



**Needles Public Utility Authority  
(A Component Unit of the City of Needles)  
Audited Financial Statements  
*As of and for the Years Ended June 30, 2017 and 2016  
with Report of Independent Auditors***



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**(A Component Unit of the City of Needles)**  
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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 years ended June 30, 2017 and 2016, 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 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 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 NPUA as of June 30, 2017 and 2016, and the respective changes in its financial position and its cash flows for the years 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise NPUA's basic financial statements. The combining schedules 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 schedules 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 schedules 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.





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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2017 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 solely 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 the effectiveness of NPUA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NPUA's internal control over financial reporting and compliance.

*Vaquero & Company LLP*

Los Angeles, California  
December 21, 2017

**Needles Public Utility Authority**  
**(A Component Unit of the City of Needles)**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2017**

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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, 2017 and 2016. Please read it in conjunction with the Authority's financial statements, which follow this section.

**Financial Highlights**

- The total net position increased \$1,322 thousand in 2017.
- Operating revenues increased \$2,108 thousand in 2017.
- Operating expenses increased \$1,556 thousand in 2017.

**Overview of the Financial Statements**

This annual report includes the management's discussion and analysis report, the independent auditors' report, the Authority's basic financial statements, and the supplementary schedules. 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 revenues and expenses for the years ended June 30, 2017 and 2016 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 periods.

**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 (Unaudited)**  
**June 30, 2017**

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

**Condensed Statements of Net Position**  
**(000's)**

	<u>2017</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Assets</b>				
Current and other assets	\$ 13,937	\$ 11,901	\$ 2,036	17.11%
Capital assets	<u>17,675</u>	<u>17,046</u>	<u>629</u>	<u>3.69%</u>
Total assets	<u>31,612</u>	<u>28,947</u>	<u>2,665</u>	<u>9.21%</u>
<b>Deferred outflows of resources</b>	<u>1,008</u>	<u>590</u>	<u>418</u>	<u>70.85%</u>
<b>Liabilities</b>				
Long-term debt	25,051	26,893	(1,842)	-6.85%
Other liabilities	<u>6,679</u>	<u>3,088</u>	<u>3,591</u>	<u>116.29%</u>
Total liabilities	<u>31,730</u>	<u>29,981</u>	<u>1,749</u>	<u>5.83%</u>
<b>Deferred inflows of resources</b>	<u>833</u>	<u>821</u>	<u>12</u>	<u>1.46%</u>
<b>Net Position</b>				
Net investment in capital and intangible assets	332	(1,724)	2,056	-119.26%
Restricted for debt service	700	3,019	(2,319)	-76.81%
Unrestricted (deficit)	<u>(975)</u>	<u>(2,560)</u>	<u>1,585</u>	<u>-61.91%</u>
Total net position	<u>\$ 57</u>	<u>\$ (1,265)</u>	<u>\$ 1,322</u>	<u>-104.51%</u>

The \$1,322 thousand increase in total net position in 2017, versus an increase of \$597 thousand in 2016, 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 (Unaudited)**  
**June 30, 2017**

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

	<u>2017</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Revenues</b>				
Operating revenues	\$ 12,211	\$ 10,103	\$ 2,108	20.87%
Nonoperating revenues	<u>21</u>	<u>13</u>	<u>8</u>	<u>61.54%</u>
Total revenues	<u>12,232</u>	<u>10,116</u>	<u>2,116</u>	<u>20.92%</u>
<b>Expenses</b>				
Depreciation	903	928	(25)	-2.69%
Other operating expenses	8,213	6,657	1,556	23.37%
Nonoperating expenses	<u>1,794</u>	<u>1,813</u>	<u>(19)</u>	<u>-1.05%</u>
Total expenses	<u>10,910</u>	<u>9,398</u>	<u>1,512</u>	<u>16.09%</u>
<b>Income before operating transfers</b>	<b>1,322</b>	<b>718</b>	<b>604</b>	<b>84.12%</b>
<b>Transfers</b>	<u>-</u>	<u>(121)</u>	<u>121</u>	<u>-100.00%</u>
<b>Changes in net position</b>	<b>1,322</b>	<b>597</b>	<b>725</b>	<b>121.44%</b>
<b>Net position at beginning of year</b>	<u>(1,265)</u>	<u>(1,862)</u>	<u>597</u>	<u>-32.06%</u>
<b>Net position at end of year</b>	<u>\$ 57</u>	<u>\$ (1,265)</u>	<u>\$ 1,322</u>	<u>-104.51%</u>

While the Statements of Net Position shows the changes in financial position, the Statements 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)**

	<u>2017</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Costs</b>				
Land	\$ 3,209	\$ 3,202	\$ 7	0.22%
Utility plant	32,073	31,316	757	2.42%
Construction in progress	<u>1,506</u>	<u>756</u>	<u>750</u>	<u>99.21%</u>
Total costs	<u>36,788</u>	<u>35,274</u>	<u>1,514</u>	<u>4.29%</u>
<b>Accumulated depreciation</b>	<b>19,113</b>	<b>18,228</b>	<b>885</b>	<b>4.86%</b>
Net capital assets	<u>\$ 17,675</u>	<u>\$ 17,046</u>	<u>\$ 629</u>	<u>3.69%</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.
- Improve electric reliability with the construction of three new substations located at; Bush Street (Yoney), North Needles on Needles Highway and Ice Plant Road. As of June 30, 2017, the new Yoney substation was near completion.
- Construction of a new 69 kV power line with 12 kV under-build from Yoney substation to Spikes Road.
- Upgrade to the existing 230 kV transmission loop with existing and new 230 kV connections between Topock Substation and the City of Needles.
- Continuing rewiring and remetering of meters (Residential and Commercial) Rebuilding power lines from Bush Street Substation to Tamrisk Road.
- Insulator Replacement Projects – On-going project
- Pole Grounding Project
- Upgrade power lines feeding Park Moabi.

*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 Lilly Hill booster station. Including new electric panel, relocation, and upgrade to water mains.
- Install radio telemetry for wells and booster stations.
- New City Golf Course water well.
- New Equipment such as air compressor, portable vacuum jetter, backup generator(s)
- Meter Replacement. On-going project being completed.
- Develop a Water masterplan which will include a proposed line extension of services to North Needles.

*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 Bazabooth wet well.
- Continue to repair or replace several more manholes.
- Develop a Wastewater masterplan which will include a proposed collection and treatment services to North Needles.

### **Long Term Debt**

Total indebtedness (all liabilities) outstanding at June 30, 2017 and 2016 amounted to \$31.7 million and \$30.0 million, respectively. No new debt was issued in 2016 but in 2017, \$15.5 million of Revenue Refunding Bonds were issued to repay other debt owed by the Authority. 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 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 City of Needles, California For Aggregated Energy Services ("AES") AES (through WAPA) accommodates aggregation of all member resources (hydro electric and thermal electric) subject to transmission arrangements. There is an opportunity for Needles to receive excess Wellton – Mohawk Irrigation and Drainage District Federal Energy Services ("FES") hydro at a pre-negotiated cost, based on the FES rate (exchanges cannot be made at a rate greater than the FES Rate). Those hydro deliveries will be deemed "specified" resources and will not be subject to Cap and Trade penalties.

### **Implementation of New Accounting Pronouncements**

During the fiscal year ended June 30, 2017, NPUA implemented the following new Statements of the Governmental Accounting Standards Board (GASB): GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, GASB Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*, GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73.*

The implementation of these seven statements did not materially impact the Authority's financial statements for the year ended June 30, 2017.

### **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)**  
**Statements of Net Position**

		June 30	
		2017	2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$	8,617,561	\$ 4,062,978
Receivables, net		1,272,283	1,335,175
Materials and supplies inventory		588,903	688,985
<b>Total current assets</b>		<b>10,478,747</b>	<b>6,087,138</b>
<b>Noncurrent assets</b>			
Prepayment of purchase obligation		927,163	946,027
Assets held by bond trustee - restricted		-	2,318,756
Capital assets, net of accumulated depreciation		17,675,391	17,046,212
Intangible assets, net of accumulated amortization		2,530,234	2,548,444
<b>Total noncurrent assets</b>		<b>21,132,788</b>	<b>22,859,439</b>
<b>Total assets</b>		<b>31,611,535</b>	<b>28,946,577</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pensions		1,008,242	590,320
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and other current liabilities		117,743	93,893
Due to the City of Needles		2,449,479	941,036
Compensated absences		331,242	256,021
Customer deposits		2,037,218	377,890
Interest payable		249,098	456,261
Bonds and note payable - current portion		882,985	653,740
<b>Total current liabilities</b>		<b>6,067,765</b>	<b>2,778,841</b>
<b>Noncurrent liabilities</b>			
Net pension liability		1,494,016	963,383
Bonds and note payable - net of current portion		24,168,457	26,238,994
<b>Total noncurrent liabilities</b>		<b>25,662,473</b>	<b>27,202,377</b>
<b>Total liabilities</b>		<b>31,730,238</b>	<b>29,981,218</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions		832,549	820,970
<b>NET POSITION</b>			
Net investment in capital and intangible assets		332,233	(1,724,296)
Restricted for debt service		700,268	3,019,024
Unrestricted (deficit)		(975,511)	(2,560,019)
<b>Total net position</b>	\$	<b>56,990</b>	\$ (1,265,291)

*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**

	<b>Years ended June 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Operating revenues</b>		
Sales of electricity	\$ 7,755,501	\$ 6,455,500
Sales of water	2,160,575	1,537,034
Charges for sewer use	1,691,837	1,315,615
Other revenue	602,629	795,089
<b>Total operating revenues</b>	<b>12,210,542</b>	<b>10,103,238</b>
<b>Operating expenses</b>		
Operations and maintenance	4,443,668	3,918,974
Electric power purchased	2,294,789	2,033,929
Depreciation and amortization	903,088	927,820
City franchise fee	773,894	469,918
Utility users tax	699,160	234,959
<b>Total operating expenses</b>	<b>9,114,599</b>	<b>7,585,600</b>
<b>Operating income</b>	<b>3,095,943</b>	<b>2,517,638</b>
<b>Nonoperating revenues (expenses)</b>		
Interest expense	(1,794,860)	(1,813,018)
Interest and investment revenue	21,198	13,245
<b>Net nonoperating expenses</b>	<b>(1,773,662)</b>	<b>(1,799,773)</b>
<b>Income before operating transfers</b>	<b>1,322,281</b>	<b>717,865</b>
<b>Operating transfers</b>		
Transfers to the City	-	(120,810)
<b>Change in net position</b>	<b>1,322,281</b>	<b>597,055</b>
<b>Net position at beginning of year</b>	<b>(1,265,291)</b>	<b>(1,862,346)</b>
<b>Net position at end of year</b>	<b>\$ 56,990</b>	<b>\$ (1,265,291)</b>

*See notes to financial statements.*



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

	<b>Years ended June 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	\$ 13,873,751	\$ 10,275,231
Payments to City of Needles:		
Suppliers and other costs	(4,904,766)	(6,110,870)
Employee compensation and related costs	(1,415,848)	(1,318,536)
<b>Net cash flows from operating activities</b>	<b>7,553,137</b>	<b>2,845,825</b>
<b>Cash flows from capital and related financing activities</b>		
Additions to capital assets	(1,514,057)	(15,037)
Proceeds from issuance of debt	15,488,000	-
Principal paid on capital debt	(17,310,429)	(578,362)
Interest paid on capital debt	(2,002,023)	(1,828,392)
Net transfers for asset replacement reserves	-	(120,810)
<b>Net cash flows from capital and related financing activities</b>	<b>(5,338,509)</b>	<b>(2,542,601)</b>
<b>Cash flows from investing activities</b>		
Increase in deposits held by trustee	2,318,756	433
Interest and investment revenue	21,198	13,245
<b>Net cash flows from investing activities</b>	<b>2,339,954</b>	<b>13,678</b>
<b>Change in cash and cash equivalents</b>	<b>4,554,582</b>	<b>316,902</b>
Cash and cash equivalents at beginning of year	<u>4,062,978</u>	<u>3,746,076</u>
Cash and cash equivalents at end of year	<u>\$ 8,617,561</u>	<u>\$ 4,062,978</u>
<b>Reconciliation of operating income to net cash flows from operating activities</b>		
Operating income	\$ 3,095,943	\$ 2,517,638
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	903,088	927,820
Bad debt expenses	59,011	55,384
Changes in operating assets and liabilities:		
Receivables	3,881	(77,167)
Materials and supplies inventory	100,082	39,002
Deferred outflows of resources	(417,922)	(495,501)
Accounts payable and other current liabilities	23,850	10,880
Due from (to) the City of Needles	1,508,443	(768,293)
Compensated absences	75,221	(45,927)
Customer deposits	1,659,328	249,160
Net pension liability	530,633	82,207
Deferred inflows of resources	11,579	350,622
<b>Net cash flows from operating activities</b>	<b>\$ 7,553,137</b>	<b>\$ 2,845,825</b>

*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 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 (Agency). Pursuant to the provisions of ABX126, the Agency was dissolved effective February 1, 2012. The City 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.

**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*. Statement No. 63 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 capital 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 restrictions 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, 2017, NPUA adopted the following Governmental Accounting Standards Board (GASB) statements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016. The implementation of this Statement did not materially impact the Authority's financial statements for the fiscal year ended June 30, 2017.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged. The implementation of this Statement did not materially impact the Authority's financial statements for the fiscal year ended June 30, 2017.

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**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- GASB Statement No. 77, *Tax Abatement Disclosures*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The implementation of this Statement did not materially impact the Authority's financial statements for the fiscal year ended June 30, 2017.
- GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The implementation of this Statement did not materially impact the Authority's financial statements for the fiscal year ended June 30, 2017.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23-26, and 40, which are effective for reporting periods beginning after December 15, 2015. The implementation of this Statement did not materially impact the Authority's financial statements for the fiscal year ended June 30, 2017.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The implementation of this Statement did not materially impact the Authority's financial statements for the fiscal year ended June 30, 2017.
- GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The implementation of this Statement did not materially impact the Authority's financial statements for the fiscal year ended June 30, 2017.

**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's 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 for each of the years ended June 30, 2017 and 2016, respectively.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 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 concerning employees and their compensation. All earned vacation, holiday, compensatory time off, and a portion of accumulated sick leave of the City's 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, 2017 and 2016, the total estimated liability for all compensated absences, including sick leave, was \$331,242 and \$256,021, 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 this asset has an indeterminate life and has 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 and 2016 Revenue Refunding Bonds (Note 6) requires the establishment of special funds to be held and administered by trustees and by NPUA. As of and for the years ended June 30, 2017 and 2016, investments and cash held by trustees and by NPUA in these funds and accounts are as follows:

	2017	2016
Custodian		
Local Agency Investment Fund	\$ 2,765,258	\$ 2,747,357
Bank	5,852,303	1,315,621
	\$ 8,617,561	\$ 4,062,978

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**NOTE 2 CASH AND INVESTMENTS (CONTINUED)**

	2017	2016
Special funds balances		
Operating funds	\$ 4,876,563	\$ 118,447
Electric asset replacement reserve	3,040,730	2,841,223
Water asset replacement reserve	-	100,771
Wastewater asset replacement reserve	-	302,269
Utility rate stabilization fund	700,268	700,268
	\$ 8,617,561	\$ 4,062,978

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 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, 2017 and 2016, the total fair value of LAIF, including accrued interest was approximately \$74.9 billion and \$72.0 billion, respectively. The fair value of NPUA's investment in the pool is \$2,765,258 and \$2,747,357 as of June 30, 2017 and 2016, respectively. LAIF's and NPUA's exposure to risk (credit, market, or legal) is not currently available.

NPUA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NPUA's investment in LAIF as of June 30, 2017 and 2016 is reported at the Agency's pro-rata share of the amortized cost provided by LAIF for the entire LAIF portfolio. This valuation amount which approximates fair value, is not categorized under the fair value hierarchy.



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**NOTE 3      ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2017 consist of the following:

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Accounts receivable	\$ 945,132	\$ 308,074	\$ 211,202	\$ 1,464,408
Allowance for doubtful accounts	<u>(129,988)</u>	<u>(27,208)</u>	<u>(34,929)</u>	<u>(192,125)</u>
Net receivables	<u>\$ 815,144</u>	<u>\$ 280,866</u>	<u>\$ 176,273</u>	<u>\$ 1,272,283</u>

Accounts receivable at June 30, 2016 consist of the following:

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Accounts receivable	\$ 1,019,503	\$ 294,333	\$ 213,464	\$ 1,527,300
Allowance for doubtful accounts	<u>(129,988)</u>	<u>(27,208)</u>	<u>(34,929)</u>	<u>(192,125)</u>
Net receivables	<u>\$ 889,515</u>	<u>\$ 267,125</u>	<u>\$ 178,535</u>	<u>\$ 1,335,175</u>

**NOTE 4      CAPITAL ASSETS**

Changes in capital assets for the year ended June 30, 2017 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers/ Deductions</u>	<u>Ending Balance</u>
Nondepreciable assets				
Land	\$ 3,201,893	\$ 7,500	\$ -	\$ 3,209,393
Construction in progress	<u>756,440</u>	<u>1,506,557</u>	<u>(756,440)</u>	<u>1,506,557</u>
	<u>3,958,333</u>	<u>1,514,057</u>	<u>(756,440)</u>	<u>4,715,950</u>
Depreciable assets				
Utility plant	31,316,445	-	756,440	32,072,885
Accumulated depreciation	<u>(18,228,566)</u>	<u>(884,878)</u>	<u>-</u>	<u>(19,113,444)</u>
	<u>13,087,879</u>	<u>(884,878)</u>	<u>756,440</u>	<u>12,959,441</u>
Capital assets, net	<u>\$ 17,046,212</u>	<u>\$ 629,179</u>	<u>\$ -</u>	<u>\$ 17,675,391</u>

Changes in capital assets for the year ended June 30, 2016 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	<u>228,125</u>	<u>-</u>	<u>528,315</u>	<u>756,440</u>
	<u>3,430,018</u>	<u>-</u>	<u>528,315</u>	<u>3,958,333</u>
Depreciable assets				
Utility plant	31,829,723	15,037	(528,315)	31,316,445
Accumulated depreciation	<u>(17,318,955)</u>	<u>(909,611)</u>	<u>-</u>	<u>(18,228,566)</u>
	<u>14,510,768</u>	<u>(894,574)</u>	<u>(528,315)</u>	<u>13,087,879</u>
Capital assets, net	<u>\$ 17,940,786</u>	<u>\$ (894,574)</u>	<u>\$ -</u>	<u>\$ 17,046,212</u>

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**NOTE 5 INTANGIBLE ASSETS**

Changes in the intangible assets for the year ended June 30, 2017 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	<u>728,366</u>	<u>-</u>	<u>728,366</u>
	<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>(352,041)</u>	<u>(18,210)</u>	<u>(370,251)</u>
	<u>(842,729)</u>	<u>(18,210)</u>	<u>(860,939)</u>
Intangible assets, net	<u>\$ 2,548,444</u>	<u>\$ (18,210)</u>	<u>\$ 2,530,234</u>

Changes in the intangible assets for the year ended June 30, 2016 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	<u>728,366</u>	<u>-</u>	<u>728,366</u>
	<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>(333,832)</u>	<u>(18,209)</u>	<u>(352,041)</u>
	<u>(824,520)</u>	<u>(18,209)</u>	<u>(842,729)</u>
Intangible assets, net	<u>\$ 2,566,653</u>	<u>\$ (18,209)</u>	<u>\$ 2,548,444</u>

**NOTE 6 LONG-TERM DEBT**

Long-term debt consists of:

- 2016 Revenue Refunding Bonds, interest at 3.86% payable each February and August 1<sup>st</sup> – principal redemptions in varying annual amounts that are due through February 2031.
- Revenue Bonds, 1997 Series A Utility Acquisition Project, interest at 4.70% to 6.65% payable each February and August 1<sup>st</sup> – principal redemptions in varying annual amounts that were due through February 2032. These Revenue Bonds were refinanced as part of the 2016 Revenue Refunding Bonds and paid off as of June 30, 2017.
- Certificate of Participation, \$83,917 payable each February and August 1<sup>st</sup>, including interest at 4.50% that were due through August 2037. These Certificates of Participation were refinanced as part of the 2016 Revenue Refunding Bonds and paid off as of June 30, 2017.

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**NOTE 6      LONG-TERM DEBT (CONTINUED)**

- Purchase Obligation due to the City, \$685,300 payable each February 1<sup>st</sup>, 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 year ended June 30, 2017 was as follows:

	Beginning Balance	Reductions	Ending Balance	Amounts Due Within One Year
Revenue refunding bonds	\$ -	\$ -	\$ 15,488,000	\$ 852,698
Revenue bonds	15,025,000	15,025,000	-	-
Certificate of participation	2,293,377	2,293,377	-	-
Purchase obligation	9,784,311	28,381	9,755,930	30,287
	<u>27,102,688</u>	<u>17,346,758</u>	<u>25,243,930</u>	<u>\$ 882,985</u>
Unamortized discount	(209,954)	(17,466)	(192,488)	
	<u>\$ 26,892,734</u>	<u>\$ 17,329,292</u>	<u>\$ 25,051,442</u>	

Long-term liability activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Reductions	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 15,550,000	\$ 525,000	\$ 15,025,000	\$ 560,000
Certificate of participation	2,355,891	62,514	2,293,377	65,359
Purchase obligation	9,810,907	26,596	9,784,311	28,381
	<u>27,716,798</u>	<u>614,110</u>	<u>27,102,688</u>	<u>\$ 653,740</u>
Unamortized discount	(227,385)	(17,431)	(209,954)	
	<u>\$ 27,489,413</u>	<u>\$ 596,679</u>	<u>\$ 26,892,734</u>	

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**NOTE 6      LONG-TERM DEBT (CONTINUED)**

Annual maturities of long-term debt are as follows:

Year Ending June 30	Revenue Refunding Bonds	Purchase Obligation	Interest	Total
2018	\$ 852,698	\$ 30,287	\$ 1,244,700	\$ 2,127,685
2019	885,931	32,320	1,209,435	2,127,686
2020	920,458	34,490	1,172,738	2,127,686
2021	956,330	36,806	1,134,550	2,127,686
2022	993,600	39,277	1,094,808	2,127,685
2023-2027	5,579,925	239,666	4,818,835	10,638,426
2028-2032	5,299,058	331,676	3,565,307	9,196,041
2033-2037	-	459,008	2,967,492	3,426,500
2038-2042	-	635,225	2,791,275	3,426,500
2043-2047	-	879,094	2,547,407	3,426,501
2048-2052	-	1,216,583	2,209,917	3,426,500
2053-2057	-	1,683,638	1,742,862	3,426,500
2058-2062	-	2,329,999	1,096,501	3,426,500
2063-2065	-	1,807,861	248,013	2,055,874
<b>Total</b>	<b>\$ 15,488,000</b>	<b>\$ 9,755,930</b>	<b>\$ 27,843,839</b>	<b>\$ 53,087,769</b>

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 independent utility revenues for the 2016 Revenue Refunding 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. NPUA reduced the annual payments to \$666,983 in 2016 and \$673,000 in 2015 which resulted in the reduction of the prepayment balance by \$18,317 and \$12,300, respectively.

Upon payment in full of all indebtedness of the NPUA, title to the water, sewer, and electrical enterprises (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 CalPERS. Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

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.

With the implementation of GASB Statement No. 68, the City 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 for each of the years ended June 30, 2017 and 2016, respectively.

Please refer to the City's audited financial statements for the fiscal year ended June 30, 2017 for more information about the City's retirement plan required note disclosures and supplementary information in accordance with GASB Statement No. 68.

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**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 years ended June 30, 2017 and 2016, NPUA transferred \$0 and \$120,810 to the City for deposit to the asset replacement funds.

At June 30, 2017 and 2016, 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):

	<b>2017</b>	<b>2016</b>
Water	<b>\$ 195,458</b>	\$ 13,797
Wastewater	<b>306,760</b>	159,076
Electric	<b>488,803</b>	1,126,087
	<b>\$ 991,021</b>	\$ 1,298,960

**NOTE 9 COMMITMENTS AND CONTINGENCIES**

The 1997 Series A Bond Indenture and the Certificate of Participation required 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, 2016 amounted to \$1,553,423 and was included in the assets held by bond trustee – restricted account in the Statements of Net Position.
- The Series A Bonds were refunded during the year ended June 30, 2017 and the reserve balance was \$0 at June 30, 2017.

For Certificates of Participation:

- Deposit semi-annually with the Trustee 1/20<sup>th</sup> 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, 2016 amounted to \$167,983 and was included in the assets held by bond trustee – restricted account in the Statements of Net Position.
- The Certificates of Participation were refunded during the year ended June 30, 2017 and the reserve balance at June 30, 2017 amounted to \$0.

**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, \$0 remained outstanding at June 30, 2017.

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 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 1<sup>st</sup>, 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 fees amounted to \$7,483,416 and \$5,333,194 for the years ended June 30, 2017 and 2016.

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 \$1,473,054 and \$704,877 for the years ended June 30, 2017 and 2016.

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 1<sup>st</sup>, through 2065. Payments are payable solely from Surplus Revenues (as defined). Purchase obligation payments amounted to \$666,436 and \$666,983 for the years ended June 30, 2017 and 2016, which included interest amounting to \$656,919 and \$658,704, respectively. The unpaid purchase obligation is included in the bonds and note payable account in the Statements 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, 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      SUBSEQUENT EVENTS**

NPUA has evaluated events subsequent to June 30, 2017 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 21, 2017, the date on which 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**  
**Year ended June 30, 2017**

	Water				Total
	Electric	Water	All American Canal	Wastewater	
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 7,056,048	\$ 660,297	\$ 231,996	\$ 669,220	\$ 8,617,561
Receivables, net	815,144	280,866	-	176,273	1,272,283
Due from other funds	8,606,754	-	440,547	-	9,047,301
Materials and supplies inventory	526,589	33,895	-	28,419	588,903
<b>Total current assets</b>	<u>17,004,535</u>	<u>975,058</u>	<u>672,543</u>	<u>873,912</u>	<u>19,526,048</u>
<b>Noncurrent assets</b>					
Prepayment of purchase obligation	509,940	231,791	-	185,432	927,163
Capital assets, net of accumulated depreciation	8,980,916	3,183,395	-	5,511,080	17,675,391
Intangible assets, net of accumulated amortization	-	2,172,118	-	358,116	2,530,234
<b>Total noncurrent assets</b>	<u>9,490,856</u>	<u>5,587,304</u>	<u>-</u>	<u>6,054,628</u>	<u>21,132,788</u>
<b>Total assets</b>	<u>26,495,391</u>	<u>6,562,362</u>	<u>672,543</u>	<u>6,928,540</u>	<u>40,658,836</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred outflows of resources related to pensions	544,451	322,637	30,247	110,907	1,008,242
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Accounts payable and other current liabilities	84,775	13,941	4,898	14,129	117,743
Due to the City of Needles	1,844,902	231,319	373,258	-	2,449,479
Due to other funds	-	3,819,147	-	5,228,154	9,047,301
Compensated absences	204,709	95,959	142	30,432	331,242
Customer deposits	1,996,376	40,842	-	-	2,037,218
Interest payable	137,003	62,275	-	49,820	249,098
Bonds and note payable - current portion	485,642	220,746	-	176,597	882,985
<b>Total current liabilities</b>	<u>4,753,407</u>	<u>4,484,229</u>	<u>378,298</u>	<u>5,499,132</u>	<u>15,115,066</u>
<b>Noncurrent liabilities</b>					
Net pension liability	821,709	373,504	-	298,803	1,494,016
Bonds and note payable - net of current portion	13,292,652	6,042,114	-	4,833,691	24,168,457
<b>Total noncurrent liabilities</b>	<u>14,114,361</u>	<u>6,415,618</u>	<u>-</u>	<u>5,132,493</u>	<u>25,662,473</u>
<b>Total liabilities</b>	<u>18,867,768</u>	<u>10,899,847</u>	<u>378,298</u>	<u>10,631,625</u>	<u>40,777,539</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows of resources related to pensions	449,577	266,416	24,976	91,580	832,549
<b>NET POSITION</b>					
Net investment in capital and intangible assets	182,728	83,058	-	66,447	332,233
Restricted for debt service	385,147	175,067	-	140,054	700,268
Unrestricted (deficit)	7,154,622	(4,539,388)	299,515	(3,890,259)	(975,511)
<b>Total net position</b>	<u>\$ 7,722,497</u>	<u>\$ (4,281,263)</u>	<u>\$ 299,515</u>	<u>\$ (3,683,758)</u>	<u>\$ 56,990</u>

*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, 2017**

	Water				Total
	Electric	Water	All American Canal	Wastewater	
<b>Operating revenues</b>					
Charges for services	\$ 7,755,501	\$ 2,160,575	\$ 519,258	\$ 1,691,837	\$ 12,127,171
Other revenue	58,853	-	24,518	-	83,371
<b>Total operating revenues</b>	<u>7,814,354</u>	<u>2,160,575</u>	<u>543,776</u>	<u>1,691,837</u>	<u>12,210,542</u>
<b>Operating expenses</b>					
Electric power purchased	2,294,789	-	-	-	2,294,789
Salaries and benefits	862,573	444,892	24,297	159,449	1,491,211
Depreciation and amortization	317,244	261,048	-	324,796	903,088
City franchise fee	418,856	234,880	-	120,158	773,894
Utility users tax	562,952	136,208	-	-	699,160
Supplies	38,087	49,962	655	22,191	110,895
Administrative and management	514,820	211,925	8,220	112,741	847,706
Power and utilities	44,416	97,530	-	101,872	243,818
Contractual services	71,255	45,476	318,021	380,060	814,812
Maintenance and operations	119,888	236,803	-	26,668	383,359
Insurance	148,890	16,256	-	40,581	205,727
Conservation/solar rebates	180,041	-	-	-	180,041
Miscellaneous	34,355	79,379	5,897	46,468	166,099
<b>Total operating expenses</b>	<u>5,608,166</u>	<u>1,814,359</u>	<u>357,090</u>	<u>1,334,984</u>	<u>9,114,599</u>
<b>Operating income</b>	<u>2,206,188</u>	<u>346,216</u>	<u>186,686</u>	<u>356,853</u>	<u>3,095,943</u>
<b>Nonoperating revenues (expenses)</b>					
Interest expense	(987,173)	(448,715)	-	(358,972)	(1,794,860)
Interest and investment revenue	15,263	3,392	-	2,544	21,198
<b>Net nonoperating expenses</b>	<u>(971,910)</u>	<u>(445,323)</u>	<u>-</u>	<u>(356,428)</u>	<u>(1,773,662)</u>
<b>Income (loss) before operating transfers</b>	1,234,278	(99,107)	186,686	425	1,322,281
<b>Operating transfers</b>					
Transfers from the City	-	-	-	-	-
Transfers to the City	-	-	-	-	-
<b>Change in net position</b>	1,234,278	(99,107)	186,686	425	1,322,281
<b>Net position at beginning of year</b>	6,488,219	(4,182,156)	112,829	(3,684,183)	(1,265,291)
<b>Net position at end of year</b>	<u>\$ 7,722,497</u>	<u>\$ (4,281,263)</u>	<u>\$ 299,515</u>	<u>\$ (3,683,758)</u>	<u>\$ 56,990</u>

*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, 2017**

	Water				Total
	Electric	Water	All American Canal	Wastewater	
<b>Cash flows from operating activities</b>					
Receipts from customers	\$ 9,501,073	\$ 2,143,036	\$ 543,776	\$ 1,685,866	\$ 13,873,751
Payments from (to) City of Needles:					
Suppliers and other costs	(3,983,557)	(1,452,931)	(321,826)	853,548	(4,904,766)
Employee compensation and related costs	(816,174)	(427,733)	(24,013)	(147,928)	(1,415,848)
<b>Net cash flows from operating activities</b>	<u>4,701,342</u>	<u>262,372</u>	<u>197,937</u>	<u>2,391,486</u>	<u>7,553,137</u>
<b>Cash flows from capital and related financing activities</b>					
Additions to capital assets	(1,524,269)	-	-	10,212	(1,514,057)
Proceeds from issuance of debt	8,518,400	3,872,000	-	3,097,600	15,488,000
Principal paid on capital debt	(8,192,109)	(3,723,685)	-	(5,394,635)	(17,310,429)
Interest paid on capital debt	(1,076,202)	(489,182)	-	(436,639)	(2,002,023)
<b>Net cash flows from capital and related financing activities</b>	<u>(2,274,180)</u>	<u>(340,867)</u>	<u>-</u>	<u>(2,723,462)</u>	<u>(5,338,509)</u>
<b>Cash flows from investing activities</b>					
Increase in deposits held by trustee	1,182,925	537,693	-	598,138	2,318,756
Interest and investment revenue	15,263	3,392	-	2,544	21,198
<b>Net cash flows from investing activities</b>	<u>1,198,188</u>	<u>541,085</u>	<u>-</u>	<u>600,681</u>	<u>2,339,954</u>
<b>Net change in cash and cash equivalents</b>	3,625,350	462,590	197,937	268,705	4,554,582
Cash and cash equivalents at beginning of year	3,430,698	\$ 197,707	\$ 34,059	\$ 400,515	4,062,979
Cash and cash equivalents at end of year	<u>\$ 7,056,048</u>	<u>\$ 660,297</u>	<u>\$ 231,996</u>	<u>\$ 669,220</u>	<u>\$ 8,617,561</u>
<b>Reconciliation of operating income to net cash flows from operating activities</b>					
Operating income	\$ 2,206,188	\$ 346,216	\$ 186,686	\$ 356,853	\$ 3,095,943
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation and amortization	317,244	261,048	-	324,796	903,088
Bad debt expenses	41,861	8,917	-	8,233	59,011
Changes in operating assets and liabilities:					
Receivables	32,510	(22,658)	-	(5,971)	3,881
Materials and supplies inventory	82,832	8,089	-	9,161	100,082
Deferred outflows of resources	(225,678)	(133,735)	(12,537)	(45,972)	(417,922)
Accounts payable and other current liabilities	17,172	2,824	992	2,862	23,850
Due from (to) the City of Needles	1,368,522	119,880	20,041	-	1,508,443
Due from (to) other funds	(1,138,018)	(486,851)	2,266	1,622,603	-
Compensated absences	46,399	17,159	142	11,521	75,221
Customer deposits	1,654,209	5,119	-	-	1,659,328
Net pension liability	291,848	132,658	-	106,126	530,633
Deferred inflows of resources	6,253	3,706	347	1,273	11,579
<b>Net cash flows from operating activities</b>	<u>\$ 4,701,342</u>	<u>\$ 262,372</u>	<u>\$ 197,937</u>	<u>\$ 2,391,486</u>	<u>\$ 7,553,137</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, 2017, and the related notes to the financial statements, which collectively comprise NPUA's basic financial statements, and have issued our report thereon dated December 21, 2017.

**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 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.

**Los Angeles, California**  
**December 21, 2017**





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