

CITY OF NEEDLES, CALIFORNIA

Financial Statements

June 30, 2016

(With Independent Auditor's Report thereon)

CITY OF NEEDLES, CALIFORNIA
Fiscal Year Ended June 30, 2016

TABLE OF CONTENTS

	<u>Page(s)</u>
FINANCIAL SECTION	
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-16
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 Assets 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 Assets - Proprietary Funds	23
Combining Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds	24
Combining Statement of Cash Flows - Proprietary Funds	25
Notes to Financial Statements	26-57
Required Supplemental Information Section:	
Budgetary Comparison Schedule – Major Governmental Funds	58
Notes to Budgetary Comparison Schedule – Major Governmental Funds	59
COMPLIANCE SECTION	
Report on Compliance and on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	60-61

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Needles, California

Report on the Financial Statements

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, 2016, 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 86% 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 0.9% and 2% 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, 2016 or the amount of depreciation expense for the year then ended.

Qualified Opinions

In my opinion, except for the effects of the matter 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, 2016, 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 4-16 and 58-59 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated April 30, 2017, 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.

Michael P. Burger, CPA

Needles, California
April 30, 2017

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, 2016. 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 \$22.922 million to \$26.287 million for the fiscal year. General governmental operations experienced a decrease of about \$168,000, 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 \$1,186,749. This includes transfers to the governmental activities of \$1,312,990.
- Total net position comprises the following:
 - (1) Capital assets, net of related debt, of \$19.077 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 \$5.95 million that is restricted as to their use by outside factors such as debt covenants, grantors, laws, or regulations
 - (3) Net position of \$1,261,147 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 \$7,305,396 at June 30, 2016. This represents a decrease of \$255,191 for the fiscal year, plus prior year adjustments that decreased the fund balances by \$710,384.
- The City's total liabilities decreased from \$33.3 million to \$31.08 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 and the Needles Public Financing Authority. This supplemental information is included to reflect the City's compliance with the approved budget.

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

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

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

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

Notes to the financial statements

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

Financial Analysis for the City as a Whole

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

One measure of such improvement or decline is the change in net assets. The City's net position, increased by about \$3.36 million primarily because of incorporation of adjustments to beginning net position resulting from the NPUA and transit audits.

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, 2016:

	Governmental		Business-type		Totals		Amount	%
	Activities		Activities				Change	Change
	2016	2015	2016	2015	2016	2015		
Current and other assets	\$ 12,171,606	12,835,784	16,783,515	13,957,534	28,955,121	26,793,318	2,161,803	8.1%
Deferred outflows of resources	773,061	126,025	572,610	95,072	1,345,671	221,097	1,124,574	0.0%
Capital assets	<u>17,027,358</u>	<u>17,327,248</u>	<u>13,737,005</u>	<u>14,635,457</u>	<u>30,764,363</u>	<u>31,962,705</u>	<u>(1,198,342)</u>	<u>-3.7%</u>
Total assets and deferred outflows	29,972,025	30,289,057	31,093,130	28,688,063	61,065,155	58,977,120	2,088,035	3.5%
Long-term liabilities	4,582,571	4,732,364	17,527,188	18,185,309	22,109,759	22,917,673	(807,914)	-3.5%
Other liabilities	<u>3,586,784</u>	<u>4,971,480</u>	<u>5,385,019</u>	<u>5,414,203</u>	<u>8,971,803</u>	<u>10,385,683</u>	<u>(1,413,880)</u>	<u>-13.6%</u>
Total liabilities	8,169,355	9,703,844	22,912,207	23,599,512	31,081,562	33,303,356	(2,221,794)	-6.7%
Deferred inflows of resources	2,900,223	2,291,446	796,341	460,073	3,696,564	2,751,519	945,045	34.3%
Net position:								
Invested in capital assets,								
net of related debt	17,027,358	17,327,247	2,049,681	1,697,250	19,077,039	19,024,497	52,542	0.3%
Restricted	5,948,843	5,844,791	-	-	5,948,843	5,844,791	104,052	1.8%
Unrestricted	<u>(4,073,754)</u>	<u>(4,878,271)</u>	<u>5,334,901</u>	<u>2,931,228</u>	<u>1,261,147</u>	<u>(1,947,043)</u>	<u>3,208,190</u>	<u>-164.8%</u>
Total net position	<u>\$ 18,902,447</u>	<u>18,293,767</u>	<u>7,384,582</u>	<u>4,628,478</u>	<u>26,287,029</u>	<u>22,922,245</u>	<u>3,364,784</u>	<u>14.7%</u>

Net position was positive for both governmental activities and business-type activities in 2016 and 2015. Overall, net position increased by about \$3.36 million. The decrease in net assets from business-type activity operations was about \$1,187,000. 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 \$126,241.

CITY OF NEEDLES, CALIFORNIA MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

Governmental activities expenses decreased by about \$109,000 and program revenues decreased by about \$163,000. This was combined with a decrease in general revenues of about \$158,000.

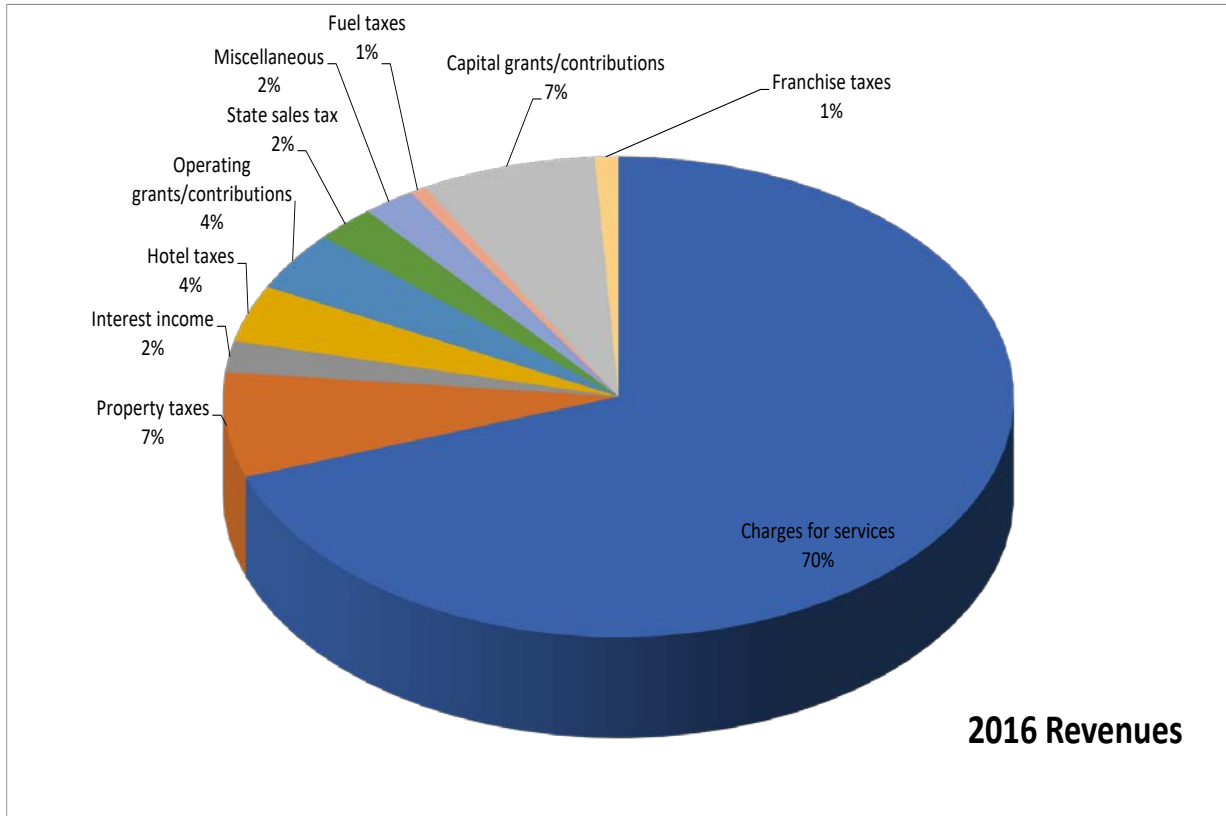
Property taxes and transient occupancy taxes continued to play a significant role in the City's results, totaling over \$1.8 million in revenues for fiscal year 2016. This represents an decrease of about \$183,000 from the previous fiscal year.

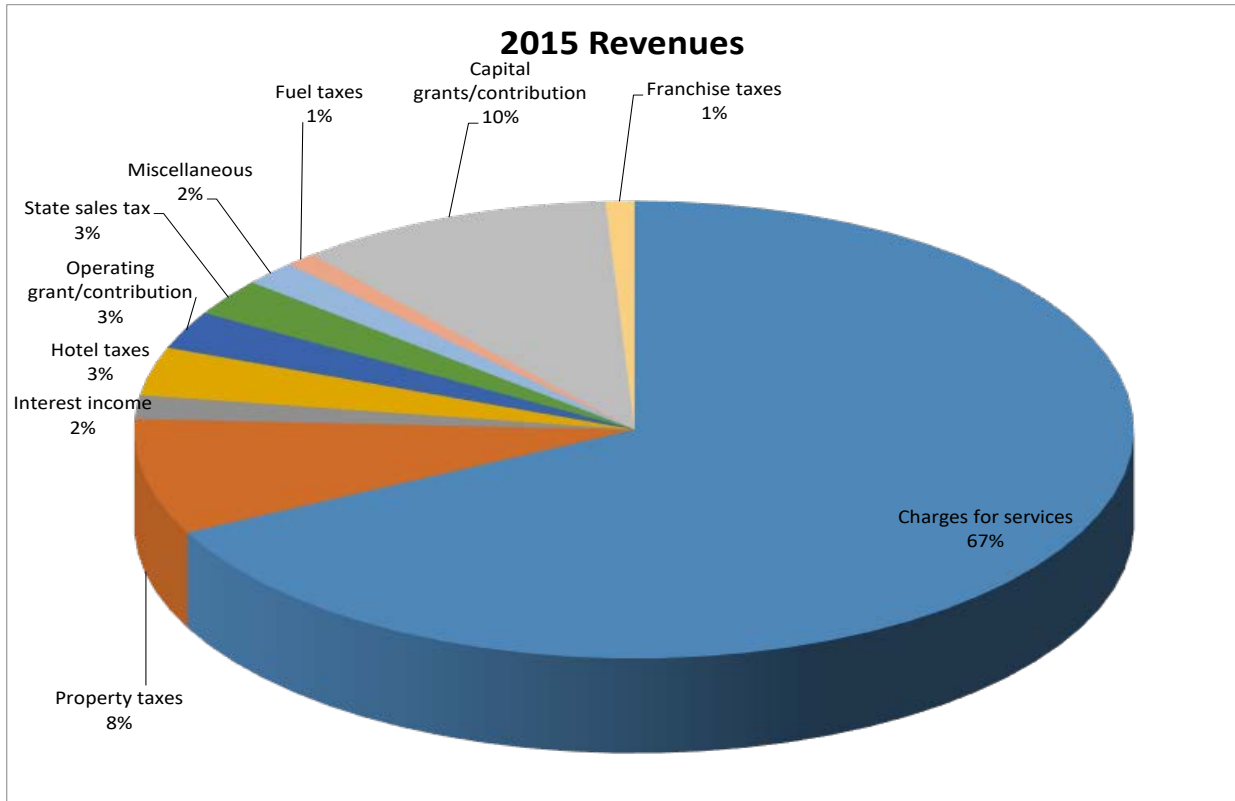
To assist in analyzing the City's operating results, comparative data is accumulated and presented. The following table summarizes the City's changes in net position for the year ended June 30, 2016:

Summary of Changes in Net Position

	Governmental		Business-type		Totals		Amount Change	% Change
	Activities		Activities					
	2016	2015	2016	2015	2016	2015		
Revenues:								
Program revenues								
Charges for services	517,601	392,616	11,128,643	11,320,342	11,646,244	11,712,958	(66,714)	-0.57%
Operating grants and contributions	671,277	466,453	-	-	671,277	466,453	204,824	43.91%
Capital grants and contributions	824,443	990,583	378,254	781,649	1,202,697	1,772,232	(569,535)	-32.14%
General revenues								
Property taxes	1,182,005	1,416,259	-	-	1,182,005	1,416,259	(234,254)	-16.54%
Transient occupancy taxes	642,509	591,512	-	-	642,509	591,512	50,997	8.62%
Sales taxes	414,597	453,687	-	-	414,597	453,687	(39,090)	-8.62%
Fuel taxes	111,860	170,244	-	-	111,860	170,244	(58,384)	-34.29%
Franchise taxes	162,152	162,635	-	-	162,152	162,635	(483)	-0.30%
Investment earnings	337,238	280,189	13,999	9,578	351,237	289,767	61,470	21.21%
Other	358,069	299,007	-	(568)	358,069	298,439	59,630	19.98%
Total revenues	5,221,751	5,223,185	11,520,896	12,111,001	16,742,647	17,334,186	(591,539)	-3.41%
Expenses:								
General government	693,451	758,887	-	-	693,451	758,887	(65,436)	-8.62%
Public safety	3,253,499	2,974,817	-	-	3,253,499	2,974,817	278,682	9.37%
Public services	903,858	1,416,181	-	-	903,858	1,416,181	(512,323)	-36.18%
Parks and recreation	826,691	779,986	-	-	826,691	779,986	46,705	5.99%
Community development	775,953	614,599	-	-	775,953	614,599	161,354	26.25%
Interest on long-term debt	249,737	267,339	-	-	249,737	267,339	(17,602)	-6.58%
Public utility authority	-	-	9,406,773	9,468,418	9,406,773	9,468,418	(61,645)	-0.65%
Golf course	-	-	759,719	807,577	759,719	807,577	(47,858)	-5.93%
Other	-	-	1,228,163	1,139,018	1,228,163	1,139,018	89,145	7.83%
Total expenses	6,703,189	6,811,809	11,394,655	11,415,013	18,097,844	18,226,822	(128,978)	-0.71%
Increase (decrease) in net position before transfers	(1,481,438)	(1,588,624)	126,241	695,988	(1,355,197)	(892,636)	(462,561)	51.82%
Transfers	1,312,990	1,306,175	(1,312,990)	(1,738,399)	-	(432,224)	432,224	
Change in net position	(168,448)	(282,449)	(1,186,749)	(1,042,411)	(1,355,197)	(1,324,860)	(30,337)	2.29%
Beginning net position (as adjusted)	19,070,894	18,576,217	8,571,331	5,368,691	27,642,225	23,944,908	3,697,317	15.44%
Ending net position	18,902,446	18,293,768	7,384,582	4,326,280	26,287,028	22,620,048	4,099,204	18.12%

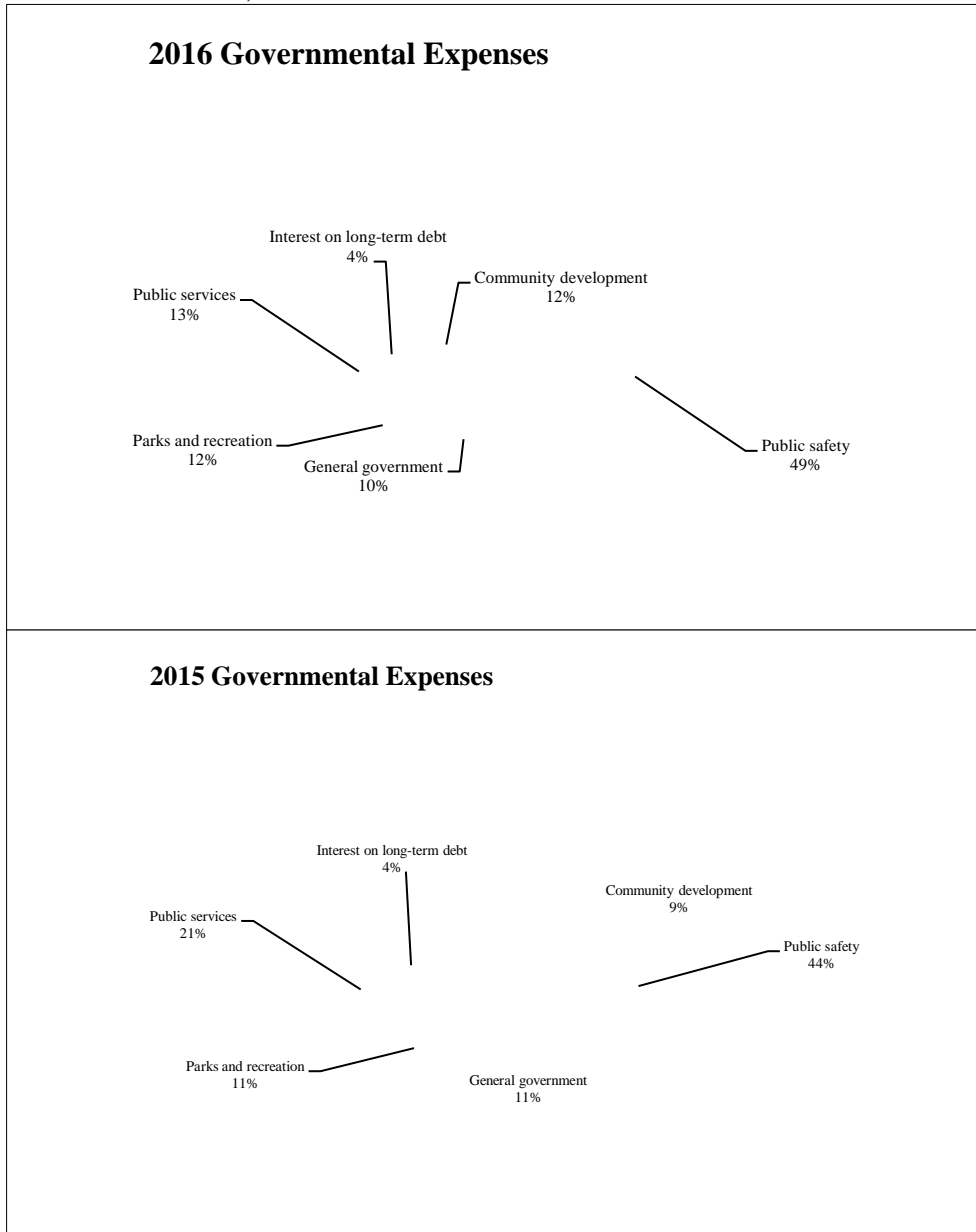
The following charts show graphic representations of the City's revenues for the fiscal years ended June 30, 2016 and 2015:





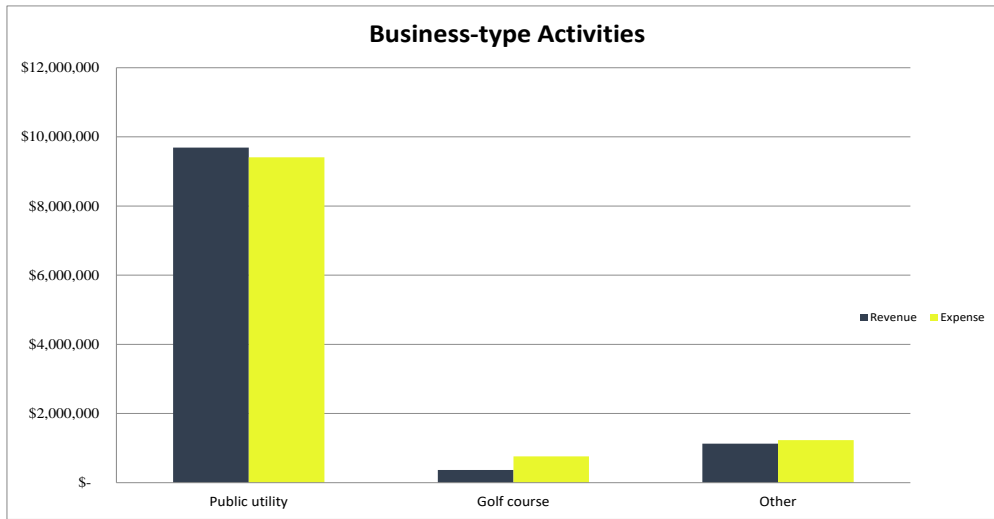
As displayed in the charts above and discussed previously, the revenues from the public utility authority are very significant for the City, making up nearly 60% of all revenues in 2016 and 56% of all revenues in 2015.

The following charts show graphic representations of the City's governmental functional expenses for the fiscal years ended June 30, 2016 and 2015:



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 following chart depicts the operating revenues and expenses of the City's business-type activities for the year ended June 30, 2016:



The public utility authority contributes the majority of the City's revenues, and produced operating income of about \$1.955 million. Interest expense of \$1.8 million on the bonds issued to finance the acquisition of the utility and net transfers out of about \$1.196 million figured into the public utility's decrease in net position of about \$1.0 million for the fiscal year. There was an adjustment of beginning net position of about \$3.2 million that offset the 2016 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 a decrease in net position for the fiscal year ended June 30, 2016.

Financial Analysis of the City's Funds

Governmental fund balances decreased by \$965,575 from the previous year. Expenses actually exceeded revenues by about \$1,561,348 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 61% of governmental revenues and about 74% of governmental expenses. The General Fund's fund balance decreased by over \$364,000 from the previous year. General Fund revenues increased by \$59,000 and expenses increased by about \$237,000.

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 \$59,740 during the fiscal year, ending at \$2,628,500.

The All American Canal fund is used to account for revenues from the sale of water rights, primarily to the City. This fund is accumulating cash to be used as needed for debt service and for future water rights purchases. At June 30, 2016 this fund reflected a fund balance of \$405,397, representing an increase of \$419 from the 2015 balance.

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 \$168,373. Total ending fund balances for these funds was \$2,024,839.

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 44% of total assets and about 9% 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, 2016 the City had about \$30.764 million invested in capital assets, \$17.027 million of which was in governmental activities and \$13.74 million of which was in business-type activities. This represents an overall decrease of about \$1.198 million, or about 3.7%.

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
Capital Assets, Net of Accumulated Depreciation

	<u>Governmental Activities</u>		<u>Business-type activities</u>		<u>Totals</u>		<u>Amount</u>	<u>%</u>
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Change</u>
Non-depreciable assets:								
Construction in progress	\$ 675,297	1,207,268	91,250	91,250	766,547	1,298,518	(531,971)	-40.97%
Land and infrastructure	5,419,023	5,371,262	292,621	292,621	5,711,644	5,663,883	47,761	0.84%
Depreciable assets:								
Buildings and improvements	10,829,505	10,706,451	-	-	10,829,505	10,706,451	123,054	1.15%
Equipment and vehicles	<u>103,533</u>	<u>42,267</u>	<u>13,353,134</u>	<u>14,251,586</u>	<u>13,456,667</u>	<u>14,293,853</u>	<u>(837,186)</u>	-5.86%
Total	<u>\$ 17,027,358</u>	<u>17,327,248</u>	<u>13,737,005</u>	<u>14,635,457</u>	<u>30,764,363</u>	<u>31,962,705</u>	<u>(1,198,342)</u>	-3.75%

Long-term debt

At the end of the fiscal year, the City's total long-term debt obligations were \$21.9 million. Of this total, \$4.39 million is in the governmental activities and \$17.512 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 \$950,000 in tax allocation bonds issued by the PFA, the proceeds of which were lent to RDA. Repayment is being made from the loan payments paid by the Redevelopment Agency to the PFA. Finally, the governmental activities debt also includes certificates of participation, the proceeds of which were used to construct a wastewater treatment plant.

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

The following table depicts the City's outstanding long-term debt obligations at June 30, 2016 and 2015:

OUTSTANDING LONG-TERM OBLIGATIONS

	<u>Governmental Activities</u>		<u>Business-type activities</u>		<u>Totals</u>		Amount	%
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Change</u>
Advances to RDA	\$ 1,237,835	1,426,475	-	-	1,237,835	1,426,475	(188,640)	-13.22%
Tax allocation bonds	860,000	950,000	-	-	860,000	950,000	(90,000)	-9.47%
Certificates of participation	2,293,377	2,355,889	-	-	2,293,377	2,355,889	(62,512)	-2.65%
Revenue bonds	-	-	14,815,047	15,322,615	14,815,047	15,322,615	(507,568)	-3.31%
Sanitation note payable	-	-	403,720	447,361	403,720	447,361	(43,641)	-9.76%
NPUA notes payable	-	-	<u>2,293,377</u>	<u>2,355,889</u>	<u>2,293,377</u>	<u>2,355,889</u>	<u>(62,512)</u>	<u>-2.65%</u>
Total	\$ <u>4,391,212</u>	<u>4,732,364</u>	<u>17,512,144</u>	<u>18,125,865</u>	<u>21,903,356</u>	<u>22,858,229</u>	<u>(954,873)</u>	<u>-4.18%</u>

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 spent roughly \$12 million to rehabilitate the historic El Garces train station. The preparation of the east-end project for the El Garces began in late FY 2016 and will be completed in the next fiscal year. This rehabilitation phase has been funded primarily through grants from PTMISEA and the State Transit Assistance fund. The government-wide financial statements report capital outlays as capital assets and not as expenses. The local transit system currently has an office in the El Garces, and other rooms are available for short-term rentals or long-term leases.

The City completed the Right-Of-Way Phase for the I-40/J Street Connector Project, and is preparing for the final phase of construction. The total project cost for this phase is estimated to be \$3.7 million, funded primarily through a Caltrans grant and assistance funds from the County. The project will include the widening of J Street north of Interstate 40, West Broadway, and J Street to Needles highway, Needles Highway between Broadway and K Street, K Street between Needles Highway and the bridge over the Colorado River. Three intersections will have traffic signals installed.

The City was awarded a \$505,000 grant from the U.S. Bureau of Reclamation for water re-use, irrigation system improvements, and turf removal at the Golf Course. The first phase of the program has begun and will include removal of 40 acres of turf that will be replaced with ground cover such as small gravel or colored clay. The second phase is to upgrade the golf course well with a variable speed pump to increase watering efficiency. Approximately 3,460 acre-feet of water is expected to be saved over the ten year period of the project and will be retained in Lake Mead.

The City is completing a master facilities plan for all future 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, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and investments	\$ 6,544,126	8,918,552	15,462,678
Restricted cash	-	-	-
Cash and investments with fiscal agents	-	2,150,774	2,150,774
Accounts receivable, net	4,191,767	1,669,971	5,861,738
Inventory	8,953	692,039	700,992
Prepaid items	106,772	1,370,995	1,477,767
Land held for resale	182,153	-	182,153
Intangible assets	-	1,981,184	1,981,184
Capital assets, net	17,027,358	13,737,005	30,764,363
Advances to other funds	1,137,835	-	1,137,835
Total assets	<u>\$ 29,198,964</u>	<u>30,520,520</u>	<u>59,719,484</u>
DEFERRED OUTFLOWS OF RESOURCES			
Difference in proportions of net pension liability	773,061	572,610	1,345,671
LIABILITIES			
Bank overdraft	\$ 1,536,025	1,965,691	3,501,716
Accounts payable	917,943	1,756,041	2,673,984
Deposits payable	-	377,890	377,890
Other liabilities	-	65,993	65,993
Compensated absences	302,445	256,021	558,466
Accrued interest on advances from other funds	583,362	-	583,362
Estimated claims liability	100,000	-	100,000
Net pension liability	147,009	963,383	1,110,392
Long-term liabilities:			
Due within one year	144,793	719,383	864,176
Due in more than one year	4,437,778	16,807,805	21,245,583
Total liabilities	<u>8,169,355</u>	<u>22,912,207</u>	<u>31,081,562</u>
DEFERRED INFLOWS OF RESOURCES			
Difference between actual and projected plan earnings	528,272	796,341	1,324,613
Revenues not available to fund current obligations	2,371,951	-	2,371,951
NET POSITION			
Invested in capital assets, net of related debt	17,027,357	2,049,681	19,077,038
Restricted for:			
Capital projects	1,118,139	-	1,118,139
Debt service	3,930,470	-	3,930,470
Community development projects	900,234	-	900,234
Unrestricted (deficit)	<u>(4,073,754)</u>	<u>5,334,901</u>	<u>1,261,147</u>
Total net position	<u>\$ 18,902,446</u>	<u>7,384,582</u>	<u>26,287,028</u>

See accompanying notes to the basic financial statements.

CITY OF NEEDLES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	
PRIMARY GOVERNMENT:							
Governmental activities:							
General government	\$ 693,451	517,601	25,287	-	(150,563)	-	(150,563)
Public safety	3,253,499	-	645,990	-	(2,607,509)	-	(2,607,509)
Public works	903,858	-	-	-	(903,858)	-	(903,858)
Parks and recreation	826,691	-	-	824,443	(2,248)	-	(2,248)
Community development	775,953	-	-	-	(775,953)	-	(775,953)
Interest on long-term debt	249,737	-	-	-	(249,737)	-	(249,737)
Total governmental activities	<u>6,703,189</u>	<u>517,601</u>	<u>671,277</u>	<u>824,443</u>	<u>(4,689,868)</u>	<u>-</u>	<u>(4,689,868)</u>
Business-type activities:							
Public utility authority	9,406,773	9,687,717	-	-	-	280,944	280,944
Santitation	986,921	1,089,796	-	-	-	102,875	102,875
Golf course	759,719	314,667	-	50,000	-	(395,052)	(395,052)
Transit	241,242	36,463	-	328,254	-	123,475	123,475
Total business-type activities	<u>11,394,655</u>	<u>11,128,643</u>	<u>-</u>	<u>378,254</u>	<u>-</u>	<u>112,242</u>	<u>112,242</u>
Total primary government	<u>\$ 18,097,844</u>	<u>11,646,244</u>	<u>671,277</u>	<u>1,202,697</u>	<u>(4,689,868)</u>	<u>112,242</u>	<u>(4,577,626)</u>
General revenues:							
Taxes:							
Property taxes					1,182,005	-	1,182,005
Hotel taxes					642,509	-	642,509
Fuel taxes					111,860	-	111,860
State sales tax					414,597	-	414,597
Franchise taxes					162,152	-	162,152
Other taxes					291,822	-	291,822
Interest revenue					337,238	13,999	351,237
Miscellaneous					66,247	-	66,247
Transfers					1,312,990	(1,312,990)	-
Total general revenues, special items, and transfers					<u>4,521,420</u>	<u>(1,298,991)</u>	<u>3,222,429</u>
Change in net position					(168,448)	(1,186,749)	(1,355,197)
Net position - beginning, as previously reported					18,293,767	4,628,478	22,922,245
Prior year adjustments					<u>777,127</u>	<u>3,942,853</u>	<u>4,719,980</u>
Net position - beginning, as restated					<u>19,070,894</u>	<u>8,571,331</u>	<u>27,642,225</u>
Net position - ending					<u>\$ 18,902,446</u>	<u>7,384,582</u>	<u>26,287,028</u>

See accompanying notes to the basic financial statements.

CITY OF NEEDLES, CALIFORNIA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	General	Public Financing Authority	All American Canal	Other Governmental Funds	Total Governmental Funds
ASSETS AND OTHER DEBITS					
Cash and investments	\$ 1,017,435	332,405	2,087,752	3,106,534	6,544,126
Restricted cash	-	-	-	-	-
Accounts receivable, net	62,776	2,296,094	-	-	2,358,870
Interest receivable	-	-	-	-	-
Due from other funds	1,413,930	42,412	353,217	-	1,809,559
Due from other governments	5,000	-	-	18,338	23,338
Inventory	8,953	-	-	-	8,953
Prepaid items	96,473	-	-	10,300	106,773
Land held for resale	-	-	-	182,153	182,153
Advances to other funds	1,137,835	-	-	-	1,137,835
Total assets and other debits	<u>\$ 3,742,402</u>	<u>2,670,911</u>	<u>2,440,969</u>	<u>3,317,325</u>	<u>12,171,607</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, EQUITY AND OTHER CREDITS					
Liabilities:					
Bank overdraft	\$ 724,972	-	-	811,053	1,536,025
Accounts payable	306,389	-	24	7,006	313,419
Accrued liabilities	184,724	-	(44,132)	190,924	331,516
Due to other funds	31,642	-	-	-	31,642
Due to other governments	-	42,411	-	239,247	281,658
Total liabilities	<u>1,247,727</u>	<u>42,411</u>	<u>(44,108)</u>	<u>1,248,230</u>	<u>2,494,260</u>
Deferred inflows of resources:					
Revenues not available to fund current obligations	<u>248,015</u>	<u>-</u>	<u>2,079,680</u>	<u>44,256</u>	<u>2,371,951</u>
Equity and other credits:					
Fund balances - nonspendable	105,426	-	-	189,914	295,340
Fund balances - restricted	-	2,628,500	-	1,767,090	4,395,590
Fund balances - committed	1,200,611	-	-	185,199	1,385,810
Fund balances - assigned	-	-	405,397	(117,364)	288,033
Fund balances - unassigned	940,623	-	-	-	940,623
Total equity and other credits	<u>2,246,660</u>	<u>2,628,500</u>	<u>405,397</u>	<u>2,024,839</u>	<u>7,305,396</u>
Total liabilities, deferred inflows of resources, equity and other credits	<u>\$ 3,742,402</u>	<u>2,670,911</u>	<u>2,440,969</u>	<u>3,317,325</u>	<u>12,171,607</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, 2016

Fund balances - total governmental funds \$ 7,305,396

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	\$ 24,463,179	
Less: Accumulated depreciation	<u>7,435,823</u>	
		17,027,356

Long-term liabilities, including bonds and notes payable,
are not due and payable in the current period and
therefore are not reported in the funds

Net pension liability	147,009	
Deferred outflows of resources	(773,061)	
Deferred inflows of resources	528,272	
Compensated absences	302,445	
Bonds payable, net	950,000	
Certificates of participation	2,355,890	
Advances from other funds	2,209,836	
Estimated claims liability	100,000	
Less: current year principal payments	<u>(390,086)</u>	
		<u>(5,430,306)</u>

Net assets of governmental activities \$ 18,902,446

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, 2016

	General	Public Financing Authority	All American Canal	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes	\$ 2,163,295	-	-	367,638	2,530,933
Licenses, permits and fees	252,327	-	-	-	252,327
Intergovernmental	411,696	-	324,155	871,727	1,607,578
Charges for services	158,006	-	-	250,457	408,463
Fines and forfeitures	18,963	-	-	-	18,963
Use of money and property	138,883	175,973	-	22,382	337,238
Other revenues	66,979	-	418	5,685	73,082
Total revenues	3,210,149	175,973	324,573	1,517,889	5,228,584
EXPENDITURES:					
Current:					
General government	661,096	-	-	-	661,096
Public safety	3,151,329	-	-	114,659	3,265,988
Public works	543,131	-	324,154	25,315	892,600
Parks and recreation	609,459	-	-	87,690	697,149
Community development	73,306	-	-	387,650	460,956
Capital outlay	-	-	-	212,613	212,613
Debt service:					
Principal retirement	-	59,793	-	290,000	349,793
Interest and fiscal charges	-	175,920	-	73,817	249,737
Total expenditures	5,038,321	235,713	324,154	1,191,744	6,789,932
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,828,172)	(59,740)	419	326,145	(1,561,348)
Other Financing Sources (Uses):					
Operating transfers in	1,464,191	-	-	400	1,464,591
Operating transfers out	(262)	-	-	(158,172)	(158,434)
Total other financing sources (uses)	1,463,929	-	-	(157,772)	1,306,157
Excess (Deficiency) of Revenues and Other Financing Sources Over (under) Expenditures and Other Financing Uses	(364,243)	(59,740)	419	168,373	(255,191)
FUND BALANCE, JULY 1, 2015	3,316,287	2,688,240	404,978	1,861,466	8,270,971
Prior year adjustments	(705,384)	-	-	(5,000)	(710,384)
FUND BALANCE, JUNE 30, 2016	\$ 2,246,660	2,628,500	405,397	2,024,839	7,305,396

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, 2016

Net change in fund balances - total governmental funds \$ (255,191)

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. (245,374)

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 change in the liability for compensated absences and interest
on a capital lease obligation. (60,939)

This also includes the pension expense recognized under GASB 68 (97,779)

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. 349,793

Change in net assets of governmental activities \$ (309,490)

See accompanying notes to the basic financial statements.

CITY OF NEEDLES, CALIFORNIA
COMBINING STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2016

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds
ASSETS					
Current assets:					
Cash and investments	\$ 5,705,302	407,101	74,559	19,815	6,206,777
Accounts receivable, net	1,335,175	122,377	-	-	1,457,552
Interest receivable	167,982	-	-	-	167,982
Due from other funds	-	-	-	-	-
Due from other governments	-	-	-	44,437	44,437
Inventory	688,985	-	3,054	-	692,039
Prepaid expenses	946,027	-	50,514	616	997,157
Total current assets	8,843,471	529,478	128,127	64,868	9,565,944
Non-current assets:					
Cash and investments with fiscal agents	2,150,774	-	-	-	2,150,774
Deferred bond issuance costs, net	-	-	-	-	-
Intangible assets	1,981,184	-	-	-	1,981,184
Fixed assets, net	12,889,872	-	149,544	357,678	13,397,094
Deferred outflows of resources:					
Difference in proportions of net pension liability	572,610	-	-	-	572,610
Total assets and deferred outflows	\$ 26,437,911	529,478	277,671	422,546	27,667,606
LIABILITIES					
Current liabilities:					
Bank overdraft	\$ -	-	1,965,691	-	1,965,691
Accounts payable	547,008	69,158	157,254	1,482	774,902
Due to other funds	1,030,632	1,413,929	-	-	2,444,561
Compensated absences	256,021	-	-	-	256,021
Capital lease obligation - current	-	-	-	-	-
Notes payable - current	65,359	-	-	-	65,359
Bonds payable - current	560,000	-	-	-	560,000
Other liabilities	-	-	-	-	-
Total current liabilities	2,459,020	1,483,087	2,122,945	1,482	6,066,534
Non-current liabilities:					
Deposits	377,890	-	-	-	377,890
Deferred revenue	-	-	-	65,993	65,993
Capital lease obligation - long-term	-	-	-	-	-
Net pension liability	963,383	-	-	-	963,383
Notes payable - long-term	2,228,017	403,720	-	-	2,631,737
Bonds payable - long-term	14,265,996	-	-	-	14,265,996
Total liabilities	20,294,306	1,886,807	2,122,945	67,475	24,371,533
Deferred inflows of resources:					
Differences related to pensions	796,341	-	-	-	796,341
Total liabilities and deferred inflows	21,090,647	1,886,807	2,122,945	67,475	25,167,874
NET POSITION					
Invested in capital assets, net of related debt	-	-	149,544	357,678	507,222
Unrestricted	5,347,264	(1,357,329)	(1,994,818)	(2,607)	1,992,510
Total Net Position	\$ 5,347,264	(1,357,329)	(1,845,274)	355,071	2,499,732

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, 2016

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds
OPERATING REVENUES					
Charges for services-Public Utility Authority	\$ 9,308,149	-	-	-	9,308,149
Charges for services-Other enterprise funds	-	1,089,796	314,667	36,463	1,440,926
Government grants	-	-	50,000	328,254	378,254
Other fees and sales	-	-	-	-	-
Other revenues	364,564	-	13,843	1,161	379,568
Total operating revenues	9,672,713	1,089,796	378,510	365,878	11,506,897
OPERATING EXPENSES					
Personnel costs	1,262,532	-	424,148	-	1,686,680
Contractual services	-	842,002	-	-	842,002
Power and utilities	2,033,929	-	65,508	-	2,099,437
Maintenance and operations	3,493,379	120,000	226,334	322,872	4,162,585
Administrative and management	-	84	-	38,830	38,914
Insurance	-	-	30,416	-	30,416
Depreciation and amortization	927,820	-	13,313	41,403	982,536
Provision for bad debt	-	4,050	-	-	4,050
Total operating expenses	7,717,660	966,136	759,719	403,105	9,846,620
OPERATING INCOME	1,955,053	123,660	(381,209)	(37,227)	1,660,277
NONOPERATING REVENUES (EXPENSES)					
Interest revenue	13,245	-	-	161	13,406
Interest expense and fiscal charges	(1,813,018)	(20,785)	-	-	(1,833,803)
Income from reduction of landfill debt obligation	-	-	-	-	-
Lease termination income	-	-	-	-	-
Bond issue costs	-	-	-	-	-
Total nonoperating revenues (expenses)	(1,799,773)	(20,785)	-	161	(1,820,397)
INCOME BEFORE OPERATING TRANSFERS	155,280	102,875	(381,209)	(37,066)	(160,120)
Operating transfers in	684,810	-	-	21,025	705,835
Operating transfers out	(1,880,433)	(120,000)	-	(18,392)	(2,018,825)
Net operating transfers in (out)	(1,195,623)	(120,000)	-	2,633	(1,312,990)
Change in net position	(1,040,343)	(17,125)	(381,209)	(34,433)	(1,473,110)
Net Position July 1, 2015, as previously reported	3,141,903	(1,363,106)	(1,472,980)	101,085	406,902
Prior year adjustments	3,245,704	22,902	8,915	288,419	3,565,940
Net Position July 1, 2015, as restated	6,387,607	(1,340,204)	(1,464,065)	389,504	3,972,842
Net Position, June 30, 2016	\$ 5,347,264	(1,357,329)	(1,845,274)	355,071	2,499,732

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, 2016

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds
<u>Cash Flows From Operating Activities:</u>					
Cash collected from customers	\$ 8,900,841	1,097,432	364,667	443,493	10,806,433
Cash payments to suppliers for goods and services	(4,959,110)	(119,150)	(648,057)	(105,887)	(5,832,204)
Cash payments to employees and professional contractors for services	(1,262,532)	(842,002)	(424,148)	-	(2,528,682)
Payments for internal services	2,033,929	-	65,508	-	2,099,437
Other operating revenues	364,564	-	13,843	1,161	379,568
Net cash provided by (used in) operating activities	5,077,692	136,280	(628,187)	338,767	4,924,552
<u>Cash Flows From Noncapital Financing Activities:</u>					
Decrease in due from other funds	247,125	-	-	-	247,125
Increase (decrease) in due to other funds	(1,522,916)	330,000	-	-	(1,192,916)
Operating transfers in	684,810	-	-	21,025	705,835
Operating transfers out	(1,880,433)	(120,000)	-	(18,392)	(2,018,825)
Net cash provided by (used in) noncapital financing activities	(2,471,414)	210,000	-	2,633	(2,258,781)
<u>Cash Flows from Capital and Related Financing Activities:</u>					
Acquisition and construction of capital assets	336,466	-	(37,899)	(338,866)	(40,299)
Principal paid on bonds payable	(608,349)	-	-	-	(608,349)
Principal paid on notes payable	-	-	-	-	-
Principal paid on capital lease obligations	-	-	-	-	-
Interest paid	(1,813,018)	-	-	-	(1,813,018)
Net cash provided by (used in) capital and related financing activities	(2,084,901)	-	(37,899)	(338,866)	(2,461,666)
<u>Cash Flows from Investing Activities:</u>					
Cash deposited with fiscal agent	433	-	-	-	433
Interest on investments	13,245	-	-	161	13,406
Net cash provided by (used in) investing activities	13,678	-	-	161	13,839
Net increase (decrease) in cash and cash equivalents	535,055	346,280	(666,086)	2,695	217,944
Cash And Cash Equivalents (net of bank overdraft), July 1, 2015	5,231,657	189,971	(1,231,347)	17,120	4,207,401
Cash And Cash Equivalents (net of bank overdraft), June 30, 2016	\$ 5,766,712	536,251	(1,897,433)	19,815	4,425,345
<u>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</u>					
Operating income (loss)	\$ 1,955,053	123,660	(381,209)	(37,227)	1,660,277
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization of fixed assets	927,820	-	13,313	41,403	982,536
Bad debt expense	-	4,050	-	-	4,050
Adjustment of beginning balances	3,245,704	-	(266,160)	288,419	3,267,963
Changes in assets and liabilities:					
Decrease (increase) in accounts receivable	(407,308)	7,636	-	-	(399,672)
Decrease in due from other governments	-	-	-	22,958	22,958
(Increase) Decrease in inventory	39,002	-	18,009	-	57,011
Decrease (increase) in prepaid expenses	(946,027)	-	5,846	743	(939,438)
Increase (decrease) in accounts payable	60,200	934	(17,986)	(33,347)	9,801
Increase (decrease) in deposits payable	249,175	-	-	-	249,175
Increase (decrease) in deferred revenue	-	-	-	55,818	55,818
Increase (decrease) in other liabilities	-	-	-	-	-
Increase (decrease) in compensated absences payable	(45,927)	-	-	-	(45,927)
Net cash provided by (used in) operating activities	\$ 5,077,692	136,280	(628,187)	338,767	4,924,552
<u>Noncash Investing, Capital and Financing Activities:</u>					
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, 2016.

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, 2016 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

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, 2016.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

- Not in Spendable Form—

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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, 2016 was \$192,195.

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.

PENSIONS

For purposes of measuring the net pension liability-4 b12.1 (AS)-16 (I JAa Tm [aE 6d 12ut2 (a)4 (b

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, continued

Budgets and Budgetary Accounting

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

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

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.

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

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, 2016, the book balance of the City's deposits was \$12.44 million and the bank balance was \$12.98 million. Of the bank balance, \$500,000 was insured and \$12.48 million was collateralized.

Investments

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

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

Interest rate risk is the risk that a change in interest rates will have an adverse effect on the fair value of an investment. Concentration of credit risk is the risk of loss attributable to a concentration of funds in a single issue or issuer. The City's 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 \$1,360,200. The total amount invested by all public agencies in LAIF is \$75.369 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.

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

Investments by all public agencies at June 30, 2016 include \$400 million in structured notes and \$1,718.918 million in asset-backed securities.

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

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

The City’s cash on hand, deposits with financial institutions and investments at June 30, 2016 were as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
California LAIF	\$ 1,360,200	\$ 1,360,200
Cash with trustee	2,150,774	2,150,774
Petty cash and cash drawers	4,826	4,826
Checking accounts	<u>8,926,593</u>	<u>8,926,593</u>
Total Cash and Investments	\$ <u>12,442,393</u>	\$ <u>12,442,393</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, 2016, 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, 2016, 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, 2016 the reserve fund balance totaled \$167,905.

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

Investments at Fair Value

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

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

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

NOTE 4 - CAPITAL ASSETS

A summary of the changes in capital assets follows:

.ET .5533 -0 0 11.8273 453.2152 413.197341.

	<u>Equipment and Vehicles</u>	<u>Buildings and Improvements</u>	<u>Construction in Progress</u>	<u>Land and Infrastructure</u>	<u>Totals</u>
Primary Government					
<i>Governmental Activities</i>					
Balance July 1, 2015	\$ 1,363,101	15,471,027	1,207,268	5,371,262	23,412,658
Increases	8,547	688,278	157,896	47,761	902,482
Decreases	-	-	(689,867)	-	(689,867)
Balance June 30, 2016	<u>1,371,648</u>	<u>16,159,305</u>	<u>675,297</u>	<u>5,419,023</u>	<u>23,625,273</u>
 <i>Accumulated Depreciation</i>					
Balance July 1, 2015	1,320,834	4,764,576	-	-	6,085,410
Increases	89,680	565,224	-	-	654,904
Decreases	(142,399)	-	-	-	(142,399)
Balance June 30, 2016	<u>1,268,115</u>	<u>5,329,800</u>	<u>-</u>	<u>-</u>	<u>6,597,915</u>
<i>Governmental Activities</i>					
Capital Assets, Net	<u>103,533</u>	<u>10,829,505</u>	<u>675,297</u>	<u>5,419,023</u>	<u>17,027,358</u>

Busisitivities

NOTE 4 - CAPITAL ASSETS, continued

Depreciation expense

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

<i>Governmental Activities</i>		<i>Business-type Activities</i>	
General government	\$ (1,735)	Water utilities	\$ 73,069
Public safety	3,925	Solid waste management	20,388
Public works	14,900	Golf course	13,313
Parks and recreation	161,821	Electric utilities	66,769
Community development	333,592	Administrative facilities	2,676
		Fleet maintenance	2,971
		Vehicle replacement	18,515

NOTE 5 – LONG-TERM OBLIGATIONS

The City has the following long-term obligations at June 30, 2016:

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, 2016 represents unpaid principal and accrued interest. \$ 363,826

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. 874,009

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.

NOTE 5 – LONG-TERM OBLIGATIONS, continued

1992 Series A Tax Allocation Bonds, continued

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 860,000

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. 2,293,377

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. 15,025,000
 Less: Unamortized bond discount (209,953)
14,815,047
 \$ 19,852,262

NOTE 5 – LONG-TERM OBLIGATIONS, continued

Long term debt – Schedule of Maturities

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

Years ending <u>June 30:</u>	Advance from Other <u>Funds</u>	1992 <u>Bonds</u>	1997 <u>Bonds</u>	1998 <u>COPs</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	100,000	560,000	65,359	1,025,682	1,751,041
2018	-	105,000	595,000	68,334	1,024,058	1,792,392
2019	-	115,000	635,000	71,443	1,012,698	1,834,141
2020	-	120,000	675,000	74,694	1,000,635	1,870,329
2021	-	130,000	720,000	78,093	943,986	1,872,079
2022-2026	-	290,000	4,360,000	447,119	2,644,626	7,741,745
2027-2031	-	-	6,025,000	558,543	764,415	7,347,958
2032-2036	-	-	1,455,000	697,734	516,496	2,669,230
2037-2039	1,237,835	-	-	232,058	19,696	1,489,589
Totals	\$ <u>1,237,835</u>	<u>860,000</u>	<u>15,025,000</u>	<u>2,293,377</u>	<u>8,952,292</u>	<u>28,368,504</u>

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2016:

<u>Description and purpose</u>	Balance July 1, <u>2015</u>	Increase/ <u>Issued</u>	Decrease/ <u>Retired</u>	Balance June 30, <u>2016</u>	Due Within <u>One Year</u>
Primary Government					
<i>Governmental Activities</i>					
Tax allocation 1992 bonds	\$ 950,000	-	90,000	860,000	100,000
Advances from other funds	1,426,475	-	188,640	1,237,835	-
Certificates of participation	<u>2,355,889</u>	-	<u>62,512</u>	<u>2,293,377</u>	<u>65,359</u>
Total Governmental Activities	<u>4,732,364</u>	-	<u>341,152</u>	<u>4,391,212</u>	<u>165,359</u>
<i>Business-type Activities</i>					
Revenue bonds:					
<u>Major Enterprise Funds</u>					
NPUA	15,322,615	-	507,568	14,815,047	560,000
Notes payable:					
<u>Major Enterprise Funds</u>					
NPUA	2,355,889	-	62,512	2,293,377	65,359
<u>Other Enterprise Funds</u>					
Sanitation Fund	<u>447,361</u>	-	<u>43,641</u>	<u>403,720</u>	<u>21,667</u>
Total Business-type Activities	<u>18,125,865</u>	-	<u>613,721</u>	<u>17,512,144</u>	<u>647,026</u>
Total Primary Government Long-term Debt	\$ <u>22,858,329</u>	-	<u>954,873</u>	<u>21,903,356</u>	<u>812,385</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.

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:			
2017	\$ 21,667	23,634	45,301
2018	23,004	22,297	45,301
2019	24,422	20,879	45,301
2020	25,929	19,372	45,301
2021	27,528	17,773	45,301
2022-2026	165,302	61,203	226,505
2027-2029	<u>115,868</u>	<u>10,236</u>	<u>126,104</u>
	\$ <u>403,720</u>	<u>175,394</u>	<u>579,114</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.

NOTE 7 – UTILITY ENTERPRISE, continued

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.

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, 2016 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	96,473	7,761	-	-
Land held for resale	-	-	182,153	-
Restricted	-	300,619	-	4,094,971
Committed	1,200,611	185,199	-	-
Assigned	-	388,931	(100,898)	-
Unassigned	<u>940,623</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	\$ <u>2,246,660</u>	<u>882,510</u>	<u>81,255</u>	<u>4,094,971</u>

NOTE 9 – Liability, Workers’ Compensation, and Purchased Insurance

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

The City of Needles is a member of the CALIFORNIA JOINT POWERS INSURANCE AUTHORITY (Authority). The Authority is composed of 118 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The California JPIA began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

B. Self-Insurance Programs of the Authority

Each member pays an annual contribution at the beginning of the coverage period. A retrospective adjustment is then conducted annually thereafter, for coverage years 2012-13 and prior. Retrospective adjustments are scheduled to continue indefinitely on coverage years 2012-13 and prior, until all claims incurred during those coverage years 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. Coverage years 2013-14 and forward are not subject to routine annual retrospective adjustment.

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 general government exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$30,000 for each occurrence and is evaluated as a percentage of the pool’s total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$30,000 to \$750,000 for each occurrence and is evaluated as a percentage of the pool’s total incurred costs within the second layer. (4) Incurred costs from \$750,000 to \$50 million, are distributed based on the outcome of cost allocation within the first and second loss layers.

NOTE 9 – Liability, Workers’ Compensation, and Purchased Insurance, continued

For 2015-16 the Authority’s pooled retention is \$2 million per occurrence, with reinsurance to \$20 million, and excess insurance to \$50 million. The Authority’s reinsurance contracts are subject to the following additional pooled retentions: (a)\$2.5 million annual aggregate deductible in the \$3 million x/s \$2 million layer, and (b)\$3 million annual aggregate deductible in the \$5 million x/s \$10 million layer. There is a third annual aggregate deductible in the amount of \$2.5 million in the \$5 million x/s \$5 million layer, however it is fully covered under a separate policy and therefore not retained by the Authority.

The overall coverage limit for each member, including all layers of coverage, is \$50 million per occurrence. Costs of covered claims for subsidence losses have a sub-limit of \$30 million per occurrence.

Workers’ Compensation

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

For 2015-16 the Authority’s pooled retention is \$2 million per occurrence, with reinsurance to statutory limits 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 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, 2014 through July 1, 2017. Each member of the Authority has a \$10 million sub-limit during the 3-year term of the policy.

NOTE 9 – Liability, Workers’ Compensation, and Purchased Insurance, 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 \$33,535,124. 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 \$19,421,510. 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 2015-16.

**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).

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, 2016:

Due from other funds - governmental activities		Due from other funds - business activities	
General fund		Water ISF due from NPUA	\$ 111,439
Due from sanitation fund	\$ 1,413,930	Electric ISF due from NPUA	<u>388,453</u>
Due from NPUA	11,810		
Public Financing Authority -			
Due from general fund	42,412		
All American Canal -			
Due from NPUA	<u>353,217</u>		
Total due from	1,821,369		499,892
Due to other funds - governmental activities		Due to other funds - business activities	
General fund		Sanitation fund due to general fund	1,413,930
Due to public financing authority	31,642	Wastewater ISF due to NPUA	133,735
Due to other funds	284	NPUA due to electric ISF	388,453
		NPUA due to All American Canal	<u>353,217</u>
Total due to	<u>31,926</u>		<u>2,289,335</u>
Net balance	<u>\$ 1,789,443</u>		<u>\$ (1,789,443)</u>

At June 30, 2016 the General Fund reflected an advance to the Redevelopment Agency of \$1,237,835 as described more fully in note 5 above.

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

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.

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

Transfer In - Governmental Activities

General Fund

From NPUA	\$ 504,583
From Sanitation Fund 505	120,000
From Gas Tax Fund 210	150,000
From Art. 8C (DAR)	6,300
From Needles Area Transit Fund	8,796
From Medical Transit Fund	<u>3,296</u>
Subtotal	792,975

Dial a Ride fund from CDBG fund	<u>7,896</u>
---------------------------------	--------------

Total governmental activities - transfers in	800,871
--	---------

Transfers Out - Governmental Activities

Transit fund 214 to transit fund 525	138
CDBG Fund 205 to Dial a Ride fund	7,896
Special gas tax to General Fund	<u>150,000</u>

Total governmental activities - transfers out	<u>158,034</u>
---	----------------

Net transfers in - governmental activities	<u>\$ 642,837</u>
--	-------------------

Transfer In - Business type Activities

Transit fund from E&H subsidy	138
NPUA - fund 582 from fund 501	120,810
NPUA - fund 581 from fund 501	<u>564,000</u>

Total business type activities transfers in	684,948
---	---------

Transfers Out - Business type Activities

Sanitation fund to general fund	120,000
Transit fund 520 to general fund	6,300
Transit fund 521 to general fund	3,296
Transit fund 525 to general fund	8,796
NPUA - fund 501 to fund 581	564,000
NPUA - fund 501 to fund 582	120,810
NPUA to general fund	<u>504,583</u>

Total business type activities - transfers out	<u>1,327,785</u>
--	------------------

Net transfers out - business type activities	<u>\$ 642,837</u>
--	-------------------

NOTE 11 – DEFINED BENEFIT PENSION PLAN

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Local Government’s Miscellaneous Employee Pension Plan, a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and Local Government resolution.

CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

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

The Plans’ provisions and benefits in effect at June 30, 2016, are summarized as follows:

Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	8%	7%

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS.

NOTE 11 – DEFINED BENEFIT PENSION PLAN, continued

The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Local Government is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2016, the contributions recognized as part of pension expense for each Plan were \$357,824.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the City of Needles reported a net pension liability of \$2,283,923 for its proportionate share of the net pension liability of the Miscellaneous Plan.

The Local Government's net pension liability for the Miscellaneous Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Local Government's proportion of the net pension liability was based on a projection of the Local Government's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Local Government's proportionate share of the net pension liability for the Plan as of June 30, 2013 and 2014 was as follows:

Proportion June 30, 2013	0.096%
Proportion June 30, 2014	0.083%
Change (decrease)	(0.013)%

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, 2017 and 2016 was 8.377% and 8.003%, 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 2016, the City recognized net pension expense of (\$28,602). At June 30, 2016 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 11 – DEFINED BENEFIT PENSION PLAN, continued

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Pension contributions subsequent to the measurement date	\$ 357,824	-
Changes in assumptions	-	99,128
Change in employer’s proportion and differences between the employer’s contributions and the employer’s proportionate share of contributions	10,478	432,511
Net differences between projected and actual earnings on plan investments	<u>977,369</u>	<u>792,974</u>
Total	\$ <u>1,345,671</u>	<u>1,324,613</u>

The \$357,824 deferred outflow of resources relates to pension contributions made subsequent to the measurement date. This amount will be recognized as a reduction of net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows and deferred inflows will be recognized as pension expense as follows:

	Deferred Outflows/(Inflows) of <u>Resources</u>
Measurement period ended June 30:	
2016	\$ (90,064)
2017	(90,064)
2018	(90,813)
2019	<u>(65,825)</u>
Total	\$ <u>(336,766)</u>

The City’s required contribution was determined using the actuarial method. The actuarial assumption used is the best estimate of the June 30, 2013 valuation using the entry normal cost method. The actuarial assumption used is the best estimate of the June 30, 2013 valuation using the entry normal cost method. The actuarial assumption used is the best estimate of the June 30, 2013 valuation using the entry normal cost method.

including information.

The underlying information is based on the best estimate of the June 30, 2013 valuation using the entry normal cost method. The actuarial assumption used is the best estimate of the June 30, 2013 valuation using the entry normal cost method. The actuarial assumption used is the best estimate of the June 30, 2013 valuation using the entry normal cost method.

NOTE 11 – DEFINED BENEFIT PENSION PLAN, continued

Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points.

An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference. CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

NOTE 11 – DEFINED BENEFIT PENSION PLAN, continued

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

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	304.50%	5.09%
Liquidity	<u>2.0%</u>	-0.55%	-1.05%
Total	<u>100.0%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City’s proportionate share of the net pension liability for the Miscellaneous Plan, calculated using the discount rate for the Plan, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Discount Rate -1%</u> <u>(6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>Discount Rate + 1%</u> <u>(8.65%)</u>
Plan's Net Pension Liability	\$ 3,830,298	\$ 2,283,923	\$ 1,007,211

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

NOTE 11 – DEFINED BENEFIT PENSION PLAN, continued

REQUIRED SUPPLEMENTARY INFORMATION (\$ in Thousands)

Measurement Period of June 30, 2014

Plan's Proportion of the Net Pension Liability	0.03342%
Plan's Proportionate Share of the Net Pension Liability	\$2,283,923
Plan's Covered-Employee Payroll	\$2,490,368
Plan's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	91.7%
Plan's Proportional Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	85.73%
Plan's Proportionate Share of Aggregate Employer Contributions	\$600,190

Schedule of Plan Contributions

	<u>Fiscal Year 2015-16</u>
Actuarially Determined Contribution	\$ 395,703
Contributions in Relation to the Actuarially Determined Contribution	(357,824)
Contribution Deficiency (Excess)	\$ <u>37,879</u>
Covered-Employee Payroll	\$2,254,024
Contributions as a Percentage of Covered-Employee Payroll	17.55%

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. Two retirees have received post-retirement health care benefits during the fiscal year ended June 30, 2016.

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, 2016 totaled \$5,333,194.

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.

NOTE 13 – RELATED PARTY TRANSACTIONS, continued

The amount of the franchise fee is determined by the City and is subordinate to NPUA's debt service. In August 2010, the NPUA Board approved an increase in the franchise fee from 5.0% of gross revenues to 7.5% of gross revenues for two years, and then 5.0% thereafter. In November 2012, the voters of the City of Needles approved Measure T eliminating 2.5% of the franchise fee that the City charges to NPUA and established a utility user tax of up to 2.5% to be applied to electric, water and sewer charges. The franchise fee and utility tax for the fiscal year ended June 30, 2016 totaled \$704,877.

NOTE 14 – PRIOR PERIOD ADJUSTMENTS

Adjustments that were proposed as a result of the fiscal year 2015 audit were not recorded before the fiscal year 2016 accounting records were closed and submitted for audit. The prior period adjustments reflected in the accompanying financial statements relate primarily to capitalizing and depreciating capital assets.

The City's net position has been restated to reflect the following adjustments:

Net position at June 30, 2015, as previously reported	\$ 22,922,245
Adjustment to give recognition to fixed assets that should be capitalized in the governmental funds, net of depreciation	320,236
Adjustments proposed for NPUA	3,245,704
Other corrections	<u>1,154,040</u>
	<u>4,719,980</u>
Net position at June 30, 2015, as restated	\$ <u><u>27,642,225</u></u>

The City implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* as of June 30, 2015 by retroactively reporting the net pension liability as of the beginning of the year.

CITY OF NEEDLES, CALIFORNIA
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	GENERAL FUND				PUBLIC FINANCING AUTHORITY			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Budgetary Basis (Note A)		Original	Final	Budgetary Basis (Note A)	
Budgetary fund balance July 1, 2015	\$ 3,009,677	3,009,677	5,011,802	2,002,125	2,688,240	2,688,240	2,688,240	-
Resources (inflows):								
Taxes	2,356,500	2,399,340	2,163,295	(236,045)	-	-	-	-
Licenses, permits and fees	138,350	138,350	252,327	113,977	-	-	-	-
Intergovernmental	460,000	460,000	411,696	(48,304)	-	-	-	-
Charges for services	311,700	311,700	158,006	(153,694)	-	-	-	-
Fines and forfeitures	24,300	24,300	18,963	(5,337)	-	-	-	-
Use of money and property	37,030	39,030	138,883	99,853	-	-	175,973	175,973
Transfers from other funds	1,665,000	1,665,000	1,464,191	(200,809)	-	-	-	-
Other revenues	4,500	4,500	66,979	62,479	-	-	-	-
Amounts available for appropriation	<u>8,007,057</u>	<u>8,051,897</u>	<u>9,686,142</u>	<u>1,634,245</u>	<u>2,688,240</u>	<u>2,688,240</u>	<u>2,864,213</u>	<u>175,973</u>
Charges to appropriations (outflows):								
General government:								
City attorney	102,100	87,500	74,245	13,255	-	-	-	-
City manager	180,259	193,043	222,212	(29,169)	-	-	-	-
Finance and administration	209,166	197,891	181,923	15,968	-	-	-	-
City clerk	105,660	103,880	57,349	46,531	-	-	-	-
Planning and zoning	60,493	46,713	43,018	3,695	-	-	-	-
Engineer	94,724	86,474	82,349	4,125	-	-	-	-
Community development	233,350	229,803	24,906	204,897	-	-	-	-
Senior center	48,765	46,565	48,400	(1,835)	-	-	-	-
Parks and recreation:								
Aquatics	148,802	146,435	125,177	21,258	-	-	-	-
Parks	252,990	254,293	254,227	66	-	-	-	-
Recreation	247,716	245,379	230,055	15,324	-	-	-	-
Public safety:								
Police	1,951,235	1,951,234	2,157,449	(206,215)	-	-	-	-
Fire	608,575	608,026	614,486	(6,460)	-	-	-	-
Animal control	126,892	122,911	133,518	(10,607)	-	-	-	-
Code enforcement	123,257	106,838	181,580	(74,742)	-	-	-	-
Building and safety	69,914	67,401	64,296	3,105	-	-	-	-
Public works:								
Streets	478,898	498,796	413,710	85,086	-	-	-	-
Sanitation	135,324	136,604	129,421	7,183	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Principal payments	-	-	-	-	-	-	59,793	(59,793)
Interest and fiscal charges	-	-	-	-	-	-	175,920	(175,920)
Nondepartmental:								
Transfers to other funds	268,340	251,664	262	251,402	-	-	-	-
Total charges to appropriations	<u>5,446,460</u>	<u>5,381,450</u>	<u>5,038,583</u>	<u>342,867</u>	<u>-</u>	<u>-</u>	<u>235,713</u>	<u>(235,713)</u>
Budgetary fund balance June 30, 2016	\$ <u>2,560,597</u>	<u>2,670,447</u>	<u>4,647,559</u>	<u>1,977,112</u>	<u>2,688,240</u>	<u>2,688,240</u>	<u>2,628,500</u>	<u>(59,740)</u>

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, 2016

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	\$ 9,686,142
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	(5,011,802)
Transfers in are budgetary resources but are reported as an "Other financing source" and not as a current-year revenue	<u>(1,464,191)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 3,210,149</u>
Charges to appropriations	
Actual amounts (budgetary basis) from the budgetary comparison schedule	\$ 5,038,583
Transfers out are a budgetary charge to appropriations but are reported as an "Other financing use" and not as a current-year expense	<u>(262)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 5,038,321</u>

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, 2016, 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 April 30, 2017.

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.

