

**Audited Financial Statements of
Needles Public Utility Authority
(A Component Unit of the City of Needles)
*As of and for the Years ended June 30, 2014 and 2013
with Report of Independent Auditors***

An Independently Owned Member
McGLADREY ALLIANCE



Needles Public Utility Authority
(A Component Unit of the City of Needles)
Table of Contents

	<u>PAGE</u>
REPORT OF INDEPENDENT AUDITORS	1
BASIC FINANCIAL STATEMENTS	
Statements of Net Position	3
Statements of Revenues, Expenses and Changes in Net Position	4
Statements of Cash Flows	5
Notes to Financial Statements	6
REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	18
SUPPLEMENTARY SCHEDULES	
Combining Schedule of Net Position	20
Combining Schedule of Revenues, Expenses and Changes in Net Position	21
Combining Schedule of Cash Flows	22

Report of Independent Auditors

Members of the Commission of the Needles Public Utility Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Needles Public Utility Authority (Authority), a component unit of the City of Needles, California, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Needles Public Utility Authority as of June 30, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Schedules

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary combining schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary combining schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary combining schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Vasquez + Company LLP

**Los Angeles, California
February 27, 2015**

Needles Public Utility Authority
(A Component Unit of the City of Needles)
Statements of Net Position

	June 30	
	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 137,652	\$ 513,213
Designated and invested cash:		
Electric asset replacement reserve	2,275,225	2,274,218
Water asset replacement reserve	100,253	100,000
Wastewater asset replacement reserve	300,759	300,000
Utility rate stabilization fund	700,262	700,256
Total cash and cash equivalents	3,514,151	3,887,687
Receivables, net	1,194,826	1,340,933
Materials and supplies inventory	706,481	722,390
Prepaid expenses	268,000	-
Total current assets	5,683,458	5,951,010
Noncurrent assets		
Prepayment of purchase obligation	976,644	990,168
Assets held by bond trustee - restricted	2,317,015	2,314,586
Capital assets:		
Land	3,201,893	3,201,893
Construction-in-progress	136,875	528,315
Depreciable capital assets, net	15,458,537	15,813,821
Intangible assets, net of amortization:		
Water rights	2,172,119	2,172,119
Canal construction cost sharing	412,743	430,952
Total noncurrent assets	24,675,826	25,451,854
Total assets	30,359,284	31,402,864
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable and other current liabilities	192,053	65,259
Due to the City of Needles	1,373,254	808,154
Compensated absences	264,874	285,761
Customer deposits	123,364	115,089
Interest payable	486,012	499,528
Bonds and note payable - current portion	574,715	540,545
Total current liabilities	3,014,272	2,314,336
Noncurrent liabilities		
Bonds and note payable - net of current portion	27,472,082	28,029,622
Total liabilities	30,486,354	30,343,958
Net position		
Net investment in capital and intangible assets	(1,428,844)	(692,718)
Restricted for debt service	3,017,278	3,014,842
Unrestricted	(1,715,504)	(1,263,218)
Total net position	\$ (127,070)	\$ 1,058,906

See notes to financial statements.

Needles Public Utility Authority
(A Component Unit of the City of Needles)
Statements of Revenues, Expenses and Changes in Net Position

	Years ended June 30	
	2014	2013
Operating revenues		
Sales of electricity	\$ 5,719,987	\$ 6,427,772
Sales of water	1,458,730	1,511,482
Charges for sewer use	1,301,921	1,346,490
Other revenue	547,996	572,036
Total operating revenues	9,028,634	9,857,780
Operating expenses		
Operations and maintenance	4,341,896	4,822,070
Electric power purchased	1,819,101	1,598,793
Depreciation and amortization	977,271	1,044,751
City franchise fee	429,935	612,279
Utility users tax	206,312	-
Total operating expenses	7,774,515	8,077,893
Operating income	1,254,119	1,779,887
Nonoperating revenues (expenses)		
Interest expense	(1,885,677)	(1,920,060)
Interest and investment revenue	9,582	7,490
Net nonoperating expenses	(1,876,095)	(1,912,570)
Loss before operating transfers	(621,976)	(132,683)
Operating transfers		
Transfers from the City	-	600,000
Transfers to the City	(564,000)	(1,479,236)
Change in net position	(1,185,976)	(1,011,919)
Net position at beginning of year	1,058,906	2,070,825
Net position at end of year	\$ (127,070)	\$ 1,058,906

See notes to financial statements.

Needles Public Utility Authority
(A Component Unit of the City of Needles)
Statements of Cash Flows

	Years ended June 30	
	2014	2013
Cash flows from operating activities		
Receipts from customers	\$ 9,215,370	\$ 10,060,436
Payments to City of Needles:		
Suppliers and other costs	(4,777,571)	(3,979,155)
Employee compensation and related costs	(1,633,111)	(1,713,235)
Other receipts	-	44,904
Net cash flows from operating activities	2,804,688	4,412,950
Cash flows from capital and related financing activities		
Additions to capital assets	(212,338)	(554,507)
Prepayment and principal paid on capital debt	(509,845)	(852,988)
Interest paid on capital debt	(1,899,194)	(1,945,518)
Net transfers for asset replacement reserves	(564,000)	(879,236)
Cash flows from capital and related financing activities	(3,185,377)	(4,232,249)
Cash flows from investing activities		
Decrease (increase) in deposits held by trustee	(2,429)	698
Interest and investment revenue	9,582	7,490
Net cash flows from investing activities	7,153	8,188
Change in cash and cash equivalents	(373,536)	188,889
Cash and cash equivalents at beginning of year	3,887,687	3,698,798
Cash and cash equivalents at end of year	\$ 3,514,151	\$ 3,887,687
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 1,254,119	\$ 1,779,887
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	977,271	1,044,751
Bad debt expenses	(32,354)	(214,197)
Changes in operating assets and liabilities:		
Receivables	178,461	490,757
Materials and supplies inventory	15,909	434,343
Prepaid expenses	(268,000)	232,496
Accounts payable and other current liabilities	126,794	(63,229)
Due to the City of Needles	565,100	782,110
Compensated absences	(20,887)	(59,468)
Customer deposits	8,275	(14,500)
Net cash flows from operating activities	\$ 2,804,688	\$ 4,412,950

See notes to financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Needles Public Utility Authority (Authority, or NPUA) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the Authority are described below:

Reporting Entity

The Needles Public Utility Authority was formed by a Joint Powers Agreement, entered into on June 6, 1997, between the City of Needles, California (City) and the Redevelopment Agency of the City of Needles. 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 that is responsible for revenue collection, maintaining the bond reserves, disposing of excess property and fulfilling the remaining obligations of the dissolved Agency.

NPUA was formed for the purpose of acquiring and operating the City's water, sewer and electrical enterprises. NPUA is governed by a Commission, the members of which are also members of the City Council. NPUA has no employees, its day-to-day activities and operations are performed by City employees under a Management Agreement with the City. NPUA is a component unit of the City of Needles.

Basis of Accounting

NPUA is considered to be an enterprise fund, which is a proprietary fund type. Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

NPUA uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

GASB Statement No. 34

GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position, a statement of activities and changes in net position and a statement of cash flows. The NPUA has not presented a management's discussion and analysis of the annual financial statements, which GASB No. 34 requires as supplemental information; however, it is not required to be part of the basic financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 34 (Continued)

GASB No. 34, as amended by GASB 63, requires the classification of net position into three components – net investment in capital assets, restricted and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position – This category consists of that component of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Implementation of New Accounting Pronouncements

During the fiscal year ended June 30, 2013, NPUA adopted the following Governmental Accounting Standards Board (GASB) statements which impacted NPUA’s financial statements:

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance included in FASB and AICPA Pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This Statement also supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Implementation of New Accounting Pronouncements (Continued)

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement amends the net asset reporting requirements in GASB Statement No. 34 by incorporating deferred outflows of resources and deferred inflow of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. As of June 30, 2014 and 2013, NPUA did not have any deferred outflows or inflows of resources.

- GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. The statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Adoption of this Statement during the fiscal year ended June 30, 2013 resulted in restatement of NPUA's beginning net position balance because of the write-off of deferred bond issuance cost which was recognized as an asset in the prior years.

Estimates

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

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks, money market accounts and deposits with the state Local Agency Investment Fund (LAIF), and also certificates of deposit and U.S. Treasury bills with maturities of less than 90 days when purchased. It also includes money market accounts in deposits held by the bond trustee that are not restricted.

Inventories

Inventories are recorded at average cost, which approximates market. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expense at the time individual inventory items are consumed rather than when purchased.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position
(Continued)**

Capital Assets

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and with an estimated useful life in excess of one year.

Capital assets of the Authority are recorded at either their historical cost or at an allocation of the utility plant purchase price, based on appraisal values at January 1, 1997. Donated assets are valued at their estimated fair value on the date donated. Depreciation for all exhaustible capital assets is charged as an expense against operations. The provision for depreciation is computed using the straight-line method over estimated useful lives of the assets as follows:

Buildings	20 - 40 years
Improvements	20 - 40 years
Plant	15 - 30 years
Equipment	3 -10 years

Net interest costs during construction periods are capitalized for assets acquired by the issuance of long-term debt. Major additions and betterments are capitalized while expenditures for maintenance and repairs that do not add value to the assets and materially extend asset lives are charged to operations as incurred.

Deposits

Customer deposits represent deposits held by NPUA as collateral in the event of non-payment for service rendered.

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement Nos. 63 and 65, NPUA recognizes deferred outflows and inflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. NPUA did not have any deferred outflows and deferred inflows of resources recognized as of June 30, 2014 and 2013.

Revenues and Expenses

Revenues and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. NPUA defines operating revenues to be exchange transactions where a product or service is furnished and a charge collected therefrom, while operating expenses are all of the costs incurred in delivering those products or services including depreciation on capital assets. Nonoperating revenues and expenses are generally non-exchange transactions and those transactions that are capital and non-capital related financing activities or investing activities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues and Expenses (Continued)

Revenue

Charges for electricity, water and sewer use are recorded as billed to customers on a monthly cycle billing basis. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billings.

Compensated Absences

As discussed in Note 8, the NPUA has a management agreement with the City of Needles concerning employees and their compensation. All earned vacation, holiday, compensatory time off, and a portion of accumulated sick leave of the City of Needles' employees payable upon termination or retirement are accrued. The liability is accrued for a portion of the sick leave balances of all employees who are currently eligible to receive a payment for sick leave upon termination, as well as for those expected to become eligible. As of June 30, 2014 and 2013, the total estimated liability for all compensated absences, including sick leave, is \$264,874 and \$285,761, respectively.

Amortization

Canal construction cost sharing is amortized using the straight-line method over 40 years. Effective July 1, 2004, NPUA discontinued amortizing its "Water rights" intangible asset, as they have an indeterminate life and have value. Water rights are tested annually for impairment under GASB 42 "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." If it is determined that the asset has been impaired, the book value will be adjusted to reflect the reduced fair value of the rights. Accumulated amortization on Water rights amounted to \$490,688 prior to July 1, 2004. Canal construction costs amortization for the years ended June 30, 2014 and 2013 amounted to \$18,209 for both years.

NOTE 2 CASH AND INVESTMENTS

The indenture for the 1997 Series A Revenue Bonds (Note 5) required the establishment of special funds to be held and administered by trustees and by NPUA. At June 30, 2014 and 2013 investments and cash held by trustees and by NPUA in these funds and accounts are as follows:

	2014	2013
Custodian		
Local Agency Investment Fund	\$ 2,730,844	\$ 2,724,118
Bank	783,307	1,163,569
	\$ 3,514,151	\$ 3,887,687

Needles Public Utility Authority
(A Component Unit of the City of Needles)
Notes to Financial Statements
Years ended June 30, 2014 and 2013

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

	2014	2013
Special funds balances		
Operating funds	\$ 137,652	\$ 513,213
Electric asset replacement fund	2,275,225	2,274,218
Water asset replacement fund	100,253	100,000
Wastewater asset replacement fund	300,759	300,000
Utility rate stabilization fund	700,262	700,256
	\$ 3,514,151	\$ 3,887,687

NPUA, periodically during the year, maintained bank balances in excess of federally insured limits.

Statutes authorize the NPUA 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 of the State of California. Investments are stated at fair value.

Investment in State Investment Pool

NPUA is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of NPUA's investment in this pool is reported in the accompanying financial statements at amounts based upon NPUA's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. At June 30, 2014, the total fair value of LAIF, including accrued interest was approximately \$64.90 billion. The fair value of NPUA's investment in the pool is \$2,730,844. LAIF's and NPUA's exposure to risk (credit, market, or legal) is not currently available.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable at June 30th consist of the following:

	2014	Electric	Water	Wastewater	Total
Accounts receivable	\$	985,208	\$ 225,011	\$ 176,732	\$ 1,386,951
Allowance for doubtful accounts		(129,988)	(27,208)	(34,929)	(192,125)
Net receivables	\$	855,220	\$ 197,803	\$ 141,803	\$ 1,194,826
	2013	Electric	Water	Wastewater	Total
Accounts receivable	\$	1,350,896	\$ 306,920	\$ 260,767	\$ 1,918,583
Allowance for doubtful accounts		(439,707)	(59,541)	(78,402)	(577,650)
Net receivables	\$	911,189	\$ 247,379	\$ 182,365	\$ 1,340,933

Needles Public Utility Authority
(A Component Unit of the City of Needles)
Notes to Financial Statements
Years ended June 30, 2014 and 2013

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30th was as follows:

	Beginning Balance	Additions	Transfers/ Deductions	Ending Balance
2014				
Nondepreciable assets				
Land	\$ 3,201,893	\$ -	\$ -	\$ 3,201,893
Construction in progress	528,315	136,875	(528,315)	136,875
	<u>3,730,208</u>	<u>136,875</u>	<u>(528,315)</u>	<u>3,338,768</u>
Depreciable assets				
Utility plant	31,225,945	75,463	528,315	31,829,723
Accumulated depreciation	(15,412,124)	(959,062)	-	(16,371,186)
	<u>15,813,821</u>	<u>(883,599)</u>	<u>528,315</u>	<u>15,458,537</u>
Capital assets, net	<u>\$ 19,544,029</u>	<u>\$ (746,724)</u>	<u>\$ -</u>	<u>\$ 18,797,305</u>
2013				
Nondepreciable assets				
Land	\$ 3,201,893	\$ -	\$ -	\$ 3,201,893
Construction in progress	-	528,315	-	528,315
	<u>3,201,893</u>	<u>528,315</u>	<u>-</u>	<u>3,730,208</u>
Depreciable assets				
Utility plant	31,199,753	26,192	-	31,225,945
Accumulated depreciation	(14,452,456)	(959,668)	-	(15,412,124)
	<u>16,747,297</u>	<u>(933,476)</u>	<u>-</u>	<u>15,813,821</u>
Capital assets, net	<u>\$ 19,949,190</u>	<u>\$ (405,161)</u>	<u>\$ -</u>	<u>\$ 19,544,029</u>

NOTE 5 LONG-TERM DEBT

Long-term debt consists of:

- Revenue Bonds, 1997 Series A Utility Acquisition Project, interest at 4.70% to 6.65% payable each February and August 1st – principal redemptions in varying annual amounts through February 2032.
- Certificate of Participation, \$83,917 payable each February and August 1st, including interest at 4.50% through August 2037.
- Purchase obligation due to the City, \$685,300 payable each February 1st, including interest imputed at 6.714% through February 2012. Starting February 2013, the annual payment was reduced to \$673,036 as a result of the \$650,000 prepayments made in 2012. The annual payment will be further reduced to \$666,432 in fiscal year 2014 as a result of the additional prepayment made in 2013 amounting to \$350,000.

Needles Public Utility Authority
(A Component Unit of the City of Needles)
Notes to Financial Statements
Years ended June 30, 2014 and 2013

NOTE 5 LONG-TERM DEBT (CONTINUED)

Long-term liability activity for the year ended June 30th was as follows:

2014	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 16,500,000	\$ -	\$ 460,000	\$ 16,040,000	\$ 490,000
Certificate of participation	2,472,871	-	57,188	2,415,683	59,794
Purchase obligation	9,859,184	-	23,355	9,835,829	24,921
	<u>28,832,055</u>	<u>-</u>	<u>540,543</u>	<u>28,291,512</u>	<u>\$ 574,715</u>
Unamortized discount	(261,888)	-	(17,173)	(244,715)	
	<u>\$ 28,570,167</u>	<u>\$ -</u>	<u>\$ 523,370</u>	<u>\$ 28,046,797</u>	
2013	Beginning Balance	Additions/ Adjustments	Reductions	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 16,935,000	\$ -	\$ 435,000	\$ 16,500,000	\$ 460,000
Certificate of participation	2,527,573	-	54,702	2,472,871	57,191
Purchase obligation	9,881,069	-	21,885	9,859,184	23,354
	<u>29,343,642</u>	<u>-</u>	<u>511,587</u>	<u>28,832,055</u>	<u>\$ 540,545</u>
Unamortized discount	(278,864)	-	(16,976)	(261,888)	
	<u>\$ 29,064,778</u>	<u>\$ -</u>	<u>\$ 494,611</u>	<u>\$ 28,570,167</u>	

Annual maturities of long-term debt are as follows:

Year Ending June 30	Revenue Bonds	Certificate of Participation	Purchase Obligation	Interest	Total
2015	\$ 490,000	\$ 59,794	\$ 24,921	\$ 1,827,632	\$ 2,402,347
2016	525,000	62,515	26,596	1,791,387	2,405,498
2017	560,000	65,359	28,381	1,752,632	2,406,372
2018	595,000	68,334	30,287	1,711,349	2,404,970
2019	635,000	71,443	32,320	1,667,534	2,406,297
2020-2024	3,845,000	409,044	197,216	7,574,300	12,025,560
2025-2029	5,290,000	510,979	272,929	5,946,252	12,020,160
2030-2034	4,100,000	638,317	377,708	3,806,593	8,922,618
2035-2039	-	529,898	522,713	2,951,924	4,004,535
2040-2044	-	-	723,387	2,703,113	3,426,500
2045-2049	-	-	1,001,100	2,425,400	3,426,500
2050-2054	-	-	1,385,430	2,041,070	3,426,500
2055-2059	-	-	1,917,306	1,509,194	3,426,500
2060-2064	-	-	2,653,374	773,126	3,426,500
2065	-	-	642,161	43,115	685,276
Total	<u>\$ 16,040,000</u>	<u>\$ 2,415,683</u>	<u>\$ 9,835,829</u>	<u>\$ 38,524,621</u>	<u>\$ 66,816,133</u>

NOTE 5 LONG-TERM DEBT (CONTINUED)

The varying long-term debt installment payments are to be made from various NPUA revenues (all as defined in the applicable agreements) which are irrevocably pledged to such payments, as follows: gross utility revenues for the Revenue Series A Bonds; net utility revenues for the Certificate of Participation; and surplus revenues for the Purchase Obligation.

During the years ended June 30, 2013, 2012 and 2010, NPUA made additional payments amounting to \$350,000, \$400,000, and \$250,000, respectively, on the Purchase Obligation (shown in the noncurrent assets in the Statements of Net Position). Any future payments less than \$685,300 (annual debt service stated in the Purchase Obligation) will decrease the amount of the prepaid balance. Starting February 2013, NPUA reduced the annual payments to \$673,036 which resulted in the reduction of the prepayment balance.

Upon payment in full of all indebtedness of the NPUA, title to the Enterprises shall automatically revert to the City.

NOTE 6 ASSET REPLACEMENT FUNDS

The Authority transfers certain amounts to the City to fund future replacement of existing property and equipment and other capital expenditure requirements of the Authority. For the year ended June 30, 2014 and 2013, the Authority transferred \$564,000 and \$1,479,236, respectively, to the City for deposit to the asset replacement funds.

At June 30, 2014 and 2013, the following asset replacement funds are under the control and custody of the City and are recorded in the City's accounting records as restricted funds (less usage):

		<u>2014</u>		<u>2013</u>
Water	\$	182,915	\$	192,915
Wastewater		372,862		372,862
Electric		778,096		364,500
	\$	<u>1,333,873</u>	\$	<u>930,277</u>

NOTE 7 COMMITMENTS AND CONTINGENCIES

The 1997 Series A Bond Indenture and the Certificate of Participation require the NPUA to:

For Series A Bonds:

- Maintain a Utility Rate Stabilization Fund of \$700,000 to be held by the Depository.
- Maintain with the Trustee (the “Reserve Requirement”) a minimum reserve of \$1,553,423. The actual reserve balance at June 30, 2014 and 2013 amounted to \$1,553,423 and is included in the assets held by bond trustee – restricted account in the Statements of Net Position.

For Certificates of Participation:

- Deposit semi-annually with the Trustee 1/20th of the maximum reserve amount (\$8,392) until the amount on deposit equals the maximum reserve of \$167,834. The actual reserve balance at June 30, 2014 and 2013 amounted to \$167,983 and is included in the assets held by bond trustee – restricted account in the Statements of Net Position.

In connection with the issuance of the 1997 Series A Bonds, NPUA deposited funds with two Escrow Banks to refund and defease the Needles Public Financing Authority’s Revenue Bonds, 1993 Series A and 1995 Series A, over their scheduled maturities. If at any time, the Escrow Funds are not sufficient to pay all principal and interest on the defeased bonds, the NPUA shall be required to cure such deficiency. The last scheduled redemption date for the 1993 Series A defeased bonds is June 1, 2017. The 1995 Series A bonds were redeemed in full on September 1, 2007. The NPUA has not been advised of any deficiency of the escrow funds to make the required payments. Of the 1993 Series A defeased bonds, \$1,845,000 and \$2,395,000 remained outstanding at June 30, 2014 and 2013, respectively.

The NPUA is considered a transmission and generation dependant electric utility, meaning the NPUA has no generation and only a small amount of electric transmission facilities, therefore completely dependent on others for supply and transmission of energy to the City’s electric system.

The NPUA’s rate structure is designed to allocate the hydroelectric allotment equally among all customers, giving 450KWH per customer per month in winter months and 850KWH per customer per month in summer months. The actual cost of power is analyzed every quarter and if a Power Cost Adjustment (PCA) is required, it is to be put into effect the following quarter. If the PCA has gone down, then a credit is to be calculated by KWH per bill. The new rate structure was put into place January 1, 2008. The power costs have decreased and therefore a negative Power Cost Adjustment has been applied.

In 2008, the NPUA partnered with the United States Department of Energy Western Area Power Administration (WAPA) for management of energy costs. This partnership was effective April 1, 2008 and has allowed NPUA greater flexibility in the power purchase market.

NOTE 8 RELATED PARTY TRANSACTIONS

Section 1202 of the Needles Municipal Code states, "Each utility shall be operated as a separate unit and all accounting respecting such utility shall be on that basis. All personal services of officers or employees and all costs incurred for the joint benefit of any such utility and any other office, department or agency of the city shall be prorated between them. Charges shall be made by the utility for all service, property or other things of value supplied or rendered by it to any other office, department or agency of the city."

The City acts as the manager and operator of NPUA's water, sewer, and electrical enterprises (Enterprises) under a Management Agreement. The City receives a management fee equal to its actual costs and direct overhead incurred in connection with the management and operation of the Enterprises. Such costs include, but are not limited to, salaries, insurance and retirement benefits of City employees providing services to the Enterprises. Each July 1st, the Management Agreement is extended for one year, unless either party notifies the other that it does not intend to extend the term of the Agreement. The management fee amounted to \$6,193,295 and \$6,744,591 for the years ended June 30, 2014 and 2013, respectively.

In exchange for the City providing rights of way and rights of access to all real property owned by the City and necessary for NPUA to operate the Enterprises, the City collects an annual franchise fee from NPUA. The amount of the franchise fee is determined by the City, the payment of which is subordinate to NPUA's annual debt service. In August 2010, the Authority's Board approved the increase in franchise fee from 5% of gross revenues to 7.5% of gross revenues for two years, and then 5% thereafter. In November 2012, the voters of the City of Needles approved Measure T eliminating 2.5% of the franchise fee that the City of Needles charges NPUA and established a utility user tax of up to 2.5% to be applied to electric, water and sewer charges. The franchise fee and utility user tax amounted to \$636,247 and \$612,279 for the years ended June 30, 2014 and 2013, respectively.

In connection with the City's 1997 sale of the Enterprises to NPUA, the NPUA's remaining unpaid purchase obligation to the City is payable annually, each February 1st, through 2065. Payments are payable solely from Surplus Revenues (as defined). Purchase obligation payments amounted to \$685,300 and \$673,036 for the years ended June 30, 2014 and 2013, respectively, which included interest amounting to \$661,945 and \$625,577, respectively. The unpaid purchase obligation is included in the bonds and note payable account in the Statements of Net Position.

NOTE 9 RISK MANAGEMENT

NPUA is subject to various risks in the normal course of operations. NPUA, as a component unit of the City of Needles, protects itself against such risks by the City's participation in the California Joint Powers Insurance Authority (CJPIA), a joint power agency (risk-sharing pool) that provides an independently managed, self-insurance program for member cities.

The City contributes its pro rata share of anticipated losses to a pool administered by CJPIA. Should actual losses among participants exceed anticipated losses, the City will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, the City will be refunded its pro rata share of the excess. NPUA's allocated share of the City's contributions to CJPIA is included in the operations and maintenance expenses paid to the City under the management agreement discussed in Note 8.

NOTE 10 SUBSEQUENT EVENTS

NPUA has evaluated events subsequent to June 30, 2014 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through February 27, 2015, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no other subsequent events occurred that require recognition or additional disclosure in the financial statements.

**Report of Independent Auditors 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**

**Members of the Commission of the
Needles Public Utility Authority**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Needles Public Utility Authority, a component unit of the City of Needles, California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Needles Public Utility Authority's basic financial statements, and have issued our report thereon dated February 27, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Needles Public Utility Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

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

Vasquez + Company LLP

Los Angeles, California
February 27, 2015

Needles Public Utility Authority
(A Component Unit of the City of Needles)
Combining Schedule of Net Position
June 30, 2014

	Water				
	Electric	Water	All American Canal	Wastewater	Total
ASSETS					
Current assets					
Cash and cash equivalents	\$ 2,878,523	\$ 199,462	\$ 34,857	\$ 401,309	\$ 3,514,151
Receivables, net	855,220	197,803	-	141,803	1,194,826
Due from other funds	6,088,962	-	76,246	-	6,165,208
Materials and supplies inventory	644,968	28,541	-	32,972	706,481
Prepaid expenses	268,000	-	-	-	268,000
Total current assets	10,735,673	425,806	111,103	576,084	11,848,666
Noncurrent assets					
Prepayment of purchase obligation	537,154	244,161	-	195,329	976,644
Assets held by bond trustee - restricted	1,181,968	537,258	-	597,789	2,317,015
Capital assets:					
Land and construction-in-progress	2,930,052	221,543	-	187,173	3,338,768
Depreciable capital assets, net	5,491,629	3,665,964	-	6,300,944	15,458,537
Intangible assets, net of amortization:					
Water rights	-	2,172,119	-	-	2,172,119
Canal construction cost sharing	-	-	-	412,743	412,743
Total noncurrent assets	10,140,803	6,841,045	-	7,693,978	24,675,826
Total assets	20,876,476	7,266,851	111,103	8,270,062	36,524,492
LIABILITIES AND NET POSITION					
Current liabilities					
Accounts payable and other current liabilities	138,278	22,739	7,989	23,047	192,053
Due to the City of Needles	948,556	240,553	183,652	493	1,373,254
Due to other funds	-	2,971,395	-	3,193,813	6,165,208
Compensated absences	125,605	120,898	-	18,371	264,874
Customer deposits	91,174	32,190	-	-	123,364
Interest payable	242,395	110,179	-	133,438	486,012
Bonds and note payable - current portion	283,207	128,730	-	162,778	574,715
Total current liabilities	1,829,215	3,626,684	191,641	3,531,940	9,179,480
Noncurrent liabilities					
Bonds and note payable - net of current portion	13,813,906	6,279,048	-	7,379,128	27,472,082
Total liabilities	15,643,121	9,905,732	191,641	10,911,068	36,651,562
Net position					
Net investment in capital and intangible assets	(785,864)	(357,211)	-	(285,769)	(1,428,844)
Restricted for debt service	1,567,113	712,323	-	737,842	3,017,278
Unrestricted (deficit)	4,452,106	(2,993,993)	(80,538)	(3,093,079)	(1,715,504)
Total net position	\$ 5,233,355	\$ (2,638,881)	\$ (80,538)	\$ (2,641,006)	\$ (127,070)

Needles Public Utility Authority
(A Component Unit of the City of Needles)
Combining Schedule of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2014

	<u>Water</u>				<u>Total</u>
	<u>Electric</u>	<u>Water</u>	<u>All American Canal</u>	<u>Wastewater</u>	
Operating revenues					
Charges for services	\$ 5,719,987	\$ 1,458,730	\$ 530,263	\$ 1,301,921	\$ 9,010,901
Other revenue	16,567	-	1,166	-	17,733
Total operating revenues	<u>5,736,554</u>	<u>1,458,730</u>	<u>531,429</u>	<u>1,301,921</u>	<u>9,028,634</u>
Operating expenses					
Electric power purchased	1,819,101	-	-	-	1,819,101
Salaries and benefits	872,014	539,094	42,411	158,705	1,612,224
Depreciation and amortization	326,971	310,391	-	339,909	977,271
City franchise fee	273,169	69,464	25,306	61,996	429,935
Utility users tax	113,472	51,578	-	41,262	206,312
Supplies	182,726	65,271	237	27,821	276,055
Administrative and management	158,565	177,043	9,264	114,830	459,702
Power and utilities	53,635	115,681	9	90,648	259,973
Contractual services	240,698	41,781	430,750	360,169	1,073,398
Maintenance and operations	189,787	49,729	-	39,427	278,943
Insurance	44,986	11,721	-	37,581	94,288
Conservation/solar rebates	208,586	-	-	-	208,586
Miscellaneous	19,431	26,125	1,600	31,571	78,727
Total operating expenses	<u>4,503,141</u>	<u>1,457,878</u>	<u>509,577</u>	<u>1,303,919</u>	<u>7,774,515</u>
Operating income	<u>1,233,413</u>	<u>852</u>	<u>21,852</u>	<u>(1,998)</u>	<u>1,254,119</u>
Nonoperating revenues (expenses)					
Interest expense	(1,037,123)	(471,419)	-	(377,135)	(1,885,677)
Interest and investment revenue	6,900	1,533	-	1,149	9,582
Net nonoperating expenses	<u>(1,030,223)</u>	<u>(469,886)</u>	<u>-</u>	<u>(375,986)</u>	<u>(1,876,095)</u>
Income (loss) before operating transfers	203,190	(469,034)	21,852	(377,984)	(621,976)
Operating transfers					
Transfers to the City	(564,000)	-	-	-	(564,000)
Change in net position	(360,810)	(469,034)	21,852	(377,984)	(1,185,976)
Net position at beginning of year	5,594,165	(2,169,847)	(102,390)	(2,263,022)	1,058,906
Net position at end of year	<u>\$ 5,233,355</u>	<u>\$ (2,638,881)</u>	<u>\$ (80,538)</u>	<u>\$ (2,641,006)</u>	<u>\$ (127,070)</u>

Needles Public Utility Authority
(A Component Unit of the City of Needles)
Combining Schedule of Cash Flows
Year ended June 30, 2014

	Water				Total
	Electric	Water	All American Canal	Wastewater	
Cash flows from operating activities					
Receipts from customers	\$ 5,851,751	\$ 1,499,354	\$ 531,429	\$ 1,332,836	\$ 9,215,370
Payments to City of Needles:					
Suppliers and other costs	(3,373,677)	(286,130)	(504,641)	(613,123)	(4,777,571)
Employee compensation and related costs	(896,102)	(533,793)	(42,411)	(160,805)	(1,633,111)
Net cash flows from operating activities	<u>1,581,972</u>	<u>679,431</u>	<u>(15,623)</u>	<u>558,907</u>	<u>2,804,688</u>
Cash flows from capital and related financing activities					
Purchases of capital assets	-	(136,875)	-	(75,463)	(212,338)
Prepayment and principal paid on capital debt	(248,962)	(113,163)	-	(147,720)	(509,845)
Interest paid on capital debt	(1,043,967)	(474,532)	-	(380,695)	(1,899,194)
Net transfers for asset replacement reserves	(564,000)	-	-	-	(564,000)
Net cash flows from capital and related financing activities	<u>(1,856,929)</u>	<u>(724,570)</u>	<u>-</u>	<u>(603,878)</u>	<u>(3,185,377)</u>
Cash flows from investing activities					
Decrease (increase) in deposits held by trustee	(1,336)	(607)	-	(486)	(2,429)
Interest and investment revenue	6,900	1,533	-	1,149	9,582
Net cash flows from investing activities	<u>5,564</u>	<u>926</u>	<u>-</u>	<u>663</u>	<u>7,153</u>
Net change in cash and cash equivalents	<u>(269,393)</u>	<u>(44,213)</u>	<u>(15,623)</u>	<u>(44,307)</u>	<u>(373,536)</u>
Cash and cash equivalents at beginning of year	<u>3,147,916</u>	<u>243,675</u>	<u>50,480</u>	<u>445,616</u>	<u>3,887,687</u>
Cash and cash equivalents at end of year	<u>\$ 2,878,523</u>	<u>\$ 199,462</u>	<u>\$ 34,857</u>	<u>\$ 401,309</u>	<u>\$ 3,514,151</u>
Reconciliation of operating income to net cash flows from operating activities					
Operating income (loss)	\$ 1,233,413	\$ 852	\$ 21,852	\$ (1,998)	\$ 1,254,119
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation and amortization	326,971	310,391	-	339,909	977,271
Bad debt expenses	(46,853)	4,852	-	9,647	(32,354)
Changes in operating assets and liabilities:					
Receivable	102,822	44,724	-	30,915	178,461
Materials and supplies inventory	9,653	-	-	6,256	15,909
Prepaid expenses	(268,000)	-	-	-	(268,000)
Accounts payable and other current liabilities	91,292	15,012	5,274	15,216	126,794
Due to the City of Needles	(192,491)	118,197	483,006	156,388	565,100
Due from (to) other funds	336,878	184,202	(525,755)	4,675	-
Compensated absences	(24,088)	5,301	-	(2,100)	(20,887)
Customer deposits	12,375	(4,100)	-	-	8,275
Net cash flows from operating activities	<u>\$ 1,581,972</u>	<u>\$ 679,431</u>	<u>\$ (15,623)</u>	<u>\$ 558,907</u>	<u>\$ 2,804,688</u>



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