



**Audited Financial Statements of
Needles Public Utility Authority
(A Component Unit of the City of Needles)
*As of and for the Year Ended June 30, 2015
with Report of Independent Auditors***

An Independently Owned Member
McGLADREY ALLIANCE



Vasquez
& Company LLP
Certified Public Accountants and Business Consultants

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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 (NPUA), a component unit of the City of Needles, California as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the NPUA'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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise NPUA's basic financial statements. The combining statements of net position, revenues, expenses and changes in net position and cash flows, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements of net position, revenues, expenses and changes in net position and cash flows 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 combining statements of net position, revenues, expenses and changes in net position and cash flows are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



As discussed in Note 1, NPUA has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, effective for the fiscal year ended June 30, 2015. As a result of this required implementation, NPUA's beginning net position was restated to retroactively report the net pension liability as of the beginning of the fiscal year ended June 30, 2014. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2015 on our consideration of NPUA'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 NPUA's internal control over financial reporting and compliance.

Vasquez + Company LLP

Los Angeles, California
December 14, 2015

As Management of the Needles Public Utility Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the Authority's financial performance during the fiscal years ended June 30, 2015 and June 30, 2014. Please read it in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- The total net position decreased \$466 thousand in 2015.
- Operating revenues increased \$894 thousand in 2015.
- Operating expenses increased \$558 thousand in 2015.

Overview of the Financial Statements

This annual report includes the management's discussion and analysis report, the independent auditors' report, and the Authority's basic financial statements. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The Authority's financial statements report information using accounting methods similar to those used by private sector companies. These statements offer both short-term and long-term financial information about its activities. The Statement of Net Position includes all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and provides information about the nature and amount of investments in resources (assets), and the obligations to creditors (liabilities). It also provides the basis for evaluation of the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This Statement measures the success of the Authority's operations over the past two years, and can be used to determine whether the Authority has successfully recovered its costs, through its fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides answers to such questions as sources of cash coming in, what expenditures cash was used for, and the change in the cash balance during the reporting period.

Financial Analysis of the Authority

One of the most important questions asked about the Authority's finances is "Is the Authority, as a whole, better off or worse off as a result of the year's activities?". The Statement of Net Position, and the Statement of Revenues, Expenses and Changes in Net Position will help answer this question. These two statements report the net position of the Authority, and changes in them. One can think of these changes as indicators of whether the financial health is improving or deteriorating. However, one should also consider other factors, such as changes in the economy, population growth, and if there is any new governmental legislation.

Needles Public Utility Authority
(A Component Unit of the City of Needles)
Management's Discussion and Analysis
June 30, 2015

Implementation of New Accounting Pronouncements

During the fiscal year ended June 30, 2015, NPUA implemented the following new Statements of the Governmental Accounting Standards Board (GASB): GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statements No. 27 and 50* and GASB Statement No. 71, *Pension Transition for Contributions made subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. These statements required NPUA to report unfunded pension liability in NPUA's financial statements starting in fiscal year 2014-2015.

We begin our analysis with a summary of the Authority's Statements of Net Position.

Condensed Statements of Net Position
(000's)

	2015	2014	Dollar Change	Percent Change
Assets				
Current and other assets	\$ 11,637	\$ 11,562	\$ 75	0.65%
Capital assets	17,941	18,797	(856)	-4.55%
Total assets	<u>29,578</u>	<u>30,359</u>	<u>(781)</u>	<u>-2.57%</u>
Deferred outflows of resources	<u>95</u>	<u>-</u>	<u>95</u>	<u>100.00%</u>
Liabilities				
Long-term debt	27,489	28,047	(558)	-1.99%
Other liabilities	3,576	2,439	1,137	46.62%
Total liabilities	<u>31,065</u>	<u>30,486</u>	<u>579</u>	<u>1.90%</u>
Deferred inflows of resources	<u>470</u>	<u>-</u>	<u>470</u>	<u>100.00%</u>
Net Position				
Net investment in capital assets	(1,838)	(1,429)	(409)	28.62%
Restricted	3,020	3,017	3	0.10%
Unrestricted	(3,044)	(1,715)	(1,329)	77.49%
Total net position	<u>\$ (1,862)</u>	<u>\$ (127)</u>	<u>\$ (1,735)</u>	<u>1366.14%</u>

The net position balance at the beginning of fiscal year 2015 was restated to retroactively report the net pension liability as of the beginning of the fiscal year as a result of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The net pension liability reported at the beginning of the fiscal year was \$1.3 million. For purposes of presenting the summarized comparative statement of activities in this section of the report, the 2014 financial statements were not restated due to lack of information.

The \$466 thousand decrease (excluding the \$1.3 million effect of restatement to implement GASB Statement No. 68) in total net position in 2015, versus a decrease of \$1.2 million in 2014, reflects the combination of increases and decreases in operating revenues, expenses and transfers.

Needles Public Utility Authority
(A Component Unit of the City of Needles)
Management's Discussion and Analysis
June 30, 2015

Condensed Statements of Revenues, Expenses, and Changes in Net Position
(000's)

	2015	2014	Dollar Change	Percent Change
Revenues				
Operating revenues	\$ 9,923	\$ 9,029	\$ 894	9.90%
Nonoperating revenues	9	9	-	0.00%
Total revenues	<u>9,932</u>	<u>9,038</u>	<u>894</u>	<u>9.89%</u>
Expenses				
Depreciation	966	977	(11)	-1.13%
Other operating expenses	7,366	6,797	569	8.37%
Nonoperating expenses	1,849	1,886	(37)	-1.96%
Total expenses	<u>10,181</u>	<u>9,660</u>	<u>521</u>	<u>5.39%</u>
Loss before operating transfers	(249)	(622)	373	-59.97%
Transfers	<u>(217)</u>	<u>(564)</u>	<u>347</u>	<u>-61.52%</u>
Changes in net position	(466)	(1,186)	720	-60.71%
Net position at beginning of year, as restated	<u>(1,396)</u> **	1,059	(2,455)	-231.82%
Net position at end of year	<u>\$ (1,862)</u>	<u>\$ (127)</u>	<u>\$ (1,735)</u>	<u>1366.14%</u>

**restated to implement GASB Statement No. 68

While the Statement of Net Position shows the changes in financial position, the Statement of Revenues, Expenses and Changes in Net Position provides answers as to the nature of and source of these changes.

Capital Assets

Capital Assets				
(000's)				
	2015	2014	Dollar Change	Percent Change
Costs				
Land	\$ 3,202	\$ 3,202	-	0.00%
Utility plant	31,830	31,830	-	0.00%
Construction in progress	228	136	92	67.65%
Total costs	<u>35,260</u>	<u>35,168</u>	<u>92</u>	<u>0.26%</u>
Accumulated depreciation				
Net capital assets	<u>\$ 17,941</u>	<u>\$ 18,797</u>	<u>\$ (856)</u>	<u>-4.55%</u>

The Authority's Capital Plan for the ensuing 10 years includes various capital and deferred maintenance projects, which include, but are not limited to the following:

ELECTRIC DEPARTMENT

- Continuing upgrades of transmission facilities and substations.
- Replace circuit reclosers and rebuild some substations. Additional land has been purchased to do this.
- Continuing rewiring and remetering of commercial accounts.
- Rebuilding power lines from Bush Street Substation to Tamrisk Road.

WATER DEPARTMENT

- Replace 5,000 feet of water mains.
- Replace 200 services.
- Two new City Reservoirs. One has been purchased, and is in process; the other will be sometime in the future.
- Rehabilitation of two booster stations.
- Install radio telemetry for wells and booster stations.
- New City water well.

WASTEWATER DEPARTMENT

- The Wastewater department is now a contract operation run by an outside operator EUSI, LLC. This change became effective December 2, 2012.
- Trenchless replacement of 280 feet of gravity sewer line at I Street
- Removal and replacement of 470 feet of gravity sewer line by the hospital
- Rebuild the K Street Lift Station.
- Reline the Bazoobooth wet well.
- Continue to repair or replace several more manholes.

Long Term Debt

Total indebtedness (all liabilities) outstanding at June 30, 2015 and 2014 amounted to \$31.1 million and \$30.5 million, respectively. No new debt was issued in 2015 and 2014. More detailed information about the Authority's long term liabilities is presented in Note 6 of the financial statements.

Economic Factors and Power Rates

The Authority's cost for electricity is dependent upon the open market prices. Since 2008 the Authority has been purchasing its power from Western Area Power Administration (WAPA), and energy costs decreased substantially because of this contract, from their peak in 2006 and 2007. In January 2014, the City of Needles (City) on behalf of the Authority entered into Amendment No. 5 to Contract No. 00-DSR-11223 among United States Department of Energy, Western Area Power Administration, Desert Southwest Service Region ("WAPA"), Parker-Davis Project, SLCA Integrated Projects, Boulder Canyon Project and Yuma County Water Users' Association and Wellton-Mohawk Irrigation and Drainage District and Eastern Arizona Preference Pooling Association and the City of Needles, California for Aggregated Energy Services ("AES").

AES (through WAPA) accommodates aggregation of all member resources (hydroelectric and thermal electric) subject to transmission arrangements. There is an opportunity for the City of Needles to receive excess Wellton – Mohawk Irrigation and Drainage District Federal Energy Services ("FES") hydroelectric at a pre-negotiated cost, based on the FES rate (exchanges cannot be made at a rate greater than the FES rate). Those hydroelectric deliveries will be deemed "specified" resources and will not be subject to Cap and Trade penalties.

Contacting the Authority's Financial Manager

This financial report is designed to provide our customers and creditors with a generalized overview of the Authority's finances, and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report, or if additional financial information is needed, please contact the Needles Public Utility Authority, Director of Finance, 817 Third Street, Needles, California 92363.

Needles Public Utility Authority
(A Component Unit of the City of Needles)
Statement of Net Position
June 30, 2015

ASSETS

Current assets

Cash and cash equivalents	\$	3,746,076
Receivables, net		1,313,392
Materials and supplies inventory		<u>727,987</u>
Total current assets		<u>5,787,455</u>

Noncurrent assets

Prepayment of purchase obligation		964,344
Assets held by bond trustee - restricted		2,319,189
Capital assets, net of accumulated depreciation		17,940,786
Intangible assets, net of accumulated amortization		<u>2,566,653</u>
Total noncurrent assets		<u>23,790,972</u>
Total assets		<u>29,578,427</u>

DEFERRED OUTFLOWS OF RESOURCES

Difference in proportions of net pension liability		<u>94,819</u>
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LIABILITIES

Current liabilities

Accounts payable and other current liabilities		83,013
Due to the City of Needles		1,709,329
Compensated absences		301,948
Customer deposits		128,730
Interest payable		471,635
Bonds and note payable - current portion		<u>614,111</u>
Total current liabilities		<u>3,308,766</u>

Noncurrent liabilities

Net pension liability		881,176
Bonds and note payable - net of current portion		<u>26,875,302</u>
Total noncurrent liabilities		<u>27,756,478</u>
Total liabilities		<u>31,065,244</u>

DEFERRED INFLOWS OF RESOURCES

Difference between actual and projected Plan earnings		<u>470,348</u>
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NET POSITION

Net investment in capital and intangible assets		(1,837,919)
Restricted for debt service		3,019,456
Unrestricted (deficit) - as restated		<u>(3,043,883)</u>
Total net position	\$	<u>(1,862,346)</u>

See notes to financial statements.

Needles Public Utility Authority
(A Component Unit of the City of Needles)
Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2015

Operating revenues	
Sales of electricity	\$ 6,708,749
Sales of water	1,428,959
Charges for sewer use	1,218,175
Other revenue	<u>566,896</u>
Total operating revenues	<u>9,922,779</u>
 Operating expenses	
Operations and maintenance	4,529,160
Electric power purchased	2,146,106
Depreciation and amortization	965,978
City franchise fee	460,510
Utility users tax	<u>230,255</u>
Total operating expenses	<u>8,332,009</u>
Operating income	<u>1,590,770</u>
 Nonoperating revenues (expenses)	
Interest expense	(1,849,557)
Interest and investment revenue	<u>9,335</u>
Net nonoperating expenses	<u>(1,840,222)</u>
Loss before operating transfers	(249,452)
 Operating transfers	
Transfers from the City	60,458
Transfers to the City	<u>(277,311)</u>
Change in net position	(466,305)
Net position at beginning of year, as restated	<u>(1,396,041) **</u>
Net position at end of year	<u><u>\$ (1,862,346)</u></u>

****Restated to implement GASB Statement No. 68 - See Note 12**

See notes to financial statements.

Needles Public Utility Authority
(A Component Unit of the City of Needles)
Statement of Cash Flows
Year ended June 30, 2015

Cash flows from operating activities	
Receipts from customers	\$ 9,633,053
Payments to City of Needles:	
Suppliers and other costs	(5,101,312)
Employee compensation and related costs	(1,589,856)
Net cash flows from operating activities	<u>2,941,885</u>
Cash flows from capital and related financing activities	
Additions to capital assets	(91,250)
Principal paid on capital debt	(545,084)
Interest paid on capital debt	(1,863,934)
Net transfers for asset replacement reserves	(216,853)
Net cash flows from capital and related financing activities	<u>(2,717,121)</u>
Cash flows from investing activities	
Increase in deposits held by trustee	(2,174)
Interest and investment revenue	9,335
Net cash flows from investing activities	<u>7,161</u>
Change in cash and cash equivalents	231,925
Cash and cash equivalents at beginning of year	<u>3,514,151</u>
Cash and cash equivalents at end of year	<u>\$ 3,746,076</u>
Reconciliation of operating income to net cash flows from operating activities	
Operating income	\$ 1,590,770
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation and amortization	965,978
Bad debt expenses	176,526
Changes in operating assets and liabilities:	
Receivables	(295,092)
Materials and supplies inventory	(21,506)
Prepaid expenses	268,000
Deferred outflows of resources	(19,872)
Accounts payable and other current liabilities	(109,040)
Due to the City of Needles	336,075
Compensated absences	37,074
Customer deposits	5,366
Net pension liability	(462,742)
Deferred inflows of resources	470,348
Net cash flows from operating activities	<u>\$ 2,941,885</u>

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 and Measurement Focus

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.

NPUA's financial statements are presented in accordance with the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as amended by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and *Audits of State and Local Governmental Units* issued by the American Institute of Certified Public Accountants. Statement No. 34 established standards for external financial reporting for all state and local governmental entities. It requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting and Measurement Focus (continued)

- 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 year ended June 30, 2015, NPUA adopted the following Governmental Accounting Standards Board (GASB) statements which impacted NPUA's financial statements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statements No. 27 and 50*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures of pensions that are provided by local governmental employers through pension plans that are administered through trusts that meet certain conditions. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

- GASB Statement No. 71, *Pension Transition for Contributions made subsequent to the Measurement Date - an amendment of GAS Statement No. 68*. This statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pension

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pension, and pension expense, information about the fiduciary net position of the City of Needles' California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The City allocates about 43% of the net pension liability and pension-related transactions to NPUA based on NPUA's share in the pension contribution.

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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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 10, 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, 2015, the total estimated liability for all compensated absences, including sick leave, was \$301,948.

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.

NOTE 2 CASH AND INVESTMENTS

The indenture for the 1997 Series A Revenue Bonds (Note 6) required the establishment of special funds to be held and administered by trustees and by NPUA. At June 30, 2015 investments and cash held by trustees and by NPUA in these funds and accounts are as follows:

	2015
Custodian	
Local Agency Investment Fund	\$ 2,737,521
Bank	1,008,555
	\$ 3,746,076

Needles Public Utility Authority
(A Component Unit of the City of Needles)
Notes to Financial Statements
Year ended June 30, 2015

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

	2015
Special funds balances	
Operating funds	\$ 367,564
Electric asset replacement fund	2,276,219
Water asset replacement fund	100,514
Wastewater asset replacement fund	301,512
Utility rate stabilization fund	700,267
	\$ 3,746,076

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, 2015, the total fair value of LAIF, including accrued interest was approximately \$69.67 billion. The fair value of NPUA's investment in the pool is \$2,737,521. LAIF's and NPUA's exposure to risk (credit, market, or legal) is not currently available.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015 consist of the following:

	Electric	Water	Wastewater	Total
Accounts receivable	\$ 1,110,938	\$ 223,021	\$ 171,558	\$ 1,505,517
Allowance for doubtful accounts	(129,988)	(27,208)	(34,929)	(192,125)
Net receivables	\$ 980,950	\$ 195,813	\$ 136,629	\$ 1,313,392

Needles Public Utility Authority
(A Component Unit of the City of Needles)
Notes to Financial Statements
Year ended June 30, 2015

NOTE 4 CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2015 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers/ Deductions</u>	<u>Ending Balance</u>
Nondepreciable assets				
Land	\$ 3,201,893	\$ -	\$ -	\$ 3,201,893
Construction in progress	136,875	91,250	-	228,125
	<u>3,338,768</u>	<u>91,250</u>	<u>-</u>	<u>3,430,018</u>
Depreciable assets				
Utility plant	31,829,723	-	-	31,829,723
Accumulated depreciation	<u>(16,371,186)</u>	<u>(947,769)</u>	<u>-</u>	<u>(17,318,955)</u>
	<u>15,458,537</u>	<u>(947,769)</u>	<u>-</u>	<u>14,510,768</u>
Capital assets, net	<u>\$ 18,797,305</u>	<u>\$ (856,519)</u>	<u>\$ -</u>	<u>\$ 17,940,786</u>

NOTE 5 INTANGIBLE ASSETS

Changes in the intangible assets for the year ended June 30, 2015 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Cost			
Water rights	\$ 2,662,807	\$ -	\$ 2,662,807
Canal construction cost sharing	728,366	-	728,366
	<u>3,391,173</u>	<u>-</u>	<u>3,391,173</u>
Less accumulated amortization			
Water rights	(490,688)	-	(490,688)
Canal construction cost sharing	<u>(315,623)</u>	<u>(18,209)</u>	<u>(333,832)</u>
	<u>(806,311)</u>	<u>(18,209)</u>	<u>(824,520)</u>
Intangible assets, net	<u>\$ 2,584,862</u>	<u>\$ (18,209)</u>	<u>\$ 2,566,653</u>

NOTE 6 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.

Needles Public Utility Authority
(A Component Unit of the City of Needles)
Notes to Financial Statements
Year ended June 30, 2015

NOTE 6 LONG-TERM DEBT (CONTINUED)

- 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 \$400,000 prepayments made in 2012. The annual payment was further reduced to \$666,432 in fiscal year 2014 as a result of the additional prepayment made in 2013 amounting to \$350,000.

Long-term liability activity for the years ended June 30, 2015 was as follows:

	Beginning Balance	Reductions	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 16,040,000	\$ 490,000	\$ 15,550,000	\$ 525,000
Certificate of participation	2,415,683	59,792	2,355,891	62,515
Purchase obligation	9,835,829	24,922	9,810,907	26,596
	<u>28,291,512</u>	<u>574,714</u>	<u>27,716,798</u>	<u>\$ 614,111</u>
Unamortized discount	(244,715)	(17,330)	(227,385)	
	<u>\$ 28,046,797</u>	<u>\$ 557,384</u>	<u>\$ 27,489,413</u>	

Annual maturities of long-term debt are as follows:

Year Ending June 30	Revenue Bonds	Certificate of Participation	Purchase Obligation	Interest	Total
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	675,000	74,694	34,490	1,620,838	2,405,022
2021-2025	4,095,000	427,658	210,457	7,289,993	12,023,108
2026-2030	5,645,000	534,232	291,253	5,552,900	12,023,385
2031-2035	2,820,000	667,364	403,068	3,479,526	7,369,958
2036-2040	-	384,292	557,808	2,894,603	3,836,703
2041-2045	-	-	771,955	2,654,545	3,426,500
2046-2050	-	-	1,068,314	2,358,186	3,426,500
2051-2055	-	-	1,478,447	1,948,053	3,426,500
2056-2060	-	-	2,046,034	1,380,466	3,426,500
2061-2065	-	-	2,831,497	594,978	3,426,475
Total	<u>\$ 15,550,000</u>	<u>\$ 2,355,891</u>	<u>\$ 9,810,907</u>	<u>\$ 36,696,990</u>	<u>\$ 64,413,788</u>

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.

NOTE 6 LONG-TERM DEBT (CONTINUED)

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. NPUA reduced the annual payments to \$673,000 in 2015 and \$671,775 in 2014 which resulted in the reduction of the prepayment balance by \$12,300 and \$13,525, respectively.

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

NOTE 7 RETIREMENT PLAN

General Information about the Pension Plans

Plan Description

All qualified permanent and probationary employees are eligible to participate in the City of Needles' Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and City of Needles resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Classic participants (defined as eligible participants prior to January 1, 2013) are required to contribute 8% of their annual covered salary. New participants (defined as eligible employees brought into CalPERS membership for the first time on or after January 1, 2013) contribute at least half the normal cost rate as determined by CalPERS. The City contributes the remaining amounts necessary to fund the benefits for its employees, using the actuarial basis adopted by the CalPERS Board of Administration.

Benefits Provided

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

NOTE 7 RETIREMENT PLAN (CONTINUED)

With the implementation of GASB Statement No. 68, the City of Needles allocates about 43% of the City’s net pension liability and pension-related transactions to NPUA based on NPUA’s share in the pension contribution.

Please refer to the City’s audited financial statements for the fiscal year ended June 30, 2015 for more information about the City’s retirement plan required note disclosures in accordance with GASB Statement No. 68.

NOTE 8 ASSET REPLACEMENT FUNDS

NPUA transfers certain amounts to the City to fund future replacement of existing property and equipment and other capital expenditure requirements of NPUA. For the year ended June 30, 2015, NPUA transferred \$277,311 to the City for deposit to the asset replacement funds.

At June 30, 2015, 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):

	2015
Water	\$ 368,910
Wastewater	356,841
Electric	759,831
	\$ 1,485,582

NOTE 9 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, 2015 amounted to \$1,553,423 and is included in the assets held by bond trustee – restricted account in the Statement 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, 2015 amounted to \$167,983 and is included in the assets held by bond trustee – restricted account in the Statement of Net Position.

NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, \$1,265,000 remained outstanding at June 30, 2015.

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 10 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."

NOTE 10 RELATED PARTY TRANSACTIONS (CONTINUED)

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 \$6,473,276 for the year ended June 30, 2015.

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 \$690,765 for the year ended June 30, 2015.

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 \$673,000 for the year ended June 30, 2015, which included interest amounting to \$660,378. The unpaid purchase obligation is included in the bonds and note payable account in the Statement of Net Position.

NOTE 11 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 10.

NOTE 12 PRIOR PERIOD ADJUSTMENTS

The beginning balance of NPUA's net position has been restated to reflect the following adjustments:

Net position at June 30, 2014, as previously reported	\$ (127,070)
Prior period adjustment:	
Adjustment to record retroactive effect of implementing GASB Statement No. 68	<u>(1,268,971)</u>
Net position at June 30, 2014, as restated	<u>\$ (1,396,041)</u>

The net position balance as of June 30, 2014 was restated to retroactively report the net pension liability as of the beginning of the fiscal year as a result of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

NOTE 13 SUBSEQUENT EVENTS

NPUA has evaluated events subsequent to June 30, 2015 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 14, 2015, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

Needles Public Utility Authority
(A Component Unit of the City of Needles)
Combining Schedule of Net Position
June 30, 2015

	Water				Total
	Electric	Water	All American Canal	Wastewater	
ASSETS					
Current assets					
Cash and cash equivalents	\$ 3,045,057	\$ 226,945	\$ 44,422	\$ 429,652	\$ 3,746,076
Receivables, net	980,950	195,813	-	136,629	1,313,392
Due from the City of Needles	-	-	-	78,751	78,751
Due from other funds	6,853,174	-	419,606	-	7,272,780
Materials and supplies inventory	656,747	34,993	-	36,247	727,987
Total current assets	11,535,928	457,751	464,028	681,279	13,138,986
Noncurrent assets					
Prepayment of purchase obligation	530,389	241,086	-	192,869	964,344
Assets held by bond trustee - restricted	1,183,163	537,802	-	598,224	2,319,189
Capital assets, net of accumulated depreciation	8,107,914	3,670,924	-	6,161,948	17,940,786
Intangible assets, net of accumulated amortization	-	2,172,119	-	394,534	2,566,653
Total noncurrent assets	9,821,466	6,621,931	-	7,347,575	23,790,972
Total assets	21,357,394	7,079,682	464,028	8,028,854	36,929,958
DEFERRED OUTFLOWS OF RESOURCES					
Difference in proportions of net pension liability	51,202	30,342	2,845	10,430	94,819
LIABILITIES					
Current liabilities					
Accounts payable and other current liabilities	59,769	9,829	3,453	9,962	83,013
Due to the City of Needles	1,112,750	277,411	397,919	-	1,788,080
Due to other funds	-	3,559,893	-	3,712,887	7,272,780
Compensated absences	154,262	90,100	18,244	39,342	301,948
Customer deposits	97,340	31,390	-	-	128,730
Interest payable	235,104	106,866	-	129,665	471,635
Bonds and note payable - current portion	303,378	137,899	-	172,834	614,111
Total current liabilities	1,962,603	4,213,388	419,616	4,064,690	10,660,297
Noncurrent liabilities					
Net pension liability	475,835	281,976	26,435	96,930	881,176
Bonds and note payable - net of current portion	13,520,060	6,145,482	-	7,209,760	26,875,302
Total noncurrent liabilities	13,995,895	6,427,458	26,435	7,306,690	27,756,478
Total liabilities	15,958,498	10,640,846	446,051	11,371,380	38,416,775
DEFERRED INFLOWS OF RESOURCES					
Difference between actual and projected Plan earnings	253,988	150,511	14,111	51,738	470,348
NET POSITION					
Net investment in capital and intangible assets	(1,010,855)	(459,480)	-	(367,584)	(1,837,919)
Restricted for debt service	1,568,310	712,868	-	738,278	3,019,456
Unrestricted (deficit)	4,638,655	(3,934,721)	6,711	(3,754,528)	(3,043,883)
Total net position	\$ 5,196,110	\$ (3,681,333)	\$ 6,711	\$ (3,383,834)	\$ (1,862,346)

See report of independent auditors.

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, 2015

	Water				Total
	Electric	Water	All American Canal	Wastewater	
Operating revenues					
Charges for services	\$ 6,708,749	\$ 1,428,959	\$ 482,234	\$ 1,218,175	\$ 9,838,117
Other revenue	66,045	-	18,617	-	84,662
Total operating revenues	6,774,794	1,428,959	500,851	1,218,175	9,922,779
Operating expenses					
Electric power purchased	2,146,106	-	-	-	2,146,106
Salaries and benefits	920,553	434,823	52,940	206,348	1,614,664
Depreciation and amortization	313,767	307,833	-	344,378	965,978
City franchise fee	314,092	66,463	23,296	56,659	460,510
Utility users tax	157,046	44,879	-	28,330	230,255
Supplies	280,941	61,592	309	23,721	366,563
Administrative and management	395,073	196,890	6,864	115,347	714,174
Power and utilities	40,347	115,974	33	111,905	268,259
Contractual services	257,886	79,599	289,114	366,045	992,644
Maintenance and operations	53,294	65,535	-	49,235	168,064
Insurance	61,401	17,321	-	44,585	123,307
Conservation/solar rebates	187,951	-	-	-	187,951
Miscellaneous	31,333	25,782	2,977	33,442	93,534
Total operating expenses	5,159,790	1,416,691	375,533	1,379,995	8,332,009
Operating income	1,615,004	12,268	125,318	(161,820)	1,590,770
Nonoperating revenues (expenses)					
Interest expense	(1,017,256)	(462,389)	-	(369,912)	(1,849,557)
Interest and investment revenue	6,721	1,494	-	1,120	9,335
Net nonoperating expenses	(1,010,535)	(460,895)	-	(368,792)	(1,840,222)
Income (loss) before operating transfers	604,469	(448,627)	125,318	(530,612)	(249,452)
Operating transfers					
Transfers from the City	43,530	9,673	-	7,255	60,458
Transfers to the City	-	(197,427)	-	(79,884)	(277,311)
Change in net position	647,999	(636,381)	125,318	(603,241)	(466,305)
Net position at beginning of year, as restated	4,548,111	(3,044,952)	(118,607)	(2,780,593)	(1,396,041)
Net position at end of year	\$ 5,196,110	\$ (3,681,333)	\$ 6,711	\$ (3,383,834)	\$ (1,862,346)

See report of independent auditors.

Needles Public Utility Authority
(A Component Unit of the City of Needles)
Combining Schedule of Cash Flows
Year ended June 30, 2015

	Water				Total
	Electric	Water	All American Canal	Wastewater	
Cash flows from operating activities					
Receipts from customers	\$ 6,543,806	\$ 1,386,374	\$ 500,851	\$ 1,202,022	\$ 9,633,053
Payments to City of Needles:					
Suppliers and other costs	(4,236,352)	(24,266)	(456,222)	(384,472)	(5,101,312)
Employee compensation and related costs	(898,519)	(469,547)	(35,064)	(186,726)	(1,589,856)
Net cash flows from operating activities	<u>1,408,935</u>	<u>892,561</u>	<u>9,565</u>	<u>630,824</u>	<u>2,941,885</u>
Cash flows from capital and related financing activities					
Additions to capital assets	-	(91,250)	-	-	(91,250)
Principal paid on capital debt	(266,910)	(121,322)	-	(156,852)	(545,084)
Interest paid on capital debt	(1,024,547)	(465,702)	-	(373,685)	(1,863,934)
Net transfers for asset replacement reserves	43,530	(187,754)	-	(72,629)	(216,853)
Net cash flows from capital and related financing activities	<u>(1,247,927)</u>	<u>(866,028)</u>	<u>-</u>	<u>(603,166)</u>	<u>(2,717,121)</u>
Cash flows from investing activities					
Increase in deposits held by trustee	(1,195)	(544)	-	(435)	(2,174)
Interest and investment revenue	6,721	1,494	-	1,120	9,335
Net cash flows from investing activities	<u>5,526</u>	<u>950</u>	<u>-</u>	<u>685</u>	<u>7,161</u>
Net change in cash and cash equivalents	166,534	27,483	9,565	28,343	231,925
Cash and cash equivalents at beginning of year	2,878,523	199,462	34,857	401,309	3,514,151
Cash and cash equivalents at end of year	<u>\$ 3,045,057</u>	<u>\$ 226,945</u>	<u>\$ 44,422</u>	<u>\$ 429,652</u>	<u>\$ 3,746,076</u>
Reconciliation of operating income to net cash flows from operating activities					
Operating income (loss)	\$ 1,615,004	\$ 12,268	\$ 125,318	\$ (161,820)	\$ 1,590,770
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization	313,767	307,833	-	344,378	965,978
Bad debt expenses	111,424	43,775	-	21,327	176,526
Changes in operating assets and liabilities:					
Receivable	(237,154)	(41,785)	-	(16,153)	(295,092)
Materials and supplies inventory	(11,779)	(6,452)	-	(3,275)	(21,506)
Prepaid expenses	268,000	-	-	-	268,000
Deferred outflows of resources	(10,730)	(6,359)	(597)	(2,186)	(19,872)
Accounts payable and other current liabilities	(78,509)	(12,910)	(4,536)	(13,085)	(109,040)
Due from (to) the City of Needles	164,194	36,858	214,267	(79,244)	336,075
Due from (to) other funds	(764,212)	588,498	(343,360)	519,074	-
Compensated absences	28,657	(30,798)	18,244	20,971	37,074
Customer deposits	6,166	(800)	-	-	5,366
Net pension liability	(249,881)	(148,078)	(13,882)	(50,901)	(462,742)
Deferred inflows of resources	253,988	150,511	14,111	51,738	470,348
Net cash flows from operating activities	<u>\$ 1,408,935</u>	<u>\$ 892,561</u>	<u>\$ 9,565</u>	<u>\$ 630,824</u>	<u>\$ 2,941,885</u>

See report of independent auditors.

**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 (NPUA), a component unit of the City of Needles, California as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise NPUA's financial statements, and have issued our report thereon dated December 14, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered NPUA'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 NPUA's internal control. Accordingly, we do not express an opinion on the effectiveness of NPUA'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 NPUA'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 NPUA'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

December 14, 2015



www.vasquezcpa.com

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