginning, as restated					<u>30,036,383</u>	<u>9,167,937</u>	<u>39,204,320</u>
Net position - ending					<u>\$ 32,778,791</u>	<u>\$ 13,229,883</u>	<u>\$ 46,008,674</u>

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

## **FUND FINANCIAL STATEMENTS**

**CITY OF NEEDLES**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2021**

	General	Public Financing Authority	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 7,242,682	\$ 161,753	\$ 1,013,386	\$ 8,417,821
Restricted cash	561,313	-	259,503	820,816
Accounts receivable, net	637,198	-	-	637,198
Due from other funds	2,632,798	-	-	2,632,798
Due from other governments	117,169	-	76,589	193,758
Inventory	8,953	-	-	8,953
Prepaid items	152,419	-	10,166	162,585
Land held for resale	-	-	182,153	182,153
Advances to other funds	9,622,026	-	-	9,622,026
<b>TOTAL ASSETS</b>	<b>\$ 20,974,558</b>	<b>\$ 161,753</b>	<b>\$ 1,541,797</b>	<b>\$ 22,678,108</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 904,719	\$ -	\$ 291,821	\$ 1,196,540
Accrued liabilities	254,670	-	42,787	297,457
Deposits	604,653	-	-	604,653
Due to other funds	-	-	25,107	25,107
Due to other governments	-	-	239,247	239,247
Advances from other funds	-	-	-	-
<b>Total liabilities</b>	<b>1,764,042</b>	<b>-</b>	<b>598,962</b>	<b>2,363,004</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Revenues not available to fund current obligations	-	-	112,069	112,069
<b>FUND BALANCES</b>				
Fund balances - nonspendable	9,783,398	-	192,319	9,975,717
Fund balances - restricted	-	161,753	245,471	407,224
Fund balances - committed	350,000	-	561,735	911,735
Fund balances - assigned	-	-	391,231	391,231
Fund balances - unassigned	9,077,118	-	(559,990)	8,517,128
<b>Total fund balances</b>	<b>19,210,516</b>	<b>161,753</b>	<b>830,766</b>	<b>20,203,035</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 20,974,558</b>	<b>\$ 161,753</b>	<b>\$ 1,541,797</b>	<b>\$ 22,678,108</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, 2021**

<b>Fund balances - total governmental funds</b>		\$ 20,203,035
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	29,584,699	
Less: Accumulated depreciation	<u>(13,209,186)</u>	
		16,375,513
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	(3,045,936)	
Deferred outflows of resources related to pensions	777,174	
Deferred outflows of resources related to OPEB	50,535	
Deferred inflows of resources	(253,625)	
Compensated absences	(179,183)	
Bonds payable, net	(290,000)	
Estimated claims liability	(100,000)	
Net OPEB liability	<u>(758,722)</u>	
		<u>(3,799,757)</u>
<b>Net position of governmental activities</b>		<u><u>\$ 32,778,791</u></u>

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, 2021**

	General	Public Financing Authority	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Taxes	\$ 7,980,817	\$ -	\$ 146,519	\$ 8,127,336
Licenses, permits, and fees	539,252	-	-	539,252
Intergovernmental	211,271	-	1,519,267	1,730,538
Charges for services	433,354	-	61,391	494,745
Fines and forfeitures	194,212	-	-	194,212
Use of money and property	157,708	10	1,378	159,096
Other revenues	29,336	-	750	30,086
<b>Total revenues</b>	<b>9,545,950</b>	<b>10</b>	<b>1,729,305</b>	<b>11,275,265</b>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
General government	945,341	-	-	945,341
Public safety	3,768,192	-	172,309	3,940,501
Public works	588,281	-	835,649	1,423,930
Parks and recreation	870,194	-	122,659	992,853
Community development	128,780	-	90,336	219,116
Capital outlay	1,061,659	-	664,949	1,726,608
<b>Debt service:</b>				
Principal retirement	-	130,000	-	130,000
Interest and fiscal charges	-	26,625	-	26,625
<b>Total expenditures</b>	<b>7,362,447</b>	<b>156,625</b>	<b>1,885,902</b>	<b>9,404,974</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>2,183,503</b>	<b>(156,615)</b>	<b>(156,597)</b>	<b>1,870,291</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in	1,710,168	156,286	83,436	1,949,890
Transfers out	(763,796)	-	(350,392)	(1,114,188)
<b>Total other financing sources (uses)</b>	<b>946,372</b>	<b>156,286</b>	<b>(266,956)</b>	<b>835,702</b>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over (under) Expenditures and Other Financing Uses</b>	<b>3,129,875</b>	<b>(329)</b>	<b>(423,553)</b>	<b>2,705,993</b>
Fund balances - beginning	16,080,641	162,082	1,254,319	17,497,042
Prior year adjustments	-	-	-	-
Fund balances - beginning, as restated	16,080,641	162,082	1,254,319	17,497,042
<b>Fund balances - ending</b>	<b>\$ 19,210,516</b>	<b>\$ 161,753</b>	<b>\$ 830,766</b>	<b>\$ 20,203,035</b>

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, 2021**

Net change in fund balances - total governmental funds		\$2,705,993
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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.</p>		
Expenditures for general capital assets, infrastructure, and other related capital asset adjustments	1,594,519	
Less: current year depreciation	<u>(889,850)</u>	704,669
<p>Expenditures in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the funds:</p>		
Change in the liability for compensated absences		(21,579)
Change in net pension liability		(617,906)
Change in OPEB liability		(158,769)
<p>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.</p>		
		<u>130,000</u>
Change in net position of governmental activities		<u><u>\$2,742,408</u></u>

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

**CITY OF NEEDLES**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2021**

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds	Internal Service Funds
<b>ASSETS</b>						
Current assets:						
Cash and investments	\$ 13,560,827	\$ 1,471,638	\$ -	\$ 137,451	\$ 15,169,916	\$ 1,263,465
Accounts receivable, net	1,934,880	184,986	-	-	2,119,866	2,102
Due from other funds	523,651	-	-	-	523,651	-
Due from other governments	-	-	-	106,193	106,193	-
Inventory	703,841	-	1,295	-	705,136	1,099
Prepaid items	650,001	3,775	43,215	876	697,867	2,854,748
Total current assets	<u>17,373,200</u>	<u>1,660,399</u>	<u>44,510</u>	<u>244,520</u>	<u>19,322,629</u>	<u>4,121,414</u>
Non-current assets:						
Intangible assets	2,457,398	-	-	-	2,457,398	-
Capital assets, net	19,432,754	-	582,356	469,028	20,484,138	650,677
Total non-current assets	<u>21,890,152</u>	<u>-</u>	<u>582,356</u>	<u>469,028</u>	<u>22,941,536</u>	<u>650,677</u>
<b>TOTAL ASSETS</b>	<u>39,263,352</u>	<u>1,660,399</u>	<u>626,866</u>	<u>713,548</u>	<u>42,264,165</u>	<u>4,772,091</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred outflows of resources related to pensions	346,968	-	73,537	-	420,505	-
Deferred outflows of resources related to OPEB	22,561	-	4,782	-	27,343	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>369,529</u>	<u>-</u>	<u>78,319</u>	<u>-</u>	<u>447,848</u>	<u>-</u>
<b>LIABILITIES</b>						
Current liabilities:						
Deficit cash balance	-	-	2,918,520	-	2,918,520	-
Accounts payable	412,848	182,930	29,701	77,436	702,915	421,041
Accrued payroll	-	-	4,184	-	4,184	38,570
Compensated absences	253,651	-	15,526	-	269,177	10,645
Deposits	2,579,813	500	-	-	2,580,313	-
Due to other funds	18,868	2,613,930	-	-	2,632,798	498,544
Deferred revenue	-	-	-	4,973	4,973	-
Accrued interest	190,951	-	-	-	190,951	-
Advance payable - current	39,277	-	-	-	39,277	-
Bonds/note payable - current	993,600	29,362	-	-	1,022,962	-
Other liabilities	-	-	4,582	-	4,582	7,652
Total current liabilities	<u>4,489,008</u>	<u>2,826,722</u>	<u>2,972,513</u>	<u>82,409</u>	<u>10,370,652</u>	<u>976,452</u>
Non-current liabilities:						
Net pension liability	1,359,852	-	288,212	-	1,648,064	-
Other post-employment benefits liability	338,730	-	71,792	-	410,522	-
Advance payable - non-current	9,582,749	-	-	-	9,582,749	-
Bonds/note payable - non-current	10,878,983	249,571	-	-	11,128,554	-
Total non-current liabilities	<u>22,160,314</u>	<u>249,571</u>	<u>360,004</u>	<u>-</u>	<u>22,769,889</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>26,649,322</u>	<u>3,076,293</u>	<u>3,332,517</u>	<u>82,409</u>	<u>33,140,541</u>	<u>976,452</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred inflows of resources related to pensions	113,230	-	23,998	-	137,228	-
<b>NET POSITION</b>						
Net investment in capital assets	10,017,569	-	582,356	469,028	11,068,953	650,677
Restricted for debt service	-	-	-	-	-	-
Unrestricted (deficit)	2,852,760	(1,415,894)	(3,233,686)	162,111	(1,634,709)	3,144,962
<b>TOTAL NET POSITION</b>	<u>\$ 12,870,329</u>	<u>\$ (1,415,894)</u>	<u>\$ (2,651,330)</u>	<u>\$ 631,139</u>	<u>\$ 9,434,244</u>	<u>\$ 3,795,639</u>

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, 2021**

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds	Internal Service Funds
<b>OPERATING REVENUES</b>						
Charges for services-Public Utility Authority	\$ 13,094,083	\$ -	\$ -	\$ -	\$ 13,094,083	\$ -
Charges for services-Other enterprise funds	-	1,415,280	315,129	28,988	1,759,397	9,449,053
Other fees and sales	-	-	30,537	-	30,537	-
Other revenues	1,352,308	-	206	4,500	1,357,014	16,141
<b>Total operating revenues</b>	<b>14,446,391</b>	<b>1,415,280</b>	<b>345,872</b>	<b>33,488</b>	<b>16,241,031</b>	<b>9,465,194</b>
<b>OPERATING EXPENSES</b>						
Personnel costs	-	-	345,430	-	345,430	2,395,940
Contractual services	-	1,038,891	141,068	-	1,179,959	547,035
Power and utilities	-	-	171,316	-	171,316	2,441,723
Maintenance and operations	8,756,602	120,000	126,855	463,666	9,467,123	2,161,136
Administrative and management	-	9,944	42,726	16,507	69,177	504,266
Insurance	-	11	24,695	1,123	25,829	123,891
Depreciation and amortization	1,256,990	-	44,821	58,335	1,360,146	159,960
<b>Total operating expenses</b>	<b>10,013,592</b>	<b>1,168,846</b>	<b>896,911</b>	<b>539,631</b>	<b>12,618,980</b>	<b>8,333,951</b>
<b>Operating income (loss)</b>	<b>4,432,799</b>	<b>246,434</b>	<b>(551,039)</b>	<b>(506,143)</b>	<b>3,622,051</b>	<b>1,131,243</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Interest revenue	27,473	-	-	241	27,714	17,077
Government grants	71,920	-	-	468,178	540,098	-
Gain on sale of asset	247,102	-	950	-	248,052	-
Interest expense and fiscal charges	(693,704)	(17,645)	-	-	(711,349)	-
<b>Total nonoperating (expenses) revenues</b>	<b>(347,209)</b>	<b>(17,645)</b>	<b>950</b>	<b>468,419</b>	<b>104,515</b>	<b>17,077</b>
<b>Income (loss) before capital contributions and transfers</b>	<b>4,085,590</b>	<b>228,789</b>	<b>(550,089)</b>	<b>(37,724)</b>	<b>3,726,566</b>	<b>1,148,320</b>
Capital contributions - AB 2766	-	-	-	15,000	15,000	-
Capital contributions - State of good repair	-	-	-	7,762	7,762	-
Transfers in	5,805,145	-	480,360	17	6,285,522	-
Transfers out	(5,194,639)	(120,000)	-	(20,628)	(5,335,267)	(1,785,957)
<b>Net capital contributions and transfers</b>	<b>610,506</b>	<b>(120,000)</b>	<b>480,360</b>	<b>2,151</b>	<b>973,017</b>	<b>(1,785,957)</b>
<b>Change in net position</b>	<b>4,696,096</b>	<b>108,789</b>	<b>(69,729)</b>	<b>(35,573)</b>	<b>4,699,583</b>	<b>(637,637)</b>
Net position - beginning	9,548,173	(1,524,683)	(2,454,706)	666,712	6,235,496	5,512,447
Prior year adjustments	(1,373,940)	-	(126,895)	-	(1,500,835)	(1,079,171)
<b>Net position - beginning, as restated</b>	<b>8,174,233</b>	<b>(1,524,683)</b>	<b>(2,581,601)</b>	<b>666,712</b>	<b>4,734,661</b>	<b>4,433,276</b>
<b>Net position - ending</b>	<b>\$ 12,870,329</b>	<b>\$ (1,415,894)</b>	<b>\$ (2,651,330)</b>	<b>\$ 631,139</b>	<b>\$ 9,434,244</b>	<b>\$ 3,795,639</b>

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, 2021**

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds	Internal Service Funds
<b>Cash Flows From Operating Activities:</b>						
Cash collected from customers	\$ 16,458,669	\$ 1,398,050	\$ 345,872	\$ 26,022	\$ 18,228,613	\$ 9,471,384
Cash payments to suppliers for goods and services	(9,047,999)	(1,071,879)	(513,610)	(404,736)	(11,038,224)	(7,081,791)
Cash payments to employees for services	-	-	(398,163)	-	(398,163)	(2,390,812)
<b>Net cash provided (used) by operating activities</b>	<u>7,410,670</u>	<u>326,171</u>	<u>(565,901)</u>	<u>(378,714)</u>	<u>6,792,226</u>	<u>(1,219)</u>
<b>Cash Flows From Noncapital Financing Activities:</b>						
Operating grants received	-	-	-	468,178	468,178	-
Decrease (increase) in due from other funds	(394,993)	-	-	-	(394,993)	-
Increase (decrease) in due to other funds/advances	(159,246)	240,000	-	-	80,754	369,886
Operating transfers in	5,805,145	-	480,360	17	6,285,522	-
Operating transfers out	(5,194,639)	(120,000)	-	(20,628)	(5,335,267)	(1,785,957)
<b>Net cash (used) provided by noncapital financing activities</b>	<u>56,267</u>	<u>120,000</u>	<u>480,360</u>	<u>447,567</u>	<u>1,104,194</u>	<u>(1,416,071)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>						
Acquisition and construction of capital assets	(1,926,865)	-	(127,657)	-	(2,054,522)	(209,790)
Principal paid on bonds/note payable	(956,330)	(27,656)	-	-	(983,986)	-
Proceeds from sale of asset	247,102	-	950	-	248,052	-
Capital grants received	-	-	-	22,761	22,761	-
Interest paid	(723,889)	(17,645)	-	-	(741,534)	-
<b>Net cash (used) provided by capital and related financing activities</b>	<u>(3,359,982)</u>	<u>(45,301)</u>	<u>(126,707)</u>	<u>22,761</u>	<u>(3,509,229)</u>	<u>(209,790)</u>
<b>Cash Flows from Investing Activities:</b>						
Interest on investments	27,473	-	-	241	27,714	17,077
<b>Net cash provided by investing activities</b>	<u>27,473</u>	<u>-</u>	<u>-</u>	<u>241</u>	<u>27,714</u>	<u>17,077</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>4,134,428</u>	<u>400,870</u>	<u>(212,248)</u>	<u>91,855</u>	<u>4,414,905</u>	<u>(1,610,003)</u>
Cash and cash equivalents, beginning of year	9,426,399	1,070,768	(2,706,272)	45,596	7,836,491	2,873,468
Cash and cash equivalents, end of year	<u>\$ 13,560,827</u>	<u>\$ 1,471,638</u>	<u>\$ (2,918,520)</u>	<u>\$ 137,451</u>	<u>\$ 12,251,396</u>	<u>\$ 1,263,465</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>						
Operating income (loss)	\$ 4,432,799	\$ 246,434	\$ (551,039)	\$ (506,143)	\$ 3,622,051	\$ 1,131,243
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization of fixed assets	1,256,990	-	44,821	58,335	1,360,146	159,960
Adjustment of beginning balances	-	-	-	-	-	982,803
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable	23,163	(17,230)	-	-	5,933	6,190
Decrease in due from other governments	-	-	-	(12,439)	(12,439)	-
(Increase) decrease in inventory	(74,533)	-	504	-	(74,029)	-
Decrease (increase) in prepaid expenses	(18,869)	(3,775)	(37,034)	(876)	(60,554)	(2,573,116)
Increase in deferred outflows	137,626	-	17,149	-	154,775	-
Increase (decrease) in accounts payable	308,234	100,742	29,580	77,436	515,992	275,145
Decrease in accrued liabilities	-	-	2,500	-	2,500	11,428
Increase (decrease) in deposits payable	1,989,115	-	-	-	1,989,115	-
Increase (decrease) in deferred revenue	-	-	-	4,973	4,973	-
Increase (decrease) in net pension liability	(377,968)	-	(38,917)	-	(416,885)	-
Increase (decrease) in OPEB liability	(115,092)	-	(13,636)	-	(128,728)	-
Decrease in deferred inflows	(116,228)	-	(19,195)	-	(135,423)	-
Increase in compensated absences payable	(34,567)	-	(634)	-	(35,201)	5,128
<b>Net cash provided (used) by operating activities</b>	<u>\$ 7,410,670</u>	<u>\$ 326,171</u>	<u>\$ (565,901)</u>	<u>\$ (378,714)</u>	<u>\$ 6,792,226</u>	<u>\$ (1,219)</u>

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, 2021

### 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, 2021.

#### 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, 2021, 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, 2021

## **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, 2021

## **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, 2021

## 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, 2021

## 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, 2021

## 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, 2021

## 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, 2021

## 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, 2021

## **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, 2021 was \$395,125.

#### USE OF ESTIMATES

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

# CITY OF NEEDLES, CALIFORNIA

Notes to the Financial Statements  
June 30, 2021

## 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, 2021, not visible in the basic financial statements because they are grouped with other funds, are as follows:

Caltrans Grant Bridge Project	\$	60,594
Housing and Community Development Grant		56,851
Interstate Commerce I-40/J Street		258,967
Safe Routes to School		2,479
Boating and Waterways Grant		7,700

# CITY OF NEEDLES, CALIFORNIA

Notes to the Financial Statements  
June 30, 2021

## **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, 2021

### **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, 2021, the book balance of the City's deposits was \$22.8 million and the bank balance was \$23.9 million. Of the bank balance, \$500,000 was insured and \$23.4 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 \$4,415,917. The total amount invested by all public agencies in LAIF is \$193,318 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, 2021

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

#### Investments, continued

Investments by all public agencies at June 30, 2021 include \$1,700 million in structured notes and \$2,773 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, 2021 were as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
California LAIF	\$ 4,415,917	\$ 4,415,917
Petty cash and cash drawers	4,353	4,353
Cash in banks	18,333,228	18,333,228
Total Cash and Investments	<u>\$ 22,753,498</u>	<u>\$ 22,753,498</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, 2021, the reserve fund totaled \$161,753. 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, 2021

## 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, 2021

### NOTE 4 – CAPITAL ASSETS

A summary of the changes in capital assets follows:

	Restated * Balance July 1, 2020	Additions	Deletions	Transfers/ Reclassifications	Balance June 30, 2021
<b><i>Governmental Activities</i></b>					
Capital assets not being depreciated:					
Land	\$ 349,403	\$ -	\$ -	\$ -	\$ 349,403
Construction in progress	175,000	8,251	-	-	183,251
Total capital assets, not being depreciated	<u>524,403</u>	<u>8,251</u>	<u>-</u>	<u>-</u>	<u>532,654</u>
Capital assets being depreciated:					
Infrastructures	12,817,744	1,530,635	-	-	14,348,379
Structures and improvements	13,926,562	16,020	-	-	13,942,582
Equipment	721,471	39,613	-	-	761,084
Total capital assets being depreciated	<u>27,465,777</u>	<u>1,586,268</u>	<u>-</u>	<u>-</u>	<u>29,052,045</u>
Less accumulated depreciation for:					
Infrastructure	(4,909,996)	(501,693)	-	-	(5,411,689)
Structures and improvements	(6,775,542)	(364,648)	-	-	(7,140,190)
Equipment	(633,798)	(23,509)	-	-	(657,307)
Total accumulated depreciation	<u>(12,319,336)</u>	<u>(889,850)</u>	<u>-</u>	<u>-</u>	<u>(13,209,186)</u>
Total capital assets being depreciated, net	<u>15,146,441</u>	<u>696,418</u>	<u>-</u>	<u>-</u>	<u>15,842,859</u>
Capital assets, net	<u>\$ 15,670,844</u>	<u>\$ 704,669</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,375,513</u>
<b><i>Business-Type Activities</i></b>					
Capital assets not being depreciated:					
Land	\$ 3,212,346	\$ -	\$ (2,793)	\$ -	\$ 3,209,553
Construction in progress	988,307	167,403	-	(988,307)	167,403
Total capital assets, not being depreciated	<u>4,200,653</u>	<u>167,403</u>	<u>(2,793)</u>	<u>(988,307)</u>	<u>3,376,956</u>
Capital assets being depreciated:					
Structures and improvements	1,102,999	97,499	-	-	1,200,498
Equipment	41,113,058	1,924,728	(375,683)	988,307	43,650,410
Total capital assets being depreciated	<u>42,216,057</u>	<u>2,022,227</u>	<u>(375,683)</u>	<u>988,307</u>	<u>44,850,908</u>
Less accumulated depreciation for:					
Structures and improvements	(484,582)	(49,028)	-	-	(533,610)
Equipment	(25,482,257)	(1,452,865)	375,683	-	(26,559,439)
Total accumulated depreciation	<u>(25,966,839)</u>	<u>(1,501,893)</u>	<u>375,683</u>	<u>-</u>	<u>(27,093,049)</u>
Total capital assets being depreciated, net	<u>16,249,218</u>	<u>520,334</u>	<u>-</u>	<u>988,307</u>	<u>17,757,859</u>
Capital assets, net	<u>\$ 20,449,871</u>	<u>\$ 687,737</u>	<u>\$ (2,793)</u>	<u>\$ -</u>	<u>\$ 21,134,815</u>

\* During the year, the City engaged an outside firm to perform a comprehensive inventory and valuation of its capital assets. As a result of this engagement, the beginning balances of capital assets as of June 30, 2020 were restated downward by approximately \$6.9 million.

**CITY OF NEEDLES, CALIFORNIA**

Notes to the Financial Statements  
June 30, 2021

**NOTE 4 – CAPITAL ASSETS, continued**

***Depreciation Expense***

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

<b><i>Governmental Activities</i></b>		<b><i>Business-Type Activities</i></b>	
Public safety	\$ 4,536	Public Utility Authority	\$ 1,238,777
Public works	326,301	Golf course	44,821
Parks and recreation	202,553	Transit	58,335
Community development	356,460	Internal service funds	159,960
	<u>\$ 889,850</u>		<u>\$ 1,501,893</u>

**NOTE 5 – INTANGIBLE ASSETS**

Changes in the intangible assets for the year ended June 30, 2021 were as follows:

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2021</u>
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	(424,877)	(18,210)	(443,087)
Total accumulated amortization	<u>(915,565)</u>	<u>(18,210)</u>	<u>(933,775)</u>
Intangible assets, net	<u>\$ 2,475,608</u>	<u>\$ (18,210)</u>	<u>\$ 2,457,398</u>

# CITY OF NEEDLES, CALIFORNIA

## Notes to the Financial Statements June 30, 2021

### NOTE 6 – LONG-TERM OBLIGATIONS

The City has the following long-term obligations at June 30, 2021:

#### 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.

\$ 290,000

#### 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.

\$ 11,872,583

#### 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
2022	\$ 140,000	\$ 16,500	\$ 156,500
2023	150,000	5,625	155,625
	<u>\$ 290,000</u>	<u>\$ 22,125</u>	<u>\$ 312,125</u>

**CITY OF NEEDLES, CALIFORNIA**

Notes to the Financial Statements  
June 30, 2021

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

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

Years Ending June 30:	Principal	Interest	Total
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	1,157,784	284,600	1,442,384
2027-2031	6,501,965	709,962	7,211,927
	<u>\$ 11,872,583</u>	<u>\$ 2,551,269</u>	<u>\$ 14,423,852</u>

*Changes in Long-Term Debt*

The following is a summary of changes in long-term debt for the year ended June 30, 2021:

Description and Purpose	Balance July 1, 2020	Increase/ Issued	Decrease/ Refund	Balance June 30, 2021	Due Within One Year
<b>Primary Government</b>					
<i>Governmental Activities:</i>					
Tax allocation 1992 bonds	\$ 420,000	\$ -	\$ (130,000)	\$ 290,000	\$ 140,000
<i>Business-Type Activities</i>					
<i>Revenue Bonds:</i>					
NPUA 2016 bonds	12,828,913	-	(956,330)	11,872,583	993,600
<i>Notes Payable:</i>					
Sanitation fund	306,589	-	(27,656)	278,933	29,362
Total Business-Type Activities	<u>13,135,502</u>	<u>-</u>	<u>(983,986)</u>	<u>12,151,516</u>	<u>1,022,962</u>
Total Primary Government	<u>\$13,555,502</u>	<u>\$ -</u>	<u>\$ (1,113,986)</u>	<u>\$12,441,516</u>	<u>\$ 1,162,962</u>

# CITY OF NEEDLES, CALIFORNIA

Notes to the Financial Statements  
June 30, 2021

## 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
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	37,302	7,999	45,301
2027-2029	112,899	9,707	122,606
	<u>\$ 278,933</u>	<u>\$ 70,178</u>	<u>\$ 349,111</u>

# CITY OF NEEDLES, CALIFORNIA

## Notes to the Financial Statements June 30, 2021

### 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 Enterprise Fleet Management to lease 7 vehicles. The lease commenced on March 11, 2020 and has a term of 60-months with a monthly payment of \$3,671.

The following is a schedule of future minimum lease payments required as of June 30, 2021:

For Year Ending June 30,	Total
2022	\$ 44,057
2023	44,057
2024	44,057
2025	33,043
	<u>\$ 165,214</u>

The total lease expense for the year ended June 30, 2021 was \$44,057.

# CITY OF NEEDLES, CALIFORNIA

## Notes to the Financial Statements June 30, 2021

### 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, 2021 are as follows:

	General Fund	Public Financing Authority	Other Governmental Funds	Total
Fund Balances:				
Nonspendable:				
Inventory	\$ 8,953	\$ -	\$ -	\$ 8,953
Prepaid items	152,419	-	10,166	162,585
Land held for resale	-	-	182,153	182,153
Advances receivable	9,622,026	-	-	9,622,026
Subtotal	9,783,398	-	192,319	9,975,717
Restricted:				
Debt service	-	161,753	-	161,753
Public works	-	-	105,728	105,728
Cemetery	-	-	139,743	139,743
Subtotal	-	161,753	245,471	407,224
Committed:				
General government	350,000	-	-	350,000
Public safety	-	-	200,665	200,665
Public works	-	-	361,070	361,070
Subtotal	350,000	-	561,735	911,735
Assigned:				
Public works	-	-	22,605	22,605
Community development	-	-	368,626	368,626
Subtotal	-	-	391,231	391,231
Unassigned	9,077,118	-	(559,990)	8,517,128
Total	\$ 19,210,516	\$ 161,753	\$ 830,766	\$ 20,203,035

# CITY OF NEEDLES, CALIFORNIA

Notes to the Financial Statements  
June 30, 2021

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

### B. Primary Self-Insurance Programs of the Authority

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

#### Primary Liability Program

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

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

# CITY OF NEEDLES, CALIFORNIA

Notes to the Financial Statements  
June 30, 2021

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

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

#### Workers’ Compensation Program

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

For 2020-21 the Authority’s pooled retention is \$1 million per occurrence, with reinsurance to statutory limits under California Workers’ Compensation Law. Employer’s Liability losses are pooled among members to \$1 million. Coverage from \$1 million to \$5 million is purchased through reinsurance policies, and Employer’s Liability losses from \$5 million to \$10 million are pooled among members.

### C. Purchased Insurance

#### Pollution Legal Liability Insurance

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

#### Property Insurance

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

# CITY OF NEEDLES, CALIFORNIA

Notes to the Financial Statements  
June 30, 2021

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

### C. Purchased Insurance, continued

#### Earthquake and Flood Insurance

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

#### Crime Insurance

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

#### Special Event Tenant User Liability Insurance

The City further protects against liability damages by requiring tenant users of certain property to purchase low-cost tenant user liability insurance for certain activities on 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 2020-21.

## **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, 2021

**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, 2021 are as follows:

**Governmental Activities**

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	I40/J Street Project	\$ -	Reimbursement of expenses
	NPUA	18,868	
	Sanitation	2,613,930	Temporary cash borrowing
Total Governmental Funds		<u>\$ 2,632,798</u>	

**Business-Type Activities**

Receivable Fund	Payable Fund	Amount	Purpose
NPUA	Internal Service Funds	\$ 498,544	Reimbursement of expenses
	All American Canal	25,107	
Total Proprietary Funds		<u>\$ 523,651</u>	

**ADVANCES TO/FROM OTHER FUNDS**

The City entered into a Purchase Obligation with the NPUA in which the NPUA agreed to pay the City \$685,300 each February 1st, including interest imputed at 6.714% through February 2012. Starting February 2013, the annual payment was reduced to \$673,036 as a result of the \$400,000 prepayments made in 2012. The annual payment was further reduced to \$666,983 in fiscal year 2016 as a result of the additional prepayment made in 2013 amounting to \$350,000. The balance of the obligation at June 30, 2021 was \$9,622,026.

**CITY OF NEEDLES, CALIFORNIA**

Notes to the Financial Statements  
June 30, 2021

**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
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	50,936	634,364	685,300
2027-2031	310,808	3,115,692	3,426,500
2032-2036	430,130	2,996,370	3,426,500
2037-2041	595,259	2,831,241	3,426,500
2042-2046	823,784	2,602,716	3,426,500
2047-2051	1,140,041	2,286,459	3,426,500
2052-2056	1,577,710	1,848,790	3,426,500
2067-2061	2,183,405	1,243,095	3,426,500
2062-2065	2,336,303	404,871	2,741,174
	<u>\$ 9,622,026</u>	<u>\$20,531,148</u>	<u>\$30,153,174</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, 2021

### 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	133,092	Gas tax
	Other Governmental Funds	61,000	Active Transport Program
	Transit Fund	20,624	Fund operations
	NPUA	648,494	Utility purchase
	Internal Service Funds	726,958	Fair share allocation
Total General Fund		1,710,168	
Public Financing Authority	Other Governmental Funds	156,286	Transfer of RDA debt payment
Other Governmental Funds	General Fund	83,436	Cemetery Fund from General Fund
Total Governmental Funds		\$ 1,949,890	
NPUA	Internal Service Funds	5,805,145	Transfer of capital assets
Golf Course Fund	General Fund	480,360	Fund operations
Transit	Other Governmental Funds	17	Fund operations
Total Proprietary Funds		\$ 6,285,522	

### 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, 2021

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

The Plans' provisions and benefits in effect at June 30, 2021, are summarized as follows:

	Miscellaneous Plan	
	Prior to January 1, 2013	On or After January 1, 2013
Hire date		
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	55	62
Benefits as a % of annual salary	2.000%	2.000%
Required employee contribution rates	7.000%	6.750%
Required employer contribution rates	10.484%	7.732%
	Safety Plan	
	Prior to January 1, 2013	
Hire date		
Benefit formula	3% @ 50	
Benefit vesting schedule	5 years of service	
Benefit payments	monthly for life	
Retirement age	50	
Benefits as a % of annual salary	3.000%	
Required employee contribution rates	0.000%	
Required employer contribution rates	0.000%	

**Contributions** – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2021, the contributions recognized as part of pension expense for each Plan were \$606,457.

***Net Pension Liability***

As of June 30, 2021, the City reported a net pension liability of \$4,520,208 for its proportionate share of the net pension liability of the Miscellaneous Plan and \$173,792 for its proportionate share of the net pension liability of the Safety Plan.

**CITY OF NEEDLES, CALIFORNIA**

Notes to the Financial Statements  
June 30, 2021

**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, 2020, 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, 2019, rolled forward to June 30, 2020, 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, 2020 and 2021 was as follows:

	Miscellaenous Plan	Safety Plan	Total
Proportion June 30, 2020	0.10337%	0.00246%	0.04190%
Proportion June 30, 2021	0.10716%	0.00261%	0.04314%
Change	0.00379%	0.00015%	0.00124%

*Actuarial Assumptions* – The total pension liabilities in the June 30, 2019 actuarial valuations were determine using the following actuarial assumptions:

	Miscellaenous Plan	Safety Plan
Valuation date	June 30, 2019	June 30, 2019
Measurement date	June 30, 2020	June 30, 2020
Actuarial cost method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount rate	7.15%	7.15%
Inflation	2.50%	2.50%
Payroll growth	2.75%	2.75%
Projected salary increase	3.3% - 14.2% <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, 2021

## 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, 2021

## 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, 2021

**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, 2020 is as follows:

	<u>Total Pension Liability</u>	<u>Fiduciary Net Position</u>	<u>Pension Liability/ Asset</u>
<u>Miscellaneous Plan</u>			
<b>Balance at June 30, 2019</b>	\$19,225,098	\$15,085,481	\$ 4,139,617
Changes in the Year:			
Service cost	455,848	-	455,848
Interest on the total pension liability	1,345,690	-	1,345,690
Changes in benefit terms	949	-	949
Changes in assumptions	-	-	-
Difference between expected and actual experience	81,573	-	81,573
Change in proportion	(266,166)	(417,994)	151,828
Net plan to plan resource movement	-	42,233	(42,233)
Contributions - employer	-	689,216	(689,216)
Contributions - employee	-	207,449	(207,449)
Net investment income	-	732,777	(732,777)
Benefits payments, including refunds of employee contributions	(897,067)	(892,812)	(4,255)
Administrative expense	-	(20,633)	20,633
Other miscellaneous income	-	-	-
Net Changes	<u>720,827</u>	<u>340,236</u>	<u>380,591</u>
<b>Balance at June 30, 2020</b>	<u>\$ 19,945,925</u>	<u>\$ 15,425,717</u>	<u>\$ 4,520,208</u>

**CITY OF NEEDLES, CALIFORNIA**

Notes to the Financial Statements  
June 30, 2021

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

*Changes in the Net Pension Liability, continued*

	<u>Total Pension Liability</u>	<u>Fiduciary Net Position</u>	<u>Pension Liability/ Asset</u>
<u>Safety Plan</u>			
<b>Balance at June 30, 2019</b>	\$ 1,176,802	\$ 1,023,384	\$ 153,418
Changes in the Year:			
Service cost	22,710	-	22,710
Interest on the total pension liability	79,346	-	79,346
Changes in assumptions	-	-	-
Difference between expected and actual experience	17,780	-	17,780
Change in proportion	(67,984)	(32,044)	(35,940)
Net plan to plan resource movement	-	8,176	(8,176)
Contributions - employer	-	18,186	(18,186)
Contributions - employee	-	-	-
Net investment income	-	47,801	(47,801)
Benefits payments, including refunds of employee contributions	(56,442)	(65,750)	9,308
Administrative expense	-	(1,333)	1,333
Other miscellaneous income	-	-	-
Net Changes	<u>(4,590)</u>	<u>(24,964)</u>	<u>20,374</u>
<b>Balance at June 30, 2020</b>	<u>\$ 1,172,212</u>	<u>\$ 998,420</u>	<u>\$ 173,792</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:

	<u>Discount Rate Minus 1%</u>	<u>Current Discount Rate</u>	<u>Discount Rate Plus 1%</u>
<u>Employer's Net Pension Liability/(Asset)</u>			
Miscellaneous Plan	\$ 7,174,524	\$ 4,520,208	\$ 2,327,030
Safety Plan	332,983	173,792	43,161
Total	<u>\$ 7,507,507</u>	<u>\$ 4,694,000</u>	<u>\$ 2,370,191</u>

**CITY OF NEEDLES, CALIFORNIA**

Notes to the Financial Statements  
June 30, 2021

**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 2021, the City recognized net pension expense of \$824,114. At June 30, 2021, 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	\$ -	\$ 32,819
Differences between expected and actual experience	246,416	-
Differences between projected and actual earnings on plan investments	138,057	-
Differences between the employer's contributions and the employer's proportionate share of contributions	-	358,034
Change in employer's proportion	206,749	-
Pension contributions subsequent to the measurement date	606,457	-
Total	\$ 1,197,679	\$ 390,853

The \$606,457 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, 2021. Other amounts reported as deferred outflows and deferred inflows will be recognized as pension expense as follows:

Years Ending June 30:	Miscellaneous	Safety	Total
2022	(22,459)	(12,518)	(34,977)
2023	99,985	(12,644)	87,341
2024	86,743	(5,034)	81,709
2025	64,404	1,892	66,296
	\$ 228,673	\$ (28,304)	\$ 200,369

# CITY OF NEEDLES, CALIFORNIA

## Notes to the Financial Statements June 30, 2021

### 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, 2019
Measurement Date	June 30, 2020

**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, 2021.

**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, 2021 were \$92,073.

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

Discount rate	2.45%
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, 2021

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

Participants eligible for OPEB were as follows:

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

**Changes in the Net OPEB Liability**

The table below shows the changes in the total OPEB liability, the Plan Fiduciary Net Position, and the net OPEB liability during the measurement period ending on June 30, 2021 for the City.

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (c) = (a) - (b)
	<u>          </u>	<u>          </u>	<u>          </u>
Balance at June 30, 2020	\$ 1,121,102	\$ -	\$ 1,121,102
Changes recognized for the measurement period:			
Service cost	50,497	-	50,497
Interest	35,230	-	35,230
Differences between expected and actual experience	-	-	-
Change of assumptions	54,488	-	54,488
Employer contributions	-	92,073	(92,073)
Benefit payments	<u>(92,073)</u>	<u>(92,073)</u>	<u>-</u>
Net changes	<u>48,142</u>	<u>-</u>	<u>48,142</u>
Balance at June 30, 2021	<u><u>\$ 1,169,244</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,169,244</u></u>

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

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

	1% Decrease <u>1.45%</u>	Discount Rate <u>2.45%</u>	1% Increase <u>3.45%</u>
Net OPEB liability	\$ 1,253,453	\$ 1,169,244	\$ 1,089,925

**CITY OF NEEDLES, CALIFORNIA**

Notes to the Financial Statements  
June 30, 2021

**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	\$ 1,050,509	\$ 1,169,244	\$ 1,308,712

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

At June 30, 2021, 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	\$ 77,878	\$ -

<sup>(1)</sup> Includes estimated implicit rate subsidy of \$38,208.

Deferred outflows from contributions between measurement date and reporting date will be recognized as OPEB expense in the year ended June 30, 2021.

**Net OPEB Expense**

For the year ended June 30, 2021, the City’s OPEB expense/(income) was \$140,215. Detail of the expense/(income) is shown below:

Service cost	\$ 50,497
Interest cost	35,230
Changes of assumptions	<u>54,488</u>
Net OPEB Expense (Income)	<u><u>\$ 140,215</u></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, 2021

### **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, 2021 amounted to \$8,743,937. 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 \$979,556 for the year ended June 30, 2021.

### **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.

**CITY OF NEEDLES, CALIFORNIA**

Notes to the Financial Statements  
June 30, 2021

**NOTE 17 – PRIOR PERIOD ADJUSTMENTS**

The following table is a summary of the restatement of beginning fund balances/net position:

<u>Fund Statements</u>	<u>Public Utility Authority</u>	<u>Golf Course</u>	<u>Internal Service Funds</u>
Fund balance/net position, beginning of year, as originally reported	\$ 9,548,173	\$ (2,454,706)	\$ 5,512,447
Adjustment to capital assets per valuation	<u>(1,373,940)</u>	<u>(126,895)</u>	<u>(1,079,171)</u>
Total adjustments	<u>(1,373,940)</u>	<u>(126,895)</u>	<u>(1,079,171)</u>
Fund balance/net position, beginning of year, restated	<u>\$ 8,174,233</u>	<u>\$ (2,581,601)</u>	<u>\$ 4,433,276</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net position beginning of year, as originally reported	\$ 34,390,850	\$ 11,747,943	\$ 46,138,793
Adjustment to capital assets per valuation	<u>(4,354,467)</u>	<u>(2,580,006)</u>	<u>(6,934,473)</u>
Total adjustments	<u>(4,354,467)</u>	<u>(2,580,006)</u>	<u>(6,934,473)</u>
Net position beginning of year, restated	<u>\$ 30,036,383</u>	<u>\$ 9,167,937</u>	<u>\$ 39,204,320</u>

**NOTE 18 – EVALUATION OF SUBSEQUENT EVENTS – MANAGEMENT REVIEW**

Management has evaluated subsequent events through April 5, 2022, 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, 2021**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	Budgetary Basis	
Budgetary fund balance July 1, 2020	\$ 16,080,641	\$ 16,080,641	\$ 16,080,641	\$ -
Resources (inflows):				
Taxes	\$ 4,452,000	\$ 6,047,000	7,980,817	1,933,817
Licenses, permits, and fees	293,900	384,359	539,252	154,893
Intergovernmental	4,000	348,360	211,271	(137,089)
Charges for services	340,500	312,440	433,354	120,914
Fines and forfeitures	183,000	186,500	194,212	7,712
Use of money and property	93,738	87,238	157,708	70,470
Transfers from other funds	1,710,147	1,667,147	1,710,168	43,021
Other revenues	16,695	11,820	29,336	17,516
Amounts available for appropriation	<u>23,174,621</u>	<u>25,125,505</u>	<u>27,336,759</u>	<u>2,211,254</u>
Charges to appropriations (outflows):				
General government:				
City attorney	90,000	90,000	69,610	20,390
City manager	198,149	198,149	168,097	30,052
Finance and administration	392,531	413,056	392,619	20,437
City clerk	112,459	193,355	169,820	23,535
Planning and zoning	158,084	163,610	29,149	134,461
Engineer	154,423	157,448	116,046	41,402
Community development	28,590	28,590	89,751	(61,161)
Senior center	54,669	54,669	39,029	15,640
Parks and recreation:				
Aquatics	170,350	207,972	178,095	29,877
Parks	382,480	423,145	406,758	16,387
Jack Smith Park Marina	118,030	120,030	133,654	(13,624)
Recreation	293,600	300,092	234,352	65,740
Public safety:				
Police	2,835,411	2,837,411	2,809,970	27,441
Animal control	215,079	217,752	185,276	32,476
Building and safety	280,810	316,654	317,698	(1,044)
Code enforcement	394,015	424,151	455,248	(31,097)
Public works:				
Streets	930,427	2,163,285	1,436,853	726,432
Sanitation	129,368	129,368	130,422	(1,054)
Nondepartmental:				
Transfers to other funds	615,144	747,627	763,796	(16,169)
Total charges to appropriations	<u>7,553,619</u>	<u>9,186,364</u>	<u>8,126,243</u>	<u>1,060,121</u>
Budgetary fund balance June 30, 2021	<u>\$ 15,621,002</u>	<u>\$ 15,939,141</u>	<u>\$ 19,210,516</u>	<u>\$ 3,271,375</u>

**CITY OF NEEDLES  
GENERAL FUND  
RECONCILIATION BETWEEN BUDGETARY AMOUNTS AND GAAP  
FOR THE YEAR ENDED JUNE 30, 2021**

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	\$ 27,336,759
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	(16,080,641)
Transfers in are budgetary resources but are reported as an "Other financing source" and not as a current-year revenue	<u>(1,710,168)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds	<u><u>\$ 9,545,950</u></u>

**Charges to appropriations**

Actual amounts (budgetary basis) from the budgetary comparison schedule	\$ 8,126,243
Transfers out are a budgetary charge to appropriations but are reported as an "Other financing use" and not as a current-year expense	<u>(763,796)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds	<u><u>\$ 7,362,447</u></u>

**CITY OF NEEDLES  
BUDGETARY COMPARISON SCHEDULE  
PUBLIC FINANCING AUTHORITY  
FOR THE YEAR ENDED JUNE 30, 2021**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
Budgetary fund balance July 1, 2018	\$ 162,082	\$ 162,082	\$ 162,082	\$ -
Resources (inflows):				
Use of money and property	-	-	10	(10)
Amounts available for appropriation	162,082	162,082	162,092	(10)
Charges to appropriations (outflows):				
Principal retirement	-	-	130,000	(130,000)
Interest and fiscal charges	-	-	26,625	(26,625)
Total charges to appropriations	-	-	156,625	(156,625)
Budgetary fund balance June 30, 2019	<u>\$ 162,082</u>	<u>\$ 162,082</u>	<u>\$ 5,467</u>	<u>\$ (156,615)</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 \$ 162,092

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 (162,082)

Total revenues as reported on the statement of revenues,  
expenditures, and changes in fund balance - governmental funds \$ 10

**CITY OF NEEDLES**  
Required Supplementary Information  
Pensions - Miscellaneous Plan  
June 30, 2021

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

Last 10 Fiscal years\*

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

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

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

Last 10 Fiscal Years\*

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

Measurement Date	June 30, 2019	June 30, 2020
Actuarially determined contribution	\$ 500,300	\$ 583,707
Contributions in relation to the actuarially determined contribution	500,300	583,707
Contribution deficiency (excess)	\$ -	\$ -
City's covered payroll	\$ 2,366,583	\$ 2,566,584
Contributions as a percentage of covered payroll	21.14%	22.74%

\* 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, 2021

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

Last 10 Fiscal years\*

Measurement Date	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018
City's proportion of the net pension liability	0.00000%	0.00026%	0.00191%	0.00218%	0.00225%
City's proportionate share of the net pension liability	\$0	\$10,757	\$99,001	\$130,042	\$131,962
City's covered payroll	-	-	-	-	-
City's proportionate share of the net pension liability as a percentage of its covered payroll	N/A	N/A	N/A	N/A	N/A
Plan Fiduciary net position as a percentage of the total pension liability	N/A	99.23%	92.89%	91.21%	90.91%
Measurement Date	June 30, 2019	June 30, 2020			
City's proportion of the net pension liability	0.00246%	0.00261%			
City's proportionate share of the net pension liability	\$153,418	\$173,792			
City's covered payroll	-	-			
City's proportionate share of the net pension liability as a percentage of its covered payroll	N/A	N/A			
Plan Fiduciary net position as a percentage of the total pension liability	86.96%	85.17%			

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

Last 10 Fiscal Years\*

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

Last 10 Fiscal years\*

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

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

**OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

To the City Council  
City of Needles, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Needles, California (City), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 5, 2022.

**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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 no instances of noncompliance that are required to be reported under *Government Auditing Standard*.

### **Purpose of this Report**

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

A handwritten signature in black ink that reads "Fechter & Company, CPAs". The signature is written in a cursive, flowing style.

Sacramento, California  
April 5, 2022

**CITY OF NEEDLES, CALIFORNIA**

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2021

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

Financial Statements

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

**SECTION II – FINANCIAL STATEMENT FINDINGS**

None noted.

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

**Finding 2020-001**

**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

Implemented.