

City of Needles

Financial Information: Budget and Audit

Attachment 2f

CITY OF NEEDLES, CALIFORNIA

Financial Statements

As of June 30, 2012

Together with

Independent Auditor's Report
And Supplemental Information

CITY OF NEEDLES, CALIFORNIA
Fiscal Year Ended June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Needles, California

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Needles, California (City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City's management. My responsibility is to express opinions on these financial statements based on my audit. I did not audit the financial statements of the Measure I Arterial, Measure I Local, and Measure I Transit funds, which represent 3.6% and 0.2% of the assets and revenues, respectively, of the governmental activities. I also 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 84% and 88% of the assets and revenues, respectively, of the business-type activities. Those financial statements 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.

Except as discussed in the following two paragraphs, I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit and the report of other auditors provides a reasonable basis for my opinion.

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, 2012 or the amount of depreciation expense for the year then ended.

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

In my opinion, based on my audit and the reports of other auditors, except for the effects on the financial statements of the omissions described in the preceding two paragraphs, 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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 10, 2012, on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 14 and 50 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Michael P. Burger, CPA

Michael P. Burger, CPA

Needles, California
December 10, 2012

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, 2012. The financial statements and footnotes follow this section, and should be read in conjunction with this discussion and analysis.

Financial Highlights

- The City's net assets (excess of assets over liabilities) decreased from \$20.7 million to \$20.2 million for the fiscal year. General governmental operations experienced a decrease of nearly \$2.0 million, which was offset by transfers from business type activities. The Hospital Fund was excluded for both fiscal years 2011 and 2012. The change in net assets resulting from activities for the fiscal year was a negative \$287,508.
- Total net assets comprise the following:
 - (1) Capital assets, net of related debt, of \$14.8 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 assets of \$5.07 million that are restricted as to their use by outside factors such as debt covenants, grantors, laws, or regulations
 - (3) Net assets of \$328,000 that are not restricted as to their use and are available to fund the City's operations
- The City's governmental funds reflect fund balances totaling \$8,157,094 at June 30, 2012. This represents a decrease of \$587,210 for the fiscal year. Fund balance classifications were changed in fiscal year 2011. The new classifications are: nonspendable, restricted, committed, assigned, and unassigned.
- The City's total liabilities increased from \$32,745,579 to \$33,927,153. The bank overdraft reflected on the financial statements is simply a result of allocating cash balances to the various funds, and does not represent negative balances in bank accounts. There were no new debt obligations issued during the fiscal year.

Overview of the Financial Statements

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

Government-wide Financial Statements

The City's reporting package includes two financial statements at the government-wide level: (1) a *Statement of Net Assets*, 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 Assets* presents all of the City's assets and liabilities, with the difference presented as *net assets*. The evaluation of whether the City's financial status is improving or not can be measured by changes in net assets over time. Increases in net assets represent improvement in financial position.

The *Statement of Activities* reflects the change in the City's net assets 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. The community hospital has been excluded from these financial statements, as the audit of the Hospital fund was not completed as of the date these financial statements were issued. 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 All American Canal project fund.

The fund level statements differ significantly from the government-wide financial statements, as the fund level statements focus on current resources, uses of those resources, and resources remaining at the end of the fiscal year.

The government-wide financial statements include the current resources and use of those resources, as well as the long-term financial information for the City. A reconciliation of the fund level balance sheet and statement of revenues, expenditures and changes in fund balance to the government-wide statements follows the fund level financial statements.

The basic financial statements include budgetary information for the general fund, the Needles Public Financing Authority, and the All American Canal project fund. This supplemental information is included to reflect the City's compliance with the approved budget.

Proprietary funds are also reported in fund level financial statements, and include those activities for which the costs incurred are intended to be recovered through charges to the users of the services provided. Proprietary funds include *enterprise* funds and *internal service* funds. The functions of enterprise funds are basically the same as the business-type activities reported in the government-wide financial statements. Enterprise funds recover costs primarily through charges to external customers. The City's enterprise funds include the electric, water and wastewater utility, sanitation, public transportation, the operation of a hospital, 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 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 the 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 assets, exclusive of the Hospital fund, decreased primarily because of declining revenues and increasing costs. Fiscal year 2012 activities resulted in a decrease in net assets of \$287,508.

The following table shows summarized information regarding the City's assets, liabilities, net assets, and the changes therein for the fiscal year ended June 30, 2012:

Summary of Net Assets

	Governmental		Business-type		Totals		Amount	%
	Activities		Activities				Change	Change
	2012	2011	2012	2011	2012	2011		
Current and other assets	\$ 11,392,560	10,977,600	15,244,147	14,189,399	26,636,707	25,166,999	1,469,708	5.8%
Capital assets	<u>12,853,089</u>	<u>12,734,297</u>	<u>14,656,907</u>	<u>15,093,339</u>	<u>27,509,996</u>	<u>27,827,636</u>	<u>(317,640)</u>	<u>-1.1%</u>
Total assets	24,245,649	23,711,897	29,901,054	29,282,738	54,146,703	52,994,635	1,152,068	2.2%
Long-term liabilities	5,344,049	5,344,049	19,872,750	19,867,764	25,216,799	25,211,813	4,986	0.0%
Other liabilities	<u>4,162,648</u>	<u>3,218,272</u>	<u>4,547,706</u>	<u>3,988,873</u>	<u>8,710,354</u>	<u>7,207,145</u>	<u>1,503,209</u>	<u>20.9%</u>
Total liabilities	9,506,697	8,562,321	24,420,456	23,856,637	33,927,153	32,418,958	1,508,195	4.7%
Net assets:								
Invested in capital assets,								
net of related debt	12,853,089	12,734,297	1,968,666	1,974,570	14,821,755	14,708,867	112,888	0.8%
Restricted	5,069,376	5,485,696	-	-	5,069,376	5,485,696	(416,320)	-7.6%
Unrestricted	<u>(3,183,513)</u>	<u>(3,070,417)</u>	<u>3,511,932</u>	<u>3,451,532</u>	<u>328,419</u>	<u>381,115</u>	<u>(52,696)</u>	<u>-13.8%</u>
Total net assets	\$ <u>14,738,952</u>	<u>15,149,576</u>	<u>5,480,598</u>	<u>5,426,102</u>	<u>20,219,550</u>	<u>20,575,678</u>	<u>(356,128)</u>	<u>-1.7%</u>

Net assets were positive for both governmental activities and business-type activities in 2011 and 2012. Overall, net assets decreased by about \$356,000. The decrease in net assets from business-type activities was about \$305,000. There were transfers to governmental funds of just over \$2.0 million and prior year adjustments of about \$533,000 so the actual positive operating results of the business-type activities, excluding the transfers, was approximately \$1,700,000.

Governmental activities expenses increased by about \$829,000 and program revenues decreased by about \$534,000. This was partially offset with an increase in general revenues of about \$417,000. Property taxes and transient occupancy taxes continued to play a significant role in the City's results, totaling nearly \$1.8 million in revenues for the fiscal year.

CITY OF NEEDLES, CALIFORNIA MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

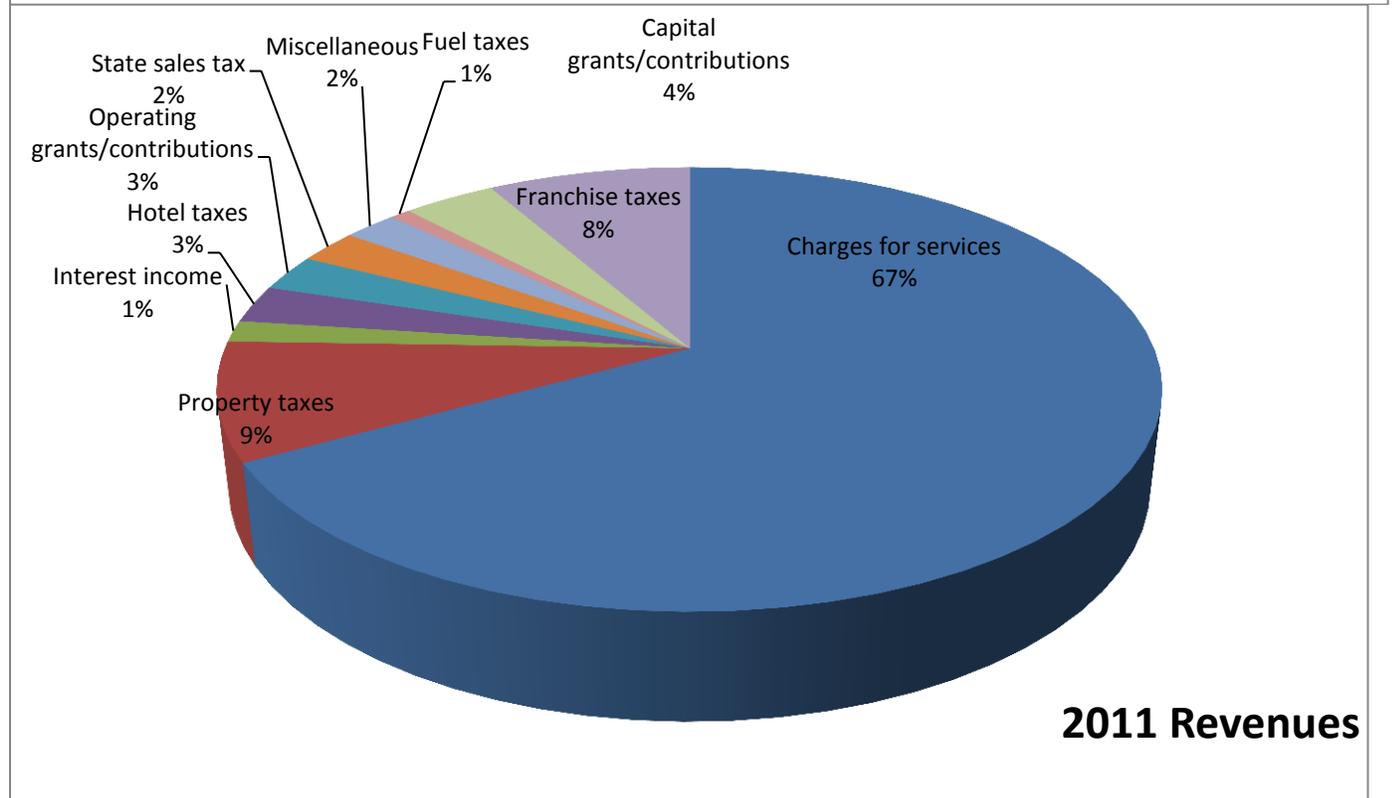
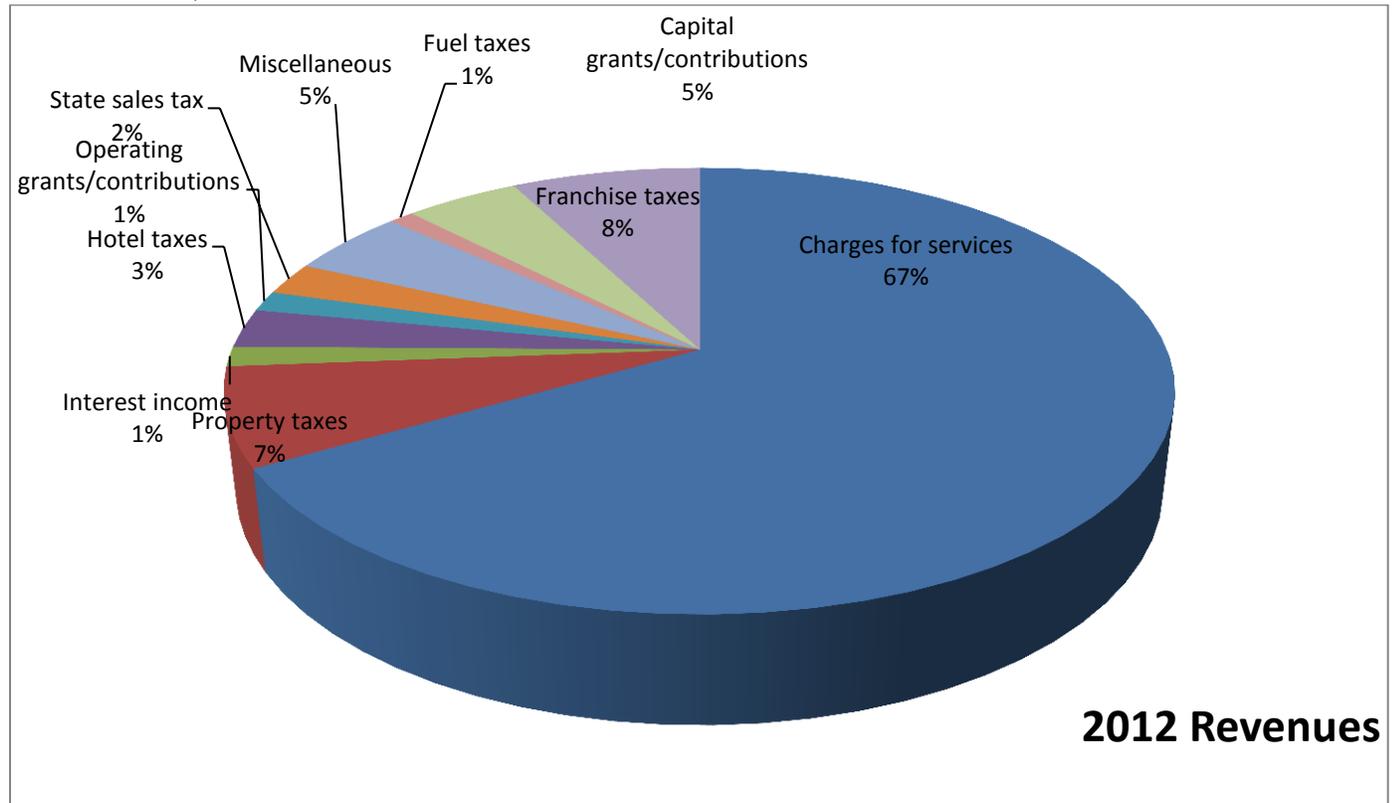
This represents a decrease of about \$113,000 from the previous fiscal year. Fuel taxes and state sales taxes increased by \$57,000 from the previous fiscal year. Franchise taxes decreased by about \$11,000. The primary reason for the City being able to maintain its financial position is the operation of the public utility. The public utility generated operating income of over \$1.8 million.

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 assets for the year ended June 30, 2012:

Summary of Changes in Net Assets

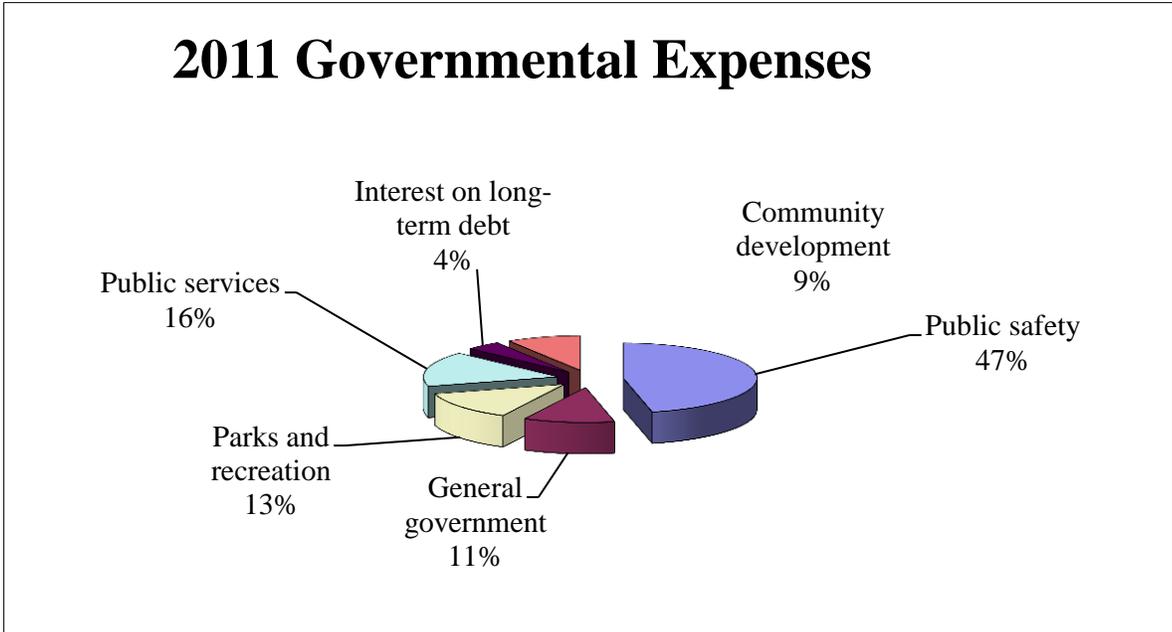
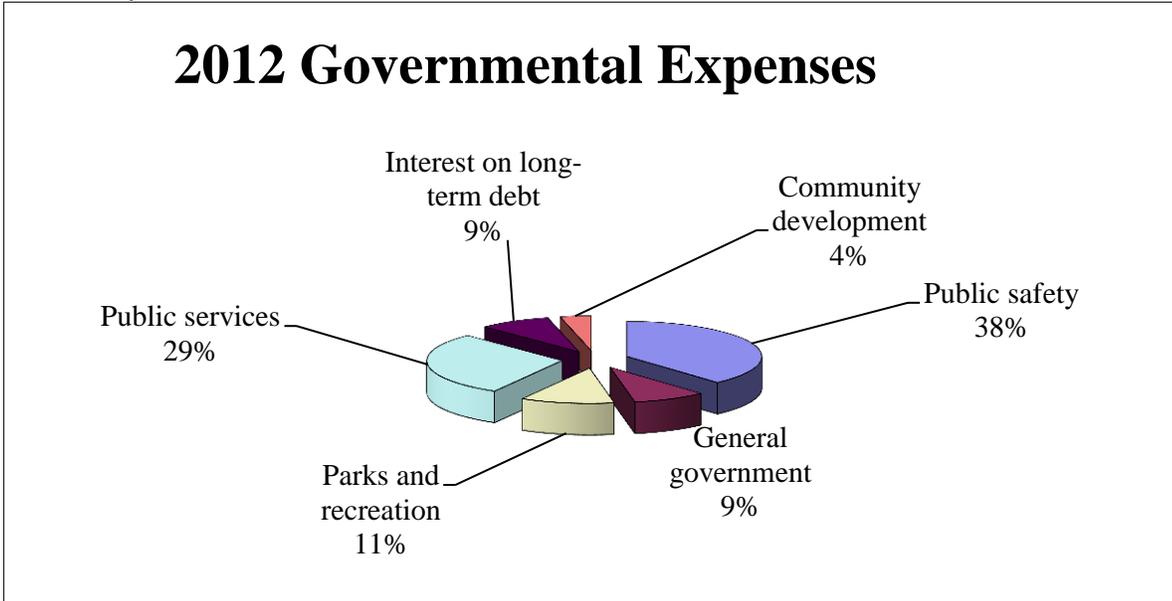
	Governmental		Business-type		Totals		Amount Change	% Change
	Activities		Activities					
	2012	2011	2012	2011	2012	2011		
Revenues:								
Program revenues								
Charges for services	(58,960)	341,163	11,903,613	10,767,317	11,844,653	11,108,480	736,173	6.63%
Operating grants and contributions	262,658	440,983	-	-	262,658	440,983	(178,325)	-40.44%
Capital grants and contributions	191,946	147,879	631,405	477,373	823,351	625,252	198,099	31.68%
General revenues								
Property taxes	1,268,275	1,426,596	-	-	1,268,275	1,426,596	(158,321)	-11.10%
Transient occupancy taxes	499,281	454,102	-	-	499,281	454,102	45,179	9.95%
Sales taxes	420,863	407,506	-	-	420,863	407,506	13,357	3.28%
Fuel taxes	180,525	137,072	-	-	180,525	137,072	43,453	31.70%
Franchise taxes	1,365,154	1,376,426	-	-	1,365,154	1,376,426	(11,272)	-0.82%
Investment earnings	243,366	247,799	10,665	11,952	254,031	259,751	(5,720)	-2.20%
Other	853,095	364,224	-	-	853,095	364,224	488,871	134.22%
Total revenues	5,226,203	5,343,750	12,545,683	11,256,642	17,771,886	16,600,392	1,171,494	7.06%
Expenses:								
General government	632,854	699,525	-	-	632,854	699,525	(66,671)	-9.53%
Public safety	2,764,448	2,970,768	-	-	2,764,448	2,970,768	(206,320)	-6.95%
Public services	2,124,243	1,037,725	-	-	2,124,243	1,037,725	1,086,518	104.70%
Parks and recreation	806,047	839,893	-	-	806,047	839,893	(33,846)	-4.03%
Community development	268,094	570,735	-	-	268,094	570,735	(302,641)	-53.03%
Interest on long-term debt	618,381	266,406	-	-	618,381	266,406	351,975	132.12%
Public utility authority	-	-	8,717,583	8,215,437	8,717,583	8,215,437	502,146	6.11%
Golf course	-	-	843,269	863,446	843,269	863,446	(20,177)	-2.34%
Other	-	-	1,284,473	1,284,638	1,284,473	1,284,638	(165)	-0.01%
Total expenses	7,214,067	6,385,052	10,845,325	10,363,521	18,059,392	16,748,573	1,310,819	7.83%
Increase (decrease) in net assets								
before transfers	(1,987,864)	(1,041,302)	1,700,358	893,121	(287,506)	(148,181)	(139,325)	94.02%
Transfers	2,006,224	1,789,319	(2,006,224)	(1,789,319)	-	-	-	
Change in net assets	18,360	748,017	(305,866)	(896,198)	(287,506)	(148,181)	(139,325)	94.02%
Beginning net assets	14,720,593	14,401,558	5,786,465	6,322,300	20,507,058	20,723,858	(216,800)	-1.05%
Ending net assets	14,738,953	15,149,575	5,480,599	5,426,102	20,219,552	20,575,677	(356,125)	-1.73%

The following charts show graphic representations of the City's revenues for the fiscal years ended June 30, 2012 and 2011:



As displayed in the charts above and discussed previously, the revenues from the public utility authority are very significant for the City, making up 58% of all revenues in 2012 and 55% of total revenues in 2011.

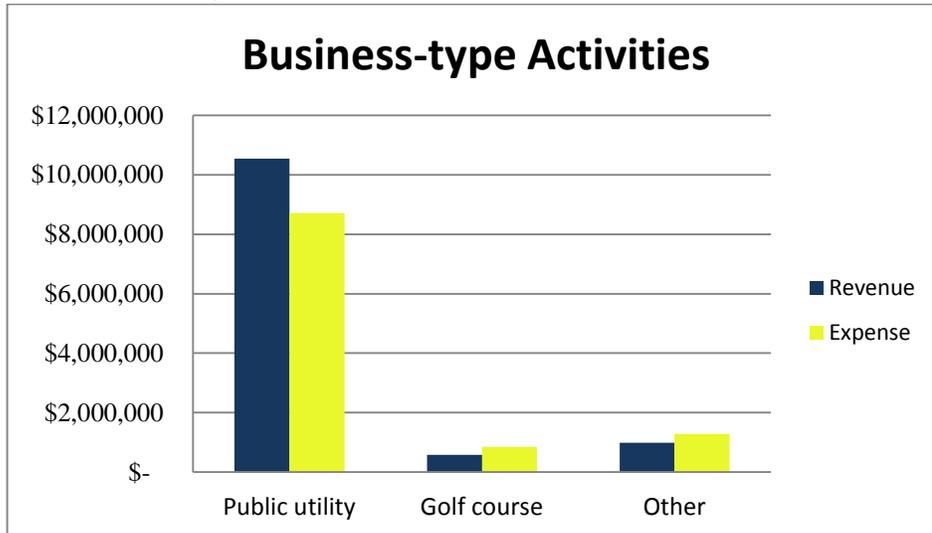
The following charts show graphic representations of the City's governmental functional expenses for the fiscal years ended June 30, 2012 and 2011:



The City contracts with the County of San Bernardino for public safety services. These expenses are funded primarily through general revenues. Parks and recreation expenses are significant for the City, as it is the City's responsibility to maintain the marinas, public swimming pool, a skate park, and the cemetery.

The City has begun to expend a significant amount (more than \$12 million) to rehabilitate the historic El Garces train station. This rehabilitation will be funded primarily through grants. The government-wide financial statements report capital outlays as capital assets and not as expenses.

The following chart depicts the operating revenues and expenses of the City's business-type activities for the year ended June 30, 2012:



The public utility authority contributes the majority of the City's revenues, and produced operating income of over \$3.0 million. Interest expense of \$1.244 million on the bonds issued to finance the acquisition of the utility and transfers out of about \$2.0 million (including purchase payments of \$1,085,300 and franchise fees) figured into the public utility's decrease in net assets of about \$108,000 for the fiscal year.

The City's business-type activities also include refuse collection, a golf course, and public transportation. All business-type activities are designed to be self-supporting, and costs are expected to be fully recovered by user fees and other revenues. Refuse collection activities are contracted out to a private company. Except for the transit activities, all business-type activities reflected an excess of expenses over revenues for the fiscal year ended June 30, 2012.

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, 2012 was \$8,157,884. Of this total, \$1,206,049 was unassigned and is available to fund any City requirements. Nonspendable fund balances of \$308,096 represent assets that cannot be converted to cash, such as inventory, prepaid expenses and land held for resale.

There are restricted fund balances totaling \$4,433,762, including \$2,859,937 for debt service and \$1,573,825 restricted for the specific purposes of the related funds. Fund balances of \$1,849,761 are considered committed and include advances to other funds of \$1,626,473.

Governmental fund balances decreased by \$587,209 from the previous year. Expenses actually exceeded revenues by about \$2.2 million. This was offset by incoming transfers, primarily from the public utility authority for the purchase payment and franchise fees.

Major Governmental Funds

The City's General Fund is the primary governmental fund in use, and accounts for about 74% of governmental revenues and about 66% of governmental expenses. The General Fund's fund balance decreased by \$85,443 from the previous year. General Fund revenues increased by \$249,866 and expenses decreased by about \$66,120. This was offset by a prior period adjustment to correct a loan payable to the NPUA by approximately \$380,000.

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 \$52,441 during the fiscal year, ending at \$2,859,938.

The All American Canal project fund serves to accumulate funds to be used for the supply of water for domestic, municipal, industrial, and recreational purposes along the All American Canal in Imperial County. The City acts as water master on behalf of the Bureau of Reclamation to administer the project from the Nevada border to the Mexican border for 10,000 acre-feet of water for non-Federal subcontractors. This fund expended \$865,800 for capital improvements, USGS water quality monitoring and LCWSP Stage II well field location studies during the fiscal year.

Other Governmental Funds

All other governmental funds are considered non-major. Such funds include special revenue funds, debt service funds, and capital projects funds. Together, these funds experienced a decrease in fund balances of \$449,325. Total ending fund balances for these funds was \$2,288,904.

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 55% of total assets and about 59% of total revenues. NPUA provides power, water and wastewater to the City's businesses and residents. All fixed assets of the utility are carried on NPUA's books, as well as the revenue bonds issued to finance the acquisition of the utility.

General Fund Budgetary Highlights

The original budget adopted for the General Fund totaled \$5.189 million in revenues (excluding transfers) and \$5.111 million in expenses (excluding transfers but including capital outlays). The budget was amended once during the fiscal year. The amended budget included \$5.309 million in revenues and about \$5.164 million in expenses. The increase in budgeted expenses was focused on community promotions and code enforcement, with approximately \$25,000 increase for each.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2012 the City had about \$27.5 million invested in capital assets, \$12.8 million of which was in governmental activities and \$14.7 million of which was in business-type activities. This represents an overall decrease of \$200,000, or about 0.7%. The increase in capital assets in the governmental activities was about \$119,000. The net increase in capital assets in the business-type activities was about \$436,000.

There were a few capital asset additions during the year, the most significant being work on streets and wastewater utilities, as well as the acquisition of vehicles in the transit funds. 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

	<u>Governmental Activities</u>		<u>Business-type activities</u>		<u>Totals</u>		<u>Amount</u>	<u>%</u>
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>Change</u>
Non-depreciable assets:								
Construction in progress	\$ 5,439,369	5,425,589	-	-	5,439,369	5,425,589	13,780	0.25%
Land and infrastructure	5,354,880	5,073,201	292,621	292,621	5,647,501	5,365,822	281,679	5.25%
Depreciable assets:								
Buildings and improvements	1,960,886	2,093,912	126,759	147,185	2,087,645	2,241,097	(153,452)	-6.85%
Equipment and vehicles	<u>97,954</u>	<u>141,595</u>	<u>14,237,527</u>	<u>14,653,533</u>	<u>14,335,481</u>	<u>14,795,128</u>	<u>(459,647)</u>	-3.11%
Total	<u>\$ 12,853,089</u>	<u>12,734,297</u>	<u>14,656,907</u>	<u>15,093,339</u>	<u>27,509,996</u>	<u>27,827,636</u>	<u>(317,640)</u>	-1.14%

Long-term debt

At the end of the fiscal year, the City's total long-term debt obligations were \$25,216,799. Of this total, \$5,344,049 is in the governmental activities and \$19,872,750 is in the business-type activities.

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

Further, there is a balance of \$1.19 million in tax allocation bonds issued by the PFA, the proceeds of which were lent to RDA. Repayment is being made from the loan payments paid by the Redevelopment Agency to the PFA. Finally, the governmental activities debt also includes certificates of participation, the proceeds of which were used to construct a wastewater treatment plant.

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

The following table depicts the City's outstanding long-term debt obligations at June 30, 2012 and 2011:

OUTSTANDING LONG-TERM OBLIGATIONS

	<u>Governmental Activities</u>		<u>Business-type activities</u>		<u>Totals</u>		Amount	%
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>Change</u>
Advances to RDA	\$ 1,626,473	1,626,473	-	-	1,626,473	1,626,473	-	0.00%
Tax allocation bonds	1,190,000	1,260,000	-	-	1,190,000	1,260,000	(70,000)	-5.56%
Certificates of participation	2,527,575	2,579,896	-	-	2,527,575	2,579,896	(52,321)	-2.03%
Note payable - fire truck	-	-	-	-	-	-	-	100.00%
Capital leases	-	-	-	11,184	-	11,184	(11,184)	
Revenue bonds	-	-	16,680,079	17,084,993	16,680,079	17,084,993	(404,914)	-2.37%
Sanitation note payable	-	-	665,195	665,195	665,195	665,195	-	0.00%
NPUA notes payable	-	-	<u>2,527,575</u>	<u>2,579,896</u>	<u>2,527,575</u>	<u>2,579,896</u>	<u>(52,321)</u>	-2.03%
Total	<u>\$ 5,344,048</u>	<u>5,466,369</u>	<u>19,872,849</u>	<u>20,341,268</u>	<u>25,216,897</u>	<u>25,807,637</u>	<u>(590,740)</u>	-2.29%

Economic Conditions and Budgeting

The City's population has been about the same (roughly 6,000) for many years. The City has been both positively and negatively impacted by the real estate market trends that occurred over the past decade. First, for the fiscal years ended June 30, 2003 to 2006 the rapid rise in real estate values, the ease of obtaining mortgages, and speculation had a positive impact on the City. Tax collections related to real estate activities rose, and the City benefited. Real property values in and around the City have declined dramatically from the peak, and property values in neighboring states have declined even more severely.

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

The first phase of the project involved clean-up and stabilization, at a cost of about \$428,000. There are Federal Transit Authority Grants of more than \$7.7 million already approved for additional construction activity. In addition, there are state funds of nearly \$900,000 also approved for this project.

A consultant has been hired to work with an architect to develop a master plan for the rehabilitation. The Federal grant funds require a twenty-five percent (25%) local match, which is being met by the City donating to the project the appraised value of the land and improvements, the value of NPUA stubbed out utilities, donated materials and City labor. Under the first phase, asbestos removal, parapet restoration, and installation of a new roof system have been completed. Construction will include amenities for an Intermodal Transportation Facility, including a waiting room, meeting rooms, restoration of the parking lot, bus turnout, painting the interior and exterior of the building, and replacing irrigation and landscaping.

The second phase of the project includes \$223,000 approved by the state legislature for engineering and construction documents. Construction funding of \$4.9 million is anticipated for fiscal year 2013. The City is proceeding with the engineering design of the I-40/AZ 95 Interconnect project for which \$4.8 million in Federal Transit Authority funding has been granted. The County of San Bernardino is contributing \$628,000 through a grant and a loan for the local matching funds. The project will include the widening of J Street north of Interstate 40, Needles Highway between Broadway and K Street, and K Street between Needles Highway and the bridge over the Colorado River. Four intersections will have traffic signals installed.

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

Contacting the City's Financial Management

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

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

CITY OF NEEDLES, CALIFORNIA
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and investments	\$ 5,419,184	7,101,486	12,520,670
Cash and investments with fiscal agents	-	2,147,300	2,147,300
Accounts receivable, net	4,038,547	2,212,167	6,250,714
Inventory	8,953	1,223,897	1,232,850
Prepaid items	117,250	146,820	264,070
Land held for resale	182,153	-	182,153
Deferred bond issuance costs	-	431,293	431,293
Intangible assets	-	1,981,184	1,981,184
Capital assets, net	12,853,089	14,656,907	27,509,996
Advances to other funds	<u>1,626,473</u>	<u>-</u>	<u>1,626,473</u>
Total assets and other debits	<u>\$ 24,245,649</u>	<u>29,901,054</u>	<u>54,146,703</u>
LIABILITIES			
Bank overdraft	\$ 1,013,969	1,511,654	2,525,623
Accounts payable	1,922,206	2,390,884	4,313,090
Deposits payable	-	130,088	130,088
Deferred revenue	258,209	24,184	282,393
Compensated absences	284,902	490,896	775,798
Accrued interest on advances from other funds	583,362	-	583,362
Estimated claims liability	100,000	-	100,000
Long-term liabilities:			
Due within one year	129,702	489,702	619,404
Due in more than one year	<u>5,214,347</u>	<u>19,383,048</u>	<u>24,597,395</u>
Total liabilities	9,506,697	24,420,456	33,927,153
NET ASSETS			
Restricted for:			
Capital projects	378,978	-	378,978
Debt service	3,955,489	-	3,955,489
Community development projects	734,909	-	734,909
Unrestricted	(3,183,513)	3,511,932	328,419
Invested in capital assets, net of related debt	<u>12,853,089</u>	<u>1,968,666</u>	<u>14,821,755</u>
Total net assets	<u>\$ 14,738,952</u>	<u>5,480,598</u>	<u>20,219,550</u>

See accompanying notes to the basic financial statements.

CITY OF NEEDLES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
General government	\$ 632,854	(58,960)	34,257	-	(657,557)	-	(657,557)
Public safety	2,764,448	-	228,401	-	(2,536,047)	-	(2,536,047)
Public works	2,124,243	-	-	-	(2,124,243)	-	(2,124,243)
Parks and recreation	806,047	-	-	191,946	(614,101)	-	(614,101)
Community development	268,094	-	-	-	(268,094)	-	(268,094)
Interest on long-term debt	618,381	-	-	-	(618,381)	-	(618,381)
Total governmental activities	<u>7,214,067</u>	<u>(58,960)</u>	<u>262,658</u>	<u>191,946</u>	<u>(6,818,423)</u>	<u>-</u>	<u>(6,818,423)</u>
Business-type activities:							
Public utility authority	8,717,583	10,331,382	-	207,562	-	1,821,361	1,821,361
Sanitation	985,111	955,327	-	-	-	(29,784)	(29,784)
Golf course	843,269	581,229	-	-	-	(262,040)	(262,040)
Transit	299,362	35,675	-	423,843	-	160,156	160,156
Total business-type activities	<u>10,845,325</u>	<u>11,903,613</u>	<u>-</u>	<u>631,405</u>	<u>-</u>	<u>1,689,693</u>	<u>1,689,693</u>
Total primary government	<u>\$ 18,059,393</u>	<u>11,844,653</u>	<u>262,658</u>	<u>823,351</u>	<u>(6,818,423)</u>	<u>1,689,693</u>	<u>(5,128,731)</u>
General revenues:							
Taxes:							
Property taxes					1,268,275	-	1,268,275
Hotel taxes					499,281	-	499,281
Fuel taxes					180,525	-	180,525
State sales tax					420,863	-	420,863
Franchise taxes					1,365,154	-	1,365,154
Vehicle license fees					-	-	-
Interest revenue					243,366	10,665	254,031
Miscellaneous					853,095	-	853,095
Transfers					2,006,224	(2,006,224)	-
Total general revenues, special items, and transfers					<u>6,836,783</u>	<u>(1,995,559)</u>	<u>4,841,224</u>
Change in net assets					18,360	(305,866)	(287,507)
Net assets - beginning, as previously reported					15,149,576	5,426,102	20,575,678
Prior year adjustments					(428,983)	360,362	(68,621)
Net assets - beginning, as restated					<u>14,720,593</u>	<u>5,786,464</u>	<u>20,507,057</u>
Net assets - ending					<u>\$ 14,738,953</u>	<u>5,480,598</u>	<u>20,219,550</u>

See accompanying notes to the basic financial statements.

CITY OF NEEDLES, CALIFORNIA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General	Public Financing Authority	All American Canal Project	Other Governmental Funds	Total Governmental Funds
ASSETS AND OTHER DEBITS					
Cash and investments	\$ 832,499	332,362	1,131,203	3,123,120	5,419,184
Restricted cash	-	-	-	-	-
Accounts receivable, net	56,729	2,527,575	-	(4,278)	2,580,026
Interest receivable	288,012	-	-	-	288,012
Due from other funds	753,929	46,743	246,776	60,458	1,107,906
Due from other governments	62,603	-	-	-	62,603
Inventory	8,953	-	-	-	8,953
Prepaid items	110,685	-	260	6,305	117,250
Land held for resale	-	-	-	182,153	182,153
Advances to other funds	1,626,473	-	-	-	1,626,473
Total assets and other debits	<u>\$ 3,739,883</u>	<u>2,906,680</u>	<u>1,378,239</u>	<u>3,367,758</u>	<u>11,392,560</u>
LIABILITIES, EQUITY AND OTHER CREDITS					
Liabilities:					
Bank overdraft	\$ 220,273	-	-	793,696	1,013,969
Accounts payable	34,941	-	458	5,699	41,098
Accrued liabilities	79,182	-	1,377,987	30,018	1,487,187
Due to other funds	148,223	-	-	-	148,223
Due to other governments	-	46,743	-	239,247	285,990
Deferred revenue	248,015	-	-	10,194	258,209
Total liabilities	730,634	46,743	1,378,445	1,078,854	3,234,676
Equity and other credits:					
Fund balances - nonspendable	119,638	-	-	188,458	308,096
Fund balances - restricted	-	2,859,937	-	1,573,825	4,433,762
Fund balances - committed	1,683,202	-	-	166,559	1,849,761
Fund balances - assigned	-	-	(206)	360,062	359,856
Fund balances - unassigned	1,206,409	-	-	-	1,206,409
Total equity and other credits	3,009,249	2,859,937	(206)	2,288,904	8,157,884
Total liabilities, equity and other credits	<u>\$ 3,739,883</u>	<u>2,906,680</u>	<u>1,378,239</u>	<u>3,367,758</u>	<u>11,392,560</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, 2012

Fund balances - total governmental funds **\$ 8,157,884**

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	\$ 18,752,951	
Less: Accumulated depreciation	<u>5,899,863</u>	
		12,853,089

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

Compensated absences	284,902	
Bonds payable, net	1,260,000	
Certificates of participation	2,579,896	
Advances from other funds	2,209,836	
Note payable for fire truck	-	
Estimated claims liability	100,000	
Less: current year principal payments	<u>(162,613)</u>	
		<u>(6,272,021)</u>

Net assets of governmental activities **\$ 14,738,952**

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, 2012

	General	Public Financing Authority	All American Canal Project	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes	\$ 1,756,495	-	-	599,999	2,356,494
Licenses, permits and fees	1,034,370	-	-	-	1,034,370
Intergovernmental	683,539	-	-	519,248	1,202,787
Charges for services	209,660	-	-	39,405	249,065
Fines and forfeitures	22,759	-	-	-	22,759
Use of money and property	35,827	207,268	-	271	243,366
Other revenues	112,541	-	-	4,821	117,362
Total revenues	3,855,191	207,268	-	1,163,744	5,226,203
EXPENDITURES:					
Current:					
General government	618,528	-	-	-	618,528
Public safety	2,626,948	-	-	94,529	2,721,477
Public works	546,427	-	865,800	689,080	2,101,307
Parks and recreation	567,535	-	-	77,461	644,996
Community development	235,646	-	-	8,704	244,350
Capital outlay	281,679	-	-	86,563	368,242
Debt service:					
Principal retirement	-	52,321	-	70,000	122,321
Interest and fiscal charges	-	207,388	-	410,992	618,380
Total expenditures	4,876,763	259,709	865,800	1,437,329	7,439,601
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,021,572)	(52,441)	(865,800)	(273,585)	(2,213,398)
Other Financing Sources (Uses):					
Operating transfers in	1,768,560	-	865,800	290,812	2,925,172
Operating transfers out	(452,396)	-	-	(466,552)	(918,948)
Total other financing sources (uses)	1,316,164	-	865,800	(175,740)	2,006,224
Excess (Deficiency) of Revenues and Other Financing Sources Over (under) Expenditures and Other Financing Uses	294,592	(52,441)	-	(449,325)	(207,174)
FUND BALANCE, JULY 1, 2011	3,094,692	2,912,379	(206)	2,738,229	8,745,094
Prior year adjustments	(380,035)	-	-	-	(380,035)
FUND BALANCE, JUNE 30, 2012	\$ 3,009,249	2,859,938	(206)	2,288,904	8,157,885

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, 2012

Net change in fund balances - total governmental funds	\$ (207,174)
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.	118,792
Expenditures in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the funds. This includes the increase in the liability for compensated absences and interest on a capital lease obligation.	(15,578)
Repayment of bond or note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	<u>122,321</u>
Change in net assets of governmental activities	<u>\$ 18,361</u>

See accompanying notes to the basic financial statements.

CITY OF NEEDLES, CALIFORNIA
COMBINING STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds	Internal Service Funds
ASSETS						
Current assets:						
Cash and investments	\$ 3,747,706	251,456	80,758	52,754	4,132,674	2,968,812
Accounts receivable, net	1,794,073	154,245	-	25	1,948,343	-
Interest receivable	170,116	-	-	-	170,116	-
Due from other funds	267,662	-	-	-	267,662	1,066,823
Due from other governments	-	-	-	93,708	93,708	-
Inventory	1,190,927	-	32,970	-	1,223,897	-
Prepaid expenses	-	-	47,476	632	48,108	98,712
Total current assets	<u>7,170,484</u>	<u>405,701</u>	<u>161,204</u>	<u>147,119</u>	<u>7,884,508</u>	<u>4,134,347</u>
Non-current assets:						
Cash and investments with fiscal agents	2,147,300	-	-	-	2,147,300	-
Deferred bond issuance costs, net	431,293	-	-	-	431,293	-
Intangible assets	1,981,184	-	-	-	1,981,184	-
Fixed assets, net	<u>13,945,625</u>	<u>-</u>	<u>133,199</u>	<u>297,892</u>	<u>14,376,716</u>	<u>1,537,575</u>
Total assets	<u>\$ 25,675,886</u>	<u>405,701</u>	<u>294,403</u>	<u>445,011</u>	<u>26,821,001</u>	<u>5,671,922</u>
LIABILITIES						
Current liabilities:						
Bank overdraft	\$ -	203,189	1,215,415	93,050	1,511,654	-
Accounts payable	558,443	65,677	18,751	715	643,586	261,325
Due to other funds	197,915	753,930	-	-	951,845	1,342,323
Compensated absences	345,229	-	145,667	-	490,896	-
Capital lease obligation - current	-	-	-	-	-	-
Notes payable - current	-	-	-	-	-	-
Bonds payable - current	489,702	-	-	-	489,702	-
Other liabilities	-	526,068	-	222	526,290	23,842
Total current liabilities	<u>1,591,289</u>	<u>1,548,864</u>	<u>1,379,833</u>	<u>93,987</u>	<u>4,613,973</u>	<u>1,627,490</u>
Non-current liabilities:						
Deposits	129,588	500	-	-	130,088	-
Deferred revenue	-	-	-	24,184	24,184	-
Capital lease obligation - long-term	-	-	-	-	-	-
Notes payable - long-term	2,472,875	665,195	-	-	3,138,070	-
Bonds payable - long-term	<u>16,221,136</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,221,136</u>	<u>-</u>
Total liabilities	<u>20,414,888</u>	<u>2,214,559</u>	<u>1,379,833</u>	<u>118,171</u>	<u>24,127,451</u>	<u>1,627,490</u>
NET ASSETS						
Invested in capital assets, net of related debt	-	-	133,199	297,892	431,091	1,537,575
Unrestricted	<u>-</u>	<u>(1,808,858)</u>	<u>(1,218,629)</u>	<u>28,948</u>	<u>(2,998,539)</u>	<u>2,506,857</u>
Total Net Assets	<u>\$ -</u>	<u>(1,808,858)</u>	<u>(1,085,430)</u>	<u>326,840</u>	<u>(2,567,448)</u>	<u>4,044,432</u>

See accompanying notes to the basic financial statements.

CITY OF NEEDLES, CALIFORNIA
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2012

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES						
Charges for services-Public Utility Authority	\$ 10,245,870	-	-	-	10,245,870	-
Charges for services-Other enterprise funds	-	955,327	581,229	34,005	1,570,561	6,429,079
Government grants	207,562	-	-	423,843	631,405	-
Other fees and sales	-	-	-	1,670	1,670	-
Other revenues	78,656	-	-	6,856	85,512	-
Total operating revenues	10,532,088	955,327	581,229	466,374	12,535,018	6,429,079
OPERATING EXPENSES						
Personnel costs	41,680	-	420,419	14,854	476,953	1,836,616
Contractual services	-	798,145	-	234,595	1,032,740	78,399
Power and utilities	-	-	61,392	-	61,392	2,391,117
Maintenance and operations	6,387,116	120,000	271,017	36,767	6,814,900	1,628,276
Administrative and management	35,931	-	-	4,404	40,335	328,333
Insurance	-	6	25,145	-	25,151	109,531
Depreciation and amortization	1,021,746	-	65,296	-	1,087,042	204,589
Provision for bad debt	(7,085)	(470)	-	-	(7,555)	-
Total operating expenses	7,479,388	917,681	843,269	290,620	9,530,958	6,576,861
OPERATING INCOME	3,052,700	37,646	(262,040)	175,754	3,004,060	(147,782)
NONOPERATING REVENUES (EXPENSES)						
Interest revenue	10,572	-	-	93	10,665	-
Interest expense and fiscal charges	(1,244,030)	(67,430)	-	-	(1,311,460)	-
Lease termination income	-	-	-	-	-	-
Bond issue costs	21,930	-	-	-	21,930	6,132
Total nonoperating revenues (expenses)	(1,211,528)	(67,430)	-	93	(1,278,865)	6,132
INCOME BEFORE OPERATING TRANSFERS	1,841,172	(29,784)	(262,040)	175,847	1,725,195	(141,650)
Operating transfers in	1,528,541	-	66,996	12,607	1,608,144	-
Operating transfers out	(3,477,676)	(120,000)	-	(16,692)	(3,614,368)	-
Net operating transfers in (out)	(1,949,135)	(120,000)	66,996	(4,085)	(2,006,224)	-
Change in net assets	(107,963)	(149,784)	(195,044)	171,762	(281,029)	(141,650)
Net Assets July 1, 2011, as previously reported	4,408,265	(1,200,436)	(890,386)	124,384	2,441,827	4,257,537
Prior year adjustments	960,696	(458,638)	-	30,694	532,752	(71,455)
Net Assets July 1, 2011, as restated	5,368,961	(1,659,074)	(890,386)	155,078	2,974,579	4,186,082
Net Assets, June 30, 2012	\$ 5,260,998	(1,808,858)	(1,085,430)	326,840	2,693,550	4,044,432

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, 2012

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds	Internal Service Funds
<u>Cash Flows From Operating Activities:</u>						
Cash collected from customers	\$ 10,163,181	931,503	581,229	433,850	12,109,763	6,429,079
Cash payments to suppliers for goods and services	(5,623,794)	405,899	(427,887)	(10,576)	(5,656,358)	(4,709,453)
Cash payments to employees and professional contractors for services	(41,680)	(798,145)	(420,419)	(249,449)	(1,509,693)	(1,915,015)
Payments for internal services	-	-	61,392	-	61,392	-
Other operating revenues	78,656	-	-	8,526	87,182	-
Net cash provided by (used in) operating activities	4,576,363	539,257	(205,685)	182,351	5,092,286	(195,389)
<u>Cash Flows From Noncapital Financing Activities:</u>						
Decrease in due from other funds	356,587	-	-	-	356,587	(92,587)
Increase (decrease) in due to other funds	197,915	65,000	-	-	262,915	(265,619)
Operating transfers in	1,528,541	-	66,996	12,607	1,608,144	-
Operating transfers out	(3,477,676)	(120,000)	-	(16,692)	(3,614,368)	-
Net cash provided by (used in) noncapital financing activities	(1,394,633)	(55,000)	66,996	(4,085)	(1,386,722)	(358,206)
<u>Cash Flows from Capital and Related Financing Activities:</u>						
Acquisition and construction of capital assets	(575,339)	-	(8,458)	(202,842)	(786,639)	(52,680)
Principal paid on bonds payable	(347,860)	-	-	-	(347,860)	-
Principal paid on notes payable	(54,701)	-	-	-	(54,701)	-
Principal paid on capital lease obligations	-	-	(11,184)	-	(11,184)	-
Interest paid	(1,244,030)	(67,430)	-	-	(1,311,460)	-
Net cash provided by (used in) capital and related financing activities	(2,221,930)	(67,430)	(19,642)	(202,842)	(2,511,844)	(52,680)
<u>Cash Flows from Investing Activities:</u>						
Cash deposited with fiscal agent	701,858	-	-	-	701,858	-
Interest on investments	27,306	-	-	93	27,399	-
Net cash provided by (used in) investing activities	729,164	-	-	93	729,257	-
Net increase (decrease) in cash and cash equivalents	1,688,964	416,827	(158,331)	(24,483)	1,922,977	(606,275)
Cash And Cash Equivalents (net of bank overdraft), July 1, 2011	2,058,742	90,078	(976,326)	(15,813)	1,156,681	3,575,087
Cash And Cash Equivalents (net of bank overdraft), June 30, 2012	\$ 3,747,706	506,905	(1,134,657)	(40,296)	3,079,658	2,968,812
<u>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</u>						
Operating income (loss)	\$ 3,052,700	37,646	(262,040)	175,754	3,004,060	(147,782)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization of fixed assets	1,021,746	-	65,296	-	1,087,042	204,589
Bad debt expense	(7,085)	(470)	-	-	(7,555)	-
Adjustment of beginning balances	960,696	-	-	30,694	991,390	(71,455)
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable	(290,251)	(23,824)	-	-	(314,075)	-
Decrease in due from other governments	-	-	-	(31,158)	(31,158)	-
(Increase) Decrease in inventory	(118,327)	-	(4,047)	-	(122,374)	-
Decrease (increase) in prepaid expenses	-	-	(9,779)	(242)	(10,021)	(3,633)
Increase (decrease) in accounts payable	(69,554)	(163)	(637)	(79)	(70,433)	(153,050)
Increase (decrease) in deposits payable	(15,242)	-	-	-	(15,242)	-
Increase (decrease) in deferred revenue	-	-	-	7,160	7,160	-
Increase (decrease) in other liabilities	-	526,068	-	222	526,290	(24,058)
Increase (decrease) in compensated absences payable	41,680	-	5,522	-	47,202	-
Net cash provided by (used in) operating activities	\$ 4,576,363	539,257	(205,685)	182,351	5,092,286	(195,389)
<u>Noncash Investing, Capital and Financing Activities:</u>						
Amortization not included in operating income:						
Deferred bond issuance costs	\$ (21,930)	-	-	-	(21,930)	-
Deferred amount on refunding of debt	\$ -	-	-	-	-	6,132

See accompanying notes to the basic financial statements.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of the City of Needles, California (City) are discussed in subsequent sections of this Note. The remaining Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended June 30, 2012.

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, 2012 fiscal year end, and issues separate audited financial statements. The City has no discretely presented component units.

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

Needles Redevelopment Agency

The City established the Needles Redevelopment Agency (Agency) on August 16, 1984 as a separate legal entity in accordance with state law. The City Council declared by Ordinance that the City Council would serve as the Board of Directors of the Agency. The primary purpose of the Agency is to eliminate blighted areas by encouraging development of residential, commercial, industrial, recreational and public facilities. The City Council members designate management and have financial accountability for the Agency.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Needles Public Financing Authority

The Needles Public Financing Authority (Financing Authority) was formed on March 7, 1992 for the sole purpose of providing financing for various City capital projects. The Financing Authority is governed by a seven-member board, which consists of members of the City Council.

Needles Public Utility Authority

The Needles Public Utility Authority (Utility Authority) was formed on January 6, 1997, for the purpose of owning, operating and maintaining the Utility Enterprise. The Utility Enterprise consists of the Water, Sewer and Electric Enterprise Funds serving the City and the surrounding area. A seven member Board that consists of members of the City Council governs the Utility Authority.

Other Governmental Agencies

Other governmental agencies providing various levels of service to the City include the State of California, County of San Bernardino, as well as various special districts and school districts.

Each of the above agencies has an independent elected governing board or is dependent on an independently elected governing board other than the City Council. Accordingly, financial data and transactions of these agencies are not included within the scope of this financial report.

Government Wide and Fund Financial Statements

Government-Wide Statements

The government-wide financial statements include the statement of net assets 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.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

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.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources subject to accrual include: property taxes, sales tax, transient occupancy tax, franchise taxes (fees), intergovernmental revenues, and investment income.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, the City's policy is to use restricted resources first, then unrestricted resources as necessary. Restricted assets and liabilities payable from restricted assets that are considered current in nature are reported as current assets and liabilities in the financial statements. Assets that are restricted for acquisition or construction of non-current assets, or are restricted for liquidation of long-term debt, are considered non-current.

FUND TYPES AND MAJOR FUNDS

Governmental Funds

The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources not reported in other funds.

Needles Public Financing Authority – This fund accounts for the accumulation of financial resources for the payment of principal and interest on the City's general obligation debt. Revenues come from interest on invested funds.

All American Canal Project Fund – Congress on November 14, 1986, enacted the Lower Colorado Water Supply Act of 1986 ("Act"). This Act authorized and

appropriated funds for the Bureau of Reclamation (“Reclamation”) to construct the Lower Colorado Water Supply Project (“Project”). The Project consists of well field facilities in the Sand Hills along the All-American Canal in Imperial County. As authorized by Congress, the Project is to “...supply water for domestic, municipal, industrial, and recreational purposes only.”

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Water for agricultural uses is not available under the Act. The Act limits the eligible Project beneficiaries “to persons or Federal or non-Federal governmental agencies whose lands or interests in lands are located adjacent to the Colorado River in the State of California, who do not hold rights to Colorado River water or whose rights are insufficient to meet their present or anticipated future needs as determined by the Secretary.” The City acts as water master on behalf of the Bureau of Reclamation to administer the Project from the Nevada border to the Mexican border for 10,000 acre-feet of water for non-federal Subcontractors.

Proprietary Funds

The City reports the following major enterprise funds:

Needles Public Utility Authority – This fund accounts for the operating activities of the City’s public utility operations.

Sanitation Fund – This fund accounts for the operating activities of the City’s refuse collection service, which is contracted to a third-party service provider.

River’s Edge Golf Course – This fund accounts for the operating activities of the City’s municipal golf course.

Transit Funds – These three funds (Needles Area Transit, Dial-A-Ride and Dial-A-Ride Medical Transport) account for the operating activities of the City’s public transportation system.

Other Fund Types

The City also reports the following fund types:

Internal Service Funds – These funds are used to account for the financing of goods or services provided by one department to other departments within the City on a cost-reimbursement basis. These include equipment services (fleet management), utilities, 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 "pooled cash and equivalents".

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

In addition, non-pooled cash and investments are separately held and reflected in respective funds or component units as "cash with fiscal agents" or "restricted cash".

The City reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value, which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value.

Securities traded on a national or international exchange are reported at the last reported sales price based on current exchange rates. Cash deposits are reported at carrying amount which reasonably approximates fair value.

INVENTORY OF SUPPLIES

Inventories in governmental funds consist of expendable supplies held for consumption stated on an average cost basis. They are reported at cost, which is recorded as an expenditure at the time the inventory items are used. Proprietary fund inventories and similar component unit inventories are recorded at the lower of cost or market value on an average cost basis. Inventories are reported similarly in the fund financial statements and the government-wide financial statements.

PREPAIDS

Prepaid items represent payments made to vendors that benefit future reporting periods, and are reported on the consumption basis. Prepaid items are reported similarly in the fund financial statements and the government-wide financial statements.

CAPITAL ASSETS, DEPRECIATION, AND AMORTIZATION

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and reported in the government-wide financial statements.

Proprietary and component unit capital assets are also reported in their respective funds and component unit financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with a cost of \$5,000 or more. The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	20 – 30 years
Improvements, other than buildings	5 – 15 years
Mobile equipment	5 – 7 years
Furniture, machinery, and equipment	5 – 7 years

CAPITALIZED INTEREST

Interest is capitalized when incurred by proprietary funds and similar component units on debt where the debt proceeds were used to finance the construction of City assets. Interest earned on the proceeds of tax-exempt borrowings that are restricted to the acquisition of qualifying assets is offset against interest costs to determine the amount of interest to capitalize. The City did not capitalize any interest during the fiscal year ended June 30, 2012.

LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND DISCOUNTS/PREMIUMS

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as a liability. Bond issuance costs, bond discounts and premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

Governmental fund financial statements recognize debt proceeds and premiums as other financing sources of the current fiscal period. Issuance costs are reported as expenditures of the current fiscal period.

LAND HELD FOR RESALE

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

FUND EQUITY

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

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Under GASB Statement 54, governmental fund types report fund equity in one of five categories, as follows:

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

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

Restricted—amounts that can be used only for specific purposes because of (a) constitutional provisions or enabling legislation or (b) externally imposed constraints.

Committed—amounts that can be used only for specific purposes because of a formal action by the government’s highest level of decision-making authority. This classification might also include contractual obligations if existing resources have been committed for use in satisfying those contractual requirements.

Assigned—amounts intended to be used for specific purposes but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a finance committee), or by an official to whom that authority has been given. This is the residual fund balance classification for all governmental funds except the general fund.

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

Prior to the issuance of GASB Statement 54, the governmental fund financial statements report 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.

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. The City reserves an amount as uncollectible based on historical collection rates. The amount of the estimated uncollectible billings at June 30, 2012 was \$356,564.

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 preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such 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 measurable. The City considers property tax as available if it is received within 60 days after the year-end.

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.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

DEFICIT FUND NET ASSETS – Primary Government

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

Interstate Commerce I40/J St. (Fund 235)	\$ 235,943
CA Recycling RAC (Fund 242)	85,447
CDBG (Fund 205)	15,187
Hazardous Waste (Fund 227)	885
Homeland Security Grant (Fund 228)	6,538
Used Oil Program (Fund 207)	3,985

Budgets and Budgetary Accounting

The City prepared and adopted annual operating budgets for the General fund, all Special Revenue funds, and all Capital Projects funds.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. The City Council reviews the proposed budget at specially scheduled sessions, which are 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.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, continued

7. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the department level. The legal level of budgetary control is at the level called “department”. A “department” for legal appropriation purposes may be a single organization (i.e., City Attorney), or an entire department having multiple organizations (i.e., Parks and Recreation), or an entire fund (i.e., Special Fund for Capital Outlay). All departments and funds should complete the year within legally authorized expenditures.

NOTE 3 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Deposits with Financial Institutions

Custodial credit risk for deposits with financial institutions is the risk that, in the event of a failure of the financial institution, the City’s deposits will not be returned or the City will not be able to obtain collateral securities pledged by the financial institutions. Custodial credit risk is not covered by bond indentures, although the indentures usually require the issuer to maintain reserve accounts with the trustee bank named in the indenture.

The City’s policy, in accordance with the State of California Government Code, is to require financial institutions to collateralize the City’s deposits at 110% of the deposit amount with U.S. government securities in the City’s name. California law allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City’s total deposit. The City, at management’s discretion, may waive the 110% collateral requirements for deposits which are federally insured up to \$100,000. Federal insurance has recently been temporarily increased to provide up to \$250,000 of coverage for each depositor.

At June 30, 2012, the book balance of the City’s deposits was \$12,966 million and the bank balance was \$13,375 million. Of the bank balance, \$500,000 was insured and \$12,466 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.

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

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 \$2,263,924. The total amount invested by all public agencies in LAIF is \$60,502,186,417. 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, 2012 include \$800.0 million in structured notes and \$1,297.405 million in asset-backed securities.

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

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

The City’s cash on hand, deposits with financial institutions and investments at June 30, 2012 were as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
California LAIF	\$ 2,263,924	\$ 2,263,924
Cash with trustee	2,479,662	2,479,662,
Petty cash and cash drawers	4,645	4,645
Checking accounts	<u>5,816,116</u>	<u>6,225,950</u>
Total Cash and Investments	<u>\$ 10,564,347</u>	<u>\$10,974,181</u>

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

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, 2012, the reserve fund totaled \$164,500. The cash for the deposit was provided by the bond proceeds and is to be used for future debt service.

The Revenue bonds 1997 Series A agreement requires a minimum balance of \$1,553,423 in the reserve fund, and at June 30, 2012, the reserve fund totaled \$1,553,423. The cash for the deposit was provided by the bond proceeds and is to be used for future debt service.

The Certificates of Participation agreement requires deposits to be made semiannually with the Trustee in an amount equal to 1/20th of the maximum reserve (\$8,392) until the amount on deposit equals the maximum reserve (\$167,834). At June 30, 2012 the reserve fund balance totaled \$167,862.

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>
Primary Government					
<i>Governmental Activities</i>					
Balance, July 1, 2011	\$ 1,263,554	5,784,456	5,425,589	5,073,201	17,546,800
Increases	38,526	34,257	13,780	281,679	368,242
Decreases	-	-	-	-	-
Balance, June 30, 2012	<u>1,302,080</u>	<u>5,818,713</u>	<u>5,439,369</u>	<u>5,354,880</u>	<u>17,915,042</u>
Accumulated Depreciation					
Balance, July 1, 2011	1,121,959	3,690,544	-	-	4,812,503
Increases	82,167	167,283	-	-	249,450
Decreases	-	-	-	-	-
Balance, June 30, 2012	<u>1,204,126</u>	<u>3,857,827</u>	<u>-</u>	<u>-</u>	<u>5,061,953</u>
<i>Governmental Activities</i>					
Capital Assets, Net	<u>97,954</u>	<u>1,960,886</u>	<u>5,439,369</u>	<u>5,354,880</u>	<u>12,853,089</u>

Note 4 - CAPITAL ASSETS, continued

	Equipment and Vehicles	Buildings and Improvements	Constuction in Progress	Land and Infrastructure	Totals
<i>Business-type Activities</i>					
Balance, July 1, 2011	27,312,396	475,192	-	292,621	28,080,209
Increases	700,479	-	-	-	700,479
Decreases	-	-	-	-	-
Balance, June 30, 2012	<u>28,012,875</u>	<u>475,192</u>	<u>-</u>	<u>292,621</u>	<u>28,780,688</u>
 <i>Accumulated Depreciation</i>					
Balance, July 1, 2011	12,658,863	328,007	-	-	12,986,870
Increases	1,116,485	20,426	-	-	1,136,911
Decreases	-	-	-	-	-
Balance, June 30, 2012	<u>13,775,348</u>	<u>348,433</u>	<u>-</u>	<u>-</u>	<u>14,123,781</u>
 <i>Business-type Activities</i>					
Capital Assets, Net	<u>14,237,527</u>	<u>126,759</u>	<u>-</u>	<u>292,621</u>	<u>14,656,907</u>
 Primary Government					
Capital Assets, Net	<u>\$ 14,335,481</u>	<u>2,087,645</u>	<u>5,439,369</u>	<u>5,647,501</u>	<u>27,509,996</u>

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	
Public safety		Solid waste management	
Public works		Golf course	
Parks and recreation		Transit activities	
Community development		Electric utilities	
		Customer service office	
		Administrative facilities	
		Information systems	
		Fleet maintenance	

Commitments

Active construction in progress is composed of the following:

	<u>Spent to</u> <u>June 30, 2012</u>	<u>Remaining</u> <u>Commitment</u>
Primary Government		
<i>Governmental Activities:</i>		
Building renovations	\$ 5,200,502	-

Construction projects included in governmental activities are substantially funded by Federal, State or County grants. Business-type activities include construction projects funded with the proceeds of revenue bonds, user charges or Federal/State grants.

NOTE 5 – LONG-TERM OBLIGATIONS

The City has the following long-term obligations at June 30, 2012:

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, 2012 represents unpaid principal and accrued interest. \$ 1,138,826

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. 774,009

Bonds Payable and Certificates of Participation

1992 Series A Tax Allocation Bonds

The bonds were issued to provide monies to enable the Financing Authority to fund a loan to the Redevelopment Agency. The bonds are payable solely from the loan payments to be made to the Financing Authority by the Redevelopment Agency and from the reserve account created under the Loan Agreement and investment earnings thereon. Tax revenues of the Agency from its redevelopment project secure repayment of the loan. Principal payments in amounts from \$15,000 to \$85,000 are due annually to 2022, with interest payments at rates ranging from 5.40% to 7.50% payable semi-annually. 1,190,000

1998 Certificates of Participation

In October 1998, the Financing Authority issued \$3,100,000 in certificates of participation bearing interest at the rate of 4.5%. Principal and interest installment payments are due semi-annually from August 1, 1999 through August 1, 2037. The certificate proceeds were used to construct a new wastewater treatment plant. 2,527,575

(continued)

NOTE 5 – LONG-TERM OBLIGATIONS, continued

Bonds Payable – Enterprise Funds

1997 Series A Revenue Bonds

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

	16,935,000
Less: Unamortized bond discount	(278,864)
Add: Deferred amount on refunding	<u>23,943</u>
	<u>16,680,079</u>
	\$ <u>22,310,489</u>

Long term debt – Schedule of Maturities

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

<u>Years</u> <u>ending</u> <u>June 30:</u>	<u>Advance</u> <u>from Other</u> <u>Funds</u>	<u>1992</u> <u>Bonds</u>	<u>1997</u> <u>Bonds</u>	<u>1998</u> <u>COPs</u>	<u>Interest</u>	<u>Total</u>
2013	\$ -	75,000	-	54,702	1,316,958	1,446,660
2014	-	80,000	-	57,191	1,308,656	1,445,847
2015	-	85,000	-	59,793	1,299,866	1,444,660
2016	-	90,000	-	62,514	1,290,583	1,443,097
2017	-	100,000	-	65,359	1,280,613	1,445,972
2018-2022	-	610,000	5,860,000	374,211	6,038,446	12,882,658
2023-2027	-	150,000	-	467,466	4,059,767	4,677,233
2028-2032	-	-	11,075,000	583,960	3,569,404	15,228,364
2033-2037	-	-	-	729,485	109,685	839,170
2037-2038	<u>1,626,473</u>	<u>-</u>	<u>-</u>	<u>72,893</u>	<u>11,024</u>	<u>1,710,390</u>
Totals	<u>\$ 1,626,473</u>	<u>1,190,000</u>	<u>16,935,000</u>	<u>2,527,575</u>	<u>20,285,001</u>	<u>42,564,049</u>

NOTE 5 – LONG-TERM OBLIGATIONS, continued

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2012:

<u>Description and purpose</u>	<u>Balance July 1, 2011</u>	<u>Increase/ Issued</u>	<u>Decrease/ Retired</u>	<u>Balance June 30, 2012</u>	<u>Due Within One Year</u>
Primary Government					
<i>Governmental Activities</i>					
Tax allocation 1992 bonds	\$ 1,260,000	-	70,000	1,190,000	75,000
Advances from other funds	1,626,473	-	-	1,626,473	-
Certificates of participation	<u>2,579,896</u>	<u>-</u>	<u>52,321</u>	<u>2,527,575</u>	<u>54,702</u>
Total Governmental Activities	<u>5,466,369</u>	<u>-</u>	<u>122,321</u>	<u>5,344,048</u>	<u>129,702</u>
<i>Business-type Activities</i>					
Revenue bonds:					
<u>Major Enterprise Funds</u>					
NPUA	17,084,993	-	404,914	16,680,079	-
Notes payable:					
<u>Major Enterprise Funds</u>					
NPUA	2,579,896	-	52,321	2,527,575	54,702
<u>Other Enterprise Funds</u>					
Sanitation Fund	665,195	-	-	665,195	-
Capital lease obligations:					
<u>Major Enterprise Funds</u>					
Golf course	<u>11,184</u>	<u>-</u>	<u>11,184</u>	<u>-</u>	<u>-</u>
Total Business-type Activities	<u>20,341,268</u>	<u>-</u>	<u>468,419</u>	<u>19,872,849</u>	<u>54,702</u>
Total Primary Government Long-term Debt	\$ <u>25,807,637</u>	<u>-</u>	<u>590,740</u>	<u>25,216,897</u>	<u>184,404</u>

NOTE 6 – OBLIGATION UNDER AGREEMENT WITH COUNTY OF SAN BERNARDINO

The notes payable in the Sanitation Enterprise Fund of \$665,195 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.

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

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. Accrued interest as of June 30, 2012 is \$526,068.

The City expects to increase solid waste collection fees to meet the debt service requirements. The City has requested that annual payments commence July 1, 2013. This request has not been either accepted or rejected as of the date of issuance of these financial statements.

If the City’s request is granted, this obligation is expected to be paid as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Payment on July 1:			
2013	\$ 58,539	71,476	130,015
2014	57,763	72,252	130,015
2015	61,229	68,786	130,015
2016	64,903	65,112	130,015
2017	68,797	61,218	130,015
2018-2022	411,083	238,993	650,075
2023-2027	<u>540,425</u>	<u>99,954</u>	<u>640,380</u>
	\$ <u>1,262,739</u>	<u>677,791</u>	<u>1,940,530</u>

NOTE 7 – UTILITY ENTERPRISE

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

To fund the acquisition, NPUA issued 1997 revenue bonds totaling \$21,145,000, of which \$17,941,092 was used as an initial down payment for the acquisition. The balance of \$47,058,908 was financed by the City and evidenced by a note. This is being repaid with an annual purchase payment of \$685,300 through the year 2066.

As a component unit, the NPUA is included as part of the City’s reporting entity (see Note 1). Accordingly, the Utility Enterprise assets and liabilities acquired by NPUA are included in the financial statements at net book value rather than fair market value (acquisition price) and the note, which approximates the step-up to the fair market value of the fixed assets, is excluded from the financial statements.

NOTE 7 – UTILITY ENTERPRISE, continued

The City and NPUA entered into a separate agreement wherein the City has agreed to continue to manage and administer the utility operations. As a result, the City performs the customer billing and collection function and pays the expenses related to the utility operations. NPUA reimburses the City on a monthly basis for expenses incurred.

NOTE 8 – RESTRICTED ASSETS, NET ASSETS AND FUND EQUITY

Certain proprietary fund and similar component unit assets are restricted for construction funded through long-term debt or Federal grant revenues. Net assets restricted for debt service include the excess of assets over certain liabilities restricted for the debt service on revenue bonds. Cash is restricted for deposits in bank accounts legally restricted for specified uses such as the payment of currently maturing debt service and annual fiscal fees on long-term debt. These are reported with current assets.

The fund balances of the governmental funds have been classified into the five categories of fund balance specified in GASB Statement No. 54. The City’s fund balances at June 30, 2012 are as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>
Fund balances:				
Nonspendable:				
Inventory	\$ 8,953	-	-	-
Prepaid items	110,685	6,305	-	-
Land held for resale	-	-	182,153	-
Restricted	-	313,773	-	4,119,889
Committed	1,683,202	166,559	-	-
Assigned	-	233,085	126,771	-
Unassigned	<u>1,206,409</u>	<u>-</u>	<u>-</u>	<u>-</u>
 TOTAL	 \$ <u>3,009,249</u>	 <u>719,722</u>	 <u>308,924</u>	 <u>4,119,889</u>

NOTE 9 – RISK MANAGEMENT

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

The City is a member of the CALIFORNIA JOINT POWERS INSURANCE AUTHORITY (Authority). The Authority is composed of 123 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage.

NOTE 9 – RISK MANAGEMENT, continued

The California JPIA began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

B. Self-Insurance Programs of the Authority

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

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

Liability

In the liability program claims are pooled separately between police and non-police exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$30,000 to \$750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$750,000 up to the reinsurance attachment point of \$5 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$5 million to \$10 million are paid under a reinsurance contract subject to a \$2.5 million annual aggregate deductible. Costs of covered claims from \$10 million to \$15 million are paid under two reinsurance contracts subject to a combined \$3 million annual aggregate deductible. On a cumulative basis for all 2011-12 reinsurance contracts the annual aggregate deductible is \$5.5 million. (6) Costs of covered claims from \$15 million up to \$50 million are covered through excess insurance policies.

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

NOTE 9 – RISK MANAGEMENT, continued

Costs of covered claims for subsidence losses are paid by reinsurance and excess insurance with a pooled sub-limit of \$35 million per occurrence. This \$35 million subsidence sub-limit is composed of (a) \$5 million retained within the pool's SIR, (b) \$10 million in reinsurance and (c) \$20 million in excess insurance. The excess insurance layer has a \$20 million annual aggregate.

Workers' Compensation

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

Employer's Liability losses are pooled among members to \$2 million. Coverage from \$2 million to \$5 million is purchased as part of a reinsurance policy, and Employer's Liability losses from \$5 million to \$10 million are pooled among members.

C. Purchased Insurance

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

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

NOTE 9 – RISK MANAGEMENT, continued

Property Insurance The City of Needles participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. City of Needles property is currently insured according to a schedule of covered property submitted by the City of Needles to the Authority. City of Needles property currently has all-risk property insurance protection in the amount of \$30,322,435. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

Earthquake and Flood Insurance The City of Needles purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the Authority. City of Needles property currently has earthquake protection in the amount of \$17,453,130. There is a deductible of 5% per unit of value with a minimum deductible of \$100,000. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

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

Special Event Tenant User Liability Insurance The City of Needles further protects against liability damages by requiring tenant users of certain property to purchase low-cost tenant user liability insurance for certain activities on agency property. The insurance premium is paid by the tenant user and is paid to the City of Needles according to a schedule. The City of Needles then pays for the insurance. The insurance is arranged by the Authority.

D. Adequacy of Protection

During the past three fiscal years, none of the above programs of protection experienced settlements or judgments that exceeded pooled or insured coverage. There were also no significant reductions in pooled or insured liability coverage from coverage in 2011-12.

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

RECEIVABLES AND PAYABLES

In general, outstanding balances between funds are presented in the financial statements as either “Due to/from other funds” (i.e., the current portion of interfund loans) or “Advances to/from other funds” (i.e., the non-current portion of interfund loans). These balances include outstanding charges by one fund to another fund for goods or services or for other miscellaneous receivables/payables between funds. Balances between governmental funds and business-type funds are reflected in the government-wide financial statements as “internal balances”.

The following schedule reflects balances within the reporting entity at June 30, 2012:

<u>DUE TO</u>	<u>DUE FROM</u>				
<u>Primary Government</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		
	<u>Major Government Funds</u>	<u>Major Enterprise Funds</u>	<u>Sanitation</u>	<u>Internal Service Funds</u>	<u>Total Due From</u>
	<u>General</u>	<u>NPUA</u>	<u>Sanitation</u>	<u>Funds</u>	<u>From</u>
Governmental Activities:					
Public Financing Authority	\$ -	46,743	-	-	46,743
General Fund	-	-	753,930	-	753,930
All American Canal	-	246,776	-	-	246,776
Other governmental funds	60,458	-	-	-	60,458
Business-type Activities:					
NPUA	-	-	-	1,334,485	1,334,485
	<u>\$ 60,458</u>	<u>293,519</u>	<u>753,930</u>	<u>1,334,485</u>	<u>2,442,392</u>

At June 30, 2012 the General Fund reflected an advance to the Redevelopment Agency of \$1,626,473 as described more fully in note 5 above.

TRANSFERS AND PAYMENTS

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

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

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

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

<u>TRANSFERS FROM</u>	<u>TRANSFERS TO</u>				
<u>Primary Government</u>	<u>Governmental Activities</u>			<u>Business-type Activities</u>	
	Major Govt. <u>Funds</u>	Major Govt. <u>Funds</u>	Other Govt. <u>Funds</u>	Major Enterprise <u>Funds</u>	Total
	General	All American Canal		Golf Course	Transfers From
Governmental Activities					
General Fund	\$ -	-	35,400	66,996	102,396
Electric Asset Replacement	350,000				350,000
Article 8C Transit fund	6,300	-	-	-	6,300
Needles Area Transit fund	7,596	-	-	-	7,596
Needles Medical Transit	2,796	-	-	-	2,796
Traffic Congestion Relief	38,533	-	-	-	38,533
Gas Tax fund	160,000	-	-	-	160,000
RDA Capital Projects	-	-	32,081	-	32,081
RDA Special Revenue	-	-	23,331	-	23,331
RDA Debt Service	-	-	200,000	-	200,000
Business-type Activities:					
NPUA	1,083,335	865,800	-	-	1,949,135
Sanitation fund	120,000	-	-	-	120,000
	<u>\$ 1,768,560</u>	<u>865,800</u>	<u>290,812</u>	<u>66,996</u>	<u>2,992,168</u>

NOTE 11 – DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

NOTE 11 – DEFINED BENEFIT PENSION PLAN, continued

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

Funding policy: Participants are required to contribute 7% of their annual covered salary. The City makes the required contribution for City employees on their behalf and for their account. The City is required as an employer to contribute at an actuarially determined rate: The rate for the fiscal years ended June 30, 2012 and 2011 was 2.364% and 1.928%, respectively, for non-safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost: For 2012, the City’s annual pension cost of \$200,843 for CalPERS was equal to 100% of the City’s required contributions. The required contribution was determined as part of the June 30, 2010 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary from 3.25% to 14.45% depending on age, service, and type of employment, and (c) inflation of 3%, and (d) payroll growth of 3.25%.

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

TREND INFORMATION FOR PERS (\$ in Thousands)

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	\$ 196	100%	-0-
June 30, 2010	212	100%	-0-
June 30, 2009	215	100%	-0-
June 30, 2008	196	100%	-0-

REQUIRED SUPPLEMENTARY INFORMATION (\$ in Thousands)

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

The June 30, 2010 actuarial valuation did not include the above information in detail solely for the miscellaneous plan for the City.

NOTE 12 – POST-RETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the City provides certain health care benefits for retired employees. Classified employees retiring after 20 or more years of service and after having reached age 58 or older are provided medical insurance coverage until the retiree becomes eligible for Medicare. Unclassified employees retiring at age 55 or later with 20 or more years of service are paid \$300 per month for medical insurance coverage until the retiree becomes eligible for Medicare. No retirees received post-retirement health care benefits during the fiscal year ended June 30, 2012.

NOTE 13 – RELATED PARTY TRANSACTIONS

The City acts as the manager and operator of the Needles Public Utility Authority's (NPUA) water, sewer and electrical enterprises under a management agreement. The management agreement is extended for one year on July 1st of each year, unless either party notifies the other that it does not intend to extend the term of the agreement. The City receives a management fee equal to its actual costs and direct overhead incurred in connection with the management and operation of NPUA's enterprises. The management fee for the fiscal year ended June 30, 2012 totaled \$6,287,481.

The City also collects an annual franchise fee from NPUA in exchange for rights of access to real property owned by the City and necessary for NPUA to operate the enterprises. The amount of the franchise fee is determined by the City and is subordinate to NPUA's debt service. The franchise fee for the fiscal year ended June 30, 2012 totaled \$750,000.

SUPPLEMENTAL INFORMATION

CITY OF NEEDLES, CALIFORNIA
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	GENERAL FUND				PUBLIC FINANCING AUTHORITY				ALL AMERICAN CANAL PROJECT			
	Actual		Variance		Actual		Variance		Actual		Variance	
	Amounts		with		Amounts		with		Amounts		with	
	Budgetary	Budgetary	Final Budget	Final Budget	Budgetary	Budgetary	Final Budget	Final Budget	Budgetary	Budgetary	Final Budget	Final Budget
Basis		Basis		Basis		Basis		Basis		Basis		
Favorable		Favorable		Favorable		Favorable		Favorable		Favorable		
(Unfavorable)		(Unfavorable)		(Unfavorable)		(Unfavorable)		(Unfavorable)		(Unfavorable)		
Budgeted Amounts		Budgeted Amounts		Budgeted Amounts		Budgeted Amounts		Budgeted Amounts		Budgeted Amounts		
Original	Final	(Note A)	(Unfavorable)	Original	Final	(Note A)	(Unfavorable)	Original	Final	(Note A)	(Unfavorable)	
Budgetary fund balance July 1, 2011	\$ 6,103,941	6,103,941	6,103,941	-	2,912,379	2,912,379	2,912,379	-	-	-	-	
Resources (inflows):												
Taxes	1,700,000	1,700,000	1,756,495	56,495	-	-	-	-	-	-	-	
Licenses, permits and fees	1,046,850	1,046,850	1,034,370	(12,480)	-	-	-	-	-	-	-	
Intergovernmental	739,000	739,000	683,539	(55,461)	-	-	-	-	-	-	-	
Charges for services	188,200	188,200	209,660	21,460	-	-	-	-	-	-	-	
Fines and forfeitures	38,200	38,200	22,759	(15,441)	-	-	-	-	-	-	-	
Use of money and property	7,000	7,000	35,827	28,827	-	-	207,268	207,268	-	-	-	
Transfers from other funds	1,416,500	1,716,500	1,768,560	52,060	-	-	-	-	-	865,800	865,800	
Other revenues	173,880	183,880	112,541	(71,339)	-	-	-	-	-	-	-	
Amounts available for appropriation	11,413,571	11,723,571	11,727,692	4,121	2,912,379	2,912,379	3,119,647	207,268	-	865,800	865,800	
Charges to appropriations (outflows):												
General government:												
City council and mayor	3,500	5,000	75,063	(70,063)	-	-	-	-	-	-	-	
City attorney	85,000	85,000	1,492	83,508	-	-	-	-	-	-	-	
City manager	95,217	95,217	81,314	13,903	-	-	-	-	-	-	-	
Finance and administration	206,059	206,059	193,557	12,502	-	-	-	-	-	-	-	
City clerk	104,623	101,873	97,720	4,153	-	-	-	-	-	-	-	
Planning and zoning	55,362	58,962	43,719	15,243	-	-	-	-	-	-	-	
Engineer	107,681	107,681	125,663	(17,982)	-	-	-	-	-	-	-	
Community development	164,715	189,815	195,563	(5,748)	-	-	-	-	-	-	-	
Senior center	44,741	44,741	40,083	4,658	-	-	-	-	-	-	-	
Parks and recreation:												
Aquatics	134,233	139,233	124,631	14,602	-	-	-	-	-	-	-	
Parks	254,908	250,791	207,829	42,962	-	-	-	-	-	-	-	
Recreation	223,096	226,296	235,075	(8,779)	-	-	-	-	-	-	-	
Public safety:												
Police	1,827,624	1,827,624	1,823,629	3,995	-	-	-	-	-	-	-	
Fire	617,285	617,285	512,579	104,706	-	-	-	-	-	-	-	
Animal control	172,427	172,927	125,578	47,349	-	-	-	-	-	-	-	
Code enforcement	83,890	107,890	64,116	43,774	-	-	-	-	-	-	-	
Building and safety	74,531	73,806	101,046	(27,240)	-	-	-	-	-	-	-	
Public works:												
Streets	727,989	725,989	700,384	25,605	-	-	-	-	-	-	-	
Sanitation	128,603	128,603	127,722	881	-	-	-	-	-	-	-	
Capital outlay	-	-	-	-	-	-	-	-	-	-	-	
Principal payments	-	-	-	-	-	-	52,321	(52,321)	-	-	-	
Interest and fiscal charges	-	-	-	-	-	-	207,388	(207,388)	-	-	-	
Nondepartmental:												
Savings through furlough of front office staff	-	-	-	-	-	-	-	-	-	-	-	
Transfers to other funds	106,100	106,100	452,396	(346,296)	-	-	-	-	-	-	-	
Total charges to appropriations	5,217,584	5,270,892	5,329,159	(58,267)	-	-	259,709	(259,709)	-	-	-	
Budgetary fund balance June 30, 2012	\$ 6,195,987	6,452,679	6,398,533	(54,146)	2,912,379	2,912,379	2,859,938	(52,441)	-	865,800	865,800	

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, 2012

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

	<u>General Fund</u>
Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 11,727,692
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	6,103,941
Transfers in are budgetary resources but are reported as an "Other financing source" and not as a current-year revenue	<u>1,768,560</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 19,600,193</u>
Charges to appropriations	
Actual amounts (budgetary basis) from the budgetary comparison schedule	\$ 5,329,159
Transfers out are a budgetary charge to appropriations but are reported as an "Other financing use" and not as a current-year expense	<u>452,396</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 5,781,555</u>

Michael P. Burger
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**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 Members of the City Council
City of Needles, California

I have audited 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, 2012, which collectively comprise the City of Needles, California's basic financial statements and have issued my report thereon dated December 10, 2012. The report on the business-type activities of the City of Needles, California was qualified because the Hospital Enterprise Fund could not be included as of and for the year ended June 30, 2012. Except as discussed in the preceding sentence, 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Needles, California's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Needles, California's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Needles, California's internal control over financial reporting.

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.

My consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and other Matters

As part of obtaining reasonable assurance about whether the City of Needles, California's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement, 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*.

This report is intended solely for the information and use of management, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Michael P. Burger, CPA

Needles, California
December 10, 2012

CITY OF NEEDLES, CALIFORNIA

Financial Statements

As of June 30, 2011

Together with

Independent Auditor's Report
And Supplemental Information

CITY OF NEEDLES, CALIFORNIA
Fiscal Year Ended June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Needles, California

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Needles, California (City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City's management. My responsibility is to express opinions on these financial statements based on my audit. I did not audit the financial statements of the Measure I Arterial, Measure I Local, and Measure I Transit funds, which represent 4% and 1.8% of the assets and revenues, respectively, of the governmental activities. I also 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 78.7% and 55.3% of the assets and revenues, respectively, of the business-type activities. Those financial statements 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.

Except as discussed in the following two paragraphs, I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

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, 2011 or the amount of depreciation expense for the year then ended.

The financial statements of Needles Hospital (a component unit) have not been audited, and we were not engaged to audit the Needles Hospital financial statements as part of our audit of the City's basic financial statements. The financial statements of Needles Hospital are not included in the accompanying basic financial statements for the City.

In my opinion, based on my audit and the reports of other auditors, except for the effects on the financial statements of the omissions described in the preceding two paragraphs, 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 15, 2011, on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 15 and 51 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.



Michael P. Burger, CPA

Needles, California
December 15, 2011

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, 2011. The financial statements and footnotes follow this section, and should be read in conjunction with this discussion and analysis.

Financial Highlights

- The City's net assets (excess of assets over liabilities) increased from \$19.0 million to \$20.7 million for the fiscal year. The primary cause of this was a prior year adjustment for the Public Utility Authority to incorporate adjustments proposed by the auditors of the Public Utility Authority. The Hospital Fund was excluded for both fiscal year 2010 and 2011. The change in net assets resulting from activities for the fiscal year was a negative \$148,180.
- Total net assets comprise the following:
 - (1) Capital assets, net of related debt, of \$14.7 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 assets of \$5.49 million that are restricted as to their use by outside factors such as debt covenants, grantors, laws, or regulations
 - (3) Net assets of \$381,000 that are not restricted as to their use and are available to fund the City's operations
- The City's governmental funds reflect fund balances totaling \$8,745,094 at June 30, 2011. This represents an increase of \$294,809 for the fiscal year. Fund balance classifications were changed in fiscal year 2011. The new classifications are: nonspendable, restricted, committed, assigned, and unassigned.
- The City's total liabilities decreased from \$32,745,579 to \$32,418,958. Total liabilities include a bank overdraft, which amounted to \$1,790,244 at June 30, 2011. There were no new debt obligations issued during the fiscal year.

Overview of the Financial Statements

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

Government-wide Financial Statements

The City's reporting package includes two financial statements at the government-wide level: (1) a *Statement of Net Assets*, 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 Assets* presents all of the City's assets and liabilities, with the difference presented as *net assets*. The evaluation of whether the City's financial status is improving or not can be measured by changes in net assets over time. Increases in net assets represent improvement in financial position.

The *Statement of Activities* reflects the change in the City's net assets 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. The community hospital has been excluded from these financial statements, as the audit of the Hospital fund was not completed as of the date these financial statements were issued. 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 All American Canal project fund.

The fund level statements differ significantly from the government-wide financial statements, as the fund level statements focus on current resources, uses of those resources, and resources remaining at the end of the fiscal year.

The government-wide financial statements include the current resources and use of those resources, as well as the long-term financial information for the City. A reconciliation of the fund level balance sheet and statement of revenues, expenditures and changes in fund balance to the government-wide statements follows the fund level financial statements.

The basic financial statements include budgetary information for the general fund, the Needles Public Financing Authority, and the All American Canal project fund. This supplemental information is included to reflect the City's compliance with the approved budget.

Proprietary funds are also reported in fund level financial statements, and include those activities for which the costs incurred are intended to be recovered through charges to the users of the services provided. Proprietary funds include *enterprise* funds and *internal service* funds. The functions of enterprise funds are basically the same as the business-type activities reported in the government-wide financial statements. Enterprise funds recover costs primarily through charges to external customers. The City's enterprise funds include the electric, water and wastewater utility, sanitation, public transportation, the operation of a hospital, 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 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 the 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 assets, exclusive of the Hospital fund, increased primarily because of prior year adjustments for the Public Utility Authority. Fiscal year 2011 activities resulted in a decrease in net assets of \$14,180.

The following table shows summarized information regarding the City's assets, liabilities, net assets, and the changes therein for the fiscal year ended June 30, 2011:

Summary of Net Assets

	Governmental		Business-type		Totals		Amount	%
	Activities		Activities				Change	Change
	2011	2010	2011	2010	2011	2010		
Current and other assets	\$ 10,977,600	\$ 10,415,106	14,189,399	14,132,480	25,166,999	24,547,586	619,413	2.5%
Capital assets	<u>12,734,297</u>	<u>12,444,500</u>	<u>15,093,339</u>	<u>14,832,758</u>	<u>27,827,636</u>	<u>27,277,258</u>	<u>550,378</u>	<u>2.0%</u>
Total assets	23,711,897	22,859,606	29,282,738	28,965,238	52,994,635	51,824,844	1,169,791	2.3%
Long-term liabilities	5,344,049	5,528,920	19,867,764	20,385,829	25,211,813	25,914,749	(702,936)	-2.7%
Other liabilities	<u>3,218,272</u>	<u>2,896,334</u>	<u>3,988,873</u>	<u>3,934,496</u>	<u>7,207,145</u>	<u>6,830,830</u>	<u>376,315</u>	<u>5.5%</u>
Total liabilities	8,562,321	8,425,254	23,856,637	24,320,325	32,418,958	32,745,579	(326,621)	-1.0%
Net assets:								
Invested in capital assets,								
net of related debt	12,734,297	12,444,500	1,974,570	1,949,032	14,708,867	14,393,532	315,335	2.2%
Restricted	5,485,696	4,656,604	-	-	5,485,696	4,656,604	829,092	17.8%
Unrestricted	<u>(3,070,417)</u>	<u>(2,666,752)</u>	<u>3,451,532</u>	<u>2,695,882</u>	<u>381,115</u>	<u>29,130</u>	<u>351,985</u>	<u>1208.3%</u>
Total net assets	<u>\$ 15,149,576</u>	<u>\$ 14,434,352</u>	<u>5,426,102</u>	<u>4,644,914</u>	<u>20,575,678</u>	<u>19,079,266</u>	<u>1,496,412</u>	<u>7.8%</u>

Net assets were positive for both governmental activities and business-type activities in 2010 and 2011. Overall, net assets decreased by about \$1.5 million, which is accounted for by prior year adjustments for the Public Utility Authority. The decrease in net assets from business-type activities was about \$896,000. There were transfers to governmental funds of \$1,789,319, so the actual positive operating results of the business-type activities, excluding the transfers, was approximately \$893,000.

Governmental activities expenses increased by about \$538,000 and program revenues decreased by about \$44,000. This was combined with an increase in general revenues of about \$452,000. Property taxes and transient occupancy taxes continued to play a significant role in the City's results, totaling nearly \$1.9 million in revenues for the fiscal year. This represents an increase of about \$203,000 from the previous fiscal year. Fuel taxes and state sales taxes dropped by \$65,000 from the previous fiscal year. Franchise taxes increased by about \$104,000.

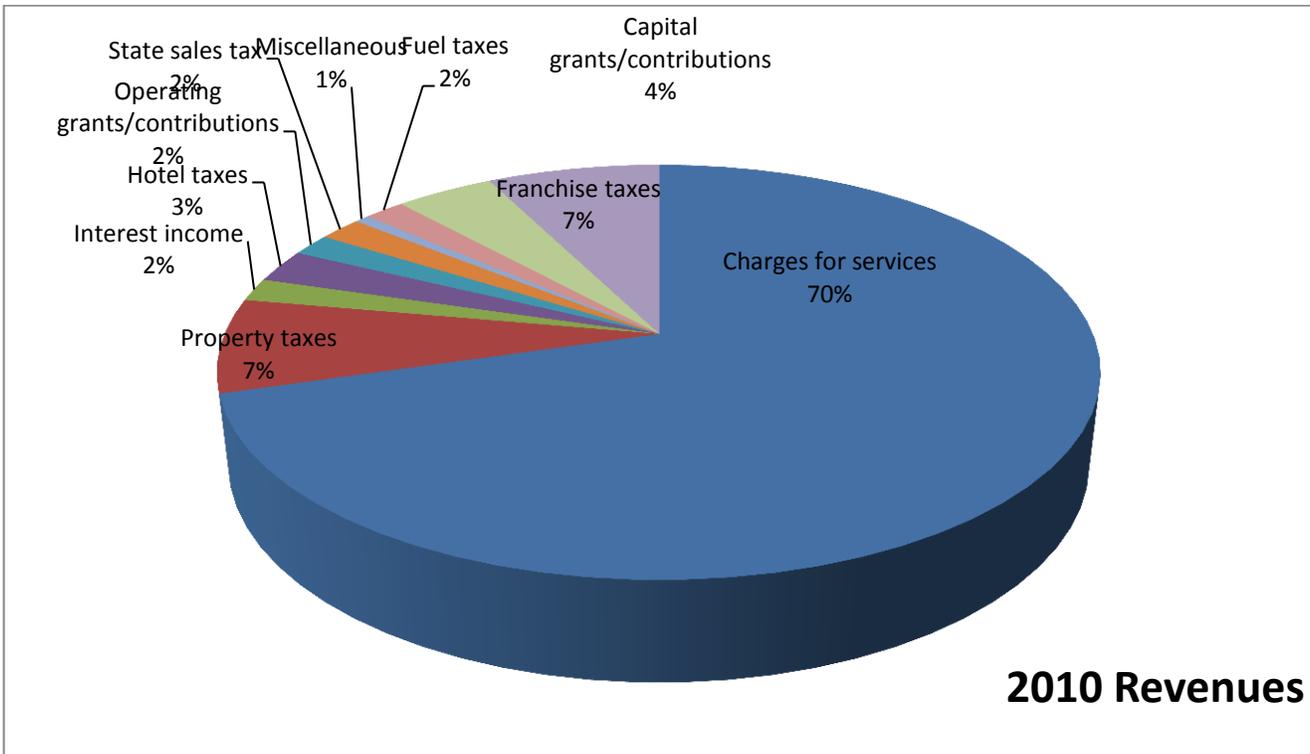
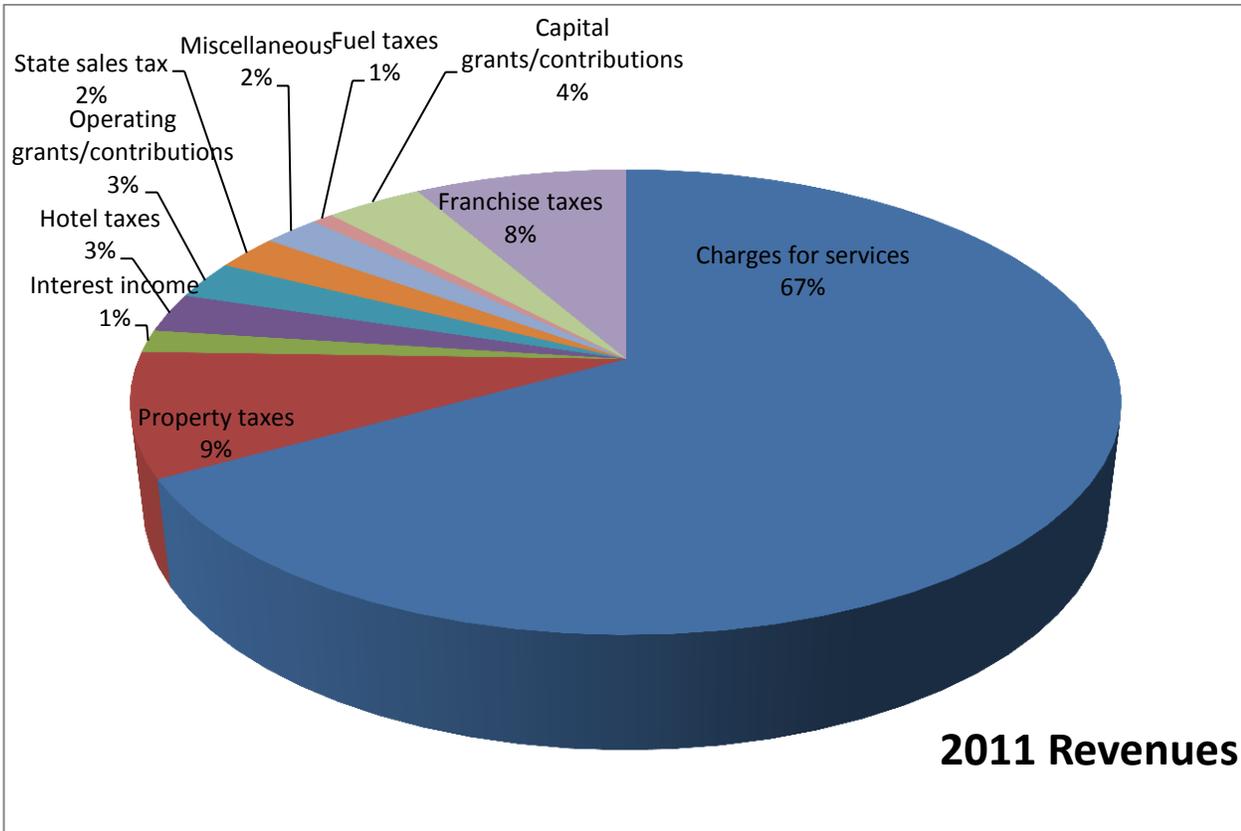
The primary reasons for the City being able to maintain its financial position are the operations of the public utility. The public utility generated operating income of nearly \$2.3 million.

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 assets for the year ended June 30, 2011:

Summary of Changes in Net Assets

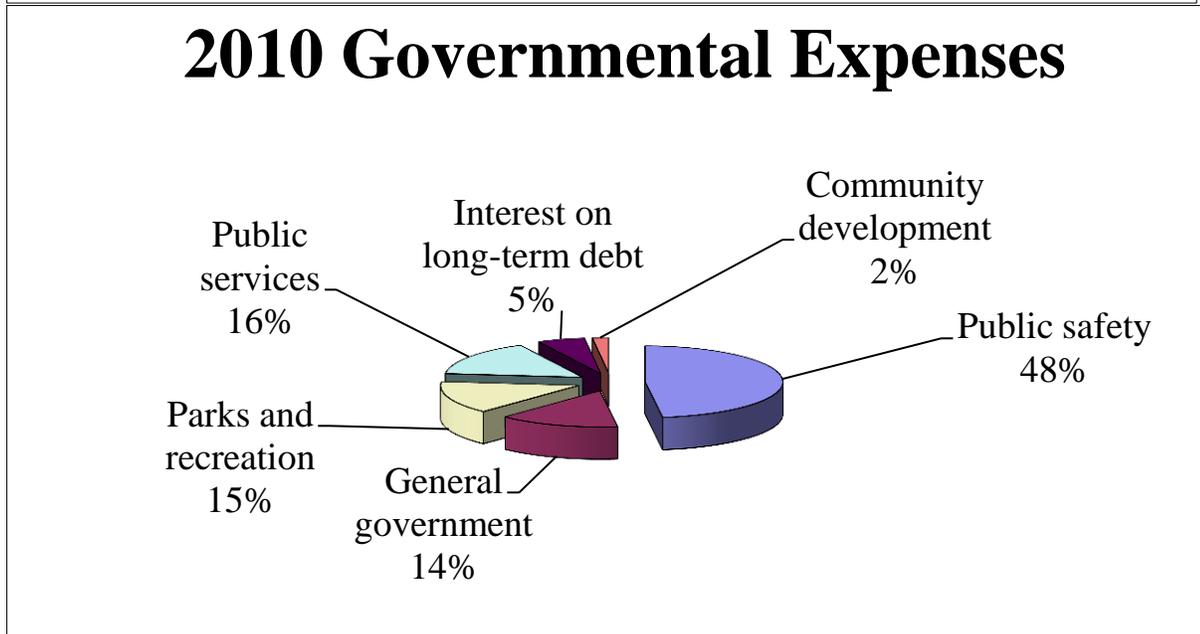
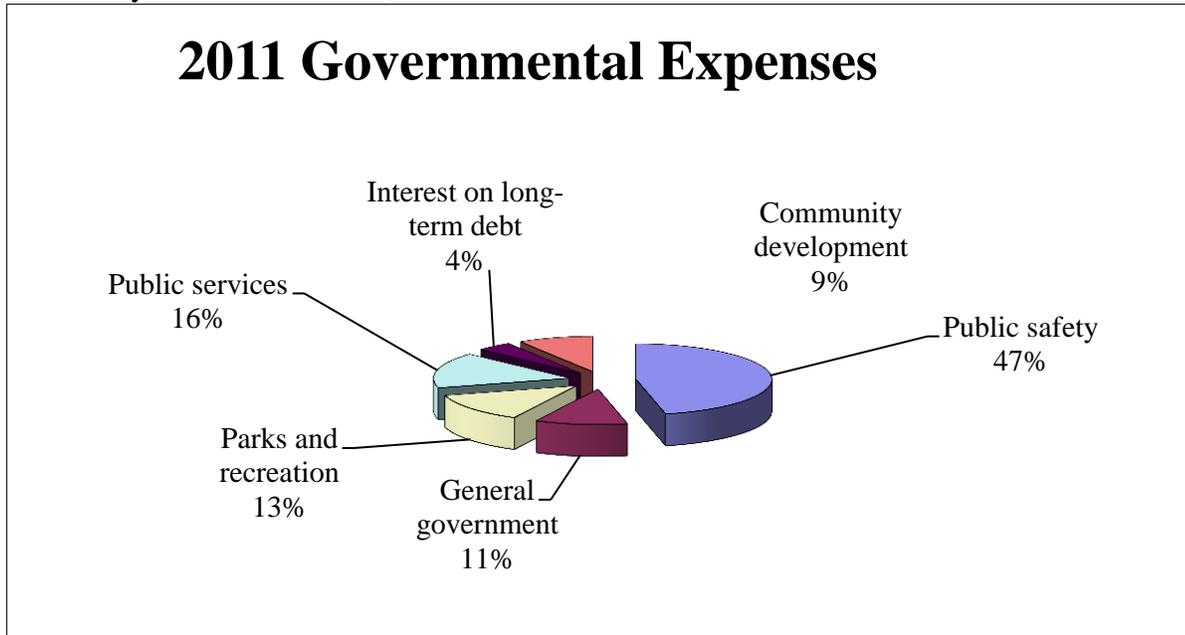
	Governmental		Business-type		Totals		Amount Change	% Change
	Activities		Activities					
	2011	2010	2011	2010	2011	2010		
Revenues:								
Program revenues								
Charges for services	341,163	405,453	10,767,317	11,480,868	11,108,480	11,886,321	(777,841)	-6.54%
Operating grants and contributions	440,983	293,602	-	-	440,983	293,602	147,381	50.20%
Capital grants and contributions	147,879	274,561	477,373	447,187	625,252	721,748	(96,496)	-13.37%
General revenues								
Property taxes	1,426,596	1,239,224	-	-	1,426,596	1,239,224	187,372	15.12%
Transient occupancy taxes	454,102	438,229	-	-	454,102	438,229	15,873	3.62%
Sales taxes	407,506	312,814	-	-	407,506	312,814	94,692	30.27%
Fuel taxes	137,072	296,297	-	-	137,072	296,297	(159,225)	-53.74%
Franchise taxes	1,376,426	1,272,701	-	-	1,376,426	1,272,701	103,725	8.15%
Investment earnings	247,799	293,951	11,952	8,489	259,751	302,440	(42,689)	-14.11%
Other	364,224	108,017	-	-	364,224	108,017	256,207	237.19%
Total revenues	5,343,750	4,934,849	11,256,642	11,936,544	16,600,392	16,871,393	(271,001)	-1.61%
Expenses:								
General government	699,525	825,396	-	-	699,525	825,396	(125,871)	-15.25%
Public safety	2,970,768	2,804,755	-	-	2,970,768	2,804,755	166,013	5.92%
Public services	1,037,725	929,031	-	-	1,037,725	929,031	108,694	11.70%
Parks and recreation	839,893	852,774	-	-	839,893	852,774	(12,881)	-1.51%
Community development	570,735	110,599	-	-	570,735	110,599	460,136	416.04%
Interest on long-term debt	266,406	324,120	-	-	266,406	324,120	(57,714)	-17.81%
Public utility authority	-	-	8,215,437	8,689,070	8,215,437	8,689,070	(473,633)	-5.45%
Golf course	-	-	863,446	1,039,636	863,446	1,039,636	(176,190)	-16.95%
Other	-	-	1,284,638	1,320,044	1,284,638	1,320,044	(35,406)	-2.68%
Total expenses	6,385,052	5,846,675	10,363,521	11,048,750	16,748,573	16,895,425	(146,852)	-0.87%
Increase (decrease) in net assets before transfers	(1,041,302)	(911,826)	893,121	887,794	(148,181)	(24,032)	(124,149)	516.60%
Transfers	1,789,319	1,149,140	(1,789,319)	(1,149,140)	-	-	-	
Change in net assets	748,017	237,314	(896,198)	(261,346)	(148,181)	(24,032)	(124,149)	516.60%
Beginning net assets	14,401,558	14,197,038	6,322,300	4,906,259	14,760,814	14,784,846	(24,032)	-0.16%
Ending net assets	15,149,575	14,434,352	5,426,102	4,644,913	14,612,633	14,760,814	(148,181)	-1.00%

The following charts show graphic representations of the City's revenues for the fiscal years ended June 30, 2011 and 2010:



As displayed in the charts above and discussed previously, the revenues from the public utility authority are very significant for the City, making up 55% of all revenues in 2011 and 59% of total revenues in 2010.

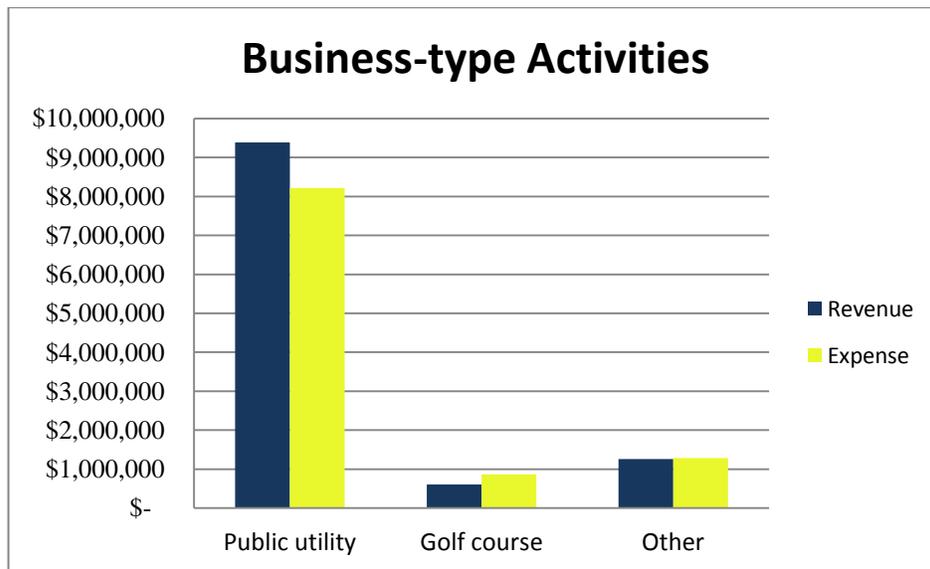
The following charts show graphic representations of the City's governmental functional expenses for the fiscal years ended June 30, 2011 and 2010:



The City contracts with the County of San Bernardino for public safety services. These expenses are funded primarily through general revenues. Parks and recreation expenses are significant for the City, as it is the City's responsibility to maintain the marinas, public swimming pool, a skate park, and the cemetery.

The City has begun to expend a significant amount (more than \$12 million) to rehabilitate the historic El Garces train station. This rehabilitation will be funded primarily through grants. The government-wide financial statements report capital outlays as capital assets and not as expenses.

The following chart depicts the operating revenues and expenses of the City's business-type activities for the year ended June 30, 2011:



The public utility authority contributes the majority of the City's revenues, and produced operating income of over \$2.29 million. Interest expense of \$1.368 million on the bonds issued to finance the acquisition of the utility and transfers out of about \$3.9 million (including the purchase payment of \$685,300 and franchise fees) figured into the public utility's decrease in net assets of about \$908,000 for the fiscal year.

The City's business-type activities also include refuse collection, a golf course, and public transportation. All business-type activities are designed to be self-supporting, and costs are expected to be fully recovered by user fees and other revenues. Refuse collection activities are contracted out to a private company. All business-type activities reflected an excess of expenses over revenues for the fiscal year ended June 30, 2011.

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, 2011 was \$8,745,094. Of this total, \$1,318,359 was unassigned and is available to fund any City requirements. Nonspendable fund balances of \$288,565

represent assets that cannot be converted to cash, such as inventory, prepaid expenses and land held for resale.

There are restricted fund balances totaling \$4,613,738, including \$2,912,379 for debt service and \$1,701,359 restricted for the specific purposes of the related funds. Fund balances of \$1,708,266 are considered committed and include advances to other funds of \$1,626,473.

Governmental fund balances increased by \$748,018 from the previous year. Expenses actually exceeded revenues by about \$1.041 million. This was offset by incoming transfers, primarily from the public utility authority for the purchase payment and franchise fees.

Major Governmental Funds

The City's General Fund is the primary governmental fund in use, and accounts for about 67% of governmental revenues and about 72% of governmental expenses. The General Fund's fund balance decreased by \$137,428 from the previous year. General Fund revenues increased by \$134,885 and expenses increased by about \$370,000. All department except for general government experienced increases in expenditures.

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 about \$50,000 during the fiscal year, ending at \$2,912,379.

The All American Canal project fund serves to accumulate funds to be used for the supply of water for domestic, municipal, industrial, and recreational purposes along the All American Canal in Imperial County. The City acts as water master on behalf of the Bureau of Reclamation to administer the project from the Nevada border to the Mexican border for 10,000 acre-feet of water for non-Federal subcontractors. This fund expended \$772,761 for capital improvements during the fiscal year.

Other Governmental Funds

All other governmental funds are considered non-major. Such funds include special revenue funds, debt service funds, and capital projects funds. Together, these funds experienced an increase in fund balances of \$482,174. Total ending fund balances for these funds was \$2,738,229.

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 56.5% of total revenues. NPUA provides power, water and wastewater to the City's businesses and residents. All fixed assets of the utility are carried on NPUA's books, as well as the revenue bonds issued to finance the acquisition of the utility.

General Fund Budgetary Highlights

The original budget adopted for the General Fund totaled \$3.699 million in revenues (excluding transfers) and \$4.8 million in expenses (excluding transfers but including capital outlays). The budget was amended once during the fiscal year. The amended budget included \$3.726 million in revenues and about \$5.06 million in expenses. The increase in budgeted expenses was focused on community development (\$154,731 increase) and the fire department (\$117,000 increase).

Capital Assets and Debt Administration

Capital Assets

At June 30, 2011 the City had about \$27.8 million invested in capital assets, \$12.7 million of which was in governmental activities and \$15.1 million of which was in business-type activities. This represents an overall increase of \$550,000, or about 2.0%. The increase in capital assets in the governmental activities was about \$290,000. The net increase in capital assets in the business-type activities was about \$260,000.

There were a few capital asset additions during the year, the most significant being design work for the Needles Corridor and the purchase of a backhoe. 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

	<u>Governmental Activities</u>		<u>Business-type activities</u>		<u>Totals</u>		<u>Amount Change</u>	<u>% Change</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>		
Non-depreciable assets:								
Construction in progress	\$ 5,425,589	5,200,502	-	-	5,425,589	5,200,502	225,087	4.33%
Land and infrastructure	5,073,201	4,838,959	292,621	292,621	5,365,822	5,131,580	234,242	4.56%
Depreciable assets:								
Buildings and improvements	2,093,912	2,183,526	147,185	147,185	2,241,097	2,330,711	(89,614)	-3.84%
Equipment and vehicles	<u>141,595</u>	<u>221,513</u>	<u>14,653,533</u>	<u>14,392,952</u>	<u>14,795,128</u>	<u>14,614,465</u>	<u>180,663</u>	1.24%
Total	<u>\$ 12,734,297</u>	<u>12,444,500</u>	<u>15,093,339</u>	<u>14,832,758</u>	<u>27,827,636</u>	<u>27,277,258</u>	<u>550,378</u>	2.02%

Long-term debt

At the end of the fiscal year, the City's total long-term debt obligations were \$25,211,813. Of this total, \$5,344,049 is in the governmental activities and \$19,867,764 is in the business-type activities.

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

Further, there is a balance of \$1.26 million in tax allocation bonds issued by the PFA, the proceeds of which were lent to RDA. Repayment is being made from the loan payments paid by the Redevelopment Agency to the PFA. Finally, the governmental activities debt also includes certificates of participation, the proceeds of which were used to construct a wastewater treatment plant.

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

The following table depicts the City's outstanding long-term debt obligations at June 30, 2011 and 2010:

OUTSTANDING LONG-TERM OBLIGATIONS

	<u>Governmental Activities</u>		<u>Business-type activities</u>		<u>Totals</u>		Amount	%
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>Change</u>
Advances to RDA	\$ 1,626,473	1,626,473	-	-	1,626,473	1,626,473	-	0.00%
Tax allocation bonds	1,260,000	1,325,000	-	-	1,260,000	1,325,000	(65,000)	-4.91%
Certificates of participation	2,579,896	2,629,939	-	-	2,579,896	2,629,939	(50,043)	-1.90%
Note payable - fire truck	-	80,000	-	-	-	80,000	(80,000)	100.00%
Capital leases	-	-	11,184	70,064	11,184	70,064	(58,880)	
Revenue bonds	-	-	17,084,993	17,076,238	17,084,993	17,076,238	8,755	0.05%
Sanitation note payable	-	-	665,195	665,195	665,195	665,195	-	0.00%
NPUA notes payable	-	-	2,579,896	2,629,939	2,579,896	2,629,939	(50,043)	-1.90%
Total	\$ 5,466,369	5,661,412	20,341,268	20,441,436	25,807,637	26,102,848	(295,211)	-1.13%

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 8 years. First, for the fiscal years ended June 30, 2003 to 2006 the rapid rise in real estate values, the ease of obtaining mortgages, and speculation had a positive impact on the City. Tax collections related to real estate activities rose, and the City benefited. Real property values in and around the City have declined dramatically from the peak, and property values in neighboring states have declined even more severely.

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

The first phase of the project involved clean-up and stabilization, at a cost of about \$428,000. There are Federal Transit Authority Grants of more than \$7.7 million already approved for additional construction activity. In addition, there are state funds of nearly \$900,000 also approved for this project.

A consultant has been hired to work with an architect to develop a master plan for the rehabilitation. The Federal grant funds require a twenty percent (20%) local match, which is being met by using City labor and contributions from the public utility authority. Under the first phase, asbestos removal, parapet restoration, and installation of a new roof system have been completed. Future construction will include utility extensions, restoration of the lobby, hotel, kitchen and dining room, a new Chamber of Commerce office, a California Welcome Center, restoration of the parking lot, painting the exterior, and replacing irrigation and landscaping.

The second phase of the project includes \$223,000 approved by the state legislature for engineering and construction documents. No construction costs are anticipated for fiscal year 2012. The second phase involves demolition work, shear wall construction, and column reinforcement work.

The City is proceeding with the engineering design of the I-40/AZ 95 Interconnect project for which \$4.8 million in Federal Transit Authority funding has been granted. The County of San Bernardino is contributing \$628,000 through a grant and a loan for the local matching funds. The project will include the widening of J Street north of Interstate 40, Needles Highway between Broadway and K Street, and K Street between Needles Highway. Four intersections will have traffic signals installed.

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

For the past three years, the City has been actively soliciting viable solar energy developers to create solar power generating projects within the City's sphere of influence. Currently, there are two such utility-scale solar developers with works in progress. One will use concentrated solar thermal technology, the other utilizes photovoltaic technology. There can be no guarantee that these developers will be able to obtain Power Purchase agreements binding a major utility to take or pay for the power generated from these plants for a minimum term of 20 years.

Contacting the City's Financial Management

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

Contacting the City's Financial Management, continued

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

CITY OF NEEDLES, CALIFORNIA
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and investments	\$ 5,106,686	5,795,032	10,901,718
Restricted cash	-	-	-
Cash and investments with fiscal agents	-	2,849,158	2,849,158
Accounts receivable, net	3,955,639	1,876,113	5,831,752
Inventory	8,953	1,101,523	1,110,476
Prepaid items	97,696	133,166	230,862
Land held for resale	182,153	-	182,153
Deferred bond issuance costs	-	453,223	453,223
Intangible assets	-	1,981,184	1,981,184
Capital assets, net	12,734,297	15,093,339	27,827,636
Advances to other funds	<u>1,626,473</u>	<u>-</u>	<u>1,626,473</u>
Total assets and other debits	<u>\$ 23,711,897</u>	<u>29,282,738</u>	<u>52,994,635</u>
LIABILITIES			
Bank overdraft	\$ 726,980	1,063,264	1,790,244
Accounts payable	1,213,165	1,826,780	3,039,945
Deposits payable	-	145,330	145,330
Deferred revenue	252,069	17,024	269,093
Compensated absences	220,375	462,971	683,346
Accrued interest on advances from other funds	583,362	-	583,362
Estimated claims liability	100,000	-	100,000
Long-term liabilities:			
Due within one year	122,321	473,504	595,825
Due in more than one year	<u>5,344,049</u>	<u>19,867,764</u>	<u>25,211,813</u>
Total liabilities	<u>8,562,321</u>	<u>23,856,637</u>	<u>32,418,958</u>
NET ASSETS			
Restricted for:			
Capital projects	522,750	-	522,750
Debt service	3,912,411	-	3,912,411
Community development projects	1,050,535	-	1,050,535
Unrestricted	(3,070,417)	3,451,532	381,116
Invested in capital assets, net of related debt	<u>12,734,297</u>	<u>1,974,570</u>	<u>14,708,867</u>
Total net assets	<u>\$ 15,149,576</u>	<u>5,426,102</u>	<u>20,575,678</u>

See accompanying notes to the basic financial statements.

CITY OF NEEDLES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
General government	\$ 699,525	341,163	183,747	-	(174,615)	-	(174,615)
Public safety	2,970,768	-	257,236	-	(2,713,532)	-	(2,713,532)
Public works	1,037,725	-	-	-	(1,037,725)	-	(1,037,725)
Parks and recreation	839,892	-	-	147,879	(692,013)	-	(692,013)
Community development	570,735	-	-	-	(570,735)	-	(570,735)
Interest on long-term debt	266,406	-	-	-	(266,406)	-	(266,406)
Total governmental activities	<u>6,385,051</u>	<u>341,163</u>	<u>440,983</u>	<u>147,879</u>	<u>(5,455,026)</u>	<u>-</u>	<u>(5,455,026)</u>
Business-type activities:							
Public utility authority	8,215,437	9,183,577	-	200,465	-	1,168,605	1,168,605
Santitation	930,977	946,904	-	-	-	15,927	15,927
Golf course	863,446	602,673	-	-	-	(260,773)	(260,773)
Transit	353,661	34,163	-	276,908	-	(42,590)	(42,590)
Total business-type activities	<u>10,363,521</u>	<u>10,767,317</u>	<u>-</u>	<u>477,373</u>	<u>-</u>	<u>881,169</u>	<u>881,169</u>
Total primary government	<u>\$ 16,748,572</u>	<u>11,108,480</u>	<u>440,983</u>	<u>625,252</u>	<u>(5,455,026)</u>	<u>881,169</u>	<u>(4,573,857)</u>
General revenues:							
Taxes:							
Property taxes					1,426,596	-	1,426,596
Hotel taxes					454,102	-	454,102
Fuel taxes					137,072	-	137,072
State sales tax					407,506	-	407,506
Franchise taxes					1,376,426	-	1,376,426
Vehicle license fees					-	-	-
Interest revenue					247,799	11,952	259,751
Miscellaneous					364,224	-	364,224
Transfers					1,789,319	(1,789,319)	-
Total general revenues, special items, and transfers					<u>6,203,044</u>	<u>(1,777,367)</u>	<u>4,425,677</u>
Change in net assets					748,018	(896,198)	(148,180)
Net assets - beginning, as previously reported					14,455,672	4,573,435	19,029,107
Prior year adjustments					<u>(54,114)</u>	<u>1,748,865</u>	<u>1,694,751</u>
Net assets - beginning, as restated					<u>14,401,558</u>	<u>6,322,300</u>	<u>20,723,858</u>
Net assets - ending					<u>\$ 15,149,576</u>	<u>5,426,102</u>	<u>20,575,678</u>

See accompanying notes to the basic financial statements.

CITY OF NEEDLES, CALIFORNIA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	General	Public Financing Authority	All American Canal Project	Other Governmental Funds	Total Governmental Funds
ASSETS AND OTHER DEBITS					
Cash and investments	\$ 932,563	332,483	655,719	3,185,921	5,106,686
Restricted cash	-	-	-	-	-
Accounts receivable, net	49,696	2,579,896	-	-	2,629,592
Interest receivable	488,131	-	-	-	488,131
Due from other funds	688,930	47,392	19,794	60,458	816,574
Due from other governments	13,467	-	-	7,875	21,342
Inventory	8,953	-	-	-	8,953
Prepaid items	91,211	-	237	6,248	97,696
Land held for resale	-	-	-	182,153	182,153
Advances to other funds	1,626,473	-	-	-	1,626,473
Total assets and other debits	<u>\$ 3,899,424</u>	<u>2,959,771</u>	<u>675,750</u>	<u>3,442,655</u>	<u>10,977,600</u>
LIABILITIES, EQUITY AND OTHER CREDITS					
Liabilities:					
Bank overdraft	\$ 307,629	-	-	419,351	726,980
Accounts payable	85,067	-	-	7,558	92,625
Accrued liabilities	45,833	-	675,956	34,216	756,005
Due to other funds	118,188	-	-	-	118,188
Due to other governments	-	47,392	-	239,247	286,639
Deferred revenue	248,015	-	-	4,054	252,069
Total liabilities	804,732	47,392	675,956	704,426	2,232,506
Equity and other credits:					
Fund balances - nonspendable	100,164	-	-	188,401	288,565
Fund balances - restricted	-	2,912,379	-	1,701,359	4,613,738
Fund balances - committed	1,676,169	-	-	32,097	1,708,266
Fund balances - assigned	-	-	(206)	816,372	816,166
Fund balances - unassigned	1,318,359	-	-	-	1,318,359
Total equity and other credits	3,094,692	2,912,379	(206)	2,738,229	8,745,094
Total liabilities, equity and other credits	<u>\$ 3,899,424</u>	<u>2,959,771</u>	<u>675,750</u>	<u>3,442,655</u>	<u>10,977,600</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, 2011

Fund balances - total governmental funds **\$ 8,745,094**

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	\$ 18,384,709	
Less: Accumulated depreciation	<u>5,650,413</u>	
		12,734,297

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

Compensated absences	220,375	
Bonds payable, net	1,260,000	
Certificates of participation	2,629,939	
Advances from other funds	2,209,836	
Note payable for fire truck	-	
Estimated claims liability	100,000	
Less: current year principal payments	<u>(90,335)</u>	
		<u>(6,329,815)</u>

Net assets of governmental activities **\$ 15,149,576**

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, 2011

	General	Public Financing Authority	All American Canal Project	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes	\$ 1,664,384	-	-	760,892	2,425,276
Licenses, permits and fees	1,454,468	-	-	-	1,454,468
Intergovernmental	-	-	-	713,412	713,412
Charges for services	198,545	-	-	29,325	227,870
Fines and forfeitures	35,251	-	-	-	35,251
Use of money and property	28,812	214,834	-	4,153	247,799
Other revenues	223,865	-	-	15,809	239,674
Total revenues	3,605,325	214,834	-	1,523,591	5,343,750
EXPENDITURES:					
Current:					
General government	680,614	-	-	-	680,614
Public safety	2,805,582	-	-	134,405	2,939,987
Public works	672,264	-	-	383,705	1,055,969
Parks and recreation	590,927	-	-	89,377	680,304
Community development	193,496	-	-	16,575	210,071
Capital outlay	-	-	772,761	182,106	954,867
Debt service:					
Principal retirement	-	50,043	-	-	50,043
Interest and fiscal charges	-	214,728	-	51,677	266,405
Total expenditures	4,942,883	264,771	772,761	857,845	6,838,260
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,337,558)	(49,937)	(772,761)	665,746	(1,494,510)
Other Financing Sources (Uses):					
Operating transfers in	1,388,113	-	772,761	210,233	2,371,107
Operating transfers out	(187,983)	-	-	(393,805)	(581,788)
Total other financing sources (uses)	1,200,130	-	772,761	(183,572)	1,789,319
Excess (Deficiency) of Revenues and Other Financing Sources Over (under) Expenditures and Other Financing Uses	(137,428)	(49,937)	-	482,174	294,809
FUND BALANCE, JULY 1, 2010	3,232,120	2,962,316	(206)	2,256,055	8,450,285
FUND BALANCE, JUNE 30, 2011	\$ 3,094,692	2,912,379	(206)	2,738,229	8,745,094

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, 2011

Net change in fund balances - total governmental funds	\$ 294,809
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.	348,573
Expenditures in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the funds. This includes the increase in the liability for compensated absences and interest on a capital lease obligation.	33,371
Repayment of bond or note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	<u>50,043</u>
Change in net assets of governmental activities	<u>\$ 726,796</u>

See accompanying notes to the basic financial statements.

CITY OF NEEDLES, CALIFORNIA
COMBINING STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds	Internal Service Funds
ASSETS						
Current assets:						
Cash and investments	\$ 2,058,742	108,425	-	52,778	2,219,945	3,575,087
Accounts receivable, net	1,496,737	129,951	-	25	1,626,713	-
Interest receivable	186,850	-	-	-	186,850	-
Due from other funds	624,249	-	-	-	624,249	974,236
Due from other governments	-	-	-	62,550	62,550	-
Inventory	1,072,600	-	28,923	-	1,101,523	-
Prepaid expenses	-	-	37,697	390	38,087	95,079
Total current assets	5,439,178	238,376	66,620	115,743	5,859,917	4,644,402
Non-current assets:						
Cash and investments with fiscal agents	2,849,158	-	-	-	2,849,158	-
Deferred bond issuance costs, net	453,223	-	-	-	453,223	-
Intangible assets	1,981,184	-	-	-	1,981,184	-
Fixed assets, net	14,392,032	-	190,037	95,050	14,677,119	1,689,483
Total assets	\$ 25,114,775	238,376	256,657	210,793	25,820,601	6,333,885
LIABILITIES						
Current liabilities:						
Bank overdraft	\$ -	18,347	976,326	68,591	1,063,264	-
Accounts payable	627,997	65,840	19,388	794	714,019	414,374
Due to other funds	-	688,930	-	-	688,930	1,607,942
Compensated absences	303,549	-	140,145	-	443,694	19,277
Capital lease obligation - current	-	-	11,184	-	11,184	-
Notes payable - current	-	-	-	-	-	-
Bonds payable - current	462,320	-	-	-	462,320	-
Other liabilities	-	-	-	-	-	34,755
Total current liabilities	1,393,866	773,117	1,147,043	69,385	3,383,411	2,076,348
Non-current liabilities:						
Deposits	144,830	500	-	-	145,330	-
Deferred revenue	-	-	-	17,024	17,024	-
Capital lease obligation - long-term	-	-	-	-	-	-
Notes payable - long-term	2,527,576	665,195	-	-	3,192,771	-
Bonds payable - long-term	16,640,238	-	-	-	16,640,238	-
Total liabilities	20,706,510	1,438,812	1,147,043	86,409	23,378,774	2,076,348
NET ASSETS						
Invested in capital assets, net of related debt	-	-	190,037	95,050	285,087	1,689,483
Unrestricted	4,408,265	(1,200,436)	(1,080,423)	29,334	2,156,740	2,568,054
Total Net Assets	\$ 4,408,265	(1,200,436)	(890,386)	124,384	2,441,827	4,257,537

See accompanying notes to the basic financial statements.

CITY OF NEEDLES, CALIFORNIA
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2011

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES						
Charges for services-Public Utility Authority	\$ 9,174,767	-	-	-	9,174,767	-
Charges for services-Other enterprise funds	-	946,904	602,673	32,293	1,581,870	6,466,249
Government grants	200,465	-	-	276,908	477,373	-
Other fees and sales	-	-	-	1,870	1,870	-
Other revenues	11,284	-	-	(2,474)	8,810	-
Total operating revenues	9,386,516	946,904	602,673	308,597	11,244,690	6,466,249
OPERATING EXPENSES						
Personnel costs	17,814	-	447,502	13,304	478,620	1,781,488
Contractual services	-	797,893	-	231,146	1,029,039	57,312
Power and utilities	-	-	71,213	-	71,213	2,007,197
Maintenance and operations	5,204,705	123,121	247,641	44,079	5,619,546	2,174,725
Administrative and management	782,141	6	-	-	782,147	11,072
Insurance	-	-	29,428	-	29,428	96,419
Depreciation and amortization	1,008,567	-	67,662	55,437	1,131,666	142,698
Provision for bad debt	80,326	9,957	-	-	90,283	-
Total operating expenses	7,093,553	930,977	863,446	343,966	9,231,942	6,270,911
OPERATING INCOME	2,292,963	15,927	(260,773)	(35,369)	2,012,748	195,338
NONOPERATING REVENUES (EXPENSES)						
Interest revenue	11,907	-	-	45	11,952	-
Interest expense and fiscal charges	(1,368,944)	-	-	-	(1,368,944)	-
Lease termination income	-	-	-	-	-	-
Bond issue costs	(36,817)	-	-	-	(36,817)	6,132
Total nonoperating revenues (expenses)	(1,393,854)	-	-	45	(1,393,809)	6,132
INCOME BEFORE OPERATING TRANSFERS	899,109	15,927	(260,773)	(35,324)	618,939	201,470
Operating transfers in	2,124,000	-	147,000	11,555	2,282,555	-
Operating transfers out	(3,932,061)	(123,121)	-	(16,692)	(4,071,874)	-
Net operating transfers in (out)	(1,808,061)	(123,121)	147,000	(5,137)	(1,789,319)	-
Change in net assets	(908,952)	(107,194)	(113,773)	(40,461)	(1,170,380)	201,470
Net Assets July 1, 2010, as previously reported	3,532,113	(1,093,241)	(801,093)	225,564	1,863,343	4,056,160
Prior year adjustments	1,785,104	(1)	24,480	(60,719)	1,748,864	-
Net Assets July 1, 2010, as restated	5,317,217	(1,093,242)	(776,613)	164,845	3,612,207	4,056,160
Net Assets, June 30, 2011	\$ 4,408,265	(1,200,436)	(890,386)	124,384	2,441,827	4,257,630

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, 2010

	Public Utility Authority	Sanitation	Golf Course	Transit	Total Enterprise Funds	Internal Service Funds
Cash Flows From Operating Activities:						
Cash collected from customers	\$ 8,823,170	938,705	602,673	367,714	9,793,557	6,466,249
Cash payments to suppliers for goods and services	(4,616,895)	(68,957)	(481,302)	(135,824)	(5,234,021)	(4,117,808)
Cash payments to employees and professional contractors for services	(17,814)	(797,893)	(447,502)	(244,450)	(709,766)	(1,838,800)
Payments for internal services	-	-	71,213	-	71,213	-
Other operating revenues	11,284	-	-	(604)	10,680	-
Net cash provided by (used in) operating activities	4,199,745	71,855	(254,918)	(13,164)	3,931,663	509,641
Cash Flows From Noncapital Financing Activities:						
Decrease in due from other funds	(301,396)	-	-	-	(301,396)	(4,615)
Increase (decrease) in due to other funds	-	154,325	-	-	154,325	169,216
Operating transfers in	2,124,000	-	147,000	11,555	2,282,555	-
Operating transfers out	(3,932,061)	(123,121)	-	(16,692)	(4,071,874)	-
Net cash provided by (used in) noncapital financing activities	(2,109,457)	31,204	147,000	(5,137)	(1,936,390)	164,601
Cash Flows from Capital and Related Financing Activities:						
Acquisition and construction of capital assets	(1,242,283)	-	(35,985)	70,396	(1,207,872)	(325,746)
Principal paid on bonds payable	(382,723)	-	-	-	(382,723)	-
Principal paid on notes payable	(52,320)	-	-	-	(52,320)	-
Principal paid on capital lease obligations	-	-	(58,879)	-	(58,879)	-
Interest paid	(1,368,944)	-	-	-	(1,368,944)	-
Net cash provided by (used in) capital and related financing activities	(3,046,270)	-	(94,864)	70,396	(3,070,738)	(325,746)
Cash Flows from Investing Activities:						
Cash deposited with fiscal agent	(702,304)	-	-	-	(702,304)	-
Interest on investments	19,211	-	-	62	19,273	-
Net cash provided by (used in) investing activities	(683,093)	-	-	62	(683,031)	-
Net increase (decrease) in cash and cash equivalents	(1,639,075)	103,059	(202,782)	52,157	(1,758,496)	348,496
Cash And Cash Equivalents (net of bank overdraft), July 1, 2010	3,697,817	57,389	(798,024)	(77,620)	2,879,562	3,226,684
Cash And Cash Equivalents (net of bank overdraft), June 30, 2011	\$ 2,058,742	160,448	(1,000,806)	(25,463)	1,121,066	3,575,180
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	\$ 2,292,963	15,927	(260,773)	(35,369)	2,012,748	195,338
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization of fixed assets	1,008,567	-	67,662	55,437	1,131,666	142,698
Bad debt expense	80,326	80,326	-	(70,369)	90,283	-
Adjustment of beginning balances	1,785,104	-	-	-	1,785,104	-
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable	(552,062)	(8,199)	-	-	(560,261)	-
Decrease in due from other governments	-	-	-	53,832	53,832	-
(Increase) Decrease in inventory	(451,458)	-	(28,923)	-	(480,381)	-
Decrease (increase) in prepaid expenses	-	-	31,793	-	31,793	5,203
Increase (decrease) in accounts payable	(774)	(16,199)	(17,909)	(21,376)	(56,258)	199,657
Increase (decrease) in deposits payable	19,265	-	-	-	19,265	-
Increase (decrease) in deferred revenue	-	-	-	4,681	4,681	-
Increase (decrease) in other liabilities	-	-	-	-	-	(33,255)
Increase (decrease) in compensated absences payable	17,814	-	(46,768)	-	(28,954)	-
Net cash provided by (used in) operating activities	\$ 4,199,745	71,855	(254,918)	(13,164)	4,003,518	509,641
Noncash Investing, Capital and Financing Activities:						
Amortization not included in operating income:						
Deferred bond issuance costs	\$ 36,817	-	-	-	36,817	-
Deferred amount on refunding of debt	\$ -	-	-	-	-	6,132

See accompanying notes to the basic financial statements.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of the City of Needles, California (City) are discussed in subsequent sections of this Note. The remaining Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended June 30, 2011.

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, 2011 fiscal year end, and issues separate audited financial statements. The City has no discretely presented component units.

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

Needles Redevelopment Agency

The City established the Needles Redevelopment Agency (Agency) on August 16, 1984 as a separate legal entity in accordance with state law. The City Council declared by Ordinance that the City Council would serve as the Board of Directors of the Agency. The primary purpose of the Agency is to eliminate blighted areas by encouraging development of residential, commercial, industrial, recreational and public facilities. The City Council members designate management and have financial accountability for the Agency.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Needles Public Financing Authority

The Needles Public Financing Authority (Financing Authority) was formed on March 7, 1992 for the sole purpose of providing financing for various City capital projects. The Financing Authority is governed by a seven-member board, which consists of members of the City Council.

Needles Public Utility Authority

The Needles Public Utility Authority (Utility Authority) was formed on January 6, 1997, for the purpose of owning, operating and maintaining the Utility Enterprise. The Utility Enterprise consists of the Water, Sewer and Electric Enterprise Funds serving the City and the surrounding area. A seven member Board that consists of members of the City Council governs the Utility Authority.

Other Governmental Agencies

Other governmental agencies providing various levels of service to the City include the State of California, County of San Bernardino, as well as various special districts and school districts.

Each of the above agencies has an independent elected governing board or is dependent on an independently elected governing board other than the City Council. Accordingly, financial data and transactions of these agencies are not included within the scope of this financial report.

Government Wide and Fund Financial Statements

Government-Wide Statements

The government-wide financial statements include the statement of net assets 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.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

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.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources subject to accrual include: property taxes, sales tax, transient occupancy tax, franchise taxes (fees), intergovernmental revenues, and investment income.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, the City's policy is to use restricted resources first, then unrestricted resources as necessary. Restricted assets and liabilities payable from restricted assets that are considered current in nature are reported as current assets and liabilities in the financial statements. Assets that are restricted for acquisition or construction of non-current assets, or are restricted for liquidation of long-term debt, are considered non-current.

FUND TYPES AND MAJOR FUNDS

Governmental Funds

The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources not reported in other funds.

Needles Public Financing Authority – This fund accounts for the accumulation of financial resources for the payment of principal and interest on the City's general obligation debt. Revenues come from interest on invested funds.

All American Canal Project Fund – Congress on November 14, 1986, enacted the Lower Colorado Water Supply Act of 1986 ("Act"). This Act authorized and appropriated funds for the Bureau of Reclamation ("Reclamation") to construct the Lower Colorado Water Supply Project ("Project"). The Project consists of well field facilities in the Sand Hills along the All-American Canal in Imperial County. As authorized by Congress, the Project is to "...supply water for domestic, municipal, industrial, and recreational purposes only."

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Water for agricultural uses is not available under the Act. The Act limits the eligible Project beneficiaries “to persons or Federal or non-Federal governmental agencies whose lands or interests in lands are located adjacent to the Colorado River in the State of California, who do not hold rights to Colorado River water or whose rights are insufficient to meet their present or anticipated future needs as determined by the Secretary.” The City acts as water master on behalf of the Bureau of Reclamation to administer the Project from the Nevada border to the Mexican border for 10,000 acre-feet of water for non-federal Subcontractors.

Proprietary Funds

The City reports the following major enterprise funds:

Needles Public Utility Authority – This fund accounts for the operating activities of the City’s public utility operations.

Sanitation Fund – This fund accounts for the operating activities of the City’s refuse collection service, which is contracted to a third-party service provider.

River’s Edge Golf Course – This fund accounts for the operating activities of the City’s municipal golf course.

Transit Funds – These three funds (Needles Area Transit, Dial-A-Ride and Dial-A-Ride Medical Transport) account for the operating activities of the City’s public transportation system.

Other Fund Types

The City also reports the following fund types:

Internal Service Funds – These funds are used to account for the financing of goods or services provided by one department to other departments within the City on a cost-reimbursement basis. These include equipment services (fleet management), utilities, 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 “pooled cash and equivalents”.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

In addition, non-pooled cash and investments are separately held and reflected in respective funds or component units as “cash with fiscal agents” or “restricted cash”.

The City reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value, which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value.

Securities traded on a national or international exchange are reported at the last reported sales price based on current exchange rates. Cash deposits are reported at carrying amount which reasonably approximates fair value.

INVENTORY OF SUPPLIES

Inventories in governmental funds consist of expendable supplies held for consumption stated on an average cost basis. They are reported at cost, which is recorded as an expenditure at the time the inventory items are used. Proprietary fund inventories and similar component unit inventories are recorded at the lower of cost or market value on an average cost basis. Inventories are reported similarly in the fund financial statements and the government-wide financial statements.

PREPAIDS

Prepaid items represent payments made to vendors that benefit future reporting periods, and are reported on the consumption basis. Prepaid items are reported similarly in the fund financial statements and the government-wide financial statements.

CAPITAL ASSETS, DEPRECIATION, AND AMORTIZATION

The City’s property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and reported in the government-wide financial statements.

Proprietary and component unit capital assets are also reported in their respective funds and component unit financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with a cost of \$5,000 or more. The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	20 – 30 years
Improvements, other than buildings	5 – 15 years
Mobile equipment	5 – 7 years
Furniture, machinery, and equipment	5 – 7 years

CAPITALIZED INTEREST

Interest is capitalized when incurred by proprietary funds and similar component units on debt where the debt proceeds were used to finance the construction of City assets. Interest earned on the proceeds of tax-exempt borrowings that are restricted to the acquisition of qualifying assets is offset against interest costs to determine the amount of interest to capitalize. The City did not capitalize any interest during the fiscal year ended June 30, 2011.

LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND DISCOUNTS/PREMIUMS

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as a liability. Bond issuance costs, bond discounts and premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

Governmental fund financial statements recognize debt proceeds and premiums as other financing sources of the current fiscal period. Issuance costs are reported as expenditures of the current fiscal period.

LAND HELD FOR RESALE

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

FUND EQUITY

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

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Under GASB Statement 54, governmental fund types report fund equity in one of five categories, as follows:

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

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

Restricted—amounts that can be used only for specific purposes because of (a) constitutional provisions or enabling legislation or (b) externally imposed constraints.

Committed—amounts that can be used only for specific purposes because of a formal action by the government’s highest level of decision-making authority. This classification might also include contractual obligations if existing resources have been committed for use in satisfying those contractual requirements.

Assigned—amounts intended to be used for specific purposes but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a finance committee), or by an official to whom that authority has been given. This is the residual fund balance classification for all governmental funds except the general fund.

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

Prior to the issuance of GASB Statement 54, the governmental fund financial statements report 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.

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. The City reserves an amount as uncollectible based on historical collection rates. The amount of the estimated uncollectible billings at June 30, 2011 was \$356,564.

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 preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such 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 measurable. The City considers property tax as available if it is received within 60 days after the year-end.

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.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

DEFICIT FUND NET ASSETS – Primary Government

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

Interstate Commerce I40/J St. (Fund 235)	\$ 75,942
CA Energy Commission Efficiency (Fund 229)	29,999
FHA El Garces (Fund 240)	20,696
CDBG (Fund 205)	14,566
Hazardous Waste (Fund 227)	11,615
Homeland Security Gran (Fund 228)	6,538
Local Transportation (Fund 218)	6,476
Used Oil Program (Fund 207)	3,985
CA Conservation & Recycling (Fund 239)	115

Budgets and Budgetary Accounting

The City prepared and adopted annual operating budgets for the General fund, all Special Revenue funds, and all Capital Projects funds.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. The City Council reviews the proposed budget at specially scheduled sessions, which are 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.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, continued

7. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the department level. The legal level of budgetary control is at the level called “department”. A “department” for legal appropriation purposes may be a single organization (i.e., City Attorney), or an entire department having multiple organizations (i.e., Parks and Recreation), or an entire fund (i.e., Special Fund for Capital Outlay). All departments and funds should complete the year within legally authorized expenditures.

NOTE 3 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Deposits with Financial Institutions

Custodial credit risk for deposits with financial institutions is the risk that, in the event of a failure of the financial institution, the City’s deposits will not be returned or the City will not be able to obtain collateral securities pledged by the financial institutions. Custodial credit risk is not covered by bond indentures, although the indentures usually require the issuer to maintain reserve accounts with the trustee bank named in the indenture.

The City’s policy, in accordance with the State of California Government Code, is to require financial institutions to collateralize the City’s deposits at 110% of the deposit amount with U.S. government securities in the City’s name. California law allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City’s total deposit. The City, at management’s discretion, may waive the 110% collateral requirements for deposits which are federally insured up to \$100,000. Federal insurance has recently been temporarily increased to provide up to \$250,000 of coverage for each depositor.

At June 30, 2011, the book balance of the City’s deposits was \$11.961 million and the bank balance was \$13.596 million. Of the bank balance, \$500,000 was insured and \$11.461 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.

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

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 \$1,742,863. The total amount invested by all public agencies in LAIF is \$66,352,783,817. 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, 2011 include \$1,100.0 million in structured notes and \$2,221.706 million in asset-backed securities.

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

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

The City's cash on hand, deposits with financial institutions and investments at June 30, 2011 were as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
California LAIF	\$ 1,742,863	\$ 1,742,863
Cash with trustee	2,849,158	2,849,158
Petty cash and cash drawers	4,445	4,445
Checking accounts	<u>7,364,166</u>	<u>7,364,166</u>
Total Cash and Investments	\$ <u>11,960,632</u>	\$ <u>11,960,632</u>

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

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, 2011, the reserve fund totaled \$164,500. The cash for the deposit was provided by the bond proceeds and is to be used for future debt service.

The Revenue bonds 1997 Series A agreement requires a minimum balance of \$1,553,423 in the reserve fund, and at June 30, 2011, the reserve fund totaled \$1,553,423. The cash for the deposit was provided by the bond proceeds and is to be used for future debt service.

The Certificates of Participation agreement requires deposits to be made semiannually with the Trustee in an amount equal to 1/20th of the maximum reserve (\$8,392) until the amount on deposit equals the maximum reserve (\$167,834). At June 30, 2011 the reserve fund balance totaled \$167,983.

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>
Primary Government					
<i>Governmental Activities</i>					
Balance, July 1, 2010	\$ 1,193,659	5,748,893	5,200,502	4,838,959	16,982,013
Increases	69,895	35,563	225,087	234,242	564,787
Decreases	-	-	-	-	-
Balance, June 30, 2011	<u>1,263,554</u>	<u>5,784,456</u>	<u>5,425,589</u>	<u>5,073,201</u>	<u>17,546,800</u>
Accumulated Depreciation					
Balance, July 1, 2010	972,146	3,565,367	-	-	4,537,513
Increases	149,813	125,177	-	-	274,990
Decreases	-	-	-	-	-
Balance, June 30, 2011	<u>1,121,959</u>	<u>3,690,544</u>	<u>-</u>	<u>-</u>	<u>4,812,503</u>
<i>Governmental Activities</i>					
Capital Assets, Net	<u>141,595</u>	<u>2,093,912</u>	<u>5,425,589</u>	<u>5,073,201</u>	<u>12,734,297</u>

Note 4 - CAPITAL ASSETS, continued

	Equipment <u>and Vehicles</u>	Buildings and <u>Improvements</u>	Constuction <u>in Progress</u>	Land and <u>Infrastructure</u>	<u>Totals</u>
<i>Business-type Activities</i>					
Balance, July 1, 2010	25,910,454	475,192	-	292,621	26,678,267
Increases	1,473,099	-	-	-	1,473,099
Decreases	<u>(71,157)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(71,157)</u>
Balance, June 30, 2011	27,312,396	475,192	-	292,621	28,080,209
 <i>Accumulated Depreciation</i>					
Balance, July 1, 2010	11,517,502	328,007	-	-	11,845,509
Increases	1,141,361	-	-	-	1,141,361
Decreases	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, June 30, 2011	<u>12,658,863</u>	<u>328,007</u>	<u>-</u>	<u>-</u>	<u>12,986,870</u>
 <i>Business-type Activities</i>					
Capital Assets, Net	<u>14,653,533</u>	<u>147,185</u>	<u>-</u>	<u>292,621</u>	<u>15,093,339</u>
 Primary Government					
Capital Assets, Net	<u>\$ 14,795,128</u>	<u>2,241,097</u>	<u>5,425,589</u>	<u>5,365,822</u>	<u>27,827,636</u>

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	\$ 13,410	Water utilities	\$ 21,964
Public safety	52,005	Solid waste management	37,760
Public works	36,158	Golf course	67,662
Parks and recreation	164,703	Transit activities	55,437
Community development	8,715	Electric utilities	1,073,333
		Customer service office	1,964
		Administrative facilities	3,883
		Information systems	10,631
		Fleet maintenance	1,730

Commitments

Active construction in progress is composed of the following:

	<u>Spent to</u> <u>June 30, 2011</u>	<u>Remaining</u> <u>Commitment</u>
Primary Government		
<i>Governmental Activities:</i>		
Building renovations	\$ 5,200,502	-

Construction projects included in governmental activities are substantially funded by Federal, State or County grants. Business-type activities include construction projects funded with the proceeds of revenue bonds, user charges or Federal/State grants.

NOTE 5 – LONG-TERM OBLIGATIONS

The City has the following long-term obligations at June 30, 2011:

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, 2011 represents unpaid principal and accrued interest. \$ 1,294,459

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. 915,376

Bonds Payable and Certificates of Participation

1992 Series A Tax Allocation Bonds

The bonds were issued to provide monies to enable the Financing Authority to fund a loan to the Redevelopment Agency. The bonds are payable solely from the loan payments to be made to the Financing Authority by the Redevelopment Agency and from the reserve account created under the Loan Agreement and investment earnings thereon. Tax revenues of the Agency from its redevelopment project secure repayment of the loan. Principal payments in amounts from \$15,000 to \$85,000 are due annually to 2022, with interest payments at rates ranging from 5.40% to 7.50% payable semi-annually. 1,260,000

1998 Certificates of Participation

In October 1998, the Financing Authority issued \$3,100,000 in certificates of participation bearing interest at the rate of 4.5%. Principal and interest installment payments are due semi-annually from August 1, 1999 through August 1, 2037. The certificate proceeds were used to construct a new wastewater treatment plant. 2,579,896

(continued)

NOTE 5 – LONG-TERM OBLIGATIONS, continued

Bonds Payable – Enterprise Funds

1997 Series A Revenue Bonds

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

	17,345,000
Less: Unamortized bond discount	(294,762)
Add: Deferred amount on refunding	<u>34,755</u>
	<u>17,084,993</u>
	\$ <u>23,134,724</u>

Long term debt – Schedule of Maturities

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

Years ending	Advance from Other	1992	Capital	1997	1998	Interest	Total
<u>June 30:</u>	<u>Funds</u>	<u>Bonds</u>	<u>Leases</u>	<u>Bonds</u>	<u>COPs</u>		
2012	\$ -	70,000	11,184	410,000	52,321	1,339,963	1,883,468
2013	-	75,000	-	-	54,702	1,316,958	1,446,660
2014	-	80,000	-	-	57,191	1,308,656	1,445,847
2015	-	85,000	-	-	59,793	1,299,866	1,444,660
2016	-	90,000	-	-	62,514	1,290,583	1,443,097
2017-2021	-	570,000	-	-	357,923	6,289,434	7,217,358
2022-2026	-	290,000	-	5,860,000	447,119	4,318,805	10,915,924
2027-2031	-	-	-	-	558,543	3,963,065	4,521,608
2032-2036	-	-	-	11,075,000	697,734	571,054	12,343,788
2037-2038	<u>1,626,473</u>	-	-	-	<u>232,055</u>	<u>19,696</u>	<u>1,878,224</u>
Totals	<u>\$ 1,626,473</u>	<u>1,260,000</u>	<u>11,184</u>	<u>17,345,000</u>	<u>2,579,896</u>	<u>21,718,080</u>	<u>44,540,632</u>

NOTE 5 – LONG-TERM OBLIGATIONS, continued

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

<u>Description and purpose</u>	<u>Balance</u> <u>July 1,</u> <u>2010</u>	<u>Increase/</u> <u>Issued</u>	<u>Decrease/</u> <u>Retired</u>	<u>Balance</u> <u>June 30,</u> <u>2011</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Primary Government					
<i>Governmental Activities</i>					
Tax allocation 1992 bonds	\$ 1,325,000	-	65,000	1,260,000	70,000
Note payable for fire truck	80,000	-	80,000	-	-
Advances from other funds	1,626,473	-	-	1,626,473	-
Certificates of participation	<u>2,629,939</u>	<u>-</u>	<u>50,043</u>	<u>2,579,896</u>	<u>52,321</u>
Total Governmental Activities	<u>5,661,412</u>	<u>-</u>	<u>195,043</u>	<u>5,466,369</u>	<u>122,321</u>
<i>Business-type Activities</i>					
Revenue bonds:					
<u>Major Enterprise Funds</u>					
NPUA	17,076,238	-	-	17,084,993	410,000
Notes payable:					
<u>Major Enterprise Funds</u>					
NPUA	2,629,939	-	50,043	2,579,896	52,321
<u>Other Enterprise Funds</u>					
Sanitation Fund	665,195	-	-	665,195	-
Capital lease obligations:					
<u>Major Enterprise Funds</u>					
Golf course	<u>70,064</u>	<u>-</u>	<u>70,064</u>	<u>11,184</u>	<u>11,184</u>
Total Business-type Activities	<u>20,441,436</u>	<u>-</u>	<u>530,107</u>	<u>20,341,268</u>	<u>473,505</u>
Total Primary Government Long-term Debt	\$ <u>26,102,848</u>	<u>-</u>	<u>725,150</u>	<u>25,807,637</u>	<u>595,826</u>

NOTE 6 – OBLIGATION UNDER AGREEMENT WITH COUNTY OF SAN BERNARDINO

The notes payable in the Sanitation Enterprise Fund of \$665,195 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.

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

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. Although the landfill ceased accepting waste in 1994, it has yet to be deemed closed as of the date of these financial statements. The City does not anticipate a notice of closure in fiscal year 2011-2012 or any immediate future years. The City expects to increase solid waste collection fees to meet the debt service requirements. The estimated annual obligation would be \$60,000.

NOTE 7 – UTILITY ENTERPRISE

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

To fund the acquisition, NPUA issued 1997 revenue bonds totaling \$21,145,000, of which \$17,941,092 was used as an initial down payment for the acquisition. The balance of \$47,058,908 was financed by the City and evidenced by a note. This is being repaid with an annual purchase payment of \$685,300 through the year 2066.

As a component unit, the NPUA is included as part of the City's reporting entity (see Note 1). Accordingly, the Utility Enterprise assets and liabilities acquired by NPUA are included in the financial statements at net book value rather than fair market value (acquisition price) and the note, which approximates the step-up to the fair market value of the fixed assets, is excluded from the financial statements.

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 EQUIT

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.

NOTE 8 – RESTRICTED ASSETS AND RESTRICTED NET ASSETS, continued

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, 2011 are as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>
Fund balances:				
Nonspendable:				
Inventory	\$ 8,953	-	-	-
Prepaid items	91,211	6,248	237	-
Land held for resale	-	-	182,153	-
Restricted	-	536,827	-	4,076,911
Committed	1,676,169	32,097	-	-
Assigned	-	460,797	355,132	-
Unassigned	<u>1,318,359</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	\$ <u>3,094,692</u>	<u>1,035,969</u>	<u>537,522</u>	<u>4,076,911</u>

NOTE 9 – RISK MANAGEMENT

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

The City is a member of the CALIFORNIA JOINT POWERS INSURANCE AUTHORITY (Authority). The Authority is composed of 121 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

A revised cost allocation methodology was introduced in 2010-11, however it retains many elements of the previous cost allocation methodology. Each member pays an annual contribution (formerly called the primary deposit) to cover estimated losses for the coverage period. This initial funding is paid at the beginning of the coverage period. After the close of the coverage period, outstanding claims are valued. A retrospective deposit computation is then conducted annually thereafter until all claims incurred during the coverage period are closed on a pool-wide basis. This subsequent cost re-allocation among members based on actual claim development can result in adjustments of either refunds or additional deposits required.

NOTE 9 – RISK MANAGEMENT, continued

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

Liability

In the liability program claims are pooled separately between police and nonpolice exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$30,000 to \$750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$750,000 up to the reinsurance attachment point of \$5 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$5 million to \$10 million are paid under a reinsurance contract subject to a \$2.5 million annual aggregate deductible. Costs of covered claims from \$10 million to \$15 million are paid under two reinsurance contracts subject to a combined \$3 million annual aggregate deductible. On a cumulative basis for all 2010-11 reinsurance contracts the annual aggregate deductible is \$5.5 million. (6) Costs of covered claims from \$15 million up to \$50 million are covered through excess insurance policies.

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

Costs of covered claims for subsidence losses are paid by reinsurance and excess insurance with a pooled sub-limit of \$35 million per occurrence. This \$35 million subsidence sub-limit is composed of (a) \$5 million retained within the pool's SIR, (b) \$10 million in reinsurance and (c) \$20 million in excess insurance. The excess insurance layer has a \$20 million annual aggregate.

Workers' Compensation

In the workers' compensation program claims are pooled separately between public safety (police and fire) and non-public safety exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$50,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer.

NOTE 9 – RISK MANAGEMENT, continued

(3) The second layer of losses includes incurred costs from \$50,000 to \$100,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$100,000 up to the reinsurance attachment point of \$2 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$2 million up to statutory limits are paid under a reinsurance policy. Protection is provided per statutory liability under California Workers' Compensation Law.

Employer's Liability losses are pooled among members to \$2 million. Coverage from \$2 million to \$4 million is purchased as part of a reinsurance policy, and Employer's Liability losses from \$4 million to \$10 million are pooled among members.

C. Purchased Insurance

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

The Authority has a limit of \$50 million for the 3-year period from July 1, 2008 through July 1, 2011. 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 currently has all-risk property insurance protection in the amount of \$29,491,263. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

Earthquake and Flood Insurance The City of Needles purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the Authority. City of Needles property currently has earthquake protection in the amount of \$16,953,869. 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.

NOTE 9 – RISK MANAGEMENT, continued

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

Special Event Tenant User Liability Insurance The City of Needles further protects against liability damages by requiring tenant users of certain property to purchase low-cost tenant user liability insurance for certain activities on agency property. The insurance premium is paid by the tenant user and is paid to the City of Needles according to a schedule. The City of Needles then pays for the insurance. The insurance is arranged by the Authority.

D. Adequacy of Protection

During the past three fiscal years, none of the above programs of protection experienced settlements or judgments that exceeded pooled or insured coverage. There were also no significant reductions in pooled or insured liability coverage from coverage in 2010-11.

**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”.

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

The following schedule reflects balances within the reporting entity at June 30, 2011:

<u>DUE TO</u>	<u>DUE FROM</u>				
<u>Primary Government</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		
	<u>Major Government Funds</u>		<u>Major Enterprise Funds</u>		<u>Internal Service Funds</u>
	<u>General</u>	<u>NPUA</u>	<u>Sanitation</u>	<u>Funds</u>	<u>Total Due From</u>
Governmental Activities:					
Public Financing Authority	\$ -	47,392	-	-	47,392
General Fund	-	-	688,930	-	688,930
Other governmental funds	118,188	-	-	-	118,188
Business-type Activities:					
NPUA	-	-	-	1,560,550	1,560,550
	<u>\$ 118,188</u>	<u>47,392</u>	<u>688,930</u>	<u>1,560,550</u>	<u>2,415,060</u>

At June 30, 2011 the General Fund reflected an advance to the Redevelopment Agency of \$1,626,473 as described more fully in note 5 above.

TRANSFERS AND PAYMENTS

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

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

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

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

	<u>TRANSFERS FROM</u>		<u>TRANSFERS TO</u>			
	<u>Primary Government</u>		<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	Major Governmental		Major		Enterprise	
	Funds		Funds		Funds	
	All	Other	Funds	Other	Total	
	American	Govt.	Golf	Enterprise	Transfers	
	<u>General</u>	<u>Canal</u>	<u>Funds</u>	<u>Course</u>	<u>Funds</u>	<u>From</u>
Governmental Activities:						
General Fund	\$ -	-	40,983	147,000	-	187,983
RDA Debt Service	-	-	142,380	-	-	142,380
Article 8C Transit fund	6,300	-	-	-	-	6,300
Needles Area Transit fund	7,596	-	-	-	-	7,596
DAR Medical Transportation	2,796	-	-	-	-	2,796
Traffic Safety/Congestion	63,000	-	-	-	-	63,000
Electric Asset Replacement	350,000	-	-	-	-	350,000
Gas Tax fund	150,000	-	-	-	-	150,000
Transportation Development	-	-	26,870	-	-	26,870
Measure I Senior Transit	-	-	-	-	11,555	11,555
Business-type Activities:						
NPUA	685,300	772,761	-	-	-	1,458,061
Sanitation fund	<u>123,121</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>123,121</u>
	<u>\$ 1,388,113</u>	<u>772,761</u>	<u>210,233</u>	<u>147,000</u>	<u>11,555</u>	<u>2,529,662</u>

NOTE 11 – DEFINED BENEFIT PENSION PLAN

Plan Description

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

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities

within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance.

NOTE 11 – DEFINED BENEFIT PENSION PLAN, continued

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

Funding policy: Participants are required to contribute 7% of their annual covered salary. The City makes required contribution for City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate: The rate for the fiscal years ended June 30, 2011 and 2010 was 1.928% and 1.472%, respectively, for non-safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost: For 2011, the City’s annual pension cost of \$195,697 for CalPERS was equal to 100% of the City’s required contributions. The required contribution was determined as part of the June 30, 2008 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary from 3.25% to 14.45% depending on age, service, and type of employment, and (c) inflation of 3%, and (d) payroll growth of 3.25%.

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

TREND INFORMATION FOR PERS (\$ in Thousands)

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2010	\$	100%	-0-
June 30, 2009	215	100%	-0-
June 30, 2008	196	100%	-0-
June 30, 2007	204	100%	-0-

REQUIRED SUPPLEMENTARY INFORMATION (\$ in Thousands)

	(A) Entry Age Actuarial Valuation <u>Date</u>	(B) Actuarial Value of <u>Assets</u>	[(A)-(B)] Unfunded Liability (Excess <u>Assets</u>)	[(B)/(A)] Funded <u>Status</u>	(C) Annual Covered <u>Payroll</u>	[(A)-(B)]/(C) Unfunded Actuarial Liability as a <u>% of Payroll</u>
June 30, 2003	\$ 2,596,967	\$ 2,372,879	\$ 224,088	91.4%	\$ 725,020	30.9%
June 30, 2004	2,746,096	2,460,945	285,151	89.6%	743,692	38.3%
June 30, 2005	2,891,461	2,588,713	302,748	89.5%	755,047	40.1%
June 30, 2006	2,754,397	2,492,226	262,170	90.5%	699,898	37.5%
June 30, 2007	2,611,747	2,391,434	220,312	91.6%	665,523	33.1%

June 30, 2008	2,780,281	2,547,323	232,957	91.6%	688,607	33.8%
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The June 30, 2008 actuarial valuation did not include the above information in detail solely for the miscellaneous plan for the City.

NOTE 12 – POST-RETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the City provides certain health care benefits for retired employees. Classified employees retiring after 20 or more years of service and after having reached age 58 or older are provided medical insurance coverage until the retiree becomes eligible for Medicare. Unclassified employees retiring at age 55 or later with 20 or more years of service are paid \$300 per month for medical insurance coverage until the retiree becomes eligible for Medicare. No retirees received post-retirement health care benefits during the fiscal year ended June 30, 2011.

NOTE 13 – RELATED PARTY TRANSACTIONS

The City acts as the manager and operator of the Needles Public Utility Authority's (NPUA) water, sewer and electrical enterprises under a management agreement. The management agreement is extended for one year on July 1st of each year, unless either party notifies the other that it does not intend to extend the term of the agreement. The City receives a management fee equal to its actual costs and direct overhead incurred in connection with the management and operation of NPUA's enterprises. The management fee for the fiscal year ended June 30, 2011 totaled \$5,775,424.

The City also collects an annual franchise fee from NPUA in exchange for rights of access to real property owned by the City and necessary for NPUA to operate the enterprises. The amount of the franchise fee is determined by the City and is subordinate to NPUA's debt service. The franchise fee for the fiscal year ended June 30, 2011 totaled \$498,812.

NOTE 14 – EVALUATION OF SUBSEQUENT EVENTS

City Management has evaluated subsequent events through December 15, 2011, the date which the financial statements were available to be issued. There were no such events requiring accrual or disclosure in the accompanying financial statements.

SUPPLEMENTAL INFORMATION

CITY OF NEEDLES, CALIFORNIA
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	GENERAL FUND				PUBLIC FINANCING AUTHORITY			
			Actual	Variance			Actual	Variance
			Amounts	with			Amounts	with
	Budgeted Amounts		Budgetary	Final Budget	Budgeted Amounts		Budgetary	Final Budget
	Original	Final	Basis	Favorable	Original	Final	Basis	Favorable
			(Note A)	(Unfavorable)			(Note A)	(Unfavorable)
Budgetary fund balance July 1, 2010	\$ 3,232,120	3,232,120	3,232,120	-	2,962,316	2,962,316	2,962,316	-
Resources (inflows):								
Taxes	2,150,000	2,175,000	1,664,384	(510,616)	-	-	-	-
Licenses, permits and fees	1,158,500	1,162,100	1,454,468	292,368	-	-	-	-
Intergovernmental	10,480	10,480	-	(10,480)	-	-	-	-
Charges for services	175,200	174,200	198,545	24,345	-	-	-	-
Fines and forfeitures	42,000	42,000	35,251	(6,749)	-	-	-	-
Use of money and property	34,780	34,780	28,812	(5,968)	-	-	214,834	214,834
Transfers from other funds	1,036,500	1,036,500	1,388,113	351,613	-	-	-	-
Other revenues	128,350	127,600	223,865	96,265	-	-	-	-
Amounts available for appropriation	7,967,930	7,994,780	8,225,558	230,778	2,962,316	2,962,316	3,177,150	214,834
Charges to appropriations (outflows):								
General government:								
City council and mayor	5,700	3,700	-	3,700	-	-	-	-
City attorney	110,000	110,000	97,024	12,976	-	-	-	-
City manager	128,950	126,950	118,604	8,346	-	-	-	-
Finance and administration	215,209	215,209	197,173	18,036	-	-	-	-
City clerk	111,343	106,848	99,546	7,302	-	-	-	-
Planning and zoning	84,448	84,448	66,244	18,204	-	-	-	-
Engineer	110,611	110,695	102,023	8,672	-	-	-	-
Community development	14,500	169,231	149,364	19,867	-	-	-	-
Senior center	49,736	49,736	44,132	5,604	-	-	-	-
Parks and recreation:								
Aquatics	119,961	125,281	102,284	22,997	-	-	-	-
Parks	223,819	220,069	270,964	(50,895)	-	-	-	-
Recreation	198,754	206,689	217,679	(10,990)	-	-	-	-
Public safety:								
Police	1,843,358	1,832,408	1,826,336	6,072	-	-	-	-
Fire	672,022	789,022	684,415	104,607	-	-	-	-
Animal control	164,647	164,647	150,647	14,000	-	-	-	-
Code enforcement	81,123	80,932	77,562	3,370	-	-	-	-
Building and safety	74,740	74,090	66,622	7,468	-	-	-	-
Public works:								
Streets	475,794	475,802	666,266	(190,464)	-	-	-	-
Sanitation	181,975	180,825	5,998	174,827	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Principal payments	-	-	-	-	-	-	50,043	(50,043)
Interest and fiscal charges	-	-	-	-	-	-	214,728	(214,728)
Nondepartmental:								
Savings through furlough of front office staff	(34,000)	(68,000)	-	(68,000)	-	-	-	-
Transfers to other funds	192,947	192,947	187,983	4,964	-	-	-	-
Total charges to appropriations	5,025,637	5,251,529	5,130,866	120,663	-	-	264,771	(264,771)
Budgetary fund balance June 30, 2011	\$ 2,942,293	2,743,251	3,094,692	351,441	2,962,316	2,962,316	2,912,379	(49,937)

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, 2011

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

	<u>General Fund</u>
Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 8,225,558
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	(3,232,120)
Transfers in are budgetary resources but are reported as an "Other financing source" and not as a current-year revenue	<u>(1,388,113)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 3,605,325</u>
Charges to appropriations	
Actual amounts (budgetary basis) from the budgetary comparison schedule	\$ 5,130,866
Transfers out are a budgetary charge to appropriations but are reported as an "Other financing use" and not as a current-year expense	<u>(187,983)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 4,942,883</u>

Michael P. Burger
Certified Public Accountant

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**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 Members of the City Council
City of Needles, California

I have audited 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, 2011, which collectively comprise the City of Needles, California's basic financial statements and have issued my report thereon dated December 15, 2011. The report on the business-type activities of the City of Needles, California was qualified because the Hospital Enterprise Fund could not be included as of and for the year ended June 30, 2011. Except as discussed in the preceding sentence, 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Needles, California's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Needles, California's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Needles, California's internal control over financial reporting.

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.

My consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Needles, California's financial statements are free of 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*.

This report is intended solely for the information and use of management, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Michael P. Burger, CPA

Needles, California
December 15, 2011



CITY OF NEEDLES

FY 2012 / 2013

PROPOSED BUDGET

Adopted: JUNE 26, 2012

This is a Summarized FY 2012 / 2013 City Budget.
To see entire binder it is available at City Hall or the County Library.

CITY OF NEEDLES: SUMMARY ALL FUNDS					
	FY 2012/2013	Proposed Budget		FY 2012/2013	
	Fund			Proposed	Page
	Number	Fund Description		Budget	Number
General Government	101	General Fund		\$ 5,628,311	1-37
	206	Cemetery		\$ 65,646	38
Special Funds		Summary of Special Funds			40
	205	CDBG		\$ 49,163	41
	209	Narcotic Forfeiture		\$ 17,760	43
	210	Special Gas Tax		\$ 100,000	45
	212	Air Quality		\$ 11,250	47
	214	SanBag New Local		\$ 300,000	49
	215	Measure I - Old Arterial Fund		\$ 100,000	51
	219	SanBag Pedestrian/Bus stop grant		\$ 132,000	53
	220	Police Technology Grant		\$ 10,600	55
	225	COPS Supplemental		\$ 75,200	57
	230	TDA		\$ 70,000	59
	233	Boating & Waterways		\$ 5,000	61
	235	Interstate Comm/I40 J Street		\$ 829,000	63
	239	Calif. Recycling Grant		\$ 10,550	65
	240	Federal Hwy Adm. El Garces Grant		\$ 2,000,000	67
Enterprise	505	Sanitation		\$ 1,123,050	69
	507	Golf Fund		\$ 865,730	72
Internal Service Funds		Summary of Internal Funds			77
	508	Utility Business Office		\$ 252,959	78
	509	Mangement Information Systems (MIS)		\$ 116,400	80
	510	Central Purchasing		\$ 139,893	82
	511	Fleet Maintenance		\$ 218,850	85
	512	Vehicle Replacement Fund		\$ 27,086	89
Transit Funds	520 & 521	Dial A Ride & Dial A Ride Medical Trans			90
	525	NAT		\$ 399,942	
RDA		Successor Agency to the RDA (SARDA)			91
NPUA	See Summary	Needles Public Utility Authority		\$ 10,803,600	92
	Grand Total	TOTAL ALL FUNDS		\$ 23,351,990	
Personnel	All Funds	Personnel Summaries			Page 108-133

CITY OF NEEDLES					
General Fund Summary : Proposed Budget					
FY 2012/2013					
	FY 2011/2012	FY 2012/2013	Percent	Comments	
	Adopted	Proposed	Change		
General Fund Revenues	Revised Budget	Budget			
General Government	\$ 5,114,050	\$ 4,954,300	-3.1%	Removal RDA pmts	
Special payment from NPUA (additional purchase payment)					
Aquatics	\$ 12,530	\$ 12,030			
Recreation	\$ 183,050	\$ 189,500			
Total General Fund Revenues	\$ 5,309,630	\$ 5,155,830			
From Reserves	\$ (38,738)	\$ 472,481			
	\$ 5,270,892	\$ 5,628,311			
General Fund Expenditures					
City Council & Mayor	\$ 5,000	\$ -	-100.0%	Combined with City Clerk	
City Attorney	\$ 85,000	\$ 75,000	-11.8%		
City Manager	\$ 95,217	\$ 79,871	-16.1%		
Finance	\$ 206,059	\$ 218,208	5.9%	20% of new position	
City Clerk	\$ 101,873	\$ 111,986	9.9%	Includes Council Dept	
Planning/Zoning	\$ 58,962	\$ 46,623	-20.9%		
Engineering	\$ 107,681	\$ 108,627	0.9%		
Community Promotions	\$ 189,815	\$ 239,700	26.3%	Basha's increased subsidy	
Senior Center	\$ 44,741	\$ 43,673	-2.4%		
Police	\$ 1,827,624	\$ 1,914,415	4.7%	Not yet final	
Fire	\$ 617,285	\$ 669,150	8.4%	Final contract higher	
Animal Shelter/Control	\$ 172,927	\$ 190,722	10.3%	Personnel Issue	
Building & Safety	\$ 73,806	\$ 72,089	-2.3%		
Code Enforcement	\$ 107,890	\$ 108,830	0.9%		
Public Works	\$ 725,989	\$ 751,025	3.4%	Add'l road work	
Sanitation	\$ 128,603	\$ 130,714	1.6%		
Aquatics	\$ 139,233	\$ 140,628	1.0%		
Parks/Bldgs/Grounds	\$ 250,791	\$ 267,208	6.5%	1 PT to FT (training rate)	
Recreation	\$ 226,296	\$ 238,091	5.2%	Rec Leader Increase hrs	
Transfer to Other Funds	\$ 106,100	\$ 221,751	109.0%	Includes golf losses	
Total Expenditures	\$ 5,270,892	\$ 5,628,311	6.8%		
Projected Cash Balance at:		REVENUE	Add back	Projected Cash Balance at:	
6/30/2012		LESS	Furlough savs	6/30/2013	
		EXPENDITURE			
Projected Cash (RDA repmts reversed out)	\$ 320,000	\$ (472,481)	\$ 60,000	\$ (92,481)	
Projected Cash Vehicle Replacement Fund	\$ 282,056			\$ 282,056	
TOTAL PROJECTED CASH				\$ 189,575	

Sanitation Expenditures					
Total Sanitation Expenditures		\$ 1,123,050		\$ 1,123,050	
				REVENUE	
		Projected Cash		LESS	Projected Cash
		6/30/2012		EXPENDITURE	6/30/2013
Sanitation Projected Cash Balance		\$ -		\$ -	\$ -
<i>Note: Franchise to General Fund</i>				\$ 120,000	
<i>Billing Service to General Fund</i>				\$ 120,000	
<i>Total</i>				\$ 240,000	
<i>General Fund Sanitation Expenses</i>					
<i>101.4730 Total Expenses</i>				\$ 130,714	

CITY OF NEEDLES					
Internal Service Funds : Summary					
FY 2012/2013					
Proposed Budget					
		FY 2011/2012	FY 2012/2013		
		Adopted	Proposed		
		Budget	Budget		
Utility Business Office		\$ 246,267	\$ 252,959		
Management Info. Systems		\$ 98,200	\$ 116,400		
Central Purchasing		\$ 129,195	\$ 139,893		
Fleet Maintenance		\$ 208,245	\$ 218,850		
Vehicle Replacement Fund					
General Fund & Sanitation		\$ -	\$ -		(Note: Discontinued Gen Fund Funding)
Water Fund		\$ 5,016	\$ 5,016		
Wastewater Fund		\$ 4,514	\$ 4,514		
Electric Fund		\$ 17,556	\$ 17,556		
Total Vehicle Replacement		\$ 27,086	\$ 27,086		.

		CITY OF NEEDLES		
		Transit Funds		
		Proposed Budget		
		FY 2012/2013		
		SUMMARY		
		FY 2011/2012	FY 2012/2013	
		Adopted	Proposed	
		Budget	Budget	
Dial-A-Ride				
Revenues		\$ 30,542	\$ 23,760	
Expenditures		\$ 30,542	\$ 23,760	
Needles Area Transit (NAT)				
Revenues		\$ 518,298	\$ 366,033	
Expenditures		\$ 518,298	\$ 366,033	
Dial-A-Ride Medical Transport				
Revenues		\$ 10,124	\$ 10,149	
Expenditures		\$ 10,124	\$ 10,149	

SUCCESSOR AGENCY TO THE NEEDLES REDEVELOPMENT AGENCY

PROPOSED BUDGET FY 2012/2013

The Redevelopment Agencies in the State of California were dissolved by court order by the State. We were allowed to become a Successor Agency to the RDA, and opted to do so. At the present time the budget consists of the Recognized Obligation Payment Schedule, which is currently being reviewed by The Department of Finance, State of California.

**NEEDLES PUBLIC UTILITY AUTHORITY
FY 2012/2013
PROPOSED BUDGET**

NEEDLES PUBLIC UTILITY AUTHORITY			
SUMMARY : PROPOSED BUDGET			
	FY 2012/2013		
	FY 2011/2012	FY 2012/2013	
	Adopted	Proposed	
Utility Revenues	Budget	Budget	
Water Revenues	\$ 1,467,700	\$ 1,515,000	
Wastewater	\$ 1,297,000	\$ 1,334,300	
Electric	\$ 6,844,100	\$ 7,472,300	
Interest	\$ 10,000	\$ 10,000	
Lower Colorado River Project	\$ 408,200	\$ 472,000	
Total Utility Revenues	\$ 10,027,000	\$ 10,803,600	
Budgeted Reserves to be used	\$ -	\$ -	
Total Utility Revenues	\$ 10,027,000	\$ 10,803,600	
Utility Expenditures			
Franchise Fees	\$ 750,000	\$ 800,000	
Bond Payments	\$ 1,735,400	\$ 1,735,400	
Purchase Payment	\$ 685,300	\$ 685,300	
Bank Charges	\$ 20,000	\$ 20,000	
Demand Side Management	\$ 22,000	\$ 22,000	
Water	\$ 1,222,386	\$ 1,581,122	
Waste Water	\$ 908,196	\$ 1,053,752	
Electric	\$ 4,575,378	\$ 4,647,923	
Transfer to Electric Asset Replacemt Fund	\$ 564,000	\$ 564,000	
Transfer to Water Asset Replacemt Fund	\$ -	\$ 62,400	
Transfer to WasteWat Asset Replacemt Fund	\$ -	\$ 57,600	
Lower Colorado Water Supply Project	\$ 440,951	\$ 460,305	
Total NPUA	\$ 10,923,611	\$ 11,689,802	
Net of Revenue & Expense	\$ (896,611)	\$ (886,202)	
	\$ 10,027,000	\$ 10,803,600	
	Actual Cash	NET	Projected Cash
	6/30/2012	CHANGE	06/30/13
Util Projected Cash Balance			
Projected Cash	\$ 1,700,000	\$ (886,202)	\$ 813,798
Electric Asset Replacement Fund	\$ 2,074,500	\$ 564,000	\$ 2,638,500
Water Asset Replacement Fund	\$ 25,000	\$ 62,400	\$ 87,400
Waste Water Asset Replacement Fund	\$ 22,000	\$ 57,600	\$ 79,600
Vehicle Replacement Fund	\$ 217,302	\$ 27,086	\$ 244,388

CITY OF NEEDLES SALARY DISTRIBUTION BY PROGRAMS

2012/2013 BUDGET

PROGRAM NAME	TITLE	4750 EL	4710 WA	4720 WW	505 Sanit	LCR W	508 CS	511 FM	1020 CM	1025 FN	1030 CC	1035 PL	1040 EN	1070 SC	2020 AS	2025 BS	2030 CE	3010 PW	5770 AQ	5772 PK	5774 RC	5771 CT	5761 GM	5762 GP	4740 ST	Total	
City Manager	City Manager	20%	20%	10%	20%	25%			5%																	100%	
City Manager	City Mgr Secretary	10%	10%	10%					60%													10%				100%	
Senior Center	Bus Driver																								100%	100%	
Senior Center	Bus Driver																								100%	100%	
Senior Center	Senior Center Aide													100%												100%	
City Clerk	City Clerk										100%															100%	
Finance	Director of Finance	25%	15%	15%			10%			35%																100%	
Finance	Utility General Accountant	35%	25%	20%						20%																100%	
Finance	Human Resource Spec	15%	15%	15%						55%																100%	
Finance	Account Clerk III	15%	15%	15%						55%																100%	
Business Office	BO/MIS Manager						100%																			100%	
Business Office	Cust. Service Rep II						100%																			100%	
Business Office	Cust. Service Rep I						100%																			100%	
Planning	Com Dev Dept Asst	20%	15%	15%								25%						25%								100%	
Engineering	Engineering Tech II	25%	25%	25%									25%													100%	
Bldg & Safety	BldgOfficial/SrCE Officer																	50%	50%							100%	
Bldg & Safety	Code Enforcement Officer																	100%								100%	
Bldg & Safety	Bldg&Safety/UtilityDeptAsst	10%	10%	10%									35%					35%								100%	
Public Works	Public Works Director							35%											65%							100%	
Public Works	Equipment Operator IV				20%															80%						100%	
Public Works	Equipment Operator I																			100%						100%	
Public Works	MCW II																			100%						100%	
Public Works	MCW I																			100%						100%	
Fleet Maint	Service Technician							100%																		100%	
Animal Shelter	Sr. Animal Control Officer														100%											100%	
Animal Shelter	Animal Control Officer														100%											100%	
Animal Shelter	Animal Control Asst														100%											100%	
Electric	Line Crew Supervisor	100%																								100%	
Electric	Powerline Tech	100%																								100%	
Electric	Powerline Tech	100%																								100%	
Electric	Powerline Tech	100%																								100%	
Electric	Groundman	100%																								100%	
Electric	Materials Crd/Scvsman	85%	15%																							100%	
Electric	Service Planner	100%																								100%	
Wastewater	Chief Plant Operator			100%																						100%	
Wastewater	Tech II			100%																						100%	
Wastewater	Tech I			100%																						100%	
Water	Chief Water Plant Op		100%																							100%	
Water	Water Foreperson		100%																							100%	
Water	Associate Water Op		100%																							100%	
Water	Associate Water Op		100%																							100%	
Water	Associate Water Op		100%																							100%	
Golf Pro Shop	Golf Pro																							100%		100%	
Golf Pro Shop	Pro Shop Attendent																								100%	100%	
Golf Pro Shop	Pro Shop Attendent II																								100%	100%	
Golf Pro Shop	MCW I																								100%	100%	
Fac&Grounds	Grounds Supervisor																			50%				50%			100%
Golf Maint	Golf Mechanic																							100%		100%	
Golf Maint	MCW I																							100%		100%	
Golf Maint	MCW I																							100%		100%	
Golf Maint	MCW I																							100%		100%	
Golf Maint	MCW I																							100%		100%	
Golf Maint	MCW I																							100%		100%	
Fac/Park/Cemet	MCW I																				100%					100%	
Fac/Park/Cemet	MCW I																				80%		20%			100%	

CITY OF NEEDLES SALARY DISTRIBUTION BY PROGRAMS

2012/2013 BUDGET

PROGRAM NAME	TITLE	4750 EL	4710 WA	4720 WW	505 Sanit	LCR W	508 CS	511 FM	1020 CM	1025 FN	1030 CC	1035 PL	1040 EN	1070 SC	2020 AS	2025 BS	2030 CE	3010 PW	5770 AQ	5772 PK	5774 RC	5771 CT	5761 GM	5762 GP	4740 ST	Total	
Fac/Park/Cemet	MCW I																				80%		20%				100%
Fac/Park/Cemet	MCW -in-training																					100%					100%
Aquatic	Pool Tech																			100%							100%
Aquatic	Lifeguard Shift Leader																			100%							100%
Aquatic	Lifeguard Shift Leader																			100%							100%
Aquatic	Lifeguard Shift Leader																			100%							100%
Aquatic	Lifeguard III																			100%							100%
Aquatic	Lifeguard III																			100%							100%
Aquatic	Lifeguard III																			100%							100%
Aquatic	Lifeguard III																			100%							100%
Aquatic	Lifeguard II																			100%							100%
Aquatic	Lifeguard II																			100%							100%
Aquatic	Lifeguard II																			100%							100%
Aquatic	Lifeguard II																			100%							100%
Recreation	Service Manager																					100%					100%
Recreation	Recreation Leader																					100%					100%
Recreation	Recreation Aide II																					100%					100%
Recreation	Recreation Aide I																					100%					100%
Recreation	Recreation Aide I																					100%					100%
Recreation	Recreation Aide I																					100%					100%
Recreation	Recreation Aide																					100%					100%
Recreation	JSP Attendant																					100%					100%
Recreation	JSP Attendant																					100%					100%
Recreation	JSP Attendant																					100%					100%

Audited Financial Statements

Colorado River Medical Center

June 30, 2012

**TCA Partners, LLP
Certified Public Accountants**

COLORADO RIVER MEDICAL CENTER

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TCA Partners, LLP

A Certified Public Accountancy Limited Liability Partnership

1111 E. Herndon Avenue, Suite 211, Fresno, CA 93720

Phone (559) 431-7708 Fax (559) 431-7685

Report of Independent Auditors

The Board of Trustees
Colorado River Medical Center
Needles, California

We have audited the accompanying balance sheets of Colorado River Medical Center (the "Medical Center"), an enterprise fund of the city of Needles, California as of June 30, 2012 and 2011, and the related statements of operations and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform audits of the Medical Center's internal controls over financial reporting. Our audits included consideration of internal controls over financial reporting as a basis of designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal controls over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Colorado River Medical Center, an enterprise fund of the city of Needles, California as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying financial statements have been prepared assuming the Medical Center will continue as a going concern. As discussed in Note 1 to the financial statements, the Medical Center has incurred recurring losses from operations and has a net deficit of (\$81,977) at June 30, 2012. These conditions raise substantial doubt about its ability to continue as a going concern. Management plan's regarding these matters are also described in Management's Discussion and Analysis. These financial statements do not include any adjustments that might result from outcome of this uncertainty.

TCA Partners, LLP

August 21, 2012

COLORADO RIVER MEDICAL CENTER

Management Discussion and Analysis

June 30, 2012

The management of Colorado River Medical Center (the “Medical Center”) has prepared this annual discussion and analysis in order to provide an overview of the Medical Center’s financial performance for the year ended June 30, 2012 in accordance with the Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. The intent of this discussion and analysis is to provide additional information on the Medical Center’s historical financial performance as a whole in addition to providing a prospective look at revenue growth, operating expenses, capital development plans and economic conditions, and the competitive environment in which the Medical Center operates. Readers should also review the audited financial statements for the year ended June 30, 2012 and accompanying notes to the financial statements to enhance their understanding of the Medical Center’s financial performance. The audited financial statements have received an unqualified opinion from the Medical Center’s independent auditor.

Financial Highlights

Highlights from the financial statements for fiscal year 2012:

- Cash on hand as of June 30, 2012 was \$463,636; approximately 21 days cash on hand and a decrease of 56 percent from FY 2011.
- Current assets total \$1,540,614; current liabilities total \$2,210,704 yielding a current ratio of .70. The current ratio for FY 2011 was 1.05.
- Total capital assets net of accumulated depreciation was \$989,264; down from FY 2011 net capital assets of \$1,624,966.
- Net deficit was \$(81,977); a decrease from \$1,197,348 in FY 2011.
- Net patient revenues were \$7,643,057. Net patient revenues were consistent and slightly higher than FY 2011 levels.
- Total operating revenue was \$7,678,240.

Principal Events of FY 2012

Following are some of the critical events that characterized the fiscal year.

Financial operations – The financial and information systems continue to mature. With a completed audit, the accounting system can now be fully utilized to create ongoing and regular financial reports as well as operating statistical reports for management.

Referendum Measure Q – Since the passage of Measure Q, the City of Needles has issued a Request for Proposal (“RFP”) to entertain interested not-for-profit hospital operators to purchase the Medical Center. The City has contracted and received a valuation report detailing a range of value for the Medical Center. This valuation report can be used in the negotiations with any interested party to purchase the Medical Center’s assets and operations. The principal buying group that showed interest during fiscal year 2012 has not proceeded with their intent on purchasing the Medical Center.

COLORADO RIVER MEDICAL CENTER

Management Discussion and Analysis

June 30, 2012

Overview of Colorado River Medical Center Financial Statements

The annual report consists of the financial statements and notes to those statements, which reflect the Medical Center's financial position and results of its operations for the fiscal year ended June 30, 2012. The financial statements of the Medical Center include:

- The **Balance Sheet** reporting all of the Medical Center's assets and liabilities, using the accrual basis of accounting, as well as an indication of the assets utilized to fund future capital asset expenditures designated as a matter of Board of Trustee's policy.
- The **Statement of Revenues, Expenses, and Changes in Net Assets** presenting the results of operations during the fiscal year and the resulting excess of revenues over expenses and the resulting changes to Net Assets.
- The **Statement of Cash Flows** reports the net cash provided or used by operating activities, investing activities, as well as non-capital and capital-related financing activities.

Balance Sheet

Net patient accounts have experienced a slight increase and still remain a significant current asset at \$537,694; or approximately 50 days outstanding. These receivables are a significant part of an overall revenue cycle which includes the processes used to register patients for services, accurately recording all charges incurred during the patient service, and timely billing and collecting. The Medical Center's billing remains in the hands of a third party collection agency, HRG. Due to geographical proximity to another state, managing the process is complex and requires specific skill sets not readily available in the area. The third party outsourced billing firm, HRG manages a portion of the revenue cycle and provides input to the Medical Center staff to improve processes and overall success within the revenue cycle.

The Medical Center has also used the staff and services of the City to supplement certain financial and management functions – particularly in 2008 and 2009. Discussions with the City continue as to payment for these services.

The Medical Center does not carry long-term interest bearing debt (e.g., issued bonds) other than the aforementioned cost report settlements.

CRMC has updated its liability amount for CalPers due to employees to \$749,658 for the period of April 1, 2008 through November 29, 2009 and includes this amount in current liabilities (line Accrued payroll and related liabilities). Since November 29, 2009, the Medical Center has enrolled employees, made withholdings from employee wages and deposited the appropriate amounts with CalPERS. This liability remains a point of discussion between City of Needles and CRMC.

COLORADO RIVER MEDICAL CENTER

Management Discussion and Analysis

June 30, 2012

During its transition time from LifePoint, CRMC did not fund employer contributions for a significant period of time (April 1, 2008 through November 29, 2009). There were 46 hospital employees who were not included in the plan. These employees have now shown up in the CalPERS valuation data. The deficiency in the plan assets due to their not being funded for prior to December 2009 is being reflected as an experience loss to the plan and is being made up with additional contributions by the City in future years. Essentially, the City is paying this liability through the City retirement accounts which are City Reserves.

At some time in the future, if the reserve account is ever exhausted then that liability will come due or if the hospital is sold, The City of Needles could arguably ask for that money from the sale proceeds. Due to the complexity of the issue and conservative approach, a liability account was set up on the hospital balance sheet to account for “underfunded” portion of retirement plan and is a part of current liabilities (line Accrued payroll and related Liabilities).

Statement of Revenues, Expenses, and Change in Net Assets

Inpatient volumes continue to decline in fiscal year 2012 as is observed in the entire healthcare industry. CRMC initiated observation status in October 2011 and kept steadily one Full Time Equivalent (“FTE”) monitoring observation patient status and reviewing this status with physician staff. The facility also entered into an agreement with a local hospice home to provide care for their patients on per diem basis reimbursement.

Expenses did not fluctuate significantly in fiscal year 2012. The biggest expense categories continued to be salaries, wages and benefits as well as professional services. CRMC added a few positions throughout the year (CEO, additional biller, RN’s) and aligned some departments to agree with industry standards as well as serve operating needs.

Medicare and Medi-Cal Reporting

A significant portion of patient revenues are generated through CMS governed payers including Medicare, Medi-Cal (for California public aid patients) and Arizona Access (a managed care plan for Arizona public aid recipients). The Medical Center enjoys a special status within CMS known as a Critical Access Hospital (“CAH”) that reimburses the Medical Center at cost plus a nominal markup (one percent). As a requirement to maintain this method of reimbursement, the Medical Center is obligated to report on an annual basis costs for patient care in the Medicare and Medi-Cal Cost Reports. It is within the authority of CMS and its designees to disallow certain expenses if CMS, by its rules and regulations, does not deem the expense as related to patient care.

COLORADO RIVER MEDICAL CENTER

Management Discussion and Analysis

June 30, 2012

Statement of Cash Flows

For the year ending June 30, 2012, the Medical Center generated a negative cash flow of (\$609,502). This includes a negative cash flow from operations of (\$505,026). Total Days Cash on Hand at June 30, 2012 was 21 days of operating expenses. While not an uncommon condition especially for smaller healthcare facilities, it remains a serious issue for the Medical Center when faced with unabated equipment, facility and, physician recruitment needs and potential operating cash flow deficits brought about by curtailed or terminating government funding programs.

Outlook

Government Subsidies and Support

The Medical Center is the benefactor of several government supported programs. Each of these programs have their own set of rules as to how and when they are funded and certain requirements of the Medical Center to receive the funding. The AB915 program (Supplemental Outpatient Reimbursement) requires that the Medical Center maintain its municipal entity status.

The Medical Center received a Supplemental Outpatient Reimbursement (part of the AB915 program) for FY 2012 in the amount of \$635,493. The Outpatient Reimbursement helped the Medical Center's cash flow tremendously.

Due to the potential sale of the Medical Center from the City (a public entity), to another not-for-profit hospital owner/operator, and depending on how that sale and ownership transfer is structured, the Medical Center may experience changes to some of its government/public sourced cash flows. It is possible that some of these changes may include termination to suspension or reduction in funding from these government and publicly funded programs.

Economic and Market Factors

As discussed in Note 9 to the financial statements, the Medical Center has incurred recurring losses from operations and has a net deficit of (\$81,977) at June 30, 2012. These conditions raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Competition remains a growing concern for the Medical Center. Competition will be a factor in both services performed at the Medical Center, as well as in physician offices, as other hospitals compete for the loyalty of physicians to refer patients to their facilities. One way the Medical Center can accomplish this is through the use of its status as a Critical Access Hospital ("CAH"). Bringing in Primary Care physicians to the community will offer an opportunity for the Medical Center to potentially draw some patients from additional Primary Care resources in the market. The only real opportunity for growth and further re-development of the Medical Center is through the recruitment of Primary Care Physicians into the community. Recognizing that there is not a single Primary Care practitioner in the City of Needles and there are basically two other specialty physicians available, Gastroenterology and General Surgery, it is essential to attempt this necessary recruitment. The out-migration of Primary Care impacts not only these specialists, but the Emergency Room, Outpatient Service areas, and the Inpatient Hospital service.

COLORADO RIVER MEDICAL CENTER

Management Discussion and Analysis

June 30, 2012

Community focus has always been a significant issue for the Medical Center and without it; the organization would not have survived. The Medical Center is the largest employer in the City and is the focus of attention and a desire to be seen as a successful venture in the community.

California hospitals are faced with a unique and significant facilities issue – seismic retro fitting. This issue is a state law (Senate Bill 1953 among others including amendments) requiring improvements to facilities in order to meet stricter earthquake survivability safety requirements. Initial estimates may require an investment of up to \$1.5 million. These upgrades will need to be in place by 2013. The hospital is working to be in complete compliance with SB 1953 by the end of 2012.

The California Department of Health Services regularly conducts surveys of facilities, their operations and compliance to specific rules and regulations. The Medical Center was subject to a licensing survey in February 2010. All of the issues identified during that survey have been corrected. It is expected that in the near future, another survey will be conducted. Management and staff continue to work to ensure all rules and regulations are adhered to. However, any findings from these surveys and audits will need to be addressed promptly to continue operations. Because of the issues faced by the departure of Lifepoint Health in 2008 and the significant lack of oversight by management, the licensing issues are critical for the future CRMC. The hiring of competent management staff and training of existing managers is ongoing.

Colorado River Medical Center

Balance Sheets

	June 30	
Assets:	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 463,636	\$ 1,073,138
Patient accounts receivable, net	537,694	536,367
Other accounts receivable	-	8,549
Due from third-party payors	360,000	528,000
Supplies	121,521	129,966
Prepaid expenses	57,763	1,122
Total current assets	1,540,614	2,277,142
Capital assets, net	989,265	1,624,966
Total assets	\$ 2,529,879	\$ 3,902,108
 Liabilities and net assets:		
Current liabilities:		
Accounts payable and other accrued expenses	\$ 828,841	\$ 758,475
Accrued payroll and related liabilities	932,486	952,523
Due to third-party payors, current portion	449,377	449,194
Total current liabilities	2,210,704	2,160,192
Due to third-party payors, net of current	285,098	428,514
Other long-term liabilities	116,054	116,054
Total liabilities	2,611,856	2,704,760
 Net assets:		
Invested in capital assets	989,265	1,624,966
Unrestricted net deficit	(1,071,242)	(427,618)
Total net assets (deficit)	(81,977)	1,197,348
Total liabilities and net assets	\$ 2,529,879	\$ 3,902,108

Colorado River Medical Center

Statements of Revenue, Expense, and Change in Net Assets

	Year ended June 30,	
	<u>2012</u>	<u>2011</u>
Operating revenues:		
Net patient service revenue	\$ 7,643,057	\$ 7,554,116
Other operating revenue	35,183	42,751
Total operating revenue	<u>7,678,240</u>	<u>7,596,867</u>
Operating expenses:		
Salaries, wages and employee benefits	4,690,865	4,472,273
Professional and other fees	388,394	425,062
Supplies	628,922	667,153
Purchased services	1,688,395	1,622,601
Utilities	308,280	272,266
Insurance	182,807	211,403
Rents and leases	228,915	147,170
Depreciation and amortization	690,087	919,269
Other	100,810	94,056
Total operating expenses	<u>8,907,475</u>	<u>8,831,253</u>
Operating loss	<u>(1,229,235)</u>	<u>(1,234,386)</u>
Non-operating revenues (expenses)		
Interest expense	<u>(50,090)</u>	<u>(31,280)</u>
Total non-operating expenses	<u>(50,090)</u>	<u>(31,280)</u>
Excess of expenses over revenues	(1,279,325)	(1,265,666)
Net assets at beginning of the year	<u>1,197,348</u>	<u>2,463,014</u>
Net assets at end of the year	<u>\$ (81,977)</u>	<u>\$ 1,197,348</u>

Colorado River Medical Center

Statements of Cash Flows

	Year ended June 30,	
	2012	2011
Cash flows from operating activities:		
Cash received from patients	\$ 7,710,300	\$ 7,754,882
Cash payments for operations	(4,181,109)	(3,426,267)
Cash payments to employees	(4,034,217)	(4,351,784)
Net cash used in operating activities	(505,026)	(23,169)
Cash flows from capital and related financing activities:		
Additions to capital assets, net	(54,386)	(21,411)
Interest payments	(50,090)	(31,280)
Net cash used in capital and related financing activities	(104,476)	(52,691)
Net decrease in cash and cash equivalents	(609,502)	(75,860)
Cash and cash equivalents, beginning of year	1,073,138	1,148,998
Cash and cash equivalents, end of year	\$ 463,636	\$ 1,073,138
Supplemental disclosures:		
Cash paid for interest	\$ 50,090	\$ 31,280

See accompanying notes to the financial statements

Colorado River Medical Center
Statements of Cash Flows (continued)

	Year ended June 30,	
	<u>2012</u>	<u>2011</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Loss from operations	\$ (1,229,235)	\$ (1,265,666)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation and amortization	690,087	919,269
Changes in operating assets and liabilities:		
Accounts receivable	(1,327)	197,617
Supplies	8,445	3,593
Other accounts receivable	8,549	(8,549)
Prepaid expenses	(56,641)	132,588
Accounts payable	70,295	(122,956)
Accrued payroll	(20,037)	151,769
Due to third-party payors	24,838	(30,834)
Net cash used in operating activities	<u>\$ (505,026)</u>	<u>\$ (23,169)</u>

See accompanying notes to the financial statements

COLORADO RIVER MEDICAL CENTER

Notes to Financial Statements

June 30, 2012

1. Organization

Colorado River Medical Center (the “Medical Center”) is an enterprise fund of the city of Needles, California, for the purpose of providing health care services to the community and surrounding area. The Medical Center is a 25 bed acute care Medical Center, exempt from federal income taxes pursuant to Section 501(a) of the Internal Revenue Code and State franchise taxes.

Basis of Financial Statements Preparation

The accounting policies and financial statements of the Medical Center generally conform with the recommendations of the audit and accounting guide, *Health Care Organizations*, published by the American Institute of Certified Public Accountants. The financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operational revenues and expenses.

Based on GASB Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Medical Center has elected to apply the provisions of all relevant pronouncements as the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Effective July 1, 2002, the Medical Center adopted the provisions of GASB 34, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments* (Statement 34), as amended by GASB 37, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement 38, *Certain Financial Statement Note Disclosures*. Statement 34 established financial reporting standards for all state and local governments and related entities. The Medical Center has reported as part of the city of Needles until August 31, 2009. Statement 34 primarily relates to presentation and disclosure requirements. The impact of this change was related to the format of the financial statements; the inclusion of management’s discussion and analysis; and the preparation of the statement of cash flows on the direct method. The application of these accounting standards had no impact on the total net assets.

Effective June 30, 2012, the Medical Center adopted the provisions of FASB ASC 954-605-45-4. FASB ASC 954-605-45-4 established bad debt as a component of net patient service revenue. The Medical Center has elected to adopt early and is presenting in accordance with this guidance at June 30, 2012.

Cash and Cash Equivalents

The Medical Center considers all investments with an original maturity of three months or less when purchased to be cash equivalents.

COLORADO RIVER MEDICAL CENTER

Notes to Financial Statements

June 30, 2012

2. Summary of Significant Accounting Policies

Patient Accounts Receivable

Receivables from government agencies represent the only concentrated group of credit risk for the Medical Center. Management does not believe that there is any significant credit risk associated with these governmental agencies. Contracted and other receivables consist of receivables from various payors, including individuals involved in diverse activities, subject to differing economic conditions and do not represent concentrated credit risks to the Medical Center. Furthermore, management continually monitors and adjusts reserves and allowances associated with these receivables to assure they are appropriately stated.

Supplies

Supplies are stated at cost, determined by the first-in, first-out method, which is not in excess of market.

Charity Care and Un-sponsored Community Benefit

The Medical Center provides needed medical care to the community regardless of ability to pay. The evaluation of the necessity for medical treatment of any patient is based upon clinical judgment, irrespective of the financial status of the patient. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not included in net patient service revenue.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Absences

The Medical Center's employees earn vacation benefits at varying rates depending on years of service. Employees also earn sick leave benefits based on varying rates depending on years of service. Both benefits can accumulate up to specified maximum levels. Employees are not paid for accumulated sick leave benefits upon termination or retirement. However, accumulated vacation benefits are paid to an employee upon either termination or retirement. Accrued vacation liabilities as of June 30, 2012 and 2011 were approximately \$107,950 and \$120,291.

COLORADO RIVER MEDICAL CENTER

Notes to Financial Statements

June 30, 2012

2. Summary of Significant Accounting Policies (continued)

Capital Assets

Property, plant, and equipment are recorded at cost at the date of acquisition or fair market value at the date of donation. Expenditures, which increase values, change capacities, or extend useful lives are capitalized. The costs of normal maintenance, repairs and minor replacements are charged to expense when incurred. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 5 to 30 years for buildings and improvements, and 3 to 20 years for equipment. The Medical Center periodically reviews its capital assets for value impairment. As of June 30, 2012 and 2011, the Medical Center has determined that no capital assets are impaired.

Net Assets

Net assets are presented as three categories. The first category is net assets “invested in capital assets, net of related debt”. This category of net assets consists of capital assets (both restricted and unrestricted), net of accumulated depreciation and reduced by the outstanding principal balances of any debt borrowings that were attributable to the acquisition, construction, or improvement of those capital assets.

The second category is “restricted” net assets. This category consists of externally designated constraints placed on those net assets by creditors (such as through debt covenants), grantors, contributors, law or regulations of other governments or government agencies, or law or constitutional provisions or enabling legislation.

The third category is “unrestricted” net assets. This category consists of net assets that do not meet the definition or criteria of the previous two categories.

Net Patient Service Revenues

Net patient service revenue is reported at estimated net realizable amounts from patients third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with federal and state government programs and other third-party payors. In some cases, reimbursement is based on formulas, which cannot be determined until after cost reports are filed and audited or otherwise settled by the various programs. Estimation differences between final settlements and amounts accrued in previous years are reflected in net patient service revenue.

COLORADO RIVER MEDICAL CENTER

Notes to Financial Statements

June 30, 2012

2. Summary of Significant Accounting Policies (continued)

Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters.

Operating Revenues and Expense

The Medical Center's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services, which is the Medical Center's principal activity. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs. Non-operating revenues and expenses are those transactions not considered directly linked to providing healthcare services.

Management's Discussion and Analysis:

Statement 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the Medical Center's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of organizations in the private sector.

3. Concentration of Credit Risk

The Medical Center grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the Medical Center and management does not believe that there are any credit risks associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to the Medical Center. Concentration of patient accounts receivable at June 30, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Medicare	\$ 1,416,016	\$ 626,454
Medi-Cal	1,266,213	1,362,876
Insurance, third-party payors and self pay	<u>2,045,112</u>	<u>2,339,288</u>
Gross patient accounts receivable	4,727,341	4,328,618
Less allowances for contractual adjustments and bad debts	<u>(4,189,646)</u>	<u>(3,792,250)</u>
Net patient accounts receivable	<u>\$ 537,694</u>	<u>\$ 536,367</u>

COLORADO RIVER MEDICAL CENTER

Notes to Financial Statements

June 30, 2012

4. Net Patient Service Revenues

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Payments for inpatient and outpatient services to Medicare patients are based on prospectively determined rates that vary accordingly to the patient diagnostic classification systems. The Medical Center submits an annual cost report with final settlement determined by the Medicare fiscal intermediary. At June 30, 2012, cost reports through June 30, 2010 have been audited or otherwise final settled.

Medi-Cal: Payments for inpatient services rendered to Medi-Cal and County Medical Services Program (CMSP) patients are made based on reasonable costs while outpatient payments are based on pre-determined fee schedules. The Medical Center is paid for cost-based inpatient services at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by the State of California. At June 30, 2012, cost reports through August 31, 2009, have been audited or otherwise final settled.

Other: Payments for services rendered to other than Medicare, Medi-Cal and CMSP patients are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations which provide for various discounts from established rates.

Net patient service revenues summarized by payor for the period ended June 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Medicare services	\$ 8,190,746	\$ 6,365,228
Medi-Cal services	6,703,904	6,890,820
Insurance, third-party payors and self-pay	7,034,311	6,330,197
Gross patient service revenues	<u>21,928,961</u>	<u>19,586,245</u>
Less contractual allowances	(10,306,430)	(10,300,434)
Less allowance for bad debts	(3,979,474)	(1,731,695)
Net patient service revenues	<u>\$ 7,643,057</u>	<u>\$ 7,554,116</u>

Medicare and Medi-Cal revenue accounts for approximately 68% of the Medical Center's gross patient revenues. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change as additional information is received.

COLORADO RIVER MEDICAL CENTER

Notes to Financial Statements

June 30, 2012

5. Capital Assets

Capital assets as of June 30, 2012 was comprised of the following:

	June 30, 2011	Additions	Transfers & Retirements	June 30, 2012
Land	\$ 500,000	\$ -	\$ -	\$ 500,000
Buildings and improvements	4,365,964	-		4,365,964
Equipment	2,247,530	3,982	-	2,251,512
Construction in process	26,143	50,402	-	76,545
Total at historical cost	7,139,637	\$ 54,384	\$ -	7,194,021
Total accumulated depreciation	(5,514,671)	\$ (690,086)	\$ -	(6,204,757)
Capital assets, net	\$ 1,624,966			\$ 989,265

6. Pension Plan

The Colorado River Medical Center Retirement Income Plan (the “Plan”), a single-employer defined benefit pension plan, is a separate trust fund of the City and is administered by the City of Needles. The Plan covers substantially all permanent full time employees. The Hospital contributed to the Plan approximately \$65,000 and \$40,000 in 2012 and 2011, respectively.

7. Medical Malpractice Insurance Coverage

The Medical Center purchases commercial malpractice liability insurance on an occurrence basis. The policy coverage is \$10,000,000 per occurrence and includes a nominal deductible and no aggregate limitations. The Medical Center accrues the deductible for all open claims.

COLORADO RIVER MEDICAL CENTER

Notes to Financial Statements

June 30, 2012

8. Commitments and Contingencies

Litigation:

The Medical Center is subject to legal proceedings and claims, which arise, in the ordinary course of its business. After consultation with legal counsel, management estimates that matters existing as of June 30, 2012 will be resolved without material adverse effect on the Medical Center's future financial position, results from operations or cash flows.

Government Regulations

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, governmental health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Medical Center is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Health Insurance Portability and Accountability Act

The Health Insurance Portability and Accountability Act (HIPAA) was enacted August 21, 1996, to ensure health insurance portability, reduce health care fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. The Medical Center's management has evaluated the impact of this legislation on its operations, including any future financial commitments that may be required. Management feels that current policy and procedures in place comply with the requirements of HIPAA.

9. Going Concern Uncertainty

The accompanying financial statements have been prepared assuming the Hospital will continue as a going concern, which contemplates realization of assets and satisfaction of liabilities in the normal course of business. The Hospital has experienced recurring cash shortages and has a net deficit of \$(81,977). The Hospital was offered for sale and is in the process of completing a sales contract with a qualified buyer, however there can be no assurance that this sale will be completed. These matters raise substantial doubt about the Hospital's ability to continue as a going concern. The June 30, 2012 financial statements do not include any adjustments that might result from the outcome of this uncertainty.

COLORADO RIVER MEDICAL CENTER

Notes to Financial Statements

June 30, 2012

10. Fair Value of Assets and Liabilities

The Medical Center adopted Statement of Financial Accounting standards No. 157, Fair Value Measurements (FAS 157). FAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities;

Level 3: Unobservable inputs for the assets or liabilities that are supported by little or no market activity and that are significant to the fair value of the underlying assets or liabilities.

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the Medical Center's balance sheet, as well as the classification pursuant to the valuation hierarchy.

Financial Instruments: Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. There are no Level 2 and 3 types within the balance sheet of the Medical Center. The following table summarizes the financial instruments measured at fair value on a recurring basis in accordance with FAS 157 as of June 30, 2012:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Interest-bearing checking accounts	<u>\$ 463,636</u>	<u>\$ 463,636</u>	<u>\$ -</u>	<u>\$ -</u>
Totals of financial instruments	<u>\$ 463,636</u>	<u>\$ 463,636</u>	<u>\$ -</u>	<u>\$ -</u>