

CITY OF NEEDLES, CALIFORNIA

Financial Statements

As of June 30, 2014

Together with

Independent Auditor's Report
And Supplemental Information

CITY OF NEEDLES, CALIFORNIA
Fiscal Year Ended June 30, 2014

TABLE OF CONTENTS

	<u>Page(s)</u>
FINANCIAL SECTION	
Independent Auditor’s Report	1-4
Management’s Discussion and Analysis	5-16
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Position	17
Statement of Activities	18
Fund Financial Statements:	
Balance Sheet - Governmental Funds	19
Reconciliation of Total Governmental Fund Balance To Net Position of Governmental Activities	20
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	22
Combining Statement of Net Position - Proprietary Funds	23
Combining Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	24
Combining Statement of Cash Flows - Proprietary Funds	25
Notes to Financial Statements	26-53
Required Supplemental Information Section:	
Budgetary Comparison Schedule – Major Governmental Funds	54
Notes to Budgetary Comparison Schedule – Major Governmental Funds	55
COMPLIANCE SECTION	
Report Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	56-57
Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	58-59
Schedule of Expenditures of Federal Awards	60-61
Schedule of Findings and Questioned Costs	62

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Needles, California

I 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 (City), as of and for the year ended June 30, 2014, 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

My responsibility is to express opinions on these financial statements based on my audit. I did not audit the financial statements of the Needles Public Utility Authority, the Needles Area Transit fund, and the Dial-a-Ride funds, which represent 96% and 87% of the assets and revenues, respectively, of the business-type activities. I also did not audit the financial statements of the Measure I fund, which represents 3.5% and 0.9% of the assets and revenues, respectively, of the governmental activities. The City of Needles, California engaged other auditors to audit the financial statements of the Measure I fund, and the Needles Area Transit and Dial-a-Ride funds. Those audits have not been completed by the date of this audit report and, accordingly, those funds are unaudited. The financial statements of the Needles Public Utility Authority were audited by other auditors whose reports thereon have been furnished to me, and my opinion, insofar as it relates to the amounts included for the City funds described above, is based on the reports of other auditors. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Basis for Qualified Opinions

As discussed in Note 1 to the financial statements, the amounts reflected as capital assets in the accompanying financial statements do not include capital assets acquired prior to July 1, 1987, nor do they reflect numerous parcels of land owned by the City, which should be included in order to conform to accounting principles generally accepted in the United States of America. The amount that should be recorded is not known. Accordingly, I was unable to satisfy myself as to the amount of capital assets as of June 30, 2014 or the amount of depreciation expense for the year then ended.

The financial statements of the Measure I fund have not been audited, and I was not engaged to audit the financial statements of the Measure I Fund as part of my audit of the City's basic financial statements. The Measure I Fund's financial activities are included in the City's basic financial statements as a governmental special revenue fund and represent 3.5 percent, 9.64 percent, and 0.09 percent of the assets, net position, and revenues, respectively, of the City's aggregate governmental activities.

The financial statements of the Needles Area Transit and Dial-a-Ride funds (the "Funds") have not been audited, and I was not engaged to audit the financial statements of the Funds as part of my audit of the City's basic financial statements. The Funds' financial activities are included in the City's basic financial statements as a proprietary funds and represent 1.28 percent, 6.96 percent, and 3.04 percent of the assets, net position, and revenues, respectively, of the City's aggregate business activities.

The financial statements of Needles Hospital (a component unit) have not been audited, and I was not engaged to audit the Needles Hospital financial statements as part of my audit of the City's basic financial statements. Other auditors were engaged to audit the Needles Hospital, but that audit has not been completed. The financial statements of Needles Hospital are not included in the accompanying basic financial statements for the City.

Qualified Opinions

In my opinion, except for the effects of the matters described in the “Basis for Qualified Opinions” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Needles, California, as of June 30, 2014, 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 and budgetary comparison information on pages 5-16 and 51–52 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.

I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In my opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated March 1, 2015, on my consideration of the City of Needles, California's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Needles, California's internal control over financial reporting and compliance.

/s/Michael P. Burger,CPA
Needles, California
March 1, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the financial statements, the City's management presents this discussion and analysis of the City's financial performance for the fiscal year ended June 30, 2014. The financial statements and footnotes follow this section, and should be read in conjunction with this discussion and analysis.

Financial Highlights

- The City's net position (excess of assets and deferred outflows of resources over liabilities and deferred inflows of resources) increased from \$19.08 million to \$23.84 million for the fiscal year. General governmental operations experienced an increase of about \$3.5 million, including transfers from business type activities of more than \$1.3 million. The change in net position resulting from business type activities for the fiscal year was a negative \$778,536. This includes transfers to the governmental activities of \$1,314,734.
- Total net position comprises the following:
 - (1) Capital assets, net of related debt, of \$19.35 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 \$5.9 million that is restricted as to their use by outside factors such as debt covenants, grantors, laws, or regulations
 - (3) Net position of negative \$1,452,009 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 \$8,201,900 at June 30, 2014. This represents a decrease of \$83,153 for the fiscal year, plus prior year adjustments that increased the fund balances by \$1,137,773.
- The City's total liabilities decreased from \$34.5 million to \$30.4 million. The bank overdraft reflected on the financial statements is simply a result of allocating cash balances to the various funds, and does not represent negative balances in bank accounts. There were no new debt obligations issued during the fiscal year.

Overview of the Financial Statements

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

Government-wide Financial Statements

The City's reporting package includes two financial statements at the government-wide level: (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 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.

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, the Needles Public Financing Authority, and the El Garces rehabilitation project fund.

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, the Needles Public Financing Authority, and the El Garces rehabilitation project fund. 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.

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

CITY OF NEEDLES, CALIFORNIA MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

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 assets. The City's net position, increased by about \$3.7 million primarily because of an increase in tax revenues of about \$300,000, significant grant funds received, and a decrease in expenditures of about \$700,000.

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, 2014:

	Governmental		Business-type		Totals		Amount Change	% Change
	Activities		Activities					
	2014	2013	2014	2013	2014	2013		
Current and other assets	\$ 11,242,028	10,856,729	12,489,986	14,952,130	23,732,014	25,808,859	(2,076,845)	-8.0%
Capital assets	<u>17,340,583</u>	<u>14,050,900</u>	<u>13,464,864</u>	<u>13,747,172</u>	<u>30,805,447</u>	<u>27,798,072</u>	<u>3,007,375</u>	<u>10.8%</u>
Total assets	28,582,611	24,907,629	25,954,850	28,699,302	54,537,461	53,606,931	930,530	1.7%
Long-term liabilities	4,732,364	5,077,157	18,105,918	18,882,508	22,838,282	23,959,665	(1,121,383)	-4.7%
Other liabilities	<u>3,836,306</u>	<u>4,762,923</u>	<u>3,749,067</u>	<u>5,803,007</u>	<u>7,585,373</u>	<u>10,565,930</u>	<u>(2,980,557)</u>	<u>-28.2%</u>
Total liabilities	8,568,670	9,840,080	21,854,985	24,685,515	30,423,655	34,525,595	(4,101,940)	-11.9%
Deferred inflows of resources	269,643	-	-	-	269,643	-	269,643	
Net position:								
Invested in capital assets, net of related debt	17,340,583	14,050,900	2,010,482	2,259,441	19,351,065	16,310,341	3,040,724	18.6%
Restricted	5,945,107	5,028,139	-	-	5,945,107	5,028,139	916,968	18.2%
Unrestricted	<u>(3,541,392)</u>	<u>(4,011,490)</u>	<u>2,089,383</u>	<u>1,754,346</u>	<u>(1,452,009)</u>	<u>(2,257,144)</u>	<u>805,135</u>	<u>-35.7%</u>
Total net position	\$ <u>19,744,298</u>	<u>15,067,549</u>	<u>4,099,865</u>	<u>4,013,787</u>	<u>23,844,163</u>	<u>19,081,336</u>	<u>4,762,827</u>	<u>25.0%</u>

Net position was positive for both governmental activities and business-type activities in 2013 and 2014. Overall, net position increased by about \$4.76 million. The decrease in net assets from business-type activities was about \$778,000. There were transfers to governmental funds of just over \$1.3 million so the actual operating results of the business-type activities, excluding the transfers, was a positive \$536,198.

Governmental activities expenses decreased by about \$600,000 and program revenues increased by about \$2.9 million. This was combined with an increase in general revenues of about

CITY OF NEEDLES, CALIFORNIA MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

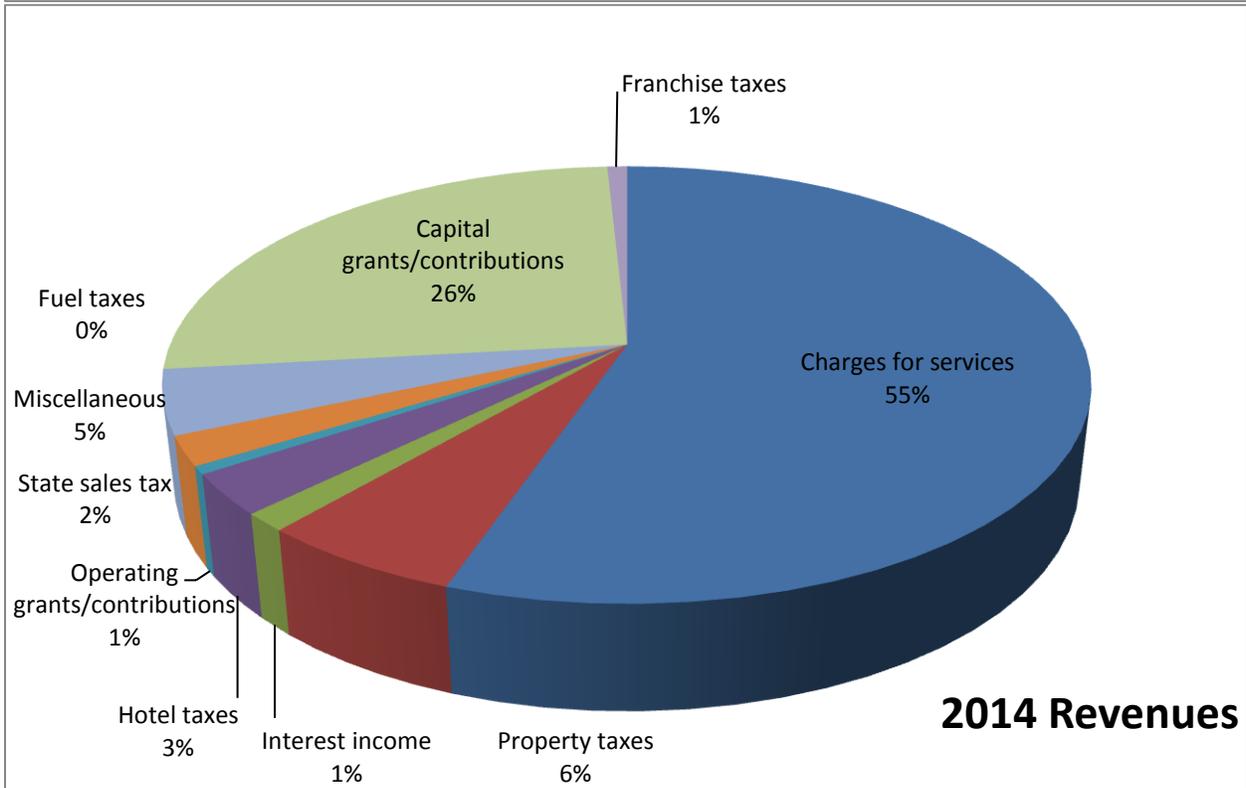
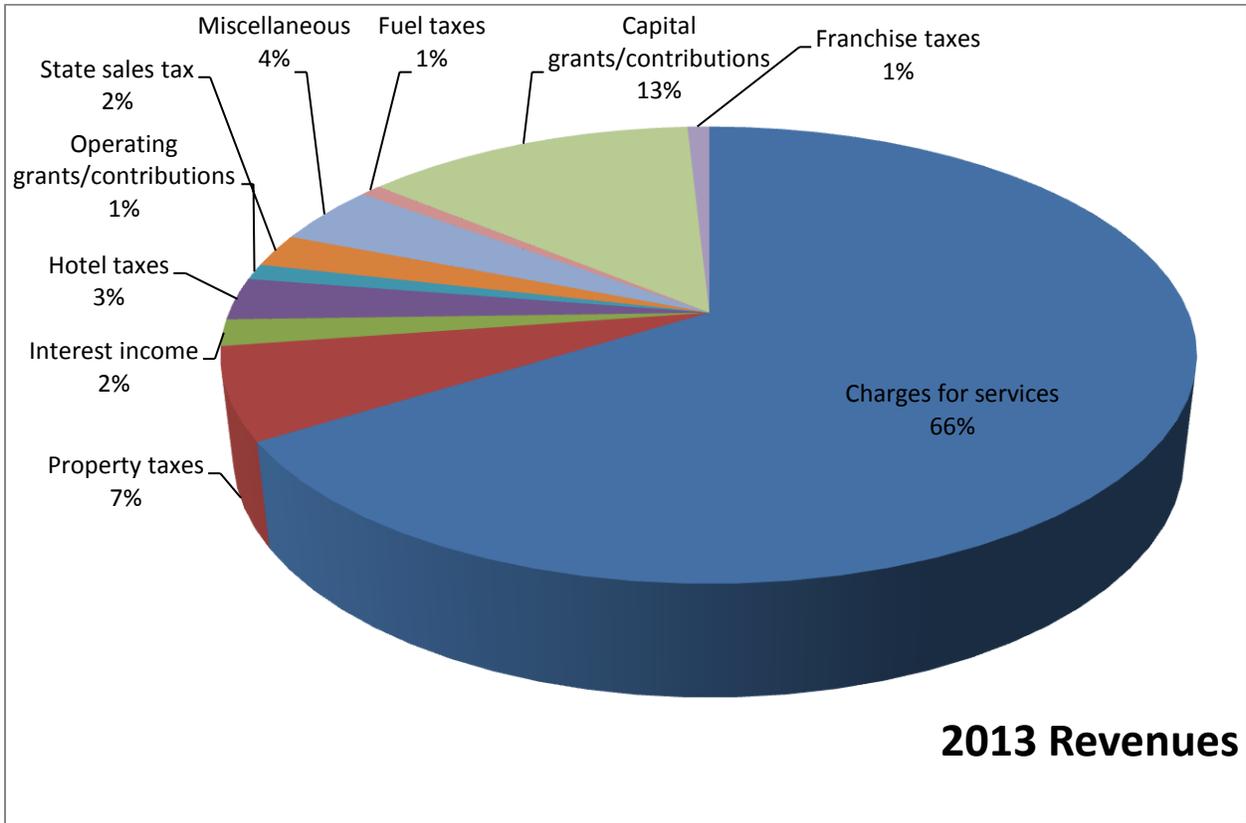
\$150,000. Property taxes and transient occupancy taxes continued to play a significant role in the City's results, totaling nearly \$1.8 million in revenues for fiscal year 2014. This represents an increase of about \$114,000 from the previous fiscal year.

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, 2014:

Summary of Changes in Net Position

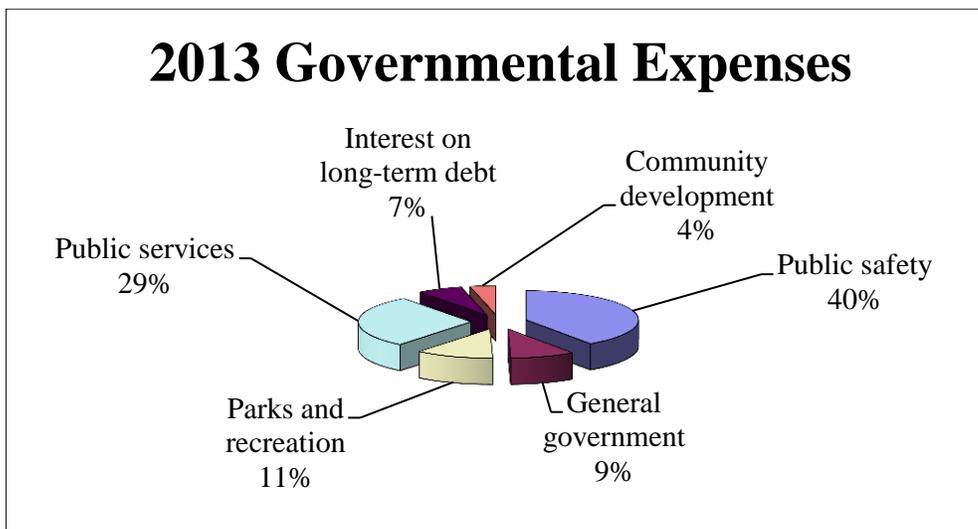
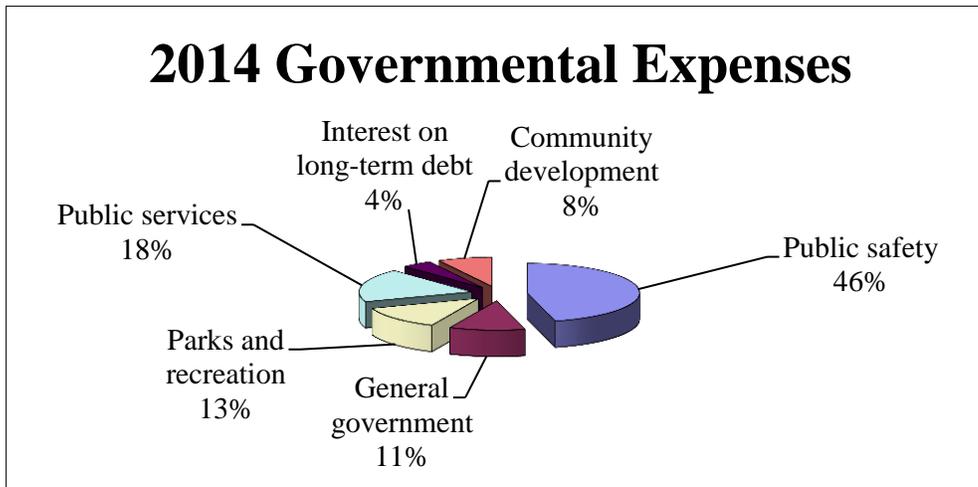
	Governmental		Business-type		Totals		Amount Change	% Change
	Activities		Activities					
	2014	2013	2014	2013	2014	2013		
Revenues:								
Program revenues								
Charges for services	415,505	348,659	10,483,158	11,210,469	10,898,663	11,559,128	(660,465)	-5.71%
Operating grants and contributions	116,049	196,415	-	-	116,049	196,415	(80,366)	-40.92%
Capital grants and contributions	4,639,458	1,713,736	482,393	579,670	5,121,851	2,293,406	2,828,445	123.33%
General revenues								
Property taxes	1,195,529	1,138,264	-	-	1,195,529	1,138,264	57,265	5.03%
Transient occupancy taxes	589,166	522,156	-	-	589,166	522,156	67,010	12.83%
Sales taxes	425,423	410,115	-	-	425,423	410,115	15,308	3.73%
Fuel taxes	-	146,000	-	-	-	146,000	(146,000)	-100.00%
Franchise taxes	162,980	151,040	-	-	162,980	151,040	11,940	7.91%
Investment earnings	264,390	319,726	11,043	8,369	275,433	328,095	(52,662)	-16.05%
Other	925,984	734,937	810,763	-	1,736,747	734,937	1,001,810	136.31%
Total revenues	8,734,484	5,681,048	11,787,357	11,798,508	20,521,841	17,479,556	3,042,285	17.40%
Expenses:								
General government	704,110	660,874	-	-	704,110	660,874	43,236	6.54%
Public safety	2,997,278	2,862,441	-	-	2,997,278	2,862,441	134,837	4.71%
Public services	1,186,401	2,060,425	-	-	1,186,401	2,060,425	(874,024)	-42.42%
Parks and recreation	832,466	795,515	-	-	832,466	795,515	36,951	4.64%
Community development	512,171	262,381	-	-	512,171	262,381	249,790	95.20%
Interest on long-term debt	277,388	461,007	-	-	277,388	461,007	(183,619)	-39.83%
Public utility authority	-	-	9,220,772	9,468,418	9,220,772	9,468,418	(247,646)	-2.62%
Golf course	-	-	858,707	807,577	858,707	807,577	51,130	6.33%
Other	-	-	1,171,680	1,139,018	1,171,680	1,139,018	32,662	2.87%
Total expenses	6,509,814	7,102,643	11,251,159	11,415,013	17,760,973	18,517,656	(756,683)	-4.09%
Increase (decrease) in net position before transfers	2,224,670	(1,421,595)	536,198	383,495	2,760,868	(1,038,100)	3,798,968	-365.95%
Transfers	1,314,734	1,738,399	(1,314,734)	(1,738,399)	-	-	-	
Change in net position	3,539,404	316,804	(778,536)	(1,354,904)	2,760,868	(1,038,100)	3,798,968	-365.95%
Beginning net position (as adjusted)	16,204,894	14,750,746	4,878,401	5,368,691	21,083,295	20,119,437	963,858	4.79%
Ending net position	19,744,298	15,067,550	4,099,865	4,013,787	23,844,163	19,081,337	4,762,826	24.96%

The following charts show graphic representations of the City's revenues for the fiscal years ended June 30, 2014 and 2013:



As displayed in the charts above and discussed previously, the revenues from the public utility authority are very significant for the City, making up 55% of all revenues in 2014 and 2013.

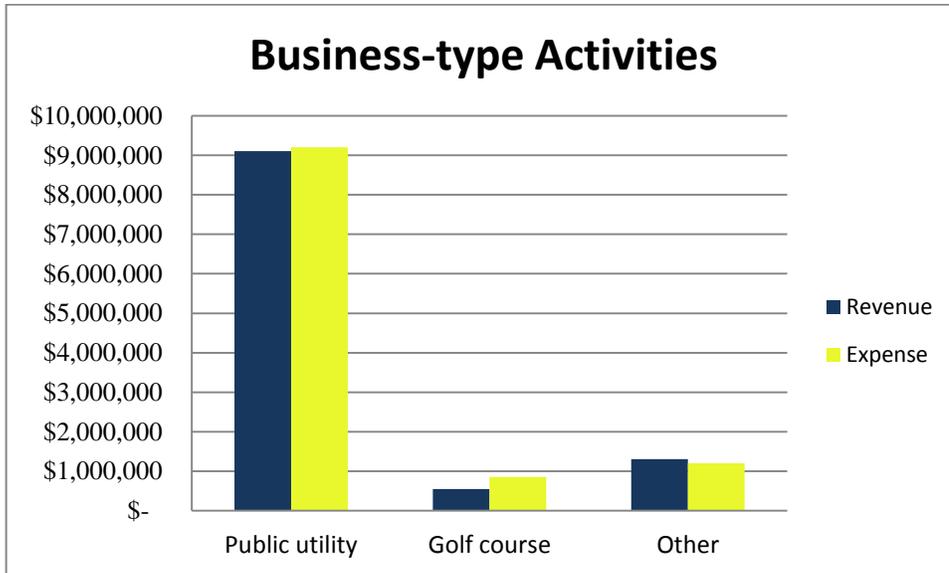
The following charts show graphic representations of the City's governmental functional expenses for the fiscal years ended June 30, 2014 and 2013:



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, a skate park, and the cemetery.

The City has spent roughly \$12 million to rehabilitate the historic El Garces train station. This rehabilitation has been funded primarily through grants. The government-wide financial statements report capital outlays as capital assets and not as expenses.

The following chart depicts the operating revenues and expenses of the City's business-type activities for the year ended June 30, 2014:



The public utility authority contributes the majority of the City’s revenues, and produced operating income of about \$222,000. Interest expense of \$1.19 million on the bonds issued to finance the acquisition of the utility and transfers out of about \$1.4 million (including purchase payments of \$1,085,300 and franchise fees) figured into the public utility’s decrease in net position of about \$2.4 million for the fiscal year. There was an adjustment of beginning net position of about \$1.2 million that offset the 2014 results.

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. All business-type activities reflected an excess of expenses over revenues for the fiscal year ended June 30, 2014.

Financial Analysis of the City’s Funds

Governmental funds

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

City officials compare these available resources to the upcoming financial obligations. The ending fund balance for governmental funds at June 30, 2014 was \$8,201,900. Of this total, \$1,285,860 was unassigned and is available to fund any City requirements. Nonspendable fund balances of \$313,982 represent assets that cannot be converted to cash, such as inventory, prepaid expenses and land held for resale.

There are restricted fund balances totaling \$4,681,404, including \$2,748,038 for debt service and \$1,933,366 restricted for the specific purposes of the related funds. Fund balances of \$1,914,714 are considered committed and include advances to other funds of \$1,626,473.

Governmental fund balances decreased by \$83,153 from the previous year. Expenses actually exceeded revenues by about \$1.4 million. This was offset by incoming transfers, primarily from the public utility authority for the purchase payment and franchise fees.

Major Governmental Funds

The City's General Fund is the primary governmental fund in use, and accounts for about 35% of governmental revenues and about 51% of governmental expenses. The General Fund's fund balance decreased by over \$600,000 from the previous year. General Fund revenues increased by \$124,000 and expenses increased by about \$350,000.

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 \$57,197 during the fiscal year, ending at \$2,748,038.

The El Garces rehabilitation project fund serves to accumulate funds to be used for the renovation of the historic train station and hotel one block north of Broadway. The rehabilitation project is being funded largely with Federal grant funds. This fund expended \$3,503,933 for capital improvements during the fiscal year.

Other Governmental Funds

All other governmental funds are considered non-major. Such funds include special revenue funds, debt service funds, and capital projects funds. Together, these funds experienced an increase in fund balances of \$67,245. Total ending fund balances for these funds was \$2,605,113.

Proprietary funds

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

Major Proprietary Funds

The Needles Public Utility Authority (NPUA) is by far the most significant fund for the City, comprising 43.5% of total assets and about 55% 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 \$3.33 million in revenues (excluding transfers) and \$5.18 million in expenses (excluding transfers but including capital outlays). The budget was amended once during the fiscal year. The amended budget included \$3.37 million in revenues and about \$5.13 million in expenses. There was a decrease in budgeted expenses for the city attorney, and an increase in expenses for streets.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2014 the City had about \$30.8 million invested in capital assets, \$17.34 million of which was in governmental activities and \$13.46 million of which was in business-type activities. This represents an overall increase of about \$3.01 million, or about 11%. The increase in capital assets in the governmental activities was about \$3.3 million. The net decrease in capital assets in the business-type activities was about \$280,000.

The most significant addition during the year ended June 30, 2014 was with the El Garces rehabilitation project. 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

	Governmental Activities		Business-type activities		Totals		Amount	%
	2014	2013	2014	2013	2014	2013	Change	Change
Non-depreciable assets:								
Construction in progress	\$ 10,375,123	6,870,529	-	-	10,375,123	6,870,529	3,504,594	51.01%
Land and infrastructure	5,147,379	5,354,880	292,621	292,621	5,440,000	5,647,501	(207,501)	-3.67%
Depreciable assets:								
Buildings and improvements	1,684,292	1,784,150	45,744	88,341	1,730,036	1,872,491	(142,455)	-7.61%
Equipment and vehicles	133,790	41,341	13,126,499	13,366,210	13,260,289	13,407,551	(147,262)	-1.10%
Total	\$ 17,340,584	14,050,900	13,464,864	13,747,172	30,805,448	27,798,072	3,007,376	10.82%

Long-term debt

At the end of the fiscal year, the City's total long-term debt obligations were \$23.55 million. Of this total, \$4.88 million is in the governmental activities and \$18.67 million is in the business-type activities.

The governmental activities debt includes advances to the Needles Redevelopment Agency (RDA) for the purchase of land and for operations. Repayment of these debts is expected from tax increment revenues.

Further, there is a balance of \$1.035 million 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, 2014 and 2013:

OUTSTANDING LONG-TERM OBLIGATIONS

	<u>Governmental Activities</u>		<u>Business-type activities</u>		<u>Totals</u>		<u>Amount</u>	<u>%</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Change</u>
Advances to RDA	\$ 1,426,475	1,626,473	-	-	1,426,475	1,626,473	(199,998)	-12.30%
Tax allocation bonds	1,035,000	1,115,000	-	-	1,035,000	1,115,000	(80,000)	-7.17%
Certificates of participation	2,415,682	2,472,873	-	-	2,415,682	2,472,873	(57,191)	-2.31%
Revenue bonds	-	-	15,811,644	16,261,629	15,811,644	16,261,629	(449,985)	-2.77%
Sanitation note payable	-	-	447,361	665,195	447,361	665,195	(217,834)	-32.75%
NPUA notes payable	-	-	2,415,682	2,472,873	2,415,682	2,472,873	(57,191)	-2.31%
Total	\$ 4,877,157	5,214,346	18,674,687	19,399,697	23,551,844	24,614,043	(1,062,199)	-4.32%

Economic Conditions and Budgeting

The City's population has been about the same (roughly 5,000) for many years. The City has been both positively and negatively impacted by the real estate market trends that occurred over the past ten to twelve years. First, for the fiscal years ended June 30, 2003 to 2006 the rapid rise in real estate values, the ease of obtaining mortgages, and speculation had a positive impact on the City. Tax collections related to real estate activities rose, and the City benefited. Real property values in and around the City have declined dramatically from the peak, and property values in neighboring states have declined even more severely.

The City has rehabilitating an historic train station known as the El Garces Train Depot (EGTD). The total cost of the rehabilitation is more than \$12 million. EGTD is listed on the National Register of Historic Places. This project is anticipated to be the economic engine that will drive the redevelopment of the Needles downtown area.

The project has been funded largely through United States Department of Transportation grant funding, with about \$900,000 in California state funds also approved for this project. The Federal grant funds require a twenty percent (20%) local match, which is being met by using City labor and contributions from the public utility authority. The project was nearly complete as of June 30, 2014 and is actually available to interested parties for short or long term leases.

The City is proceeding with the engineering design of the I-40/AZ 95 Interconnect project for which \$4.8 million in Federal Transit Authority funding has been awarded. The County of San Bernardino is contributing \$628,000 through a grant and a loan for the local matching funds.

The project will include the widening of J Street north of Interstate 40, Needles Highway between Broadway and K Street, and K Street between Needles Highway and the bridge over the Colorado River. Four intersections will have traffic signals installed.

The City has completed a revenue and cost analysis, which has been used in the adoption of an updated personal choice public service fee schedule. In addition, the City has completed a master facilities plan for all future City infrastructure needs, leading to the adoption of a development impact fee schedule.

Contacting the City's Financial Management

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

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

CITY OF NEEDLES, CALIFORNIA
STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and investments	\$ 5,373,651	6,813,688	12,187,339
Restricted cash	25,152	-	25,152
Cash and investments with fiscal agents	-	2,149,032	2,149,032
Accounts receivable, net	3,902,476	383,978	4,286,454
Inventory	8,953	727,544	736,497
Prepaid items	123,169	434,560	557,729
Land held for resale	182,153	-	182,153
Intangible assets	-	1,981,184	1,981,184
Capital assets, net	17,340,584	13,464,864	30,805,448
Advances to other funds	<u>1,626,473</u>	<u>-</u>	<u>1,626,473</u>
Total assets and other debits	<u>\$ 28,582,611</u>	<u>25,954,850</u>	<u>54,537,461</u>
LIABILITIES			
Bank overdraft	\$ 1,577,416	1,434,188	3,011,604
Accounts payable	1,152,777	1,347,697	2,500,474
Deposits payable	-	123,364	123,364
Other liabilities	-	10,175	10,175
Compensated absences	277,958	264,874	542,832
Accrued interest on advances from other funds	583,362	-	583,362
Estimated claims liability	100,000	-	100,000
Long-term liabilities:			
Due within one year	144,793	568,769	713,562
Due in more than one year	<u>4,732,364</u>	<u>18,105,918</u>	<u>22,838,282</u>
Total liabilities	8,568,670	21,854,985	30,423,655
DEFERRED INFLOWS OF RESOURCES			
Revenues not available to fund current obligations	269,643	-	269,643
NET POSITION			
Invested in capital assets, net of related debt	17,340,584	2,010,482	19,351,066
Restricted for:			
Capital projects	862,946	-	862,946
Debt service	3,995,704	-	3,995,704
Community development projects	1,086,457	-	1,086,457
Unrestricted (deficit)	<u>(3,541,392)</u>	<u>2,089,383</u>	<u>(1,452,009)</u>
Total net position	<u>\$ 19,744,299</u>	<u>4,099,865</u>	<u>23,844,164</u>

See accompanying notes to the basic financial statements.

CITY OF NEEDLES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

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
PRIMARY GOVERNMENT:							
Governmental activities:							
General government	\$ 704,110	415,505	2,495	-	(286,110)	-	(286,110)
Public safety	2,997,278	-	113,554	-	(2,883,724)	-	(2,883,724)
Public works	1,186,401	-	-	-	(1,186,401)	-	(1,186,401)
Parks and recreation	832,466	-	-	4,639,458	3,806,992	-	3,806,992
Community development	512,171	-	-	-	(512,171)	-	(512,171)
Interest on long-term debt	277,388	-	-	-	(277,388)	-	(277,388)
Total governmental activities	<u>6,509,814</u>	<u>415,505</u>	<u>116,049</u>	<u>4,639,458</u>	<u>(1,338,802)</u>	<u>-</u>	<u>(1,338,802)</u>
Business-type activities:							
Public utility authority	9,220,772	8,918,032	-	187,032	-	(115,708)	(115,708)
Santitation	965,480	973,571	-	-	-	8,091	8,091
Golf course	858,707	553,589	-	-	-	(305,118)	(305,118)
Transit	206,200	37,966	-	295,361	-	127,127	127,127
Total business-type activities	<u>11,251,159</u>	<u>10,483,158</u>	<u>-</u>	<u>482,393</u>	<u>-</u>	<u>(285,608)</u>	<u>(285,608)</u>
Total primary government	<u>\$ 17,760,973</u>	<u>10,898,663</u>	<u>116,049</u>	<u>5,121,851</u>	<u>(1,338,802)</u>	<u>(285,608)</u>	<u>(1,624,410)</u>
General revenues:							
Taxes:							
Property taxes					1,195,529	-	1,195,529
Hotel taxes					589,166	-	589,166
Fuel taxes					-	-	-
State sales tax					425,423	-	425,423
Franchise taxes					162,980	-	162,980
Other taxes					56,621	-	56,621
Interest revenue					264,390	11,043	275,433
Miscellaneous					869,364	810,763	1,680,127
Transfers					1,314,734	(1,314,734)	-
Total general revenues, special items, and transfers					<u>4,878,207</u>	<u>(492,928)</u>	<u>4,385,279</u>
Change in net position					3,539,405	(778,536)	2,760,869
Net position - beginning, as previously reported					15,067,121	3,794,543	18,861,664
Prior year adjustments					<u>1,137,773</u>	<u>1,083,858</u>	<u>2,221,631</u>
Net position - beginning, as restated					<u>16,204,894</u>	<u>4,878,401</u>	<u>21,083,295</u>
Net position - ending					<u>\$ 19,744,299</u>	<u>4,099,865</u>	<u>23,844,164</u>

See accompanying notes to the basic financial statements.

CITY OF NEEDLES, CALIFORNIA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Public Financing Authority	El Garces Project	Other Governmental Funds	Total Governmental Funds
ASSETS AND OTHER DEBITS					
Cash and investments	\$ 1,680,715	332,356	-	3,360,580	5,373,651
Restricted cash	25,152	-	-	-	25,152
Accounts receivable, net	110,518	2,415,682	-	-	2,526,200
Interest receivable	-	-	-	-	-
Due from other funds	1,083,930	44,674	-	247,672	1,376,276
Due from other governments	-	-	-	-	-
Inventory	8,953	-	-	-	8,953
Prepaid items	115,097	-	-	8,073	123,170
Land held for resale	-	-	-	182,153	182,153
Advances to other funds	1,626,473	-	-	-	1,626,473
Total assets and other debits	<u>\$ 4,650,838</u>	<u>2,792,712</u>	<u>-</u>	<u>3,798,478</u>	<u>11,242,028</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, EQUITY AND OTHER CREDITS					
Liabilities:					
Bank overdraft	\$ 646,207	-	298,076	633,133	1,577,416
Accounts payable	285,018	-	76	14,240	299,334
Accrued liabilities	161,151	-	-	285,118	446,269
Due to other funds	163,546	-	-	-	163,546
Due to other governments	-	44,674	-	239,246	283,920
Total liabilities	<u>1,255,922</u>	<u>44,674</u>	<u>298,152</u>	<u>1,171,737</u>	<u>2,770,485</u>
Deferred inflows of resources:					
Revenues not available to fund current obligation	<u>248,015</u>	<u>-</u>	<u>-</u>	<u>21,628</u>	<u>269,643</u>
Equity and other credits:					
Fund balances - nonspendable	124,050	-	-	189,932	313,982
Fund balances - restricted	-	2,748,038	-	1,933,366	4,681,404
Fund balances - committed	1,736,991	-	-	177,723	1,914,714
Fund balances - assigned	-	-	(298,152)	304,092	5,940
Fund balances - unassigned	1,285,860	-	-	-	1,285,860
Total equity and other credits	<u>3,146,901</u>	<u>2,748,038</u>	<u>(298,152)</u>	<u>2,605,113</u>	<u>8,201,900</u>
Total liabilities, deferred inflows of resources, equity and other credits	<u>\$ 4,650,838</u>	<u>2,792,712</u>	<u>-</u>	<u>3,798,478</u>	<u>11,242,028</u>

See accompanying notes to the basic financial statements.

CITY OF NEEDLES, CALIFORNIA
RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES

June 30, 2014

Fund balances - total governmental funds \$ 8,201,900

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

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

Governmental capital assets	\$ 23,720,850	
Less: Accumulated depreciation	<u>6,380,269</u>	
		17,340,582

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

Compensated absences	277,958	
Bonds payable, net	1,115,000	
Certificates of participation	2,472,874	
Advances from other funds	2,209,836	
Estimated claims liability	100,000	
Less: current year principal payments	<u>(377,485)</u>	
		<u>(5,798,183)</u>

Net assets of governmental activities **\$ 19,744,299**

See accompanying notes to the basic financial statements.

CITY OF NEEDLES, CALIFORNIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General	Public Financing Authority	El Garces Project	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes	\$ 1,850,526	-	-	416,213	2,266,739
Licenses, permits and fees	218,176	-	-	-	218,176
Intergovernmental	430,929	-	4,037,419	1,005,910	5,474,258
Charges for services	315,677	-	-	22,300	337,977
Fines and forfeitures	22,332	-	-	-	22,332
Use of money and property	61,528	190,762	3,300	8,800	264,390
Other revenues	132,055	-	-	18,556	150,611
Total revenues	3,031,223	190,762	4,040,719	1,471,779	8,734,483
EXPENDITURES:					
Current:					
General government	694,693	-	-	-	694,693
Public safety	2,838,832	-	-	114,992	2,953,824
Public works	677,108	-	-	490,371	1,167,479
Parks and recreation	615,471	-	-	46,425	661,896
Community development	287,502	-	2,538	213,121	503,161
Capital outlay	35,344	-	3,501,395	-	3,536,739
Debt service:					
Principal retirement	-	57,191	-	280,000	337,191
Interest and fiscal charges	-	190,768	-	86,619	277,387
Total expenditures	5,148,950	247,959	3,503,933	1,231,528	10,132,370
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,117,727)	(57,197)	536,786	240,251	(1,397,887)
Other Financing Sources (Uses):					
Operating transfers in	1,739,140	-	-	121,000	1,860,140
Operating transfers out	(251,400)	-	-	(294,006)	(545,406)
Total other financing sources (uses)	1,487,740	-	-	(173,006)	1,314,734
Excess (Deficiency) of Revenues and Other Financing Sources Over (under) Expenditures and Other Financing Uses	(629,987)	(57,197)	536,786	67,245	(83,153)
FUND BALANCE, JULY 1, 2013	3,009,249	2,805,235	(1,054,608)	2,387,404	7,147,280
Prior year adjustments	767,639	-	219,670	150,464	1,137,773
FUND BALANCE, JUNE 30, 2014	\$ 3,146,901	2,748,038	(298,152)	2,605,113	8,201,900

See accompanying notes to the basic financial statements.

CITY OF NEEDLES, CALIFORNIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

Net change in fund balances - total governmental funds	\$ (83,153)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	3,289,683
Expenditures in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the funds. This includes the increase in the liability for compensated absences and interest on a capital lease obligation.	(4,317)
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 assets.	<u>337,192</u>
Change in net assets of governmental activities	<u>\$ 3,539,405</u>

See accompanying notes to the basic financial statements.

CITY OF NEEDLES, CALIFORNIA
COMBINING STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds
ASSETS					
Current assets:					
Cash and investments	\$ 4,848,024	189,971	78,792	72,820	5,189,607
Accounts receivable, net	-	134,063	-	25	134,088
Interest receivable	167,982	-	-	-	167,982
Due from other funds	1,115,469	-	-	-	1,115,469
Due from other governments	-	-	-	81,908	81,908
Inventory	706,481	-	21,063	-	727,544
Prepaid expenses	-	-	56,360	709	57,069
Total current assets	6,837,956	324,034	156,215	155,462	7,473,667
Non-current assets:					
Cash and investments with fiscal agents	2,149,032	-	-	-	2,149,032
Deferred bond issuance costs, net	-	-	-	-	-
Intangible assets	1,981,184	-	-	-	1,981,184
Fixed assets, net	13,176,887	-	131,259	196,883	13,505,029
Total assets	\$ 24,145,059	324,034	287,474	352,345	25,108,912
LIABILITIES					
Current liabilities:					
Bank overdraft	\$ -	-	1,310,139	13,330	1,323,469
Accounts payable	576,043	68,223	175,240	483	819,989
Due to other funds	2,426,563	1,083,930	-	-	3,510,493
Compensated absences	264,874	-	-	-	264,874
Capital lease obligation - current	-	-	-	-	-
Notes payable - current	-	-	-	-	-
Bonds payable - current	474,745	-	-	-	474,745
Other liabilities	-	-	-	-	-
Total current liabilities	3,742,225	1,152,153	1,485,379	13,813	6,393,570
Non-current liabilities:					
Deposits	123,364	-	-	-	123,364
Deferred revenue	-	-	-	10,175	10,175
Capital lease obligation - long-term	-	-	-	-	-
Notes payable - long-term	2,355,890	447,361	-	-	2,803,251
Bonds payable - long-term	15,380,332	-	-	-	15,380,332
Total liabilities	21,601,811	1,599,514	1,485,379	23,988	24,710,692
NET POSITION					
Invested in capital assets, net of related debt	-	-	131,259	196,883	328,142
Unrestricted	2,543,248	(1,275,480)	(1,329,164)	131,474	70,078
Total Net Position	\$ 2,543,248	(1,275,480)	(1,197,905)	328,357	398,220

See accompanying notes to the basic financial statements.

CITY OF NEEDLES, CALIFORNIA
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2014

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds
OPERATING REVENUES					
Charges for services-Public Utility Authority	\$ 8,369,217	-	-	-	8,369,217
Charges for services-Other enterprise funds	-	973,571	553,589	37,966	1,565,126
Government grants	187,032	-	-	295,361	482,393
Other fees and sales	-	-	-	-	-
Other revenues	548,815	-	-	-	548,815
Total operating revenues	9,105,064	973,571	553,589	333,327	10,965,551
OPERATING EXPENSES					
Personnel costs	(20,887)	-	440,331	14,680	434,124
Contractual services	-	814,030	-	240,833	1,054,863
Power and utilities	-	-	-	-	-
Maintenance and operations	7,558,027	120,000	378,834	116,030	8,172,891
Administrative and management	15,909	312	-	4,703	20,924
Insurance	-	-	19,638	175	19,813
Depreciation and amortization	977,271	-	19,904	-	997,175
Provision for bad debt	353,171	31,138	-	-	384,309
Total operating expenses	8,883,491	965,480	858,707	376,421	11,084,099
OPERATING INCOME	221,573	8,091	(305,118)	(43,094)	(118,548)
NONOPERATING REVENUES (EXPENSES)					
Interest revenue	9,582	-	-	1,243	10,825
Interest expense and fiscal charges	(1,186,869)	-	-	-	(1,186,869)
Income from reduction of landfill debt obligation	-	811,331	-	-	811,331
Lease termination income	-	-	-	-	-
Bond issue costs	-	-	-	-	-
Total nonoperating revenues (expenses)	(1,177,287)	811,331	-	1,243	(364,713)
INCOME BEFORE OPERATING TRANSFERS	(955,714)	819,422	(305,118)	(41,851)	(483,261)
Operating transfers in	564,000	-	230,400	11,110	805,510
Operating transfers out	(1,984,120)	(120,000)	-	(16,692)	(2,120,812)
Net operating transfers in (out)	(1,420,120)	(120,000)	230,400	(5,582)	(1,315,302)
Change in net assets	(2,375,834)	699,422	(74,718)	(47,433)	(1,798,563)
Net Position July 1, 2013, as previously reported	3,645,261	(1,974,902)	(1,131,789)	401,965	940,535
Prior year adjustments	1,273,821	-	8,602	(26,175)	1,256,248
Net Position July 1, 2013, as restated	4,919,082	(1,974,902)	(1,123,187)	375,790	2,196,783
Net Position, June 30, 2014	\$ 2,543,248	(1,275,480)	(1,197,905)	328,357	398,220

See accompanying notes to the basic financial statements.

CITY OF NEEDLES, CALIFORNIA
 COMBINING STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Fiscal Year Ended June 30, 2014

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds
Cash Flows From Operating Activities:					
Cash collected from customers	\$ 9,765,098	975,306	553,589	349,458	11,643,451
Cash payments to suppliers for goods and services	(6,468,728)	(119,307)	(379,691)	(169,154)	(7,136,880)
Cash payments to employees and professional contractors for services	20,887	(814,030)	(440,331)	(255,513)	(1,488,987)
Payments for internal services	-	-	-	-	-
Other operating revenues	548,815	-	-	-	548,815
Net cash provided by (used in) operating activities	3,866,072	41,969	(266,433)	(75,209)	3,566,399
Cash Flows From Noncapital Financing Activities:					
Decrease in due from other funds	(848,456)	-	-	-	(848,456)
Increase (decrease) in due to other funds	706,038	240,000	-	-	946,038
Operating transfers in	564,000	-	230,400	11,110	805,510
Operating transfers out	(1,984,120)	(120,000)	-	(16,692)	(2,120,812)
Net cash provided by (used in) noncapital financing activities	(1,562,538)	120,000	230,400	(5,582)	(1,217,720)
Cash Flows from Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(951,809)	-	(24,423)	68,502	(907,730)
Principal paid on bonds payable	(30,863)	-	-	-	(30,863)
Principal paid on notes payable	(111,088)	-	-	-	(111,088)
Principal paid on capital lease obligations	-	-	-	-	-
Interest paid	(1,186,869)	-	-	-	(1,186,869)
Net cash provided by (used in) capital and related financing activities	(2,280,629)	-	(24,423)	68,502	(2,236,550)
Cash Flows from Investing Activities:					
Cash deposited with fiscal agent	(2,429)	-	-	-	(2,429)
Interest on investments	9,583	-	-	1,243	10,826
Net cash provided by (used in) investing activities	7,154	-	-	1,243	8,397
Net increase (decrease) in cash and cash equivalents	30,059	161,969	(60,456)	(11,046)	120,526
Cash And Cash Equivalents (net of bank overdraft), July 1, 2013	4,817,965	28,002	(1,170,891)	70,536	3,745,612
Cash And Cash Equivalents (net of bank overdraft), June 30, 2014	\$ 4,848,024	189,971	(1,231,347)	59,490	3,866,138
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	\$ 221,573	8,091	(305,118)	(43,094)	(118,548)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization of fixed assets	977,271	-	19,904	-	997,175
Bad debt expense	353,171	31,138	-	-	384,309
Adjustment of beginning balances	1,273,821	-	8,602	(26,175)	1,256,248
Changes in assets and liabilities:					
Decrease (increase) in accounts receivable	1,208,849	1,735	-	-	1,210,584
Decrease in due from other governments	-	-	-	30,141	30,141
(Increase) Decrease in inventory	15,910	-	8,581	-	24,491
Decrease (increase) in prepaid expenses	-	-	(15,842)	(137)	(15,979)
Increase (decrease) in accounts payable	(52,976)	1,505	154,589	(21,934)	81,184
Increase (decrease) in deposits payable	8,275	(500)	-	-	7,775
Increase (decrease) in deferred revenue	-	-	-	(14,010)	(14,010)
Increase (decrease) in other liabilities	-	-	-	-	-
Increase (decrease) in compensated absences payable	(139,822)	-	(137,149)	-	(276,971)
Net cash provided by (used in) operating activities	\$ 3,866,072	41,969	(266,433)	(75,209)	3,566,399
Noncash Investing, Capital and Financing Activities:					
Amortization not included in operating income:					
Deferred bond issuance costs	\$ -	-	-	-	-
Deferred amount on refunding of debt	\$ -	-	-	-	-

See accompanying notes to the basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2014.

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, 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, 2014 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 Redevelopment Agency, 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Pursuant to the provisions of ABX126, the Redevelopment Agency of the City of Needles was dissolved effective February 1, 2012. The City of Needles 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.

Needles Public Financing Authority

The Needles Public Financing Authority (Financing Authority) 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 (Utility Authority) 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The City's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

El Garces Project Fund – This fund accounts for Federal government grant proceeds collected and expended on the rehabilitation of an historic landmark in the City of Needles. The City has been rehabilitating a building and the surrounding grounds that were opened in 1908 and operated as a Harvey House until 1949. The El Garces building was placed on the National Register of Historic Places in 2002.

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 equipment services (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.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

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”.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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”.

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.

PREPAIDS

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.

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

CAPITALIZED INTEREST

Interest is capitalized when incurred by proprietary funds and similar component units on debt where the debt proceeds were used to finance the construction of City assets. Interest earned on the proceeds of tax-exempt borrowings that are restricted to the acquisition of qualifying assets is offset against interest costs to determine the amount of interest to capitalize. The City did not capitalize any interest during the fiscal year ended June 30, 2014.

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.

LAND HELD FOR RESALE

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

FUND EQUITY

The Governmental Accounting Standards Board (GASB) issued Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* in February 2009. This Statement first became effective for the City of Needles for the year ended June 30, 2011.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Under GASB Statement 54, *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. Debt service resources are to be used for future servicing of the debt obligation and are restricted through debt covenants.

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. The City did not have any committed resources as of June 30, 2014.

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).

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, 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.

The General Fund reserve for restricted purposes included fund balances/net assets restricted for related assets, including advances to other funds and interest receivable.

The Capital Projects Fund reserve for restricted purposes included fund balances/net assets restricted for waterway construction, low-to-moderate income housing, street improvement, and wastewater resources projects.

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, 2014 was \$577,650.

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, 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.

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 NET ASSETS – Primary Government

Deficits not visible in the basic financial statements are as follows:

Redevelopment Agency (Fund 270)	\$ 191,461
Interstate Commerce I40/J St. (Fund 235)	128,837
CDBG (Fund 205)	47,788
Homeland Security Grant (Fund 228)	6,538
Used Oil Program (Fund 207)	3,985

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.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, continued

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.

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, 2014, the book balance of the City's deposits was \$11.35 million and the bank balance was \$12.00 million. Of the bank balance, \$500,000 was insured and \$10.85 million was collateralized.

NOTE 3 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS,
continued

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 only 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 \$1,769,548. The total amount invested by all public agencies in LAIF is \$706.134 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.

Investments by all public agencies at June 30, 2014 include \$-0- in structured notes and \$706.134 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).

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

The City’s cash on hand, deposits with financial institutions and investments at June 30, 2014 were as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
California LAIF	\$ 1,769,548	\$ 1,769,548
Cash with trustee	2,149,032	2,149,032
Petty cash and cash drawers	4,735	4,735
Checking accounts	<u>7,426,604</u>	<u>7,426,604</u>
Total Cash and Investments	\$ <u>11,349,919</u>	\$ <u>11,349,919</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, 2014, the reserve fund totaled \$164,500. The cash for the deposit was provided by the bond proceeds and is to be used for future debt service.

The Revenue bonds 1997 Series A agreement requires a minimum balance of \$1,553,423 in the reserve fund, and at June 30, 2014, the reserve fund totaled \$1,553,423. The cash for the deposit was provided by the bond proceeds and is to be used for future debt service.

The Certificates of Participation agreement requires deposits to be made semiannually with the Trustee in an amount equal to 1/20th of the maximum reserve (\$8,392) until the amount on deposit equals the maximum reserve (\$167,834). At June 30, 2014 the reserve fund balance totaled \$167,856.

NOTE 4 - CAPITAL ASSETS

A summary of the changes in capital assets follows:

	Equipment and Vehicles	Buildings and Improvements	Construction in Progress	Land and Infrastructure	Totals
Primary Government					
<i>Governmental Activities</i>					
Balance, July 1, 2013	\$ 1,302,080	5,818,713	6,870,529	5,354,880	19,346,202
Increases	35,344	204,304	3,504,594	-	3,744,242
Decreases	-	-	-	(207,501)	(207,501)
Balance, June 30, 2014	1,337,424	6,023,017	10,375,123	5,147,379	22,882,943
Accumulated Depreciation					
Balance, July 1, 2013	1,260,739	4,034,563	-	-	5,295,302
Increases	71,075	175,982	-	-	247,057
Decreases	(128,180)	128,180	-	-	-
Balance, June 30, 2014	1,203,634	4,338,725	-	-	5,542,359
<i>Governmental Activities</i>					
Capital Assets, Net	133,790	1,684,292	10,375,123	5,147,379	17,340,584
<i>Business-type Activities</i>					
Balance, July 1, 2013	27,915,645	496,005	-	292,621	28,704,271
Increases	1,519,251	17,569	-	-	1,536,820
Decreases	-	-	-	-	-
Balance, June 30, 2014	29,434,896	513,574	-	292,621	30,241,091
Accumulated Depreciation					
Balance, July 1, 2013	14,549,435	407,664	-	-	14,957,099
Increases	1,758,962	60,166	-	-	1,819,128
Decreases	-	-	-	-	-
Balance, June 30, 2014	16,308,397	467,830	-	-	16,776,227
<i>Business-type Activities</i>					
Capital Assets, Net	13,126,499	45,744	-	292,621	13,464,864
Primary Government					
Capital Assets, Net	\$ 13,260,289	1,730,036	10,375,123	5,440,000	30,805,448

Depreciation expense

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

<i>Governmental Activities</i>		<i>Business-type Activities</i>	
General government	\$ 5,100	Water utilities	\$ 68,312
Public safety	8,461	Solid waste management	21,728
Public works	18,922	Golf course	19,904
Parks and recreation	170,570	Electric utilities	86,134
Community development	9,011	Customer service office	1,309
		Transit	32,507

Administrative facilities	5,756
Fleet maintenance	2,971
Vehicle replacement	8,396

NOTE 4 - CAPITAL ASSETS, continued

Commitments

The City has a commitment of \$40,080 at June 30, 2014 for future work to be performed on the El Garces building renovation project. As of June 30, 2014 a total of \$10,133,420 has been spent on the project. The project is included in the governmental activities of the primary government (the City). Construction projects included in governmental activities are substantially funded by Federal, State or County grants. Business-type activities include construction projects funded with the proceeds of revenue bonds, user charges or Federal/State grants.

NOTE 5 – LONG-TERM OBLIGATIONS

The City has the following long-term obligations at June 30, 2014:

Advances from Other Funds

The Redevelopment Agency purchased land from the City resulting in a note payable. The note will be repaid with interest at 10% from tax increment revenues at such time as excess funds exist after debt service payments are made on the loan payable to the Financing Authority. The total principal and interest was due May 6, 1995; however, the Agency did not have the financial resources available to repay the note. The City and the Agency are in the process of renegotiating the note terms to enable the Agency to repay the obligation. The balance of the note at June 30, 2014 represents unpaid principal and accrued interest. \$ 652,466

The City provided a loan to the Redevelopment Agency to fund its operations. The loan will be repaid with interest ranging from 10-12% from tax increment revenues at such times as excess funds exist after debt service payments are made on the loan payable to the Financing Authority.

774,009

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 \$85,000 are due annually to 2022, with interest payments at rates ranging from 5.40% to 7.50% payable semi-annually 1,035,000

NOTE 5 – LONG-TERM OBLIGATIONS, continued

1998 Certificates of Participation

In October 1998, the Financing Authority issued \$3,100,000 in certificates of participation bearing interest at the rate of 4.5%. Principal and interest installment payments are due semi-annually from August 1, 1999 through August 1, 2037. The certificate proceeds were used to construct a new wastewater treatment plant.

2,415,682

Bonds Payable – Enterprise Funds

1997 Series A Revenue Bonds

In March 1997, the Utility Authority issued \$21,145,000 in revenue bonds bearing interest rates of 4.70% - 6.65%. Principal payments in various amounts are due annually through February 1, 2032. Approximately \$17,900,000 of the bond proceeds were disbursed to the City as an initial payment for the acquisition of its Water, Sewer and Electric Enterprise Funds. In addition, the City used a portion of the payment to refund the 1993 and 1995 Series A Revenue Bonds.

	16,040,000
Less: Unamortized bond discount	(244,715)
Add: Deferred amount on refunding	<u>16,359</u>
	<u>15,811,644</u>
	\$ <u>20,688,801</u>

Long term debt – Schedule of Maturities

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014

CITY OF NEEDLES, CALIFORNIA

Years ending June 30:	Advance from Other Funds	1992 Bonds	1997 Bonds	1998 COPs	Interest	Total
2015	\$ -	85,000	490,000	59,793	1,299,866	1,934,660
2016	-	90,000	525,000	62,514	1,290,583	1,968,097
2017	-	100,000	560,000	65,359	1,280,613	2,005,972
2018	-	105,000	595,000	68,334	1,269,951	2,038,285
2019	-	115,000	635,000	71,443	1,258,591	2,080,035
2020-2024	-	540,000	3,845,000	409,044	5,137,623	9,931,667
2025-2029	-	-	5,290,000	510,979	4,010,628	9,811,608
2030-2034	-	-	4,100,000	638,317	2,164,771	6,903,088
2035-2039	<u>1,426,475</u>	<u>-</u>	<u>-</u>	<u>529,898</u>	<u>57,521</u>	<u>2,013,894</u>
Totals	\$ <u>1,426,475</u>	<u>1,035,000</u>	<u>16,040,000</u>	<u>2,415,682</u>	<u>17,770,147</u>	<u>38,687,304</u>

NOTE 5 – LONG-TERM OBLIGATIONS, continued

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2014:

Description and purpose	Balance July 1, 2013	Increase/ Issued	Decrease/ Retired	Balance June 30, 2014	Due Within One Year
Primary Government					
<i>Governmental Activities</i>					
Tax allocation 1992 bonds	\$ 1,115,000	-	80,000	1,035,000	85,000
Advances from other funds	1,737,835	-	311,660	1,426,475	-
Certificates of participation	<u>2,472,873</u>	<u>-</u>	<u>57,191</u>	<u>2,415,682</u>	<u>59,793</u>
Total Governmental Activities	<u>5,325,708</u>	<u>-</u>	<u>448,851</u>	<u>4,877,157</u>	<u>144,793</u>
<i>Business-type Activities</i>					
Revenue bonds:					
Major Enterprise Funds					
NPUA	16,261,629	-	449,985	15,811,644	490,000
Notes payable:					
Major Enterprise Funds					
NPUA	2,472,873	-	57,191	2,415,682	59,793
Other Enterprise Funds					
Sanitation Fund	<u>665,195</u>	<u>-</u>	<u>217,834</u>	<u>447,361</u>	<u>18,976</u>
Total Business-type Activities	<u>19,399,697</u>	<u>-</u>	<u>725,010</u>	<u>18,674,687</u>	<u>568,769</u>
Total Primary Government Long-term Debt	\$ <u>24,725,405</u>	<u>-</u>	<u>1,173,861</u>	<u>23,551,844</u>	<u>713,562</u>

NOTE 6 – 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.

NOTE 6 – OBLIGATION UNDER AGREEMENT WITH COUNTY OF SAN BERNARDINO, continued

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 \$3,775.09 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:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years ending June 30:			
2015	\$ 18,976	26,325	45,301
2016	20,146	25,155	45,301
2017	21,388	23,913	45,301
2018	22,708	22,593	45,301
2019	24,108	21,193	45,301
2020-2024	144,767	81,738	226,505
2025-2029	<u>195,268</u>	<u>31,236</u>	<u>226,504</u>
	<u>\$ 447,361</u>	<u>232,153</u>	<u>679,514</u>

NOTE 7 – 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. The balance of \$47,058,908 was financed by the City and evidenced by a note. This is being repaid with an annual purchase payment of \$685,300 through the year 2066.

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 of the fixed assets, is excluded from the financial statements.

NOTE 7 – UTILITY ENTERPRISE, continued

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 8 – RESTRICTED ASSETS, NET ASSETS AND FUND EQUITY

Certain proprietary fund and similar component unit assets are restricted for construction funded through long-term debt or Federal grant revenues. Net assets 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, 2014 are as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>
Fund balances:				
Nonspendable:				
Inventory	\$ 8,953	-	-	-
Prepaid items	115,097	7,779	-	-
Land held for resale	-	-	182,153	-

Restricted	-	521,200	-	4,160,204
Committed	1,736,991	177,723	-	-
Assigned	-	331,967	(326,027)	-
Unassigned	<u>539,833</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	\$ <u>2,400,874</u>	<u>1,038,669</u>	<u>(143,874)</u>	<u>4,160,204</u>

NOTE 9 – RISK MANAGEMENT

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

The City is a member of the CALIFORNIA JOINT POWERS INSURANCE AUTHORITY (Authority). The Authority is composed of 119 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.

NOTE 9 – RISK MANAGEMENT, continued

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. Self-Insurance Programs of the Authority

Each member pays an annual contribution to cover estimated losses for the coverage period. This initial funding is paid at the beginning of the coverage period. After the close of the coverage period, outstanding claims are valued. A retrospective deposit computation is then conducted annually thereafter until all claims incurred during the coverage period are closed on a pool-wide basis. This subsequent cost re-allocation among members based on actual claim development can result in adjustments of either refunds or additional deposits required.

The total funding requirement for self-insurance programs is estimated using actuarial models and pre-funded through the annual contribution. Costs are allocated to individual agencies based on exposure (payroll) and experience (claims) relative to other members of the risk-sharing pool. Additional information regarding the cost allocation methodology is provided below.

Liability

In the liability program claims are pooled separately between police and non-police exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$30,000 for each

occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$30,000 to \$750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$750,000 up to the reinsurance attachment point of \$5 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$5 million to \$10 million are paid under a reinsurance contract subject to a \$2.5 million annual aggregate deductible. The \$2.5 million annual aggregate deductible is fully covered under a separate policy; as such no portion of it is retained by the Authority. Costs of covered claims from \$10 million to \$15 million are paid under two reinsurance contracts subject to a combined \$3 million annual aggregate deductible. The \$3.0 million annual aggregate deductible is fully retained by the Authority. (6) Costs of covered claims from \$15 million to \$20 million are paid under reinsurance agreements. (7) Costs of covered claims from \$20 million to \$50 million are paid under excess insurance policies.

The overall coverage limit for each member including all layers of coverage is \$50 million per occurrence.

NOTE 9 – RISK MANAGEMENT, continued

Costs of covered claims for subsidence losses are paid by reinsurance and excess insurance with a pooled sub-limit of \$30 million per occurrence. This \$30 million subsidence sub-limit is composed of (a) \$5 million retained within the pool's SIR, (b) \$15 million in reinsurance, subject to the same annual aggregate deductibles previously stated, and (c) \$10 million in excess insurance. The excess insurance layer has a \$10 million annual aggregate limit.

Workers' Compensation

In the workers' compensation program claims are pooled separately between public safety (police and fire) and non-public safety exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$50,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$50,000 to \$100,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$100,000 up to the reinsurance attachment point of \$2 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$2 million up to statutory limits are paid under a reinsurance policy. Protection is provided per statutory liability under California Workers' Compensation Law.

Employer's Liability losses are pooled among members to \$2 million. Coverage from \$2 million to \$5 million is purchased as part of a reinsurance policy, and

Employer's Liability losses from \$5 million to \$10 million are pooled among members.

C. Purchased Insurance

Pollution Legal Liability Insurance The City of Needles participates in the pollution legal liability insurance program (formerly called environmental insurance) which is available through the Authority. The policy covers sudden and gradual pollution of scheduled property, streets, and storm drains owned by the City of Needles. Coverage is on a claims-made basis. There is a \$50,000 deductible.

The Authority has a limit of \$50 million for the 3-year period from July 1, 2011 through July 1, 2014. Each member of the Authority has a \$10 million sub-limit during the 3-year term of the policy.

NOTE 9 – RISK MANAGEMENT, continued

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 \$31,964,694. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

Earthquake and Flood Insurance The City of Needles 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 of Needles property currently has earthquake protection in the amount of \$18,354,781. There is a deductible of 5% per unit of value with a minimum deductible of \$100,000. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

Crime Insurance The City of Needles purchases crime insurance coverage in the amount of \$1,000,000 with a \$2,500 deductible. The fidelity coverage is provided through the Authority. Premiums are paid annually and are not subject to retrospective adjustments.

Special Event Tenant User Liability Insurance The City of Needles 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 of Needles according to a schedule. The City of Needles then pays for the insurance. The insurance is arranged 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 2013-14.

**NOTE 10 – BALANCES AND TRANSFERS/PAYMENTS WITHIN THE
REPORTING ENTITY**

RECEIVABLES AND PAYABLES

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).

**NOTE 10 – BALANCES AND TRANSFERS/PAYMENTS WITHIN THE
REPORTING ENTITY, continued**

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”.

The following schedule reflects balances within the reporting entity at June 30, 2014:

<u>DUE TO</u>	<u>DUE FROM</u>				
<u>Primary Government</u>	<u>Governmental</u>		<u>Business-type Activities</u>		
	<u>Activities</u>				
	<u>Major Government</u>	<u>Major Enterprise</u>	<u>Internal</u>	<u>Total</u>	
	<u>Funds</u>	<u>Funds</u>	<u>Service</u>	<u>Due</u>	
	<u>General</u>	<u>NPUA</u>	<u>Sanitation</u>	<u>Funds</u>	<u>From</u>
Governmental Activities:					
Public Financing Authority	\$ -	44,674	-	-	44,674
General Fund	-	-	1,083,930	-	1,083,930
Other governmental funds	60,458	187,214	-	-	247,672
Business-type Activities:					
NPUA	-	-	-	2,213,475	2,213,475
	<u>\$ 60,458</u>	<u>231,888</u>	<u>1,083,930</u>	<u>2,213,475</u>	<u>3,589,751</u>

At June 30, 2014 the General Fund reflected an advance to the Redevelopment Agency of \$1,737,835 as described more fully in note 5 above.

TRANSFERS AND PAYMENTS

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.

NOTE 10 – BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY, continued

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014

CITY OF NEEDLES, CALIFORNIA

Transfers In - Government Activities

General Fund

From NPUA	\$ 550,000
From Sanitation fund 505	120,000
From gas tax fund 210	175,000
From Dial a Ride fund	6,300
From Needles Area Transit Fund	7,596
From Medical Transit fund	2,796
From NPUA utility purchase	671,771
From NPUA Utility tax	<u>205,677</u>
	1,739,140
Cemetery fund 206 from general fund	15,600
CA conservation grant fund 239 from general fund	5,400
RDA debt service fund from RDA capital projects fund	<u>100,000</u>
Total government activities transfers in	\$ 1,860,140

Transfers Out - Government Activities

General fund

To cemetery fund 206	\$ 15,600
To golf course 507	230,400
To CA conservation fund 239	<u>5,400</u>
	251,400
CDBG fund 205 to Dial A Ride fund	7,896
Special gas tax fund 210 to general fund	175,000
New SANBAG fund 214 to	11,000
Measure I transit fund 217 to	110
RDA capital projects fund to RDA debt service fund	<u>100,000</u>
Total government activities transfers out	<u>545,406</u>
Net transfers in - government activities	\$ <u>1,314,734</u>

Transfers In - Business type Activities

Golf course to general fund	\$ 230,400
Transit fund from new SANBAG fund 214	11,000
Transit fund from Measure I fund 217	110
NPUA fund 581 from NPUA fund 501	<u>564,000</u>
Total business type activities transfers in	805,510

Transfers Out - Business type Activities

Sanitation fund to general fund	120,000
Dial a Ride fund to general fund	6,300
Needles Area Transit fund to general fund	7,596
Medical Transit fund to general fund	2,796
NPUA fund 501 to NPUA fund 581	564,000
NPUA to general fund	<u>1,419,552</u>
Total business type activities transfers out	<u>2,120,244</u>
Net transfers out - business type activities	\$ <u>1,314,734</u>

NOTE 11 – DEFINED BENEFIT PENSION PLAN

Plan Description

Plan Description: The City of Needles contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer public employee defined benefit pension plan.

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance.

Copies of CalPERS' annual financial report may be obtained from their Executive Office – 400 P Street – Sacramento, CA 95814.

Funding policy: Participants are required to contribute 7% of their annual covered salary. The City makes the required contribution for City employees on their behalf and for their account. The City is required as an employer to contribute at an actuarially determined rate: The rate for the fiscal years ended June 30, 2014 and 2013 was 8.052% and 7.72%, respectively, for non-safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost: For 2014, the City's annual pension cost of \$210,524 for CalPERS was equal to 100% of the City's required contributions. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary from 3.25% to 14.45% depending on age, service, and type of employment, and (c) inflation of 3%, and (d) payroll growth of 3.25%.

The actuarial value of CalPERS' assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). CalPERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

TREND INFORMATION FOR PERS (\$ in Thousands)

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2013	\$210	100%	-0-
June 30, 2012	278	100%	-0-
June 30, 2011	196	100%	-0-
June 30, 2010	212	100%	-0-
June 30, 2009	215	100%	-0-
June 30, 2008	196	100%	-0-

NOTE 11 – DEFINED BENEFIT PENSION PLAN, continued

REQUIRED SUPPLEMENTARY INFORMATION (\$ in Thousands)

(A) (B) (A)-(B) (B)/(A) (C) (A)-(B)/(C)

Actuarial Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Status	Annual Covered Payroll	Unfunded Actuarial Liability as a % of Payroll
June 30, 2006	2,754,397	2,492,226	262,170	90.5%	699,898	37.5%
June 30, 2007	2,611,747	2,391,434	220,312	91.6%	665,523	33.1%
June 30, 2008	2,780,281	2,547,323	232,957	91.6%	688,607	33.8%
June 30, 2009	3,104,798	2,758,511	346,287	88.9%	742,981	46.6%
June 30, 2010	3,309,065	2,946,408	362,657	89.0%	748,401	48.5%
June 30, 2011	3,619,836	3,203,215	416,621	88.5%	759,264	54.9%

The June 30, 2011 actuarial valuation did not include the above information in detail solely for the miscellaneous plan for the City.

NOTE 12 – POST-RETIREMENT HEALTH CARE BENEFITS

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. One retiree has received post-retirement health care benefits during the fiscal year ended June 30, 2014.

NOTE 13 – RELATED PARTY TRANSACTIONS

The City acts as the manager and operator of the Needles Public Utility Authority’s (NPUA) water, sewer and electrical enterprises under a management agreement. The management agreement is extended for one year on July 1st of each year, unless either party notifies the other that it does not intend to extend the term of the agreement. The City receives a management fee equal to its actual costs and direct overhead incurred in connection with the management and operation of NPUA’s enterprises. The management fee for the fiscal year ended June 30, 2014 totaled \$7,377,420.

The City also collects an annual franchise fee from NPUA in exchange for rights of access to real property owned by the City and necessary for NPUA to operate the enterprises. The amount of the franchise fee is determined by the City and is subordinate to NPUA’s debt service. The franchise fee for the fiscal year ended June 30, 2014 totaled \$550,000.

NOTE 14 – PRIOR PERIOD ADJUSTMENTS

Adjustments that were proposed as a result of the fiscal year 2013 audit were not recorded before the fiscal year 2014 accounting records were closed and submitted for audit. The prior period adjustments reflected in the accompanying financial statements relate primarily to capitalizing and depreciated capital assets.

There was one adjustment for \$746,027 to record the sale of the hospital to a private company in June 2013. The \$746,027 was included in the accounting records as cash in the hospital fund. The hospital fund was excluded from the 2013 financial statements. This cash actually belongs to the City and has been included in the June 30, 2014 financial statements.

SUPPLEMENTAL INFORMATION

CITY OF NEEDLES, CALIFORNIA
 BUDGETARY COMPARISON SCHEDULE
 MAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2014

	GENERAL FUND				PUBLIC FINANCING AUTHORITY				EL GARCES REHABILITATION PROJECT				
	Actual		Variance		Actual		Variance		Actual		Variance		
	Amounts		with		Amounts		with		Amounts		with		
	Budgetary	Budgetary	Final Budget	Final Budget	Budgetary	Budgetary	Final Budget	Final Budget	Budgetary	Budgetary	Final Budget	Final Budget	
Budgeted Amounts		Basis		Favorable		Favorable		Budgeted Amounts		Basis		Favorable	
Original	Final	(Note A)	(Unfavorable)	Original	Final	(Note A)	(Unfavorable)	Original	Final	(Note A)	(Unfavorable)		
Budgetary fund balance July 1, 2013	\$ 3,009,677	3,009,677	5,780,278	2,770,601	2,805,235	2,805,235	2,805,235	-	-	-	-	-	
Resources (inflows):													
Taxes	2,356,500	2,399,340	1,850,526	(548,814)	-	-	-	-	-	-	-	-	
Licenses, permits and fees	138,350	138,350	218,176	79,826	-	-	-	-	-	-	-	-	
Intergovernmental	460,000	460,000	430,929	(29,071)	-	-	-	-	1,500,000	2,000,000	-	(2,000,000)	
Charges for services	311,700	311,700	315,677	3,977	-	-	-	-	-	-	-	-	
Fines and forfeitures	24,300	24,300	22,332	(1,968)	-	-	-	-	-	-	-	-	
Use of money and property	37,030	39,030	61,528	22,498	-	-	190,762	190,762	-	-	-	-	
Transfers from other funds	1,665,000	1,665,000	1,739,140	74,140	-	-	-	-	-	-	-	-	
Other revenues	4,500	4,500	132,055	127,555	-	-	-	-	-	-	-	-	
Amounts available for appropriation	8,007,057	8,051,897	10,550,641	2,498,744	2,805,235	2,805,235	2,995,997	190,762	1,500,000	2,000,000	-	(2,000,000)	
Charges to appropriations (outflows):													
General government:													
City attorney	102,100	87,500	87,253	247	-	-	-	-	-	-	-	-	
City manager	180,259	193,043	172,136	20,907	-	-	-	-	-	-	-	-	
Finance and administration	209,166	197,891	199,782	(1,891)	-	-	-	-	-	-	-	-	
City clerk	105,660	103,880	107,313	(3,433)	-	-	-	-	-	-	-	-	
Planning and zoning	60,493	46,713	43,202	3,511	-	-	-	-	-	-	-	-	
Engineer	94,724	86,474	85,007	1,467	-	-	-	-	-	-	-	-	
Community development	233,350	229,803	245,618	(15,815)	-	-	-	-	-	-	-	-	
Senior center	48,765	46,565	41,884	4,681	-	-	-	-	-	-	-	-	
Parks and recreation:													
Aquatics	148,802	146,435	139,952	6,483	-	-	-	-	-	-	-	-	
Parks	252,990	254,293	210,521	43,772	-	-	-	-	-	-	-	-	
Recreation	247,716	245,379	264,998	(19,619)	-	-	-	-	-	-	-	-	
Public safety:													
Police	1,951,235	1,951,234	1,960,113	(8,879)	-	-	-	-	-	-	-	-	
Fire	608,575	608,026	607,315	711	-	-	-	-	-	-	-	-	
Animal control	126,892	122,911	105,738	17,173	-	-	-	-	-	-	-	-	
Code enforcement	123,257	106,838	87,318	19,520	-	-	-	-	-	-	-	-	
Building and safety	69,914	67,401	78,348	(10,947)	-	-	-	-	-	-	-	-	
Public works:													
Streets	478,898	498,796	548,795	(49,999)	-	-	-	-	-	-	-	-	
Sanitation	135,324	136,604	128,313	8,291	-	-	-	-	-	-	-	-	
Capital outlay	-	-	35,344	(35,344)	-	-	-	-	1,500,000	2,000,000	3,501,395	1,501,395	
Principal payments	-	-	-	-	-	-	57,191	(57,191)	-	-	-	-	
Interest and fiscal charges	-	-	-	-	-	-	190,768	(190,768)	-	-	-	-	
Nondepartmental:													
Savings through furlough of front office staff	-	-	-	-	-	-	-	-	-	-	-	-	
Transfers to other funds	268,340	251,664	251,400	264	-	-	-	-	-	-	-	-	
Total charges to appropriations	5,446,460	5,381,450	5,400,350	(18,900)	-	-	247,959	(247,959)	1,500,000	2,000,000	3,501,395	1,501,395	
Budgetary fund balance June 30, 2014	\$ 2,560,597	2,670,447	5,150,291	2,479,844	2,805,235	2,805,235	2,748,038	(57,197)	-	-	(3,501,395)	(498,605)	

See accompanying notes to the basic financial statements and to the budgetary comparison schedule.

CITY OF NEEDLES, CALIFORNIA
NOTES TO BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

NOTE A - Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	<u>General Fund</u>
Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$10,550,641
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	(5,780,278)
Transfers in are budgetary resources but are reported as an "Other financing source" and not as a current-year revenue	<u>(1,728,488)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 3,041,875</u>
Charges to appropriations	
Actual amounts (budgetary basis) from the budgetary comparison schedule	\$ 5,400,350
Transfers out are a budgetary charge to appropriations but are reported as an "Other financing use" and not as a current-year expense	<u>(251,400)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 5,148,950</u>

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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

I 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, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Needles, California's basic financial statements, and have issued my report thereon dated March 1, 2015.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered City of Needles, California's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Needles, California's internal control. Accordingly, I do not express an opinion on the effectiveness of City of Needles, California'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 a 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.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Needles, California's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Michael P. Burger, CPA
Needles, California
March 1, 2015

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133

To the City Council
City of Needles, California

Report on Compliance for Each Major Federal Program

I have audited City of Needles, California's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Needles, California's major federal programs for the year ended June 30, 2014. City of Needles, California's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of City of Needles, California's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Needles, California's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of City of Needles, California's compliance.

Opinion on Each Major Federal Program

In my opinion, City of Needles, California complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of City of Needles, California is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered City of Needles, California's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of City of Needles, California's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Michael P. Burger, CPA
Needles, California
March 1, 2015

City of Needles, California

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2014

<u>Federal Grantor/Pass-through Grantor Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Direct from the U.S. Department of Transportation:		
Highway Planning and Construction Grant	20.205	\$ 3,657,668
Total U.S. Department of Transportation		\$ 3,657,668
Total expenditures of Federal awards		\$ 3,657,668

See accompanying notes to schedule of expenditures of federal awards.

City of Needles, California

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2014

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the Federal grant activity of the City of Needles, California under programs of the Federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Needles, California, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Needles, California.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

City of Needles, California
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses a qualified opinion on the financial statements of the City of Needles, California.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of City of Needles, California, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for City of Needles, California expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs were: El Garces Rehabilitation Grant – CFDA No. 20. 205.
8. The one Federal program that the City participated in was determined to be a Type A program. A dollar threshold for determining Type A programs is therefore not applicable.
9. The City of Needles, California did not qualify as a low-risk auditee.

FINDINGS—FINANCIAL STATEMENT AUDIT

None.

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS
AUDIT

None.