

**CITY OF NEEDLES, CALIFORNIA**

Financial Statements

As of June 30, 2017

Together with

Independent Auditor's Report  
And Supplemental Information

**CITY OF NEEDLES, CALIFORNIA**  
Fiscal Year Ended June 30, 2017

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## 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, as of and for the year ended June 30, 2017, 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 95% and 86% of the assets and revenues, respectively, of the business-type activities. I also did not audit the financial statements of the Measure I fund, which represents 3.8% and 1.5% 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 Needles Public Utility Authority, the Measure I fund, and the Needles Area Transit and Dial-a-Ride funds. The financial statements of the Needles Public Utility Authority, the Measure I fund, and the Needles Area Transit and Dial-a-Ride funds were audited by other auditors whose reports thereon have been furnished to 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, 2017 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, 2017, 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 62-63 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Needles, California's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

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

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated March 30, 2018, 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 solely 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 the effectiveness of the City of Needles, California's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Needles, California's internal control over financial reporting and compliance.

*Michael P. Burger, CPA*

Needles, California

March 30, 2018

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## 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, 2017. The financial statements and footnotes follow this section, and should be read in conjunction with this discussion and analysis.

### Financial Highlights

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- The City's net position (excess of assets and deferred outflows of resources over liabilities and deferred inflows of resources) increased from \$27.064 million to \$30.138 million for the fiscal year. General governmental operations experienced an increase of about \$2.7 million, including transfers from business type activities of more than \$1.4 million. The change in net position resulting from business type activities for the fiscal year was \$361,767. This includes transfers to the governmental activities of \$1,433,138.
- Total net position comprises the following:
  - (1) Capital assets, net of related debt, of \$21.278 million include property and equipment, net of accumulated depreciation, reduced by outstanding debt related to the purchase or construction of such capital assets
  - (2) Net position of \$2.89 million that is restricted as to their use by outside factors such as debt covenants, grantors, laws, or regulations
  - (3) Net position of \$6.0 million that is not restricted as to its use and is available to fund the City's operations
- The City's governmental funds reflect fund balances totaling \$5,579,494 at June 30, 2017. This represents an increase of \$613,990 for the fiscal year, plus prior year adjustments that increased the fund balances by \$24,996.
- The City's total liabilities decreased from \$33.3 million to \$32.575 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 was a new debt obligation issued during the year. The 2016 Revenue Refunding bonds were issued at a principal amount of \$15.488 million. Part of the proceeds were used to fully repay the balances outstanding under the 1998 Certificates of Participation and the 1997 Series A Revenue bonds.

### Overview of the Financial Statements

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

### *Government-wide Financial Statements*

The City's 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 Interstate Commerce I40/J Street Connector 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 \$3.88 million primarily because of positive results from the NPUA, an increase in certain tax revenues, and a grant for turf replacement at the golf course.

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, 2017:

	Governmental Activities		Business-type Activities		Totals		Amount Change	% Change
	2017	2016	2017	2016	2017	2016		
Current and other assets	\$ 10,032,369	12,171,606	18,541,481	16,783,515	27,234,539	28,955,121	(1,720,582)	5.94%
Deferred outflows of resources	953,023	773,061	386,288	572,610	1,339,311	1,345,671	(6,360)	0.47
Capital assets	<u>18,922,423</u>	<u>17,027,358</u>	<u>16,997,564</u>	<u>13,737,005</u>	<u>35,919,988</u>	<u>30,764,363</u>	<u>5,155,625</u>	16.76
Total assets and deferred outflows	29,907,815	29,972,025	35,925,333	31,093,130	64,493,838	61,065,155	3,428,683	5.61
Long term liabilities	4,380,703	4,582,571	15,681,661	17,527,188	20,062,364	22,109,759	(2,047,395)	9.26
Other liabilities	<u>4,897,143</u>	<u>3,586,784</u>	<u>7,615,902</u>	<u>5,385,019</u>	<u>12,513,045</u>	<u>8,971,803</u>	<u>3,541,242</u>	39.47
Total liabilities	9,277,846	8,169,355	23,297,563	22,912,207	32,575,409	31,081,562	1,493,847	4.81
Deferred inflows of resources	2,868,752	2,900,223	215,866	796,341	3,084,618	3,696,564	(611,946)	16.55
Net position:								
Invested in capital assets, net of related debt	18,922,422	17,027,358	2,355,767	2,049,681	21,278,189	19,077,039	2,201,150	11.54
Restricted	2,891,324	5,948,843	-	-	2,891,324	5,948,843	(3,057,519)	51.40
Unrestricted	<u>(4,052,529)</u>	<u>(4,073,754)</u>	<u>10,056,137</u>	<u>5,334,901</u>	<u>6,003,608</u>	<u>1,261,147</u>	<u>4,742,461</u>	>100.00
Total net position	\$ <u>17,761,217</u>	<u>18,902,447</u>	<u>12,411,904</u>	<u>7,384,582</u>	<u>30,173,122</u>	<u>26,287,029</u>	<u>3,886,093</u>	14.78

Net position was positive for both governmental activities and business-type activities in 2017 and 2016. Overall, net position increased by about \$3.89 million. The increase in net position from business-type activity operations was about \$361,000. There were transfers to governmental funds of just over \$1.4 million so the actual operating results of the business-type activities, excluding the transfers, was a positive \$1.7 million.

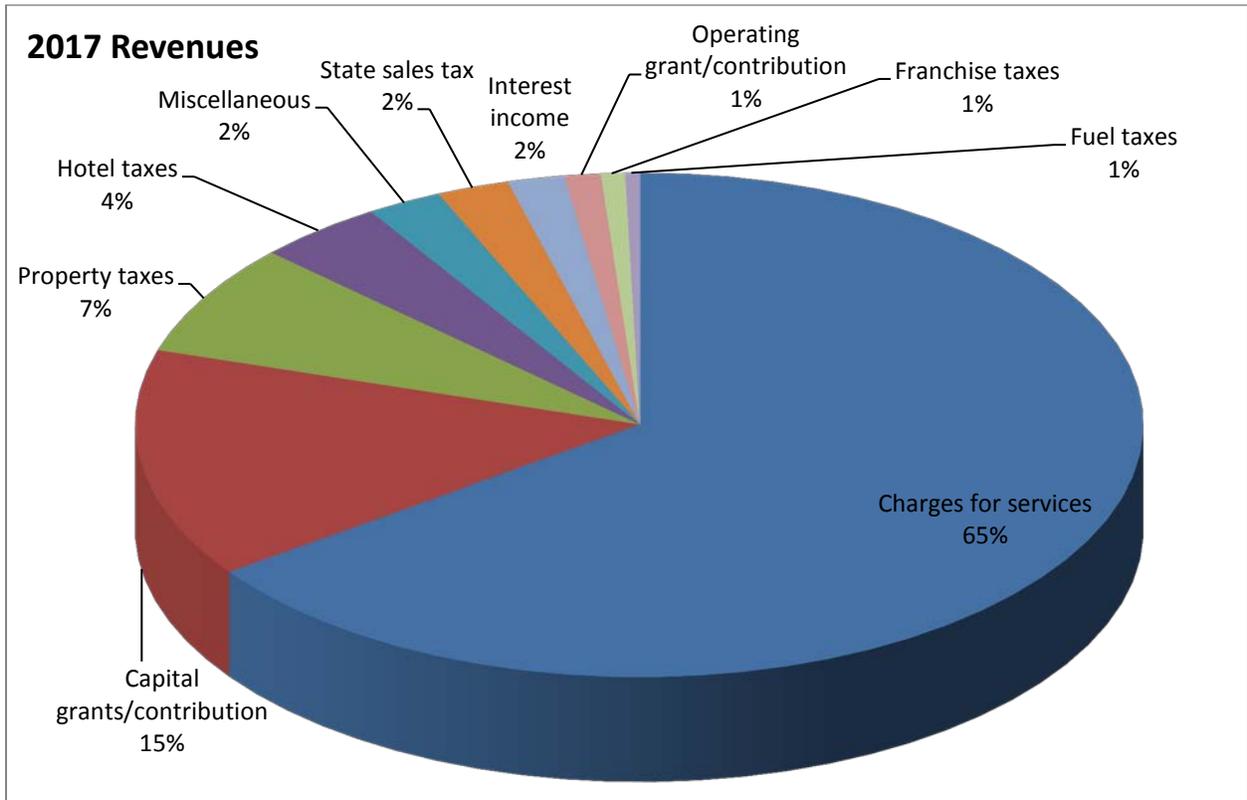
Governmental activities expenses decreased by about \$285,000 and program revenues increased by about \$1.5 million. This was combined with an increase in general revenues of about \$924,000.

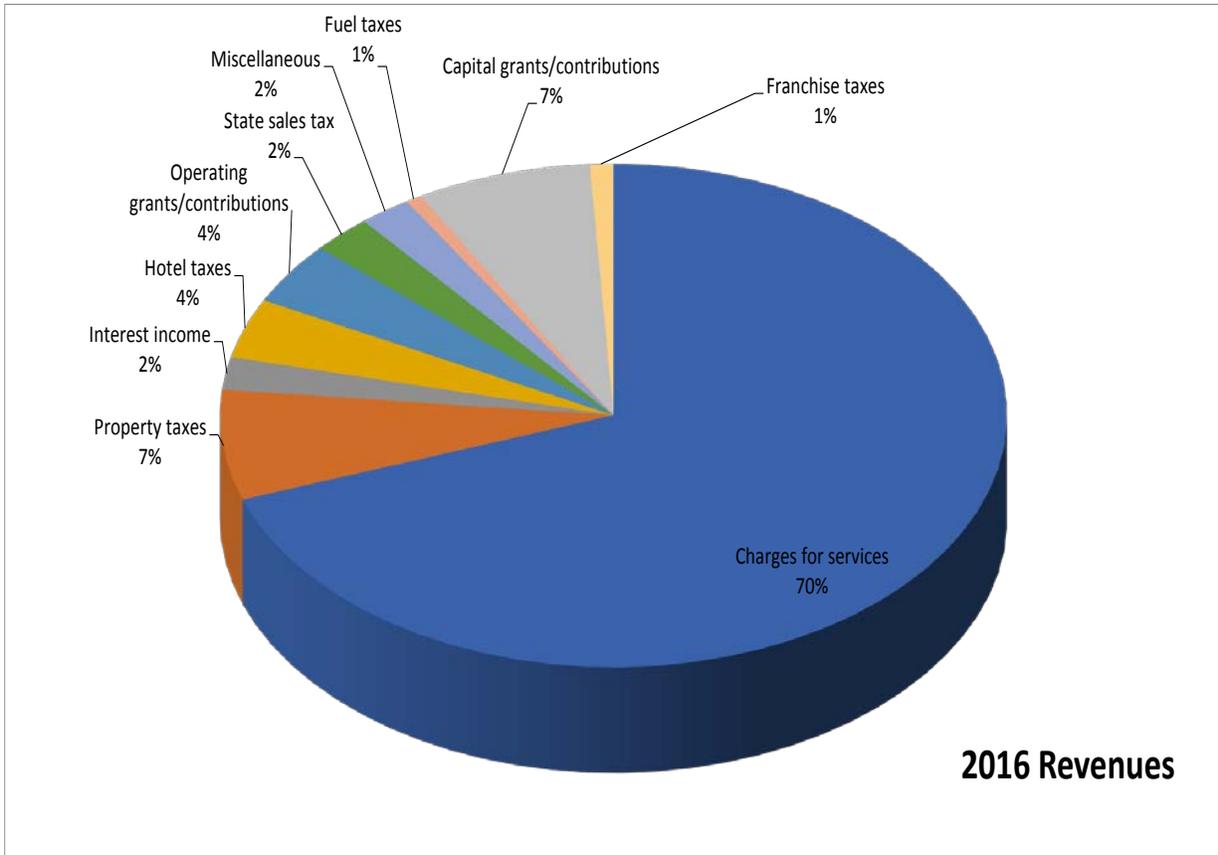
Property taxes and transient occupancy taxes continued to play a significant role in the City's results, totaling over \$2.4 million in revenues for fiscal year 2017. This represents an increase of about \$630,000 from the previous fiscal year.

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, 2017:

	Governmental Activities		Business-type Activities		Totals		Amount Change	% Change
	2017	2016	2017	2016	2017	2016		
<b>Revenues</b>								
Program revenues								
Charges for services	\$ 1,057,427	517,601	13,128,691	11,128,643	14,186,118	11,646,244	2,539,874	21.81%
Operating grants and contributions	252,732	671,277	-	-	252,732	671,277	(418,545)	62.35
Capital grants and contributions	2,253,188	824,443	944,273	378,254	3,197,461	1,202,697	1,994,764	>100.0
General revenues								
Property taxes	1,566,045	1,182,005	-	-	1,566,045	1,182,005	384,040	32.49
Transient occupancy taxes	889,132	642,509	-	-	889,132	642,509	246,623	38.38
Sales taxes	505,400	414,597	-	-	505,400	414,597	90,803	21.90
Fuel taxes	101,641	111,860	-	-	101,641	111,860	(10,219)	86.16
Franchise taxes	169,051	162,152	-	-	169,051	162,152	6,899	4.25
Investment earnings	374,854	337,238	22,659	13,999	397,513	351,237	46,276	13.18
Other	<u>526,568</u>	<u>358,069</u>	<u>-</u>	<u>-</u>	<u>526,568</u>	<u>358,069</u>	<u>168,499</u>	47.06
Total revenues	7,696,038	5,221,751	14,095,623	11,520,896	21,791,661	16,742,647	5,049,014	30.16
<b>Expenses</b>								
General government	609,589	693,451	-	-	609,589	693,451	(83,862)	12.09
Public safety	2,860,905	3,253,499	-	-	2,860,905	3,253,499	(392,594)	12.07
Public services	1,018,993	903,858	-	-	1,018,993	903,858	115,135	12.74
Parks and recreation	1,063,844	826,691	-	-	1,063,844	826,691	237,153	28.69
Community development	590,183	775,953	-	-	590,183	775,953	(185,770)	23.94
Interest on long-term debt	273,829	249,737	-	-	273,829	249,737	24,092	9.65
Public Utility Authority	-	-	10,388,561	9,406,773	10,388,561	9,406,773	981,788	10.44
Golf course	-	-	665,165	759,719	665,165	759,719	(94,554)	12.45
Other	<u>-</u>	<u>-</u>	<u>1,246,993</u>	<u>1,228,163</u>	<u>1,246,993</u>	<u>1,228,163</u>	<u>18,830</u>	1.53
Total expenses	<u>6,417,344</u>	<u>6,703,189</u>	<u>12,300,718</u>	<u>11,394,655</u>	<u>18,718,062</u>	<u>18,097,844</u>	<u>620,218</u>	3.43
Increase (decrease) in net position before transfers	1,278,694	(1,481,438)	1,794,905	126,241	3,073,599	(1,355,197)	4,428,796	>100.0
Transfers	<u>1,433,138</u>	<u>1,312,990</u>	<u>(1,433,138)</u>	<u>(1,312,990)</u>	-	-	-	
Change in net position	2,711,832	(168,448)	361,767	(1,186,749)	3,073,599	(1,355,197)	4,428,796	>100.0
Beginning net position	<u>15,014,339</u>	<u>19,070,894</u>	<u>12,050,138</u>	<u>8,571,331</u>	<u>27,064,477</u>	<u>27,642,225</u>	<u>(577,748)</u>	2.09
Ending net position	\$ <u>17,726,171</u>	<u>18,902,446</u>	<u>12,411,904</u>	<u>7,384,582</u>	<u>30,138,076</u>	<u>26,287,028</u>	<u>3,851,048</u>	14.65

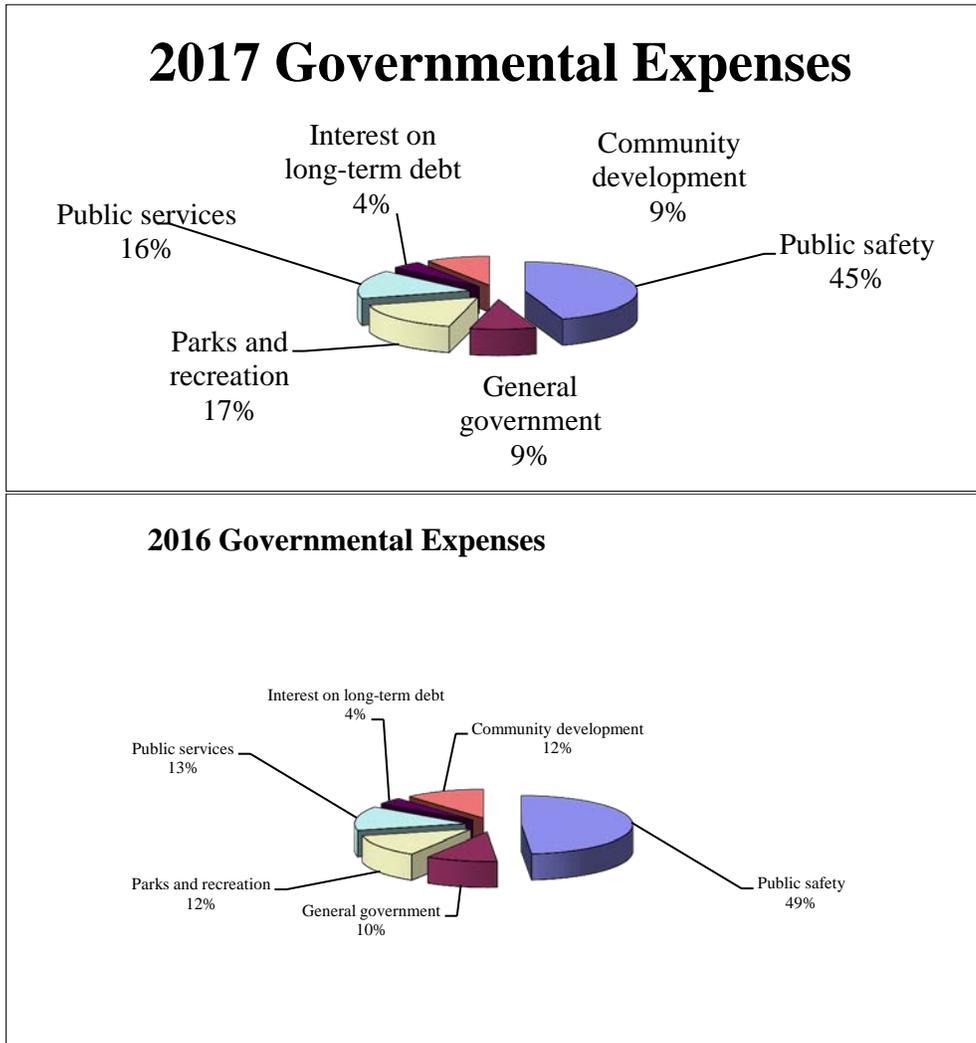
The following charts show graphic representations of the City's revenues for the fiscal years ended June 30, 2017 and 2016:





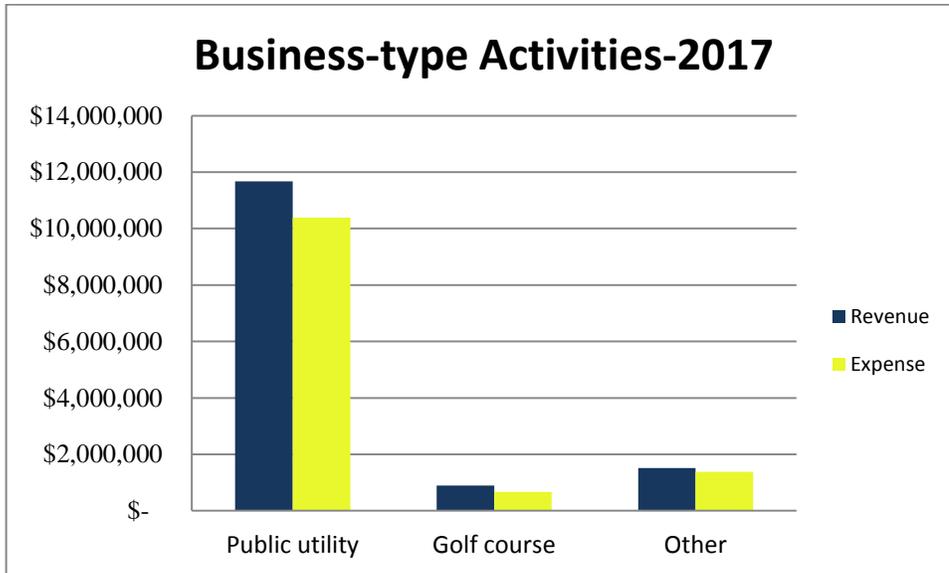
As displayed in the charts above and discussed previously, the revenues from the public utility authority are very significant for the City, making up nearly 54% of all revenues in 2017 and 60% of all revenues in 2016.

The following charts show graphic representations of the City's governmental functional expenses for the fiscal years ended June 30, 2017 and 2016:



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, 2017:



The public utility authority contributes the majority of the City’s revenues, and produced operating income of about \$2.79 million. Interest expense of \$1.8 million on the revenue refinancing bonds and net transfers out of about \$1.15 million figured into the public utility’s decrease in net position of about \$133,000 for the fiscal year. There was an adjustment of beginning net position of about \$4.98 million.

The City’s business-type activities also include refuse collection, a golf course, and public transportation. All business-type activities are designed to be self-supporting, and costs are expected to be fully recovered by user fees and other revenues. Refuse collection activities are contracted out to a private company. The golf course and transit operations reflected an increase in net position for the year ended June 30, 2017 and the sanitation fund reflected a decrease in net position of about \$58,000 for the fiscal year ended June 30, 2017.

### **Financial Analysis of the City’s Funds**

#### ***Governmental funds***

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

City officials compare these available resources to the upcoming financial obligations. The ending fund balance for governmental funds at June 30, 2017 was \$5,579,494. Of this total, \$1,357,491 was unassigned and is available to fund any City requirements. Nonspendable fund balances of \$387,481 represent assets that cannot be converted to cash, such as inventory, prepaid expenses and land held for resale.

There are restricted fund balances totaling \$572,011, committed fund balances of \$1,647,733, and assigned fund balances of \$1,614,778. Committed fund balances include line items such as advances to other funds.

Governmental fund balances decreased by \$1,725,902 from the previous year, partially because of a write-off of the public financing authority's advances to the public utility authority in connection with the refinancing of bonds. Expenses actually exceeded revenues by about \$819,000. 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 49% of governmental revenues and about 52% of governmental expenses. The General Fund's fund balance increased by over \$374,000 from the previous year. General Fund revenues increased by \$553,000 and expenses decreased by about \$590,000.

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 \$99,424 during the fiscal year, ending at \$164,197.

The Interstate Commerce I40/J Street project fund is used to account for grants received and used to improve certain streets and highways bringing traffic into and through the City. At June 30, 2017 this fund reflected a fund balance of \$121,686, representing an increase of \$156,731 from the 2016 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 \$182,671. Total ending fund balances for these funds was \$2,612,907.

#### *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 47% of total assets and about 54% of total revenues. NPUA provides power, water and wastewater to the City's businesses and residents. All fixed assets of the utility are carried on NPUA's books, as well as the revenue bonds issued to finance the acquisition of the utility.

### **General Fund Budgetary Highlights**

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The original budget adopted for the General Fund totaled \$5.141 million in revenues (excluding transfers) and \$5.140 million in expenses (excluding transfers but including capital outlays). The budget was amended once during the fiscal year.

**Capital Assets and Debt Administration**

*Capital Assets*

At June 30, 2017 the City had about \$35.920 million invested in capital assets, \$18.922 million of which was in governmental activities and \$16.998 million of which was in business-type activities. This represents an overall increase of about \$5.155 million, or about 16.76%.

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

**Capital Assets, Net of Accumulated Depreciation**

	Governmental Activities		Business-type Activities		Totals		Amount Change	% Change
	2017	2016	2017	2016	2017	2016		
<b>Non-depreciable assets</b>								
Construction in progress	2,961,409	675,297	91,250	91,250	3,052,658	766,547	2,286,111	>100.0%
Land and infrastructure	5,419,023	5,419,023	795,418	292,621	6,214,441	5,711,644	502,797	8.80
<b>Depreciable assets</b>								
Buildings and improvements	10,541,991	10,829,505	-	-	10,541,991	10,829,505	(287,514)	2.65
Equipment and vehicles	-	103,533	16,110,896	13,353,134	16,110,896	13,456,667	2,654,229	19.72
<b>TOTAL</b>	<b>\$ 18,922,423</b>	<b>17,027,358</b>	<b>16,997,564</b>	<b>13,737,005</b>	<b>35,919,986</b>	<b>30,764,363</b>	<b>5,155,623</b>	<b>16.76%</b>

*Long-term debt*

At the end of the fiscal year, the City's total long-term debt obligations were \$20.06 million. Of this total, \$4.38 million is in the governmental activities and \$15.68 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, 2017 and 2016:

**Outstanding Long-Term Obligations**

	Governmental Activities		Business-type Activities		Totals		Amount Change	% Change
	2017	2016	2017	2016	2017	2016		
Advances to RDA	\$ 937,835	1,237,835	-	-	937,835	1,237,835	(300,000)	24.23
Tax allocation bonds	760,000	860,000	-	-	760,000	860,000	(100,000)	11.63
Certificates of participation	-	2,293,377	-	-	-	2,293,377	(2,293,377)	100.0
Revenue bonds	-	-	-	14,815,047	-	14,815,047	(14,815,047)	100.0
Revenue refunding bonds	-	-	15,488,000	-	15,488,000	-	15,488,000	100.0
Sanitation note payable	-	-	382,053	403,720	382,053	403,720	(21,667)	5.37
NPUA notes payable	-	-	-	<u>2,293,377</u>	-	<u>2,293,377</u>	<u>(2,293,377)</u>	100.0
Total	\$ <u>1,637,835</u>	<u>4,391,212</u>	<u>15,870,053</u>	<u>17,512,144</u>	<u>17,567,888</u>	<u>21,903,356</u>	<u>(4,335,468)</u>	19.79%

**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 increased approximately 1.9% during FY 2017.

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

The project has been funded largely through United States Department of Transportation grant funding with about \$900,000 in California State funds also approved for this project. The Federal grant funds require a 20% local match, which is being met by using City labor and contributions from the Public Utility Authority. The project was complete as of June 30, 2017, and is available to interested parties for short or long-term leases. There are two companies that currently lease office space in the El Garces; McDonald Transit and Amtrak.

Additional improvements to the El Garces include the completion of the east side flooring for \$241,079 which included; repairing concrete, framing, window and stucco work and the installation of a security camera system.

As of June 30, 2017, the City has substantially completed the I-40/J Street Connector Project for which \$4.8 million in Federal Transit Authority was awarded. The County of San Bernardino contributed \$628,000 through a grant and a loan for the local matching funds. The project included 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 now have traffic signals.

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

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

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

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

**CITY OF NEEDLES, CALIFORNIA**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS</b>			
Cash and investments	\$ 5,319,785	11,381,300	16,701,085
Restricted cash	283,278	-	283,278
Accounts receivable, net	1,250,522	4,932,284	6,182,806
Internal balances	1,851,987	(1,851,987)	-
Inventory	8,953	592,613	601,566
Prepaid items	197,856	1,506,087	1,703,943
Land held for resale	182,153	-	182,153
Intangible assets	-	1,981,184	1,981,184
Capital assets, net	18,922,423	16,997,564	35,919,987
Advances to other funds	<u>937,835</u>	<u>-</u>	<u>937,835</u>
Total assets	<u>\$ 28,954,792</u>	<u>35,539,045</u>	<u>64,493,837</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pensions	953,023	386,288	1,339,311
<b>LIABILITIES</b>			
Bank overdraft	11,174	2,664,670	2,675,844
Accounts payable	1,933,388	839,800	2,773,188
Deposits payable	-	2,037,218	2,037,218
Compensated absences	197,360	331,100	528,460
Accrued interest	583,362	249,098	832,460
Estimated claims liability	100,000	-	100,000
Net pension liability	2,071,859	1,494,016	3,565,875
Long-term liabilities:			
Due within one year	90,000	946,722	1,036,722
Due in more than one year	<u>1,997,328</u>	<u>14,734,939</u>	<u>16,732,267</u>
Total liabilities	6,984,471	23,297,563	30,282,034
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions	400,730	215,866	616,596
Revenues not available to fund current obligations	2,468,022	-	2,468,022
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	18,922,422	2,355,767	21,278,189
Restricted for:			
Capital projects	1,297,158	-	1,297,158
Debt service	-	-	-
Community development projects	1,594,166	-	1,594,166
Unrestricted (deficit)	<u>(1,759,154)</u>	<u>10,056,137</u>	<u>8,296,983</u>
Total net position	<u>\$ 20,054,592</u>	<u>12,411,904</u>	<u>32,466,497</u>

See accompanying notes to the basic financial statements.

**CITY OF NEEDLES**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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	
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
General government	\$ 609,589	702,386	-	-	92,796	-	92,796
Public safety	2,860,905	-	252,732	-	(2,608,173)	-	(2,608,173)
Public works	1,018,993	355,041	-	-	(663,952)	-	(663,952)
Parks and recreation	1,063,844	-	-	-	(1,063,844)	-	(1,063,844)
Community development	590,183	-	-	2,253,188	1,663,005	-	1,663,005
Interest on long-term debt	273,829	-	-	-	(273,829)	-	(273,829)
Total governmental activities	<u>6,417,344</u>	<u>1,057,427</u>	<u>252,732</u>	<u>2,253,188</u>	<u>(2,853,997)</u>	<u>-</u>	<u>(2,853,997)</u>
Business-type activities:							
Public utility authority	10,388,561	11,671,776	-	-	-	1,283,215	1,283,215
Sanitation	971,812	1,030,380	-	-	-	58,568	58,568
Golf course	665,164	370,921	-	503,109	-	208,866	208,866
Transit	275,181	55,614	-	441,164	-	221,597	221,597
Total business-type activities	<u>12,300,718</u>	<u>13,128,691</u>	<u>-</u>	<u>944,273</u>	<u>-</u>	<u>1,772,246</u>	<u>1,772,246</u>
Total primary government	<u>\$ 18,718,062</u>	<u>14,186,118</u>	<u>252,732</u>	<u>3,197,461</u>	<u>(2,853,997)</u>	<u>1,772,246</u>	<u>(1,081,751)</u>
General revenues:							
Taxes:							
Property taxes					1,566,045	-	1,566,045
Hotel taxes					889,132	-	889,132
Fuel taxes					101,641	-	101,641
State sales tax					505,400	-	505,400
Franchise taxes					169,051	-	169,051
Other taxes					353,320	-	353,320
Interest revenue					374,854	22,659	397,513
Miscellaneous					173,248	-	173,248
Transfers					<u>1,433,138</u>	<u>(1,433,138)</u>	<u>-</u>
Total general revenues, special items, and transfers					<u>5,565,829</u>	<u>(1,410,479)</u>	<u>4,155,350</u>
Change in net position					2,711,832	361,767	3,073,599
Net position - beginning, as previously reported					18,902,446	7,384,582	26,287,027
Prior year adjustments					<u>(1,559,686)</u>	<u>4,665,556</u>	<u>3,105,870</u>
Net position - beginning, as restated					<u>17,342,759</u>	<u>12,050,138</u>	<u>29,392,897</u>
Net position - ending					<u>\$ 20,054,591</u>	<u>12,411,904</u>	<u>32,466,496</u>

See accompanying notes to the basic financial statements.

**CITY OF NEEDLES, CALIFORNIA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2017**

	General	Public Financing Authority	Interstate Commerce 140/J Street Project	Other Governmental Funds	Total Governmental Funds
<b>ASSETS AND OTHER DEBITS</b>					
Cash and investments	\$ 756,581	164,198	20,540	4,378,466	5,319,785
Restricted cash	-	-	-	283,278	283,278
Accounts receivable, net	159,290	-	-	-	159,290
Interest receivable	-	-	-	-	-
Due from other funds	1,851,987	-	-	373,258	2,225,245
Due from other governments	110,200	-	583,373	24,401	717,974
Inventory	8,953	-	-	-	8,953
Prepaid items	182,089	-	-	15,768	197,857
Land held for resale	-	-	-	182,153	182,153
Advances to other funds	937,835	-	-	-	937,835
Total assets and other debits	<u>\$ 4,006,935</u>	<u>164,198</u>	<u>603,913</u>	<u>5,257,324</u>	<u>10,032,370</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, EQUITY AND OTHER CREDITS</b>					
Liabilities:					
Bank overdraft	\$ -	-	-	11,174	11,174
Accounts payable	280,888	-	482,227	6,303	769,418
Accrued liabilities	662,684	-	-	122,113	784,797
Due to other funds	180,218	-	-	-	180,218
Due to other governments	-	-	-	239,247	239,247
Total liabilities	<u>1,123,790</u>	<u>-</u>	<u>482,227</u>	<u>378,837</u>	<u>1,984,854</u>
Deferred inflows of resources:					
Revenues not available to fund current obligations	<u>237,487</u>	<u>-</u>	<u>-</u>	<u>2,230,535</u>	<u>2,468,022</u>
Equity and other credits:					
Fund balances - nonspendable	191,042	-	-	196,439	387,481
Fund balances - restricted	-	164,198	-	407,813	572,011
Fund balances - committed	1,097,125	-	-	550,608	1,647,733
Fund balances - assigned	-	-	121,686	1,493,092	1,614,778
Fund balances - unassigned	1,357,491	-	-	-	1,357,491
Total equity and other credits	<u>2,645,658</u>	<u>164,198</u>	<u>121,686</u>	<u>2,647,952</u>	<u>5,579,494</u>
Total liabilities, deferred inflows of resources, equity and other credits	<u>\$ 4,006,935</u>	<u>164,198</u>	<u>603,913</u>	<u>5,257,324</u>	<u>10,032,370</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, 2017

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**Fund balances - total governmental funds** \$ 5,579,494

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	\$ 27,396,300	
Less: Accumulated depreciation	<u>8,473,879</u>	18,922,421

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

Net pension liability	2,071,859	
Deferred outflows of resources	(953,023)	
Deferred inflows of resources	400,730	
Compensated absences	197,360	
Bonds payable, net	860,000	
Certificates of participation	2,293,375	
Advances from other funds	2,209,836	
Estimated claims liability	100,000	
Less: current year principal payments	<u>(439,439)</u>	<u>(6,740,698)</u>

**Net assets of governmental activities** **\$ 17,761,217**

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, 2017**

	General	Public Financing Authority	Interstate Commerce I40/J Street Project	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>					
Taxes	\$ 2,926,922	-	-	386,975	3,313,897
Licenses, permits and fees	320,498	-	-	-	320,498
Intergovernmental	2,756	-	2,007,103	952,743	2,962,602
Charges for services	161,441	-	-	285,048	446,489
Fines and forfeitures	104,450	-	-	-	104,450
Use of money and property	92,775	213,178	-	68,901	374,854
Other revenues	155,016	-	-	18,234	173,250
<b>Total revenues</b>	<b>3,763,858</b>	<b>213,178</b>	<b>2,007,103</b>	<b>1,711,901</b>	<b>7,696,040</b>
<b>EXPENDITURES:</b>					
Current:					
General government	560,798	-	-	-	560,798
Public safety	2,654,137	-	-	169,556	2,823,693
Public works	587,666	-	-	367,349	955,015
Parks and recreation	590,732	-	-	170,519	761,251
Community development	54,374	-	-	188,854	243,228
Capital outlay	-	-	2,245,583	252,653	2,498,236
Debt service:					
Principal retirement	-	99,146	-	300,000	399,146
Interest and fiscal charges	-	213,456	-	60,373	273,829
<b>Total expenditures</b>	<b>4,447,707</b>	<b>312,602</b>	<b>2,245,583</b>	<b>1,509,304</b>	<b>8,515,196</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(683,849)</b>	<b>(99,424)</b>	<b>(238,480)</b>	<b>202,597</b>	<b>(819,156)</b>
Other Financing Sources (Uses):					
Operating transfers in	1,543,288	-	395,211	90,226	2,028,725
Operating transfers out	(485,437)	-	-	(110,152)	(595,589)
<b>Total other financing sources (uses)</b>	<b>1,057,851</b>	<b>-</b>	<b>395,211</b>	<b>(19,926)</b>	<b>1,433,136</b>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over (under) Expenditures and Other Financing Uses</b>	<b>374,002</b>	<b>(99,424)</b>	<b>156,731</b>	<b>182,671</b>	<b>613,980</b>
FUND BALANCE, JULY 1, 2016	2,246,660	263,621	(35,045)	2,465,281	4,940,517
Prior year adjustments	24,996	-	-	-	24,996
<b>FUND BALANCE, JUNE 30, 2017</b>	<b>\$ 2,645,658</b>	<b>164,197</b>	<b>121,686</b>	<b>2,647,952</b>	<b>5,579,493</b>

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, 2017

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Net change in fund balances - total governmental funds \$ 613,980

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. 1,896,574

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. (16,793)

This also includes the pension expense recognized under GASB 68 (181,075)

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. 399,146

Change in net assets of governmental activities \$ 2,711,832

See accompanying notes to the basic financial statements.

**CITY OF NEEDLES, CALIFORNIA**  
**COMBINING STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
June 30, 2017

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds	Internal Service Funds
<b>ASSETS</b>						
Current assets:						
Cash and investments	\$ 9,208,602	676,478	90,661	-	9,975,741	1,405,559
Accounts receivable, net	1,272,283	115,151	-	331	1,387,765	-
Interest receivable	167,982	-	-	-	167,982	-
Due from other funds	-	-	-	-	-	3,305,143
Due from other governments	-	-	-	71,394	71,394	-
Inventory	588,903	-	3,710	-	592,613	-
Prepaid expenses	927,163	-	91,347	-	1,018,510	487,577
Total current assets	12,164,933	791,629	185,718	71,725	13,214,005	5,198,279
Non-current assets:						
Cash and investments with fiscal agents	-	-	-	-	-	-
Deferred bond issuance costs, net	-	-	-	-	-	-
Intangible assets	1,981,184	-	-	-	1,981,184	-
Fixed assets, net	15,847,114	-	676,867	316,275	16,840,256	1,362,625
Deferred outflows of resources:						
Difference in proportions of net pension liability	386,288	-	-	-	386,288	-
Total assets and deferred outflows	\$ 30,379,519	791,629	862,585	388,000	32,421,733	6,560,904
<b>LIABILITIES</b>						
Current liabilities:						
Bank overdraft	\$ -	101,851	2,428,313	-	2,530,164	134,506
Accounts payable	115,854	69,476	53,855	322	239,507	355,238
Due to other funds	440,547	1,653,930	-	2,565	2,097,042	-
Compensated absences	331,100	-	-	-	331,100	-
Accrued interest	249,098	-	-	-	249,098	-
Capital lease obligation - current	-	-	-	-	-	-
Notes payable - current	-	-	-	-	-	-
Bonds payable - current	852,698	-	-	-	852,698	-
Other liabilities	-	-	-	-	-	4,096
Total current liabilities	1,989,297	1,825,257	2,482,168	2,887	6,299,609	493,840
Non-current liabilities:						
Deposits	2,037,218	-	-	-	2,037,218	-
Deferred revenue	-	-	-	-	-	-
Capital lease obligation - long-term	-	-	-	-	-	-
Net pension liability	1,494,016	-	-	-	1,494,016	-
Notes payable - long-term	-	382,053	-	-	382,053	-
Bonds payable - long-term	14,442,814	-	-	-	14,442,814	-
Total liabilities	19,963,345	2,207,310	2,482,168	2,887	24,655,710	493,840
Deferred inflows of resources:						
Differences related to pensions	215,866	-	-	-	215,866	-
Total liabilities and deferred inflows	20,179,211	2,207,310	2,482,168	2,887	24,871,576	493,840
<b>NET POSITION</b>						
Invested in capital assets, net of related debt	-	-	676,867	316,275	993,142	1,362,625
Unrestricted	10,200,308	(1,415,681)	(2,296,450)	68,838	6,557,015	4,704,439
Total Net Position	\$ 10,200,308	(1,415,681)	(1,619,583)	385,113	7,550,157	6,067,064

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, 2017

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds	Internal Service Funds
<b>OPERATING REVENUES</b>						
Charges for services-Public Utility Authority	\$ 11,607,913	-	-	-	11,607,913	-
Charges for services-Other enterprise funds	-	1,030,380	370,921	38,790	1,440,091	9,389,260
Government grants	-	-	503,109	441,164	944,273	-
Other fees and sales	-	-	16,824	-	16,824	-
Other revenues	58,853	3,080	1	1,929	63,863	-
<b>Total operating revenues</b>	<b>11,666,766</b>	<b>1,033,460</b>	<b>890,855</b>	<b>481,883</b>	<b>14,072,964</b>	<b>9,389,260</b>
<b>OPERATING EXPENSES</b>						
Personnel costs	1,466,914	-	293,819	-	1,760,733	1,866,507
Contractual services	-	821,929	-	-	821,929	429,373
Power and utilities	2,033,929	-	173,307	-	2,207,236	1,984,786
Maintenance and operations	3,579,578	120,000	105,855	370,865	4,176,298	4,336,963
Administrative and management	833,590	322	28,185	22,008	884,105	301,521
Insurance	-	10	29,147	-	29,157	121,126
Depreciation and amortization	903,088	-	34,851	41,403	979,342	225,669
Provision for bad debt	59,011	5,917	-	-	64,928	-
<b>Total operating expenses</b>	<b>8,876,110</b>	<b>948,178</b>	<b>665,164</b>	<b>434,276</b>	<b>10,923,728</b>	<b>9,265,945</b>
<b>OPERATING INCOME</b>	<b>2,790,656</b>	<b>85,282</b>	<b>225,691</b>	<b>47,607</b>	<b>3,149,236</b>	<b>123,315</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Interest revenue	21,198	-	-	175	21,373	1,286
Interest expense and fiscal charges	(1,794,860)	(23,634)	-	-	(1,818,494)	-
Income from reduction of landfill debt obligation	-	-	-	-	-	-
Lease termination income	-	-	-	-	-	-
Bond issue costs	-	-	-	-	-	-
<b>Total nonoperating revenues (expenses)</b>	<b>(1,773,662)</b>	<b>(23,634)</b>	<b>-</b>	<b>175</b>	<b>(1,797,121)</b>	<b>1,286</b>
<b>INCOME BEFORE OPERATING TRANSFERS</b>	<b>1,016,994</b>	<b>61,648</b>	<b>225,691</b>	<b>47,782</b>	<b>1,352,115</b>	<b>124,601</b>
Operating transfers in	1,570,901	-	-	152	1,571,053	-
Operating transfers out	(2,721,364)	(120,000)	-	(17,892)	(2,859,256)	(144,935)
<b>Net operating transfers in (out)</b>	<b>(1,150,463)</b>	<b>(120,000)</b>	<b>-</b>	<b>(17,740)</b>	<b>(1,288,203)</b>	<b>(144,935)</b>
<b>Change in net position</b>	<b>(133,469)</b>	<b>(58,352)</b>	<b>225,691</b>	<b>30,042</b>	<b>63,912</b>	<b>(20,334)</b>
Net Position July 1, 2016, as previously reported	5,347,264	(1,357,329)	(1,845,274)	355,071	2,499,732	6,087,398
Prior year adjustments	4,986,513	-	-	-	4,986,513	-
Net Position July 1, 2016, as restated	10,333,777	(1,357,329)	(1,845,274)	355,071	7,486,245	6,087,398
<b>Net Position, June 30, 2017</b>	<b>\$ 10,200,308</b>	<b>(1,415,681)</b>	<b>(1,619,583)</b>	<b>385,113</b>	<b>7,550,157</b>	<b>6,067,064</b>

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, 2017

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds	Internal Service Funds
<b><u>Cash Flows From Operating Activities:</u></b>						
Cash collected from customers	\$ 11,611,794	1,031,689	874,030	386,673	13,904,186	9,389,260
Cash payments to suppliers for goods and services	(1,935,834)	(120,015)	(654,689)	(393,417)	(3,103,955)	(6,813,804)
Cash payments to employees and professional contractors for services	(1,466,914)	(821,929)	(293,819)	-	(2,582,662)	(2,295,880)
Payments for internal services	2,033,929	-	173,307	-	2,207,236	-
Other operating revenues	58,853	3,080	16,825	1,929	80,687	-
<b>Net cash provided by (used in) operating activities</b>	<b>10,301,828</b>	<b>92,825</b>	<b>115,654</b>	<b>(4,815)</b>	<b>10,505,492</b>	<b>279,576</b>
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>						
Decrease in due from other funds	-	-	-	-	-	(1,397,079)
Increase (decrease) in due to other funds	(590,085)	240,002	-	2,565	(347,518)	(133,735)
Operating transfers in	1,570,901	-	-	152	1,571,053	-
Operating transfers out	(2,721,364)	(120,000)	-	(17,892)	(2,859,256)	(144,935)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(1,740,548)</b>	<b>120,002</b>	<b>-</b>	<b>(15,175)</b>	<b>(1,635,721)</b>	<b>(1,675,749)</b>
<b><u>Cash Flows from Capital and Related Financing Activities:</u></b>						
Acquisition and construction of capital assets	(3,860,330)	-	(562,174)	-	(4,422,504)	(45,835)
Proceeds from issuance of debt	15,488,000	-	-	-	15,488,000	-
Principal paid on bonds payable	(15,018,484)	-	-	-	(15,018,484)	-
Principal paid on notes payable	(2,293,376)	(21,667)	-	-	(2,315,043)	-
Interest paid	(1,545,762)	(23,634)	-	-	(1,569,396)	-
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(7,229,952)</b>	<b>(45,301)</b>	<b>(562,174)</b>	<b>-</b>	<b>(7,837,427)</b>	<b>(45,835)</b>
<b><u>Cash Flows from Investing Activities:</u></b>						
Cash deposited with fiscal agent	2,150,774	-	-	-	2,150,774	-
Interest on investments	21,198	-	-	175	21,373	1,286
<b>Net cash provided by (used in) investing activities</b>	<b>2,171,972</b>	<b>-</b>	<b>-</b>	<b>175</b>	<b>2,172,147</b>	<b>1,286</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3,503,300</b>	<b>167,526</b>	<b>(446,520)</b>	<b>(19,815)</b>	<b>3,204,491</b>	<b>(1,440,722)</b>
Cash And Cash Equivalents (net of bank overdraft), July 1, 2016	5,705,301	407,101	(1,891,132)	19,815	4,241,085	2,711,775
Cash And Cash Equivalents (net of bank overdraft), June 30, 2017	\$ 9,208,601	574,627	(2,337,652)	-	7,445,576	1,271,053
<b><u>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</u></b>						
Operating income (loss)	\$ 2,790,656	85,282	225,691	47,607	3,149,236	123,315
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization of fixed assets	903,088	-	34,851	41,403	979,342	225,669
Bad debt expense	59,011	5,917	-	-	64,928	-
Adjustment of beginning balances	4,986,513	-	-	-	4,986,513	-
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable	3,881	1,309	-	(331)	4,859	-
Decrease in due from other governments	-	-	-	(26,957)	(26,957)	-
(Increase) Decrease in inventory	100,082	-	(656)	-	99,426	-
Decrease (increase) in prepaid expenses	18,864	-	(40,833)	616	(21,353)	(113,739)
Increase (decrease) in deferred outflows	186,322	-	-	-	-	-
Increase (decrease) in accounts payable	(431,154)	317	(103,399)	(1,160)	(535,396)	44,331
Increase (decrease) in deposits payable	1,659,328	-	-	-	1,659,328	-
Increase (decrease) in net pension liability	530,633	-	-	-	-	-
Increase (decrease) in deferred inflows	(580,475)	-	-	-	-	-
Increase (decrease) in deferred revenue	-	-	-	(65,993)	(65,993)	-
Increase (decrease) in other liabilities	-	-	-	-	-	-
Increase (decrease) in compensated absences payable	75,079	-	-	-	75,079	-
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 10,301,828</b>	<b>92,825</b>	<b>115,654</b>	<b>(4,815)</b>	<b>10,369,012</b>	<b>279,576</b>
<b><u>Noncash Investing, Capital and Financing Activities:</u></b>						
Amortization not included in operating income:						
Deferred bond issuance costs	\$ -	-	-	-	-	-
Deferred amount on refunding of debt	\$ -	-	-	-	-	-

See accompanying notes to the basic financial statements.

# **CITY OF NEEDLES, CALIFORNIA**

## **NOTES TO FINANCIAL STATEMENTS**

**Fiscal Year ended June 30, 2017**

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### **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, 2017.

#### **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, 2017 fiscal year end, and issues separate audited financial statements. The City has no discretely presented component units.

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

##### Needles Redevelopment Agency

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

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Needles Redevelopment 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.

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.

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Government Wide and Fund Financial Statements**

**Government-Wide Statements**

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

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

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

**Fund Financial Statements**

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

**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.

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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.

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.

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**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.

Interstate Commerce I40/J Street Project – This fund accounts for the collection of financial resources from the U.S. Federal government to fund a project to improve the roadway leading into J Street from Interstate Highway 40. The project includes road widening, resurfacing, and installation of traffic signals.

*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.

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

*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".

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.

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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.

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, 2017.

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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:

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

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

**Restricted**—This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Debt service resources are to be used for future servicing of the debt obligation and are restricted through debt covenants.

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Committed**—This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City’s committed resources totaled \$1,647,733 at June 30, 2017 and included accounts receivable, advances to other funds, the fund balance for the All American Canal fund, the supplemental law enforcement fund balance and the narcotics forfeiture fund balance.

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

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

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

Prior to the issuance of GASB Statement 54, the governmental fund financial statements reported reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes. The General Fund reserve for restricted purposes included fund balances/net 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.

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**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, 2017 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.

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

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

measurable. The City considers property tax as available if it is received within 60 days after the year-end.

PENSIONS

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

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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

DEFICIT FUND NET ASSETS – Primary Government

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

Used Oil Program (Fund 207)	\$ 8,108
Active Transportation (Fund 243)	42,039
CA. Conservation Recycling Grant (Fund 239)	397
Dial a Ride Transit (Fund 520)	10,797

**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.

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, continued**

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.

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.

## **CITY OF NEEDLES, CALIFORNIA**

### **NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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

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, 2017, the book balance of the City's deposits was \$12.9 million and the bank balance was \$13.7 million. Of the bank balance, \$500,000 was insured and \$13.2 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 \$1,369,144. The total amount invested by all public agencies in LAIF is \$77.559 million. The LAIF is managed by the State Treasurer. Of that amount, one hundred percent (100%) is invested in non-derivative financial products, and zero percent in derivative financial products.

Investments by all public agencies at June 30, 2017 include \$825 million in structured notes and \$1,419.481 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

# CITY OF NEEDLES, CALIFORNIA

## NOTES TO FINANCIAL STATEMENTS (continued)

Fiscal Year ended June 30, 2017

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

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, 2017 were as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
California LAIF	\$ 1,369,144	\$ 1,369,144
Petty cash and cash drawers	4,593	4,593
Checking accounts	<u>11,569,884</u>	<u>11,569,884</u>
Total Cash and Investments	\$ <u>12,943,621</u>	\$ <u>12,943,621</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, 2017, the reserve fund totaled \$164,197. 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 required a minimum balance of \$1,553,423 in the reserve fund. These bonds were refinanced during the year ended June 30, 2017.

The Certificates of Participation agreement required deposits to be made semiannually with the Trustee in an amount equal to 1/20<sup>th</sup> of the maximum reserve (\$8,392) until the amount on deposit equals the maximum reserve (\$167,834). The certificates of participation were repaid during the year ended June 30, 2017.

### 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

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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

value hierarchy in accordance with Generally Accepted Accounting Principles. The levels within the hierarchy are as follows:

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

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

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

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

**NOTE 4 - CAPITAL ASSETS**

A summary of the changes in capital assets follows:

	<u>Equipment and Vehicles</u>	<u>Buildings and Improvements</u>	<u>Construction in Progress</u>	<u>Land and Infrastructure</u>	<u>Totals</u>
<b>Primary Government</b>					
<i>Governmental Activities</i>					
Balance July 1, 2016	\$ 1,371,648	16,159,305	675,297	5,419,023	23,625,273
Increases	-	210,614	2,287,622	-	2,498,236
Decreases	-	-	(1,510)	-	(1,510)
Balance June 30, 2017	<u>1,371,648</u>	<u>16,369,919</u>	<u>2,961,409</u>	<u>5,419,023</u>	<u>26,121,999</u>
Accumulated Depreciation					
Balance July 1, 2016	1,268,115	5,329,800	-	-	6,597,915
Increases	103,533	498,128	-	-	601,661
Decreases	-	-	-	-	-
Balance June 30, 2017	<u>1,371,648</u>	<u>5,827,928</u>	<u>-</u>	<u>-</u>	<u>7,199,576</u>
<i>Governmental Activities</i>					
Capital Assets, Net	<u>-</u>	<u>10,541,991</u>	<u>2,961,409</u>	<u>5,419,023</u>	<u>18,922,423</u>
<i>Business-type Activities</i>					
Balance July 1, 2016	31,617,873	522,285	91,250	292,621	32,524,029
Increases	3,965,542	-	-	502,797	4,468,339
Decreases	(2,769)	-	-	-	(2,769)
Balance June 30, 2017	<u>35,580,646</u>	<u>522,285</u>	<u>91,250</u>	<u>795,418</u>	<u>36,989,599</u>
Accumulated Depreciation					
Balance July 1, 2016	18,264,739	522,285	-	-	18,787,024
Increases	1,205,011	-	-	-	1,205,011
Decreases	-	-	-	-	-
Balance June 30, 2017	<u>19,469,750</u>	<u>522,285</u>	<u>-</u>	<u>-</u>	<u>19,992,035</u>
<i>Business-type Activities</i>					
Capital Assets, Net	<u>16,110,896</u>	<u>-</u>	<u>91,250</u>	<u>795,418</u>	<u>16,997,564</u>
<b>Primary Government</b>					
Capital Assets, Net	\$ <u>16,110,896</u>	<u>10,541,991</u>	<u>3,052,659</u>	<u>6,214,441</u>	<u>35,919,987</u>

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**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	\$ -	Water utilities	\$ 70,093
Public safety	697	Sewer utilities	19,048
Public works	18,012	Golf course	34,851
Parks and recreation	247,603	Electric utilities	973,041
Community development	<u>335,349</u>	Administrative facilities	2,676
	\$ <u>601,661</u>	Fleet maintenance	1,240
		Vehicle replacement	50,069
		Information systems	12,590
		Transit	<u>41,403</u>
			\$ <u>1,205,011</u>

**NOTE 5 – LONG-TERM OBLIGATIONS**

The City has the following long-term obligations at June 30, 2017:

**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, 2017 represents unpaid principal and accrued interest.

\$ 163,826

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.

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 5 – LONG-TERM OBLIGATIONS, continued**

**Bonds Payable and Certificates of Participation**

**1992 Series A Tax Allocation Bonds**

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

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

760,000

**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. These certificates were repaid in fiscal year 2017

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**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. These bonds were refinanced during the year ended June 30, 2017.

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**2016 Revenue Refunding Bonds**

In December 2016 the Utility Authority issued \$15,488,000 in revenue bonds bearing interest at 3.86%. Principal payments in various amounts are due annually through February 2031. The proceeds of this bond issue were utilized primarily to repay the 1997 Series A bonds above

Less: unamortized discount

192,488

Net amount outstanding

15,295,512

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

**NOTE 5 – LONG-TERM OBLIGATIONS, continued**

**Long term debt – Schedule of Maturities**

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

Years ending	Advance from Other	1992	2016		
June 30:	Funds	Bonds	Bonds	Interest	Total
2018	-	105,000	852,698	626,292	1,583,990
2019	-	115,000	885,931	584,169	1,585,100
2020	-	120,000	920,458	540,163	1,580,621
2021	-	130,000	956,330	494,223	1,580,553
2022	-	290,000	993,600	429,609	1,713,209
2023-2027	-	-	5,579,925	1,546,433	7,126,358
2028-2032	-	-	5,299,058	368,211	5,667,269
2038-2039	<u>937,835</u>	-	-	-	<u>937,835</u>
Totals	<u>937,835</u>	<u>760,000</u>	<u>15,488,000</u>	<u>4,589,101</u>	<u>21,774,936</u>

*Changes in Long-Term Debt*

The following is a summary of changes in long-term debt for the year ended June 30, 2017:

<u>Description and purpose</u>	Balance July 1, 2016	Increase/ Issued	Decrease/ Retired	Balance June 30, 2017	Due Within One Year
<b>Primary Government</b>					
<i>Governmental Activities</i>					
Tax allocation 1992 bonds	\$ 860,000	-	100,000	760,000	105,000
Advances from other funds	1,237,835	-	300,000	937,835	-
Certificates of participation	<u>2,293,377</u>	-	<u>2,293,377</u>	-	-
Total Governmental Activities	<u>4,391,212</u>	-	<u>2,693,377</u>	<u>1,637,835</u>	<u>105,000</u>
<i>Business-type Activities</i>					
Revenue bonds:					
<u>Major Enterprise Funds</u>					
NPUA 1997 Bonds	14,815,047	-	14,815,047	-	-
NPUA 2016 Bonds	-	15,488,000	-	15,488,000	852,698
Notes payable:					
<u>Major Enterprise Funds</u>					
NPUA	2,293,377	-	2,293,377	-	-
<u>Other Enterprise Funds</u>					
Sanitation Fund	<u>403,720</u>	-	<u>21,667</u>	<u>382,053</u>	<u>24,926</u>
Total Business-type Activities	<u>17,512,144</u>	<u>15,488,000</u>	<u>17,130,091</u>	<u>15,870,053</u>	<u>877,624</u>
Total Primary Government Long-term Debt	\$ <u>21,903,356</u>	<u>15,488,000</u>	<u>19,823,468</u>	<u>17,507,888</u>	<u>982,624</u>

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**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:			
2018	\$ 24,926	20,375	45,301
2019	24,538	20,763	45,301
2020	26,000	19,301	45,301
2021	27,656	17,645	45,301
2022	29,362	15,939	45,301
2023-2027	176,273	50,232	226,505
2028-2029	<u>73,298</u>	<u>4,006</u>	<u>77,304</u>
	\$ <u>382,053</u>	<u>148,261</u>	<u>530,314</u>

## **CITY OF NEEDLES, CALIFORNIA**

### **NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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#### **NOTE 7 – UTILITY ENTERPRISE**

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

To fund the acquisition, NPUA issued 1997 revenue bonds totaling \$21,145,000, of which \$17,941,092 was used as an initial down payment for the acquisition. The balance of \$47,058,908 was financed by the City and evidenced by a note. This is being repaid with an annual purchase payment of \$685,300 through the year 2066. These bonds were fully paid during the year ended June 30, 2017 with the proceeds of 2016 revenue refunding bonds issued by the NPUA. The 2016 Revenue Refunding bonds were issued in the face amount of \$15,488,000 and are more fully described in Note 5 above.

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, 2017 are as follows:

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 8 – RESTRICTED ASSETS, NET ASSETS AND FUND EQUITY, continued**

	<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	182,089	14,286	-	-
Land held for resale	-	-	182,153	-
Restricted	-	407,813	-	164,198
Committed	1,097,125	550,608	-	-
Assigned	-	636,532	978,246	-
Unassigned	<u>1,357,491</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL</b>	<b>\$ <u>2,645,658</u></b>	<b><u>1,609,239</u></b>	<b><u>1,160,399</u></b>	<b><u>164,198</u></b>

**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 117 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. Coverage years 2013-14 and forward are not subject to routine annual retrospective adjustment. The total funding requirement for self-insurance programs is based on an actuarial analysis. Costs are allocated to individual agencies based on payroll and claims history, relative to other members of the risk-sharing pool.

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 9 – LIABILITY, WORKERS’ COMPENSATION, AND PURCHASED INSURANCE, continued**

Primary Liability Program

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

For 2016-17 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 in excess of \$2 million layer, and (b)\$3 million annual aggregate deductible in the \$5 million in excess of \$10 million layer. There is a third annual aggregate deductible in the amount of \$2.5 million in the \$5 million in excess of \$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 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 2016-17 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.

## CITY OF NEEDLES, CALIFORNIA

### NOTES TO FINANCIAL STATEMENTS (continued)

Fiscal Year ended June 30, 2017

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#### NOTE 9 – LIABILITY, WORKERS’ COMPENSATION, AND PURCHASED INSURANCE, continued

##### 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 an aggregate 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.

###### 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 \$33,624,664. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$2,500 deductible.

###### 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 \$19,478,884. 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.

###### 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.

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 9 – LIABILITY, WORKERS’ COMPENSATION, AND PURCHASED INSURANCE, continued**

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 2016-17.

**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”.

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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

The following schedule reflects balances within the reporting entity at June 30, 2017:

<b>Due from other funds - governmental activities</b>		<b>Due from other funds - business activities</b>	
General fund		Water ISF due from NPUA	\$ 231,319
Due from NPUA	198,057	Electric ISF due from NPUA	<u>1,624,597</u>
All American Canal -		Wastewater ISF due from NPUA	41,055
Due from NPUA	<u>373,258</u>		
Total due from	571,315		1,896,971
<b>Due to other funds - governmental activities</b>		<b>Due to other funds - business activities</b>	
		NPUA due to electric ISF	1,624,597
		NPUA due to wastewater ISF	41,055
		NPUA due to general fund	198,057
		NPUA due to water ISF	231,319
		NPUA due to All American Canal	<u>373,258</u>
Total due to	<u>-</u>		<u>2,468,286</u>
Net balance	<u>\$ 571,315</u>		<u>\$ (571,315)</u>

At June 30, 2017 the General Fund reflected an advance to the Redevelopment Agency of \$937,835 as described more fully in note 5 above.

**TRANSFERS AND PAYMENTS**

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

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

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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

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

<u>Transfers In - Government Activities</u>		<u>Transfers In - Business type Activities</u>	
<u>General Fund</u>			
From Sanitation fund 505	\$ 120,000	Transit fund 525 from Fund 214	\$ 152
From gas tax fund 210	110,000	NPUA fund 582 from NPUA fund 502	105,937
From Dial a Ride fund	6,300	NPUA fund 583 from NPUA fund 503	38,998
Fund 520 shown as revenue	8,796	NPUA fund 583 from NPUA fund 501	292,273
From Medical Transit fund	2,796	NPUA fund 582 from NPUA fund 501	100,000
From ??? (formerly FF)	628,960	NPUA fund 581 from NPUA fund 501	564,000
From NPUA utility purchase	<u>666,436</u>	NPUA fund 501 from NPUA fund 582	<u>469,695</u>
	1,543,288	Total business type activities transfers in	1,571,055
Cemetery fund 206 from general fund	86,844		
Interstate commerce 235 from general fund	395,211		
CDBG fund from general fund	<u>3,382</u>		
Total government activities transfers in	\$2,028,725		
<u>Transfers Out - Government Activities</u>		<u>Transfers Out - Business type Activities</u>	
<u>General fund</u>			
To cemetery fund 206	\$ 86,844	Fund 502 to asset replacement 582	105,937
To interstate commerce 235	395,211	Fund 503 to asset replacement 583	38,998
To CDBG fund 205	<u>3,382</u>	Sanitation fund to general fund	120,000
	485,437	Transit 520 to general fund	6,300
Special gas tax fund 210 to general fund	110,000	Transit 521 to general fund	2,796
Transit fund 214 to transit fund 525	152	Transit 525 to general fund	8,796
		NPUA fund 501 to NPUA fund 581	564,000
Total government activities transfers out	<u>595,589</u>	NPUA fund 501 to NPUA fund 582	100,000
		NPUA fund 501 to NPUA fund 583	292,273
		From ??? (formerly FF) to general fund	628,960
		NPUA fund 582 to NPUA fund 501	469,695
		NPUA to general fund	666,436
		NPUA to general fund	<u>-</u>
		Total business type activities transfers out	<u>3,004,191</u>
Net transfers in - government activities	<u>\$1,433,136</u>	Net transfers out - business type activities	<u>\$ 1,433,136</u>

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 11 – DEFINED BENEFIT PENSION PLAN**

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

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

The Plans’ provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<u>Miscellaneous Plan</u>	
	Prior to <u>January 1, 2013</u>	On or after <u>January 1, 2013</u>
Hire Date		
Benefit Formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	55	62
Benefits as a % of annual salary	2.000%	2.000%
Required employee contribution rates	8.868%	6.750%
Required employer contribution rates	19.265%	21.133%
	<u>Safety Plan</u>	
	Prior to <u>January 1, 2013</u>	On or after <u>January 1, 2013</u>
Hire Date		
Benefit Formula	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50	57
Benefits as a % of annual salary	3.000%	2.700%
Required employee contribution rates	15.000%	10.750%
Required employer contribution rates	42.751%	48.751%

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 11 – DEFINED BENEFIT PENSION PLAN, continued**

*Contributions* – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2017, the contributions recognized as part of pension expense for each Plan were \$363,108.

*Net Pension Liability*

As of June 30, 2017, the City of Needles reported a net pension liability of \$3,417,806 for its proportionate share of the net pension liability of the Miscellaneous Plan and \$99,001 for its proportionate share of the net pension liability of the Safety Plan.

The City’s net pension liability for the Miscellaneous Plan and the Safety Plan (the Plans) is measured as the proportionate share of the net pension liability. The net pension liability of the Plans is measured as of June 30, 2016, and the total pension liability for the Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The City’s proportionate share of the net pension liability for the Plans as of June 30, 2015 and 2016 was as follows:

	<u>Miscellaneous Plan</u>	<u>Safety Plan</u>
Proportion June 30, 2015	0.08325%	.00026%
Proportion June 30, 2016	<u>0.09839%</u>	<u>.00191%</u>
Change	0.01514%	.00165%

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 11 – DEFINED BENEFIT PENSION PLAN, continued**

*Actuarial Assumptions* – The total pension liabilities in the June 30, 2015 actuarial valuations were determine using the following actuarial assumptions:

	<u>Miscellaneous</u>	<u>Safety</u>
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase	3.3%-14.2% <sup>1</sup>	3.3%-14.2% <sup>1</sup>
Investment Rate of Return	7.65% <sup>2</sup>	7.65% <sup>2</sup>
Mortality	Society of Actuaries Scale BB <sup>3</sup>	

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

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

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

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website: <http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports.xml>.

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

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

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

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**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>	New		Real Return <u>Yrs 11+(b)</u>
	<u>Strategic</u> <u>Allocation</u>	Real Return <u>Yrs 1-10(a)</u>	
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.5	5.13
Infrastructure and Forestland	2.0	4.5	5.09
Liquidity	1.0	(0.55)	(1.05)

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

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

**Discount Rate** – The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS website under the GASB 68 section.

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.

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 11 – DEFINED BENEFIT PENSION PLAN, continued**

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 CalPERS have changed their methodology.

***Changes in the Net Pension Liability***

The changes in the Net Pension Liability for each Plan measured as of June 30, 2016 is as follows:

	Total Pension <u>Liability</u>	Fiduciary Net <u>Position</u>	Pension Liability/ <u>Asset</u>
Miscellaneous Plan			
<b>Balance at June 30, 2016</b>	15,658,150	13,077,422	2,580,727
Changes in the year:			
Service cost	392,926	-	392,926
Interest on the total pension liability	1,185,655	-	1,185,655
Change of benefit terms	1,229	-	1,229
Difference between expected and actual experience	(4,369)	-	(4,369)
Net plan to plan resource movement	-	28,608	(28,608)
Contributions - employer	-	488,219	(488,219)
Contributions - employee	-	192,916	(192,916)
Net investment income	-	68,794	(68,794)
Benefit payments, including refunds of employee contributions	(705,429)	(737,505)	32,076
Administrative expense	-	(8,098)	8,098
Net changes	<u>870,012</u>	<u>32,934</u>	<u>837,079</u>
<b>Balance at June 30, 2017</b>	16,528,162	13,110,356	3,417,806

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

**NOTE 11 – DEFINED BENEFIT PENSION PLAN, continued**

Safety Plan			
<b>Balance at June 30, 2016</b>	1,330,868	1,314,257	16,611
Changes in the year:			
Service cost	27,161	-	27,161
Interest on the total pension liability	100,298	-	100,298
Change of benefit terms	30	-	30
Difference between expected and actual experience	(186)	-	(186)
Net plan to plan resource movement	-	(114)	114
Contributions - employer	-	44,668	(44,668)
Contributions - employee	-	13,076	(13,076)
Net investment income	-	6,540	(6,540)
Benefit payments, including refunds of employee contributions	(66,413)	(84,872)	18,458
Administrative expense	-	(799)	799
Net changes	<u>60,890</u>	<u>(21,500)</u>	<u>82,390</u>
<b>Balance at June 30, 2017</b>	1,391,758	1,292,757	99,001

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

	Discount Rate <u>Minus 1%</u>	Current Discount Rate	Discount Rate <u>Plus 1%</u>
<u>Employer's Net Pension Liability/(Asset)</u>	6.65%	7.65%	8.65%
Miscellaneous Plan	\$5,643,011	\$ 3,417,806	\$1,578,784
Safety Plan	<u>287,923</u>	<u>99,001</u>	<u>(56,085)</u>
Total	<u>5,930,934</u>	<u>3,516,806</u>	<u>1,522,699</u>

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

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

**NOTE 11 – DEFINED BENEFIT PENSION PLAN, continued**

**Required Supplementary Information**

<b>10 Year Disclosure Period*</b>	<u><b>2017</b></u>	<u><b>2016</b></u>	<u><b>2015</b></u>
	Miscellaneous <u>Plan</u>	Miscellaneous <u>Plan</u>	Miscellaneous <u>Plan</u>
Proportion of Collective Net Pension Liability	0.09839%	0.08325%	0.03302%
Proportionate Share of Collective Net Pension Liability	\$ 3,417,806	\$ 2,580,727	\$ 2,054,707
Covered Employee Payroll	\$ 2,490,368	\$ 2,417,833	\$ 2,347,411
Proportionate Share of Collective Net Pension Liability as a Percentage of Covered Employee Payroll	137.24%	106.74%	87.53%
Fiduciary Net Position as a Percentage of Total Pension Liability	82.43%	87.96%	87.06%

\*Disclosure of the above information is required for a ten year period. Since GASB Statement No. 68 was implemented in fiscal year 2015, only three years of information is currently available.

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

Annual Pension Cost: For 2017, the City recognized net pension expense of \$660,245. At June 30, 2017 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 9,662	-
Pension contributions subsequent to the measurement date	363,108	-
Changes in assumptions	-	123,774
Change in employer's proportion	316,497	235,778
Differences between the employer's contributions and the employer's proportionate share of contributions	6,236	257,043
Net differences between projected and actual earnings on plan investments	<u>643,808</u>	<u>-</u>
Total	\$ <u>1,339,311</u>	<u>616,596</u>

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 11 – DEFINED BENEFIT PENSION PLAN, continued**

The \$363,108 deferred outflow of resources related to pension contributions made subsequent to the measurement will be recognized as a reduction of net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows and deferred inflows will be recognized as pension expense as follows:

	Deferred Outflows/(Inflows) of Resources
Measurement period ended June 30:	
2018	\$ (109,782)
2019	(35,636)
2020	338,263
2021	<u>166,763</u>
Total	\$ <u>359,608</u>

**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, 2017.

**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 1<sup>st</sup> 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, 2017 totaled \$7,483,416.

The City also collects an annual franchise fee from NPUA in exchange for rights of access to real property owned by the City and necessary for NPUA to operate the enterprises.

The amount of the franchise fee is determined by the City and is subordinate to NPUA's debt service. In August 2010, the NPUA Board approved an increase in the franchise fee

**CITY OF NEEDLES, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**Fiscal Year ended June 30, 2017**

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**NOTE 13 – RELATED PARTY TRANSACTIONS, continued**

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, 2017 totaled \$1,473,054.

**NOTE 14 – PRIOR PERIOD ADJUSTMENTS**

Adjustments that were proposed as a result of the fiscal year 2016 audit were not recorded before the fiscal year 2017 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, 2016, as previously reported	\$ 26,287,027
Adjustments proposed for NPUA	4,986,513
Correction of beginning pension liability	(1,075,752)
Removal of receivable from NPUA related to COPs	(411,770)
Other corrections	<u>(393,121)</u>
Net position at June 30, 2016, as restated	\$ <u>29,392,897</u>

SUPPLEMENTAL INFORMATION

**CITY OF NEEDLES, CALIFORNIA**  
**BUDGETARY COMPARISON SCHEDULE**  
**MAJOR GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2017

	GENERAL FUND				PUBLIC FINANCING AUTHORITY			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	Budgetary Basis	Favorable	Original	Final	Budgetary Basis	Favorable
			(Note A)	(Unfavorable)			(Note A)	(Unfavorable)
Budgetary fund balance July 1, 2016	\$ 4,647,559	4,647,559	4,647,559	-	263,621	263,621	263,621	-
Resources (inflows):								
Taxes	2,598,000	2,598,000	2,926,922	328,922	-	-	-	-
Licenses, permits and fees	292,176	292,176	320,498	28,322	-	-	-	-
Intergovernmental	-	-	2,756	2,756	-	-	-	-
Charges for services	228,400	228,400	161,441	(66,959)	-	-	-	-
Fines and forfeitures	19,000	19,000	104,450	85,450	-	-	-	-
Use of money and property	173,378	173,378	92,775	(80,603)	-	-	213,178	213,178
Transfers from other funds	1,767,261	1,767,261	1,543,288	(223,973)	-	-	-	-
Other revenues	63,306	63,306	155,016	91,710	-	-	-	-
Amounts available for appropriation	9,789,080	9,789,080	9,954,705	165,625	263,621	263,621	476,799	213,178
Charges to appropriations (outflows):								
General government:								
City attorney	75,000	75,000	74,245	755	-	-	-	-
City manager	141,739	141,739	131,929	9,810	-	-	-	-
Finance and administration	160,640	160,640	196,366	(35,726)	-	-	-	-
City clerk	54,084	54,084	53,919	165	-	-	-	-
Planning and zoning	46,416	46,416	39,853	6,563	-	-	-	-
Engineer	96,118	96,118	64,486	31,632	-	-	-	-
Community development	26,150	26,150	19,153	6,997	-	-	-	-
Senior center	50,479	50,479	35,221	15,258	-	-	-	-
Parks and recreation:								
Aquatics	148,035	148,035	122,461	25,574	-	-	-	-
Parks	255,628	353,426	272,104	81,322	-	-	-	-
Recreation	197,685	197,685	196,167	1,518	-	-	-	-
Public safety:								
Police	2,222,435	2,222,435	2,275,802	(53,367)	-	-	-	-
Fire	609,144	609,144	58,402	550,742	-	-	-	-
Animal control	127,857	127,857	124,769	3,088	-	-	-	-
Code enforcement	101,902	101,902	82,436	19,466	-	-	-	-
Building and safety	78,446	78,446	112,728	(34,282)	-	-	3,985	(3,985)
Public works:								
Streets	456,798	482,942	474,118	8,824	-	-	340	(340)
Sanitation	111,448	111,448	113,548	(2,100)	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Principal payments	-	-	-	-	-	-	99,146	(99,146)
Interest and fiscal charges	-	-	-	-	-	-	213,456	(213,456)
Nondepartmental:								
Transfers to other funds	57,575	57,575	-	57,575	-	-	-	-
Total charges to appropriations	5,017,579	5,141,521	4,447,707	693,814	-	-	316,927	(316,927)
Budgetary fund balance June 30, 2017	\$ 4,771,501	4,647,559	5,506,998	859,439	263,621	263,621	159,872	(103,749)

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, 2017

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

	<u>General Fund</u>
<b>Sources/inflows of resources</b>	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 9,954,705
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	(4,647,559)
Transfers in are budgetary resources but are reported as an "Other financing source" and not as a current-year revenue	<u>(1,543,288)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 3,763,858</u>
<b>Charges to appropriations</b>	
Actual amounts (budgetary basis) from the budgetary comparison schedule	\$ 4,447,707
Transfers out are a budgetary charge to appropriations but are reported as an "Other financing use" and not as a current-year expense	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 4,447,707</u>

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

To the City Council  
City of Needles, California

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Needles, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City of Needles, California's basic financial statements, and have issued my report thereon dated March 29, 2018.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Needles, California's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

*Michael P. Burger, CPA*

Needles, California  
March 30, 2018

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE  
UNIFORM GUIDANCE

To the City Council  
City of Needles, California

**Report on Compliance for Each Major Federal Program**

I have audited City of Needles, California's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Needles, California's major federal programs for the year ended June 30, 2017. City of Needles, California's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

My responsibility is to express an opinion on compliance for each of City of Needles, California's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Needles, California's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

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

## ***Opinion on Each Major Federal Program***

In my opinion, City of Needles, California complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

## **Report on Internal Control over Compliance**

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

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

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

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

*Michael P. Burger, CPA*

Needles, California  
March 30, 2018

**CITY OF NEEDLES, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<b><u>U.S. Department of Transportation</u></b>		
Direct Program:		
ARRA - Federal Transit - Formula Grants	20.507	\$ -
Highway Planning and Construction	20.205	<u>2,233,243</u>
<b>Total U.S. Department of Transportation</b>		<u>2,233,243</u>
<b>Total expenditures</b>		<u>\$ 2,233,243</u>
<b>Reconciliation:</b>		
Expenditures in Interstate Commerce fund		\$ 2,245,583
Expenditures not Federally funded in Interstate Commerce fund		<u>(12,340)</u>
<b>Total expenditures</b>		<u>\$ 2,233,243</u>

See accompanying notes to the schedule of expenditures of federal awards.

## CITY OF NEEDLES, CALIFORNIA

### Notes to the Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

#### (1) Scope of Review

The City of Needles, California was incorporated on October 30, 1913 as a General Law City. The City became a Charter City on January 28, 1959. All significant operations of the City of Needles, California are included in the scope of the Uniform Guidance audit (the "Single Audit"). The U.S. Department of Transportation has been designated as the City of Needles, California's cognizant agency for the Single Audit.

#### (2) Summary of Significant Accounting Policies

##### a. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the authorizations and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. All authorizations represent the total allotments or grant awards received. All expenses and capital outlays are reported as expenditures.

Any Federal funds expended in excess of Federal funds received are recorded as a receivable from the grantor agency and any Federal funds received in excess of Federal funds expended are recorded as a payable to the grantor agency.

##### b. Indirect Cost Allocation

The City of Needles, California has not negotiated an indirect cost plan with the U.S. Department of Transportation for fiscal year 2017.

**City of Needles, California**

**Schedule of Findings and Questioned Costs**

**Year Ended June 30, 2017**

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unmodified opinion on whether the financial statements of City of Needles, California were prepared in accordance with GAAP.
2. No significant deficiencies disclosed during the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements City of Needles, California, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs disclosed during the audit is reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award programs City of Needles, California expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The programs tested as major programs were: United States Department of Transportation Highway Planning and Construction – CFDA No. 20.205.
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. City of Needles, California did not qualify a low-risk auditee.