

Report of Independent Auditors
and Combined Financial Statements for

**McMinnville Water and
Light Department**
(A Component Unit of the City of
McMinnville, Oregon)

June 30, 2015 and 2014

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

CONTENTS

	PAGE
OFFICIALS OF THE DEPARTMENT	1
REPORT OF INDEPENDENT AUDITORS	2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-10
COMBINED FINANCIAL STATEMENTS	
Statements of net position	11
Statements of revenues, expenses, and changes in net position	12
Statements of cash flows	13-14
Notes to combined financial statements	15-37
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of proportionate share of the net pension asset as of June 30, 2015	38
Schedule of contributions as of June 30, 2015	39
REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>OREGON AUDITING STANDARDS</i>	40-41

**McMINNVILLE WATER AND LIGHT DEPARTMENT
OFFICIALS OF THE DEPARTMENT**

Commissioners as of June 30, 2015

<u>Name</u>	<u>Term Expires</u>
Thomas Tankersley, Chairperson	December 31, 2017
Rick Olson, Mayor	December 31, 2016
Edward Gormley	December 31, 2016
Patrick Fuchs	December 31, 2018
Mike Keyes	December 31, 2015

Administrative Staff

Kem M. Carr, General Manager
Mark R. Carlton, CPA, CGMA, Director of Finance
Mary Ann Nolan, Clerk

Department Address

McMinnville Water and Light Department
855 NE Marsh Lane
McMinnville, Oregon 97128

REPORT OF INDEPENDENT AUDITORS

To the Board of Commissioners
McMinnville Water and Light Department

Report on the Financial Statements

We have audited the accompanying combined and individual financial statements of McMinnville Water and Light Department (the Department), a component unit of the City of McMinnville, Oregon, which comprise the combined and individual statements of net position as of June 30, 2015 and 2014, the related combined and individual statements of revenues, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined and individual 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined and individual financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined and individual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined and individual financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined and individual 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 combined and individual 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 Department'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 combined financial statements.

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

REPORT OF INDEPENDENT AUDITORS (continued)

Opinions

In our opinion, the combined and individual financial statements referred to above present fairly, in all material respects, the financial position of the Department as of June 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the combined financial statements present only the Department and do not purport to, and do not present fairly the financial position of the City of McMinnville, Oregon, as of June 30, 2015 and 2014 and the 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. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, the Department adopted the provisions of GASB 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, effective July 1, 2014. The beginning of year net position has been adjusted for this change. Our opinion is not modified with respect to this matter.

As described in Note 16 to the financial statements, the Department restated the June 30, 2014 financial statements for the corrections of an error. The error was attributable to the understatement of a liability and pension expense related to a transitional liability, which should have been previously recorded. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension asset, and schedule of contributions as identified in the table of contents be presented to supplement the basic combined and individual financial statements. Such information, although not a part of the combined and individual 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 combined and individual 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, then comparing the information for consistency with management's responses to our inquiries, the basic combined and individual financial statements, and other knowledge we obtained during our audit of the basic combined and individual 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.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated November 17, 2015, on our consideration of the Department's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.



Julie Desimone, Partner
for Moss Adams LLP
November 17, 2015

McMINNVILLE WATER AND LIGHT DEPARTMENT MANAGEMENT'S DISCUSSION AND ANALYSIS

McMinnville Water and Light Department (the Department or MWL) was established in 1889 as a municipal utility responsible for providing water and electricity for the City of McMinnville. The Department is governed by the City Charter and has a five-member Commission. Commissioners are appointed by the Mayor and approved by the City Council. The Mayor serves in an ex-officio capacity.

Financial highlights

- Completed the construction of Walnut City Substation
- Replaced breakers 95,96&97 at Windishar Substation
- Replaced 12.47 kV bus on Bank #3 at Windishar Substation
- Major Construction of Second Finished Water Tunnel completed. Minor items to complete
- Installed 60 LED street lighting fixtures for pilot program
- Installed approximately 400 radio read meters
- Replaced 109 distribution transformers
- Replaced 59 distribution poles
- Continued work outlined in Water Master Plan
- Replaced 4,000 feet of underground cable
- Replaced 2,500 feet of small overhead conductor with larger overhead conductor
- Installed 7,200 feet of new underground cable

Overview of financial statements

The Department obtains 97% of its power supply from the Bonneville Power Administration (BPA) and purchases 3% from other suppliers.

Fiscal year 2014/15 saw the continuance of the Department's participation in BPA's Energy Efficiency Incentive. The conservation efforts for the last fiscal year recorded over 300 residential conservation projects, including 17 low income qualified projects, and 30 commercial energy conservation projects. This effort netted the utility 0.22 average megawatts of conservation.

Analysis of the statements of revenues, expenses, and changes in net position

The combined statements of revenues, expenses, and changes in net position show the financial results of activities for any given fiscal year. These statements measure the success of the Department's operations during the last three years and can be used to determine whether all of its costs have been successfully recovered.

McMINNVILLE WATER AND LIGHT DEPARTMENT MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed combined statements of revenues, expenses, and changes in net position (\$000s)

	FY 2015	FY 2014 <i>as restated</i>	Increase (Decrease)	Percent Change	FY 2013	Increase (Decrease)	Percent Change
Operating revenues	\$ 44,944	\$ 44,662	\$ 282	1%	\$ 43,030	\$ 1,632	4%
Operating expenses	42,099	42,922	(823)	-2%	41,262	1,660	4%
Net operating income	2,845	1,740	1,105	64%	1,768	(28)	-2%
Other revenues	4,549	3,765	784	21%	5,061	(1,296)	-26%
Other expenses	(200)	(265)	65	-25%	(571)	306	-54%
Contributions	1,561	910	651	72%	475	435	92%
Total other	5,910	4,410	1,500	34%	4,965	(555)	-11%
Change in net position	<u>\$ 8,755</u>	<u>\$ 6,150</u>	<u>\$ 2,605</u>	<u>42%</u>	<u>\$ 6,733</u>	<u>\$ (583)</u>	<u>-9%</u>

Fiscal Year 2015

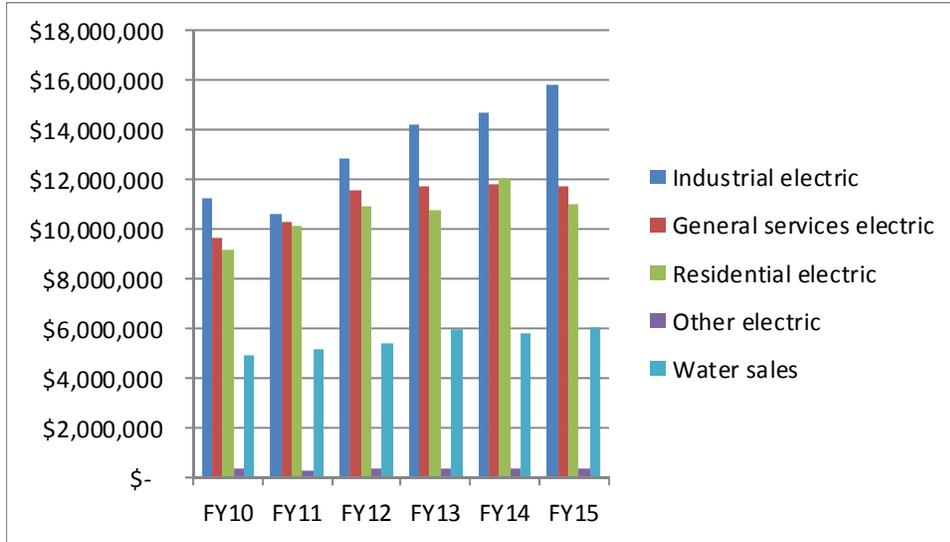
Operating revenues increased overall by 1%, largely due to increased revenue from water sales by 4%. Electricity revenues increased due to increased consumption of electricity (kWh) by 0.2%. Water (Cu. Ft.) sales increased 4.6%. Operating expenses came in neutral for electricity, while being 16% lower on the water side. This was largely due to the implementation of GASB 68 on the Department's books this year and a large credit to pension expense. Economic and/or weather conditions, continue to be factors for both water and electric consumption. After netting positive changes to other expenses and contributions in aid, total other net revenue increased by 34% for the fiscal year largely due to increased net timber revenue and contributions in aid of construction.

Fiscal Year 2014

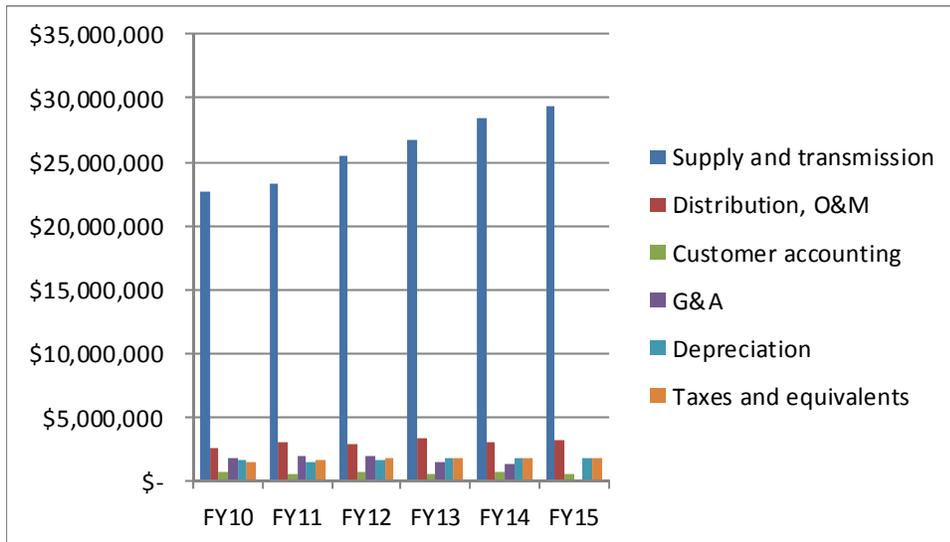
Operating revenues increased by 4%, largely due to increased revenue from electricity sales by 4.8%. Electricity revenues included rate increases (October 1, 2013) and increased consumption of electricity (kWh) by 1.9%. Water (Cu. Ft.) sales decreased 4.2%. Operating expenses came in 4.6% higher and 0.1% higher than the prior year for electricity and water, respectively. Economic and/or weather conditions, along with conservation continue to be factors with relatively flat consumption for water and some growth for electric consumption. After netting positive changes to other expenses and contributions in aid, total other net revenue decreased by 11% for the fiscal year largely due to decreased net timber revenues.

McMINNVILLE WATER AND LIGHT DEPARTMENT MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating revenues

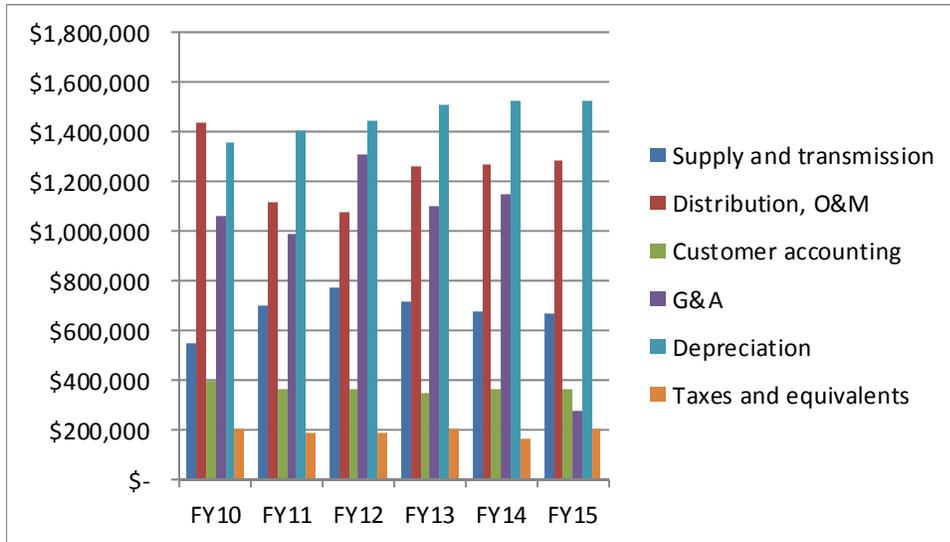


Operating expenses - Electric



McMINNVILLE WATER AND LIGHT DEPARTMENT MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating expenses – Water



The Combined Statements of Net Position include all of the Department's assets, deferred outflow of resources, liabilities and deferred inflow of resources and provide information about the nature and amounts of investments in resources (assets) and the obligations of the Department (liabilities). They also provide the basis for assessing the Department's capital structure, liquidity, and financial flexibility.

Condensed combined statements of net position (\$000s)

	FY 2015	FY 2014	Increase (Decrease)	Percent Change	FY 2013	Increase (Decrease)	Percent Change
	<i>as restated</i>				<i>as restated</i>		
Assets and deferred outflows							
Net utility plant	\$ 121,446	\$ 118,079	\$ 3,367	3%	\$ 115,135	\$ 2,944	3%
Current assets	42,288	38,416	3,872	10%	34,623	3,793	11%
Other assets and deferred inflow of resources	5,563	3,494	2,069	59%	3,677	(183)	-5%
Total assets and deferred outflows	\$ 169,297	\$ 159,989	\$ 9,308	6%	\$ 153,435	\$ 6,554	4%
Liabilities and deferred inflows							
Current liabilities	\$ 5,595	\$ 5,302	\$ 293	6%	\$ 4,963	\$ 339	7%
Long-term liabilities	2,856	2,821	35	1%	2,755	66	2%
Deferred outflow of resources	2,884	-	2,884	100%	-	-	0%
Total liabilities and deferred inflows	11,335	8,123	3,212	40%	7,718	405	5%
Net position							
Net investment in capital assets	121,446	118,080	3,366	3%	115,135	2,945	3%
Unrestricted	36,516	33,786	2,730	8%	30,581	3,205	10%
Total net position	\$ 157,962	\$ 151,866	\$ 6,096	4%	\$ 145,717	\$ 6,149	4%

McMINNVILLE WATER AND LIGHT DEPARTMENT MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year 2015

The Department's total assets and deferred outflow of resources increased by 6% during FY 2015. This was largely due to increases in cash and cash equivalents for the electric side of the Department, increases in net utility plant for both sides of the utility and increases in deferred outflows of resources (GASB 68). Total combined liabilities and deferred inflows of resources showed a net increase at year end largely due to implementation of GASB 68, including other post-employment benefits liability (asset) and deferred inflows of resources. Long-term liabilities also included the impact of recording the Department's share of a pension transition liability.

Fiscal Year 2014

The Department's total assets increased by 4% during FY 2014. This was largely due to increases in cash and cash equivalents for the electric side of the Department, and increases in net utility plant for both sides of the utility. Total combined liabilities showed a net increase at year end largely due to increases in accounts payable, coinciding with several large construction projects mentioned in the cash flow narrative, below. Long-term liabilities also included the impact of recording the Department's share of a pension transition liability.

Condensed combined statement of cash flows (\$000s)

	FY 2015	FY 2014	Change	Percent Change	FY 2013	Change	Percent Change
Beginning cash and cash equivalents	\$ 32,754	\$ 29,269	\$ 3,485	12%	\$ 21,241	\$ 8,028	38%
Change in:							
Operating activities	8,028	8,827	(799)	-9%	10,313	(1,486)	-14%
Capital and related financing activities	(5,136)	(5,459)	323	-6%	(2,364)	(3,095)	131%
Investing activities	128	117	11	9%	79	38	48%
Ending cash and cash equivalents	<u>\$ 35,774</u>	<u>\$ 32,754</u>	<u>\$ 3,020</u>	<u>9%</u>	<u>\$ 29,269</u>	<u>\$ 3,485</u>	<u>12%</u>

Fiscal Year 2015

Cash from operating activities decreased overall for FY 2015. While receipts from customers and timber sales net, and payments to suppliers contributed to increases in operating cash, power purchases and payments to employees resulted in decreases in cash from operations. Cash flows from capital and related financing showed an overall increase in cash flow due to reductions in capital spending and interest paid. Cash flows from investing activities were relatively flat.

Fiscal Year 2014

Cash from operating activities decreased overall for FY 2014. While receipts from customers and other receipts contributed to increases in cash from operations, lower receipts from timber sales (net) and increased power purchases were the main factors for the decreased cash from operations. The receipts from customers increased primarily due to rate increases (electric) and increased consumption of electricity. Cash flows used in capital financing activities increased from the prior year due to the Walnut City Substation rebuild and ramping up of the Second Finished Water Tunnel project.

McMINNVILLE WATER AND LIGHT DEPARTMENT MANAGEMENT'S DISCUSSION AND ANALYSIS

Budget highlights

	In \$000s			
	<u>Budget FY 2015</u>	<u>Actual FY 2015</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenues	\$ 46,759	\$ 44,944	\$ (1,815)	-4%
Operating expenses	<u>45,699</u>	<u>42,099</u>	<u>(3,600)</u>	<u>-8%</u>
Net operating revenue	<u>1,060</u>	<u>2,845</u>	<u>1,785</u>	<u>168%</u>
Other revenues (expenses)	2,543	4,349	1,806	71%
Contributions	<u>755</u>	<u>1,561</u>	<u>806</u>	<u>107%</u>
Changes in net position	<u>\$ 4,358</u>	<u>\$ 8,755</u>	<u>\$ 4,397</u>	<u>101%</u>

Electricity and Water sales came in under and over budget by (4%) and 1.0%, respectively. Power and transmission costs also came in under budget by (4%). Operating expenses came in (8%) lower largely due to the implementation of GASB 68. Other revenue also contributed to a favorable budget variance due to higher than anticipated net timber revenue, BPA conservation reimbursements, and lower dispositions of assets. Contributions in aid were 107% higher than anticipated due to the uptick in the local construction. The above, combined factors resulted in MWL's changes in net position coming in 101% higher than anticipated.

Capital assets and debt administration

The Department continues to develop its infrastructure to meet the water and power needs of its customers. The FY 2015 saw a net increase in capital assets, after depreciation, of \$3.4 million. A net increase of \$2.9 million was reported for FY 2014. For additional information on capital assets, refer to Note 4 of the Notes to combined financial statements.

The Department had outstanding interdepartmental loans during the fiscal years ended June 30, 2015 and 2014 amounting to \$3,748,853 and \$5,546,854, respectively, for the financing of the Norm Scott Water Treatment Plant renovations. These loans were eliminated in the total combined balance column for financial statement purposes.

Impact of GASB 68

The Department applied new pension reporting standards to the financial statements for Fiscal Year 2015 as required by GASB statement No. 68. The statement dramatically affected the statements resulting in a large accumulated adjustment to net position and affected the categories of pension expense, deferred inflows and outflows of resources and assets. Due to the calculations required by the statement on the part of the actuaries for the state retirement system, the Department's share of the collective net pension expense was a negative number and the Department's share of the collective net pension liability was actually a pension asset.

McMINNVILLE WATER AND LIGHT DEPARTMENT MANAGEMENT'S DISCUSSION AND ANALYSIS

Further discussion of the implementation of GASB 68 can be found below and in the footnotes to the financial statements.

During Fiscal Year 2015, net position increased by \$8,755,000 over the prior year. The largest change in net position came from the application of GASB 68 to the Fiscal Year 2015 report. Pension payments to the state retirement system the Department made during Fiscal Year 2015 of \$692,000 were backed out of expense on the statement of activities and recorded instead as a deferred outflow. Another deferred outflow resulted from changes in proportion and contributions in the amount of \$84,000. Deferred inflows of resources in the amount of \$2,884,000 resulted from netting the differences between projected and actual earnings on investments.

A negative pension expense was then recorded in the statement of activities in the amount of \$1,354,000. The negative expense number is the Department's share of the collective net pension expense given to the City of McMinnville from the Pension system's actuary for Fiscal Year 2013 rolled forward to June 30, 2014 as required by GASB 68. The negative pension expense along with the reversal of contributions for the Fiscal Year 2015, account for \$2,046,000 of the increase in net position.

Economic factors and outlook for next year

The cash position of the Water and Light Departments should be stable during the 2016 fiscal year. The economy, weather and power costs will continue to be important factors for sales of water and electricity that will ultimately impact cash reserves.

Requests for information

This financial report is designed to provide a general overview of the Department's finances for all those with an interest therein. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Director of Finance, McMinnville Water and Light Department, 855 NE Marsh Lane, McMinnville, OR 97128.

**McMINNVILLE WATER AND LIGHT DEPARTMENT
COMBINED STATEMENTS OF NET POSITION
AS OF JUNE 30, 2015 AND 2014**

	Water		Light		Total	
	2015	2014	2015	2014	2015	2014
	<i>as restated</i>		<i>as restated</i>		<i>as restated</i>	
ASSETS AND DEFERRED OUTFLOWS						
Utility plant, net	\$ 84,367,122	\$ 81,784,879	\$ 37,079,340	\$ 36,294,682	\$ 121,446,462	\$ 118,079,561
Current assets						
Cash and cash equivalents	8,856,453	9,550,566	26,064,016	22,542,317	34,920,469	32,092,883
Designated cash and cash equivalents	-	-	859,707	661,061	859,707	661,061
Accounts receivable, net of allowance	1,056,209	618,901	3,719,051	3,700,046	4,775,260	4,318,947
Current portion of note receivable and other	-	-	2,284,580	2,062,001	348,589	164,000
Inventories	195,632	224,379	615,965	606,907	811,597	831,286
Other current assets	373,525	163,011	198,917	184,523	572,442	347,534
Total current assets	10,481,819	10,556,857	33,742,236	29,756,855	42,288,064	38,415,711
Other assets						
Note receivable and other, less current portion	-	-	2,015,510	3,986,933	202,648	238,080
Renewable energy certificates	-	-	888,789	887,396	888,789	887,396
Pension asset	597,749	-	896,622	-	1,494,371	-
Regulatory asset - conservation charges	-	-	2,202,058	2,368,251	2,202,058	2,368,251
Total other assets	597,749	-	6,002,979	7,242,580	4,787,866	3,493,727
Deferred outflows of resources	310,126	-	465,191	-	775,317	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 95,756,816	\$ 92,341,736	\$ 77,289,746	\$ 73,294,117	\$ 169,297,709	\$ 159,988,999
LIABILITIES, DEFERRED INFLOWS AND NET POSITION						
Net position						
Net investment in capital assets	\$ 80,618,269	\$ 76,138,025	\$ 37,079,340	\$ 36,294,682	\$ 121,446,462	\$ 118,079,561
Unrestricted	7,404,135	7,537,790	32,860,542	31,895,957	36,515,824	33,786,893
Total net position	88,022,404	83,675,815	69,939,882	68,190,639	157,962,286	151,866,454
Current liabilities						
Accounts payable	408,578	676,705	3,013,878	2,463,787	3,422,456	3,140,492
Accrued payroll	133,218	120,971	146,578	132,323	279,796	253,294
Other liabilities	-	-	102,356	201,080	102,356	201,080
Compensated absences	221,882	186,320	233,926	219,730	455,808	406,050
Due to City of McMinnville	721,527	700,251	107,301	110,811	828,828	811,062
Advances and deposits	175,000	175,000	331,924	315,114	506,924	490,114
Current portion of long-term notes payable	1,935,991	1,898,001	-	-	-	-
Total current liabilities	3,596,196	3,757,248	3,935,963	3,442,845	5,596,168	5,302,092
Long-term liabilities						
Notes payable, less current portion	1,812,862	3,748,853	-	-	-	-
Transitional liability	549,247	546,902	823,870	820,352	1,373,117	1,367,254
Other post-employment benefits liability	622,695	612,918	859,912	840,281	1,482,607	1,453,199
Total long-term liabilities	2,984,804	4,908,673	1,683,782	1,660,633	2,855,724	2,820,453
Deferred inflows of resources	1,153,412	-	1,730,119	-	2,883,531	-
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 95,756,816	\$ 92,341,736	\$ 77,289,746	\$ 73,294,117	\$ 169,297,709	\$ 159,988,999

Interfund notes receivable and payable, and net position are eliminated in the total column.

**McMINNVILLE WATER AND LIGHT DEPARTMENT
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	Water		Light		Total	
	2015	2014	2015	2014	2015	2014
	<i>as restated</i>		<i>as restated</i>		<i>as restated</i>	
OPERATING REVENUES						
Sales of electricity						
Residential	\$ -	\$ -	\$ 11,044,912	\$ 12,025,508	\$ 11,044,912	\$ 12,025,508
General service	-	-	11,717,372	11,784,061	11,717,372	11,784,061
Industrial	-	-	15,832,162	14,704,443	15,832,162	14,704,443
Rental light	-	-	101,479	117,138	101,479	117,138
Street light	-	-	195,473	202,535	195,473	202,535
Cable TV	-	-	35,105	33,529	35,105	33,529
Sales of water	6,017,939	5,794,919	-	-	6,017,939	5,794,919
Total operating revenues	<u>6,017,939</u>	<u>5,794,919</u>	<u>38,926,503</u>	<u>38,867,214</u>	<u>44,944,442</u>	<u>44,662,133</u>
OPERATING EXPENSES						
Supply and transmission	673,046	674,631	29,433,678	28,501,672	30,106,724	29,176,303
Distribution, operation, and maintenance	1,283,354	1,270,024	3,284,511	3,046,326	4,567,865	4,316,350
Customer accounting and meter reading	363,740	367,319	600,233	639,098	963,973	1,006,417
General and administrative	279,245	1,144,692	94,784	1,357,322	374,029	2,505,862
Depreciation	1,523,561	1,524,773	1,833,570	1,825,581	3,357,131	3,350,354
Conservation	-	-	689,807	576,786	689,807	576,786
Taxes and tax equivalents	208,735	168,228	1,831,036	1,821,934	2,039,771	1,990,162
Total operating expenses	<u>4,331,681</u>	<u>5,149,667</u>	<u>37,767,619</u>	<u>37,768,719</u>	<u>42,099,300</u>	<u>42,922,234</u>
Operating income	<u>1,686,258</u>	<u>645,252</u>	<u>1,158,884</u>	<u>1,098,495</u>	<u>2,845,142</u>	<u>1,739,899</u>
NON-OPERATING INCOME (EXPENSE)						
Timber sales, net of related expenses	3,324,530	2,243,586	-	-	3,324,530	2,243,586
Interest income	47,297	53,715	250,709	276,447	167,244	199,400
Other, net	10,014	79,292	1,009,328	1,239,256	1,019,342	1,318,548
Loss on asset dispositions	(20,661)	(14,226)	(178,959)	(250,864)	(199,620)	(265,090)
Interest expense	(93,338)	(130,762)	-	-	37,424	-
Total non-operating income	<u>3,267,842</u>	<u>2,231,605</u>	<u>1,081,078</u>	<u>1,264,839</u>	<u>4,348,920</u>	<u>3,496,444</u>
Income before contributed capital	<u>4,954,100</u>	<u>2,876,857</u>	<u>2,239,962</u>	<u>2,363,334</u>	<u>7,194,062</u>	<u>5,240,191</u>
Hookup fees and contributed utility systems	<u>456,152</u>	<u>119,381</u>	<u>1,104,777</u>	<u>790,302</u>	<u>1,560,929</u>	<u>909,683</u>
Change in net position	<u>5,410,252</u>	<u>2,996,238</u>	<u>3,344,739</u>	<u>3,153,636</u>	<u>8,754,991</u>	<u>6,149,874</u>
NET POSITION,						
beginning of year, before adjustment and restatement	83,675,815	81,228,018	68,190,639	65,859,664	151,866,454	147,087,682
Accumulated adjustment for change in accounting principle	(1,063,663)	-	(1,595,496)	-	(2,659,159)	-
Cummulative effect of restatement	-	(548,441)	-	(822,661)	-	(1,371,102)
beginning of year, after adjustment and restatement	<u>82,612,152</u>	<u>80,679,577</u>	<u>66,595,143</u>	<u>65,037,003</u>	<u>149,207,295</u>	<u>145,716,580</u>
NET POSITION, end of year	<u>\$ 88,022,404</u>	<u>\$ 83,675,815</u>	<u>\$ 69,939,882</u>	<u>\$ 68,190,639</u>	<u>\$ 157,962,286</u>	<u>\$ 151,866,454</u>

Interfund interest income and expense on interfund notes receivable and payable are eliminated in total column.

**McMINNVILLE WATER AND LIGHT DEPARTMENT
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	Water		Light		Total	
	2015	2014 <i>as restated</i>	2015	2014 <i>as restated</i>	2015	2014 <i>as restated</i>
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 5,580,631	\$ 5,832,058	\$ 38,907,498	\$ 38,554,063	\$ 44,488,129	\$ 44,386,121
Receipts from timber sales	3,324,530	2,243,586	-	-	3,324,530	2,243,586
Other receipts and purchases	(213,564)	86,667	1,009,328	1,239,256	795,764	1,325,923
Power purchases	-	-	(29,433,678)	(28,501,672)	(29,433,678)	(28,501,672)
Payments to suppliers	(304,720)	319,862	(1,462,027)	(1,870,402)	(1,766,747)	(1,550,540)
Conservation measures	-	-	(689,807)	(576,786)	(689,807)	(576,786)
Payments to employees	(3,260,245)	(3,143,326)	(3,390,157)	(3,362,392)	(6,650,402)	(6,505,718)
Payments of taxes	(208,735)	(168,228)	(1,831,036)	(1,821,934)	(2,039,771)	(1,990,162)
Net cash from operating activities	4,917,897	5,170,619	3,110,121	3,660,133	8,028,018	8,830,752
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Additions to utility plant, net	(3,670,313)	(2,998,818)	(1,692,410)	(2,651,291)	(5,362,723)	(5,650,109)
Deductions from renewable energy certificates	-	-	(1,393)	40	(1,393)	40
Deductions from deferred conservation	-	-	166,193	166,193	166,193	166,193
Proceeds from (payment on) interfund loan	(1,898,001)	(1,860,622)	1,898,001	1,860,622	-	-
Interest paid	(93,338)	(130,762)	-	-	-	-
Net cash from capital and related financing activities	(5,661,652)	(4,990,202)	370,391	(624,436)	(5,197,923)	(5,483,876)
CASH FLOWS FROM NONCAPITAL RELATED FINANCING ACTIVITIES						
Payment (additions) on transitional liability	2,345	(1,539)	3,518	(2,309)	5,863	(3,848)
Net cash from noncapital related financing activities	2,345	(1,539)	3,518	(2,309)	5,863	(3,848)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received	47,297	53,715	236,315	219,411	190,274	142,364
Net cash from investing activities	47,297	53,715	236,315	219,411	190,274	142,364
Net change in cash and cash equivalents	(694,113)	232,593	3,720,345	3,252,799	3,026,232	3,485,392
CASH AND CASH EQUIVALENTS, beginning of year	9,550,566	9,317,973	23,203,378	19,950,579	32,753,944	29,268,552
CASH AND CASH EQUIVALENTS, end of year	\$ 8,856,453	\$ 9,550,566	\$ 26,923,723	\$ 23,203,378	\$ 35,780,176	\$ 32,753,944

Interest paid and received on interfund note is eliminated in the total column

**McMINNVILLE WATER AND LIGHT DEPARTMENT
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	Water		Light		Total	
	2015	2014 <i>as restated</i>	2015	2014 <i>as restated</i>	2015	2014 <i>as restated</i>
RECONCILIATION OF OPERATING						
INCOME TO NET CASH						
FROM OPERATING ACTIVITIES						
Operating income	\$ 1,686,258	\$ 645,252	\$ 1,158,884	\$ 1,098,495	\$ 2,845,142	\$ 1,743,747
Adjustments to reconcile operating income to net cash from operating activities						
Collections received for the City of McMinnville	8,390,392	8,099,884	-	-	8,390,392	8,099,884
Remittances of collections to City of McMinnville	(8,356,052)	(8,030,598)	-	-	(8,356,052)	(8,030,598)
Depreciation	1,523,561	1,524,773	1,833,570	1,825,581	3,357,131	3,350,354
Other, net	10,014	79,292	1,009,328	1,239,256	1,019,342	1,318,548
Timber sales, net of related expenses	3,324,530	2,243,586	-	-	3,324,530	2,243,586
Other post-employment benefits liability	9,777	28,990	19,631	40,035	29,408	69,025
Pension expense (credit)	(541,446)	-	(812,169)	-	(1,353,615)	-
Changes in assets and liabilities:						
Accounts receivable	(437,308)	37,139	(19,005)	(313,151)	(456,313)	(276,012)
BPA receivable	-	-	(39,970)	(39,970)	(39,970)	(39,970)
Inventories	28,747	(69,276)	(9,058)	(2,142)	19,689	(71,418)
Other current assets	(210,514)	(5,689)	(109,187)	159,150	(319,701)	153,461
Accounts payable	(268,127)	459,283	550,091	115,685	281,964	574,968
Accrued payroll	12,247	11,067	14,255	1,527	26,502	12,594
Other liabilities	-	-	(98,724)	(204,208)	(98,724)	(204,208)
Compensated absences	35,562	8,852	14,196	(11,197)	49,758	(2,345)
Due to the City of McMinnville	(13,064)	13,064	(3,510)	14,609	(16,574)	27,673
Deferred outflow of resources - contributions	(276,680)	-	(415,021)	-	(691,701)	-
Advances and deposits	-	125,000	16,810	(263,537)	16,810	(138,537)
Net cash from operating activities	<u>\$ 4,917,897</u>	<u>\$ 5,170,619</u>	<u>\$ 3,110,121</u>	<u>\$ 3,660,133</u>	<u>\$ 8,028,018</u>	<u>\$ 8,830,752</u>
NONCASH CAPITAL ACTIVITIES						
Contributions from others	<u>\$ 331,228</u>	<u>\$ 31,801</u>	<u>\$ 499,692</u>	<u>\$ 269,535</u>	<u>\$ 830,920</u>	<u>\$ 301,336</u>

McMINNVILLE WATER AND LIGHT DEPARTMENT

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

Reporting entity – The McMinnville Water and Light Department (the Department or MWL), under the provisions of Chapter X of the McMinnville City Charter of 1978, is vested with authority to direct the water works and electrical plants of the City of McMinnville, Oregon (the City). The Department's governing board, the five-member Water and Light Commission, appoints a General Manager who is responsible for the day-to-day operations of the Department.

The Department provides electrical and water service to residential and commercial customers within the city limits of the City. The Department, under the criteria of the Governmental Accounting Standards Board (GASB), is considered a component unit of the City; therefore, it is an integral part of the City's reporting entity. The Department is accounted for as a discretely presented component unit in the financial statements of the City. Interfund notes receivable and payable are eliminated in the combined total column.

Measurement focus, basis of accounting, and basis of presentation – For financial reporting purposes, the Department reports on an enterprise fund basis. Enterprise funds (a proprietary fund type) are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included in the statements of net position. The Department's net position is segregated into two amounts: net investment in capital assets, and unrestricted.

The accrual basis of accounting is utilized by the Department for financial reporting, which is in accordance with accounting principles generally accepted in the United States of America for proprietary fund types. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Department has implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective July 1, 2014. The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures.

In preparing the Department's combined financial statements; management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the combined financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

McMINNVILLE WATER AND LIGHT DEPARTMENT

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Change in accounting principle – In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for financial statement periods beginning after June 15, 2014. This statement provides guidance for accounting for net pension liabilities, including definition of balances to be included in deferred inflows and deferred outflows of resources. The Department adopted this guidance as of and for the year ended June 30, 2015. The Department has not restated the financial statements as of and for the year ended June 30, 2014 for this change, given that the necessary information was not made available by the Oregon Public Employees' Retirement System pension plans.

Reclassifications – Certain reclassifications have been made to the prior year combined financial statements to conform to current year presentation. These reclassifications had no effect on change in net position or total net position.

Cash and cash equivalents – For financial reporting purposes, the Department's cash and cash equivalents are considered to be cash on hand, demand deposits, short-term investments with original maturities of three months or less from the date of acquisition, and the State of Oregon Local Government Investment Pool deposits.

Net position – Net position consist primarily of cumulative net revenues collected for the payment of utility plant in advance of net accumulated depreciation recognized on such plant. It is the Department's intention to set rates at a level to continue replacing and improving net utility plant. Net position consists of the following components:

- **Net investment in capital assets** – This component of net position consists of capital assets, net of accumulated depreciation, less outstanding balances of any debt borrowings that are attributable to the acquisition, construction or improvement of those assets.
- **Unrestricted** – This component of net position consists of net position that does not meet the definition of "net investment in capital assets".

Fair value of financial instruments – The carrying amounts of current assets, including cash and cash equivalents and receivables, and current liabilities approximate fair value because of the short maturity of those instruments.

Accounts receivable – The Department recognizes revenue from electric and water services when the service is rendered. Accounts receivable also include estimated revenues that are accrued for power and water deliveries not yet billed to customers from meter reading dates prior to month end (unbilled revenue).

McMINNVILLE WATER AND LIGHT DEPARTMENT

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

The majority of the Department’s receivables are due from companies, businesses, and individuals in areas served by the Department. Credit is extended to all customers who have requested service, who have identified themselves personally, and who do not have outstanding amounts owing to the Department. The Department may require deposits from customers depending on their specific payment performance, previous loss history, and history with the Department. Accounts receivable are due within 21 days and are stated at amounts due from customers as consumption is registered and billed monthly. Past due balances must be paid immediately to avoid additional fees and possible denial of services.

Management determines the allowance for doubtful accounts by considering a number of factors, including the length of time trade accounts receivable are past due, the customer’s previous loss history, the customer’s current ability to pay its obligation to the Department, and the condition of the general economy and the industry as a whole. Management writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Interest accrues as an account becomes past due with a subsequent monthly billing. Interest accruals are discontinued once an account becomes uncollectible.

Inventories – Inventories of materials and supplies are stated at the lower of average cost or market and are charged to expense or capitalized as construction in progress as they are used.

Utility plant – Utility plant is stated at cost, and includes property, plant, and equipment with an initial cost of \$5,000 or more and an estimated useful life of more than one year. Cost generally includes materials, labor, and an allocation of overhead costs. The costs of additions, renewals, and betterments which improve or extend the lives of assets are capitalized. Maintenance and repairs are expensed as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Electric and water plant	20 to 100 years
Office and other equipment	10 to 14 years
Transportation equipment	5 to 10 years

Renewable energy certificates – “Renewable Energy Certificate” (REC or Certificate) means a unique representation of the environmental, economic, and social benefits associated with the generation of electricity from renewable energy sources that produce qualifying electricity. One Certificate is created in association with the generation of one megawatt-hour (MWh) of qualifying electricity. While a Certificate is always directly associated with the generation of one MWh of electricity, transactions for Certificates may be conducted independently of transactions for the associated electricity.

McMINNVILLE WATER AND LIGHT DEPARTMENT

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

The Department receives RECs as part of the purchase agreement with Bonneville Power Administration (BPA) for buying “Green Energy Premium Wind.” The RECs are available for sale at market price. The Department also receives RECs as part of the renewable energy purchased from Waste Management Renewable Energy (WMRE). These RECs are also available for sale at market prices or are banked to satisfy future Oregon Renewable Portfolio Standard obligations. Markets for the sale of REC’s are very limited at the present time. Future sales will be transaction specific and subject to Commission approval.

Regulatory asset – conservation charges – In November 2008, the Department entered into a long-term power purchase agreement with the BPA. The Commission of MWL also authorized conservation funding in order to secure a more favorable rate structure over the delivery period of 17 years. The Department will amortize these expenditures over the 17-year period which commenced October 1, 2011.

Deferred outflow and inflow of resources – See Note 11 for a description of the deferred outflows of resources and inflows of resources relation to pension plan reporting requirements.

Compensated absences – It is the Department’s policy to permit employees to accumulate earned but unused vacation benefits. Vacation pay is accrued when incurred and reported as a liability. Management considers all compensated absences as current liabilities.

Due to/from City of McMinnville – The Department bills and collects for sewer services rendered by the City. The Department also pays a tax on revenues from sales of electricity to the City in lieu of property tax. The balance due to the City represents this tax and sewer billings collected but not remitted to the City, and other miscellaneous amounts. The amount due from the City is for costs incurred by the Department.

Operating revenues and expenses – Management distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Department’s principal ongoing operations. The principal operating revenues of the Department are sales of water and electricity. Operating expenses include the cost of sales, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Note 2 – Cash and Deposits

Oregon Revised Statutes authorize the Department to invest in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, certificates of deposit, bankers’ acceptances, the State of Oregon Local Government Investment Pool, and certain corporate indebtedness.

McMINNVILLE WATER AND LIGHT DEPARTMENT

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 2 - Cash and Deposits (continued)

The State of Oregon Local Government Investment Pool (Pool) is not registered with the U.S. Securities and Exchange Commission as an investment company. The Oregon Revised Statutes and the Oregon Investment Council govern the Pool's investment policies. The Oregon State Treasurer (OST) is the investment officer for the Pool and is responsible for all funds in the Pool. These funds must be invested, and the investments managed as a prudent investor would, exercising reasonable care, skill, and caution. Investments in the Pool are further governed by portfolio guidelines issued by the Oregon Short-Term Fund (OSTF) Board which establish diversification percentages and specify the types and maturities of investments. The Oregon Audits Division audits the Pool annually. The Pool is commingled with other state funds in the OSTF. The OSTF is not managed as a stable net asset value fund. As such, preservation of principal is not assured by OST management or the OSTF Board. The OSTF is not currently rated by an independent rating agency, and may be sensitive to changing market conditions and investment risk.

Deposits less than \$500,000 are covered by federal depository insurance. As required by Oregon Revised Statutes, deposits in excess of federal depository insurance were held at a qualified depository for public funds. All qualified depositories for public funds are included in the multiple financial institution collateral pool that is maintained by and in the name of the Office of the State Treasurer.

The Commission authorized the funding for conversion of overhead power lines to underground. Cash is designated for this purpose in the amount of \$859,707 and \$661,061 as of June 30, 2015 and 2014, respectively.

The Department had the following cash and cash equivalents, including designated cash, at June 30, 2015:

	Water	Light	Total
Cash on hand	\$ -	\$ 1,700	\$ 1,700
Cash on deposit with a bank	661,826	(150,375)	511,451
Local Government Investment Pool	8,194,627	27,072,398	35,267,025
	\$ 8,856,453	\$ 26,923,723	\$ 35,780,176

The Department had the following cash and cash equivalents at June 30, 2014:

	Water	Light	Total
Cash on hand	\$ -	\$ 1,700	\$ 1,700
Cash on deposit with a bank	618,446	23,263	641,709
Local Government Investment Pool	8,932,120	23,178,415	32,110,535
	\$ 9,550,566	\$ 23,203,378	\$ 32,753,944

McMINNVILLE WATER AND LIGHT DEPARTMENT
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 3 - Accounts Receivable

Accounts receivable balances primarily from utility customers at June 30, are as follows:

	2015		
	Water	Light	Total
Accounts receivable	\$ 1,063,427	\$ 3,747,001	\$ 4,810,428
Allowance for doubtful accounts	(7,218)	(27,950)	(35,168)
	<u>\$ 1,056,209</u>	<u>\$ 3,719,051</u>	<u>\$ 4,775,260</u>
	2014		
	Water	Light	Total
Accounts receivable	\$ 625,782	\$ 3,731,276	\$ 4,357,058
Allowance for doubtful accounts	(6,881)	(31,230)	(38,111)
	<u>\$ 618,901</u>	<u>\$ 3,700,046</u>	<u>\$ 4,318,947</u>

McMINNVILLE WATER AND LIGHT DEPARTMENT
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 4 - Utility Plant

Utility plant is comprised of the following:

	June 30,	
	2015	2014
WATER		
Structures and improvements	\$ 6,578,168	\$ 6,489,558
Water treatment plant	34,735,996	34,720,492
Supply and distribution systems	54,918,747	54,065,586
Furniture and equipment	1,029,988	1,016,361
Transportation equipment	1,077,592	956,703
	<u>98,340,491</u>	<u>97,248,700</u>
Less accumulated depreciation	<u>(23,696,734)</u>	<u>(22,129,556)</u>
	74,643,757	75,119,144
Land and land rights	3,778,153	3,778,080
Construction in progress	<u>5,945,212</u>	<u>2,887,655</u>
	<u>84,367,122</u>	<u>81,784,879</u>
LIGHT		
Structures and improvements	2,297,623	2,244,472
Supply and distribution systems	51,717,364	50,499,938
Furniture and equipment	1,558,467	1,515,565
Transportation equipment	1,878,574	1,836,961
	<u>57,452,028</u>	<u>56,096,936</u>
Less accumulated depreciation	<u>(23,389,242)</u>	<u>(22,317,383)</u>
	34,062,786	33,779,553
Land and land rights	650,866	650,866
Construction in progress	<u>2,365,688</u>	<u>1,864,263</u>
	<u>37,079,340</u>	<u>36,294,682</u>
	<u>\$ 121,446,462</u>	<u>\$ 118,079,561</u>

McMINNVILLE WATER AND LIGHT DEPARTMENT
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 4 - Utility Plant (continued)

Utility Plant activity during the year ended June 30, 2015 was as follows:

	Balance, June 30, 2014	Increases	Decreases	Balance, June 30, 2015
Land and land rights	\$ 4,428,946	\$ 73	\$ -	\$ 4,429,019
Construction in progress	4,751,918	6,429,587	(2,870,605)	8,310,900
Total non-depreciable	9,180,864	6,429,660	(2,870,605)	12,739,919
Structures and improvements	8,734,030	141,761	-	8,875,791
Water treatment plant	34,720,492	15,504	-	34,735,996
Supply and distribution systems	104,565,524	2,766,319	(695,732)	106,636,111
Furniture and equipment	2,531,926	56,529	-	2,588,455
Transportation equipment	2,793,664	283,745	(121,243)	2,956,166
Total depreciable	153,345,636	3,263,858	(816,975)	155,792,519
Less accumulated depreciation:				
Electric plant	(21,160,563)	(1,763,125)	691,266	(22,232,422)
Water plant	(21,649,923)	(1,594,006)	26,828	(23,217,101)
Transportation equipment	(1,636,453)	-	-	(1,636,453)
Total accumulated depreciation	(44,446,939)	(3,357,131)	718,094	(47,085,976)
Utility plant, net	\$ 118,079,561	\$ 6,336,387	\$ (2,969,486)	\$ 121,446,462

McMINNVILLE WATER AND LIGHT DEPARTMENT

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 4 - Utility Plant (continued)

Utility Plant activity during the year ended June 30, 2014 was as follows:

	Balance, June 30, 2013	Increases	Decreases	Balance, June 30, 2014
Land and land rights	\$ 4,424,991	\$ 3,955	\$ -	\$ 4,428,946
Construction in progress	1,057,584	5,635,097	(1,940,763)	4,751,918
Total non-depreciable	<u>5,482,575</u>	<u>5,639,052</u>	<u>(1,940,763)</u>	<u>9,180,864</u>
Structures and improvements	8,670,802	63,228	-	8,734,030
Water treatment plant	34,712,323	8,169	-	34,720,492
Supply and distribution systems	102,946,045	1,928,882	(309,403)	104,565,524
Furniture and equipment	2,420,903	111,023	-	2,531,926
Transportation equipment	2,429,052	524,917	(160,305)	2,793,664
Total depreciable	<u>151,179,125</u>	<u>2,636,219</u>	<u>(469,708)</u>	<u>153,345,636</u>
Less accumulated depreciation:				
Electric plant	(19,681,070)	(1,825,581)	346,088	(21,160,563)
Water plant	(20,208,964)	(1,524,773)	83,814	(21,649,923)
Transportation equipment	(1,636,453)	-	-	(1,636,453)
Total accumulated depreciation	<u>(41,526,487)</u>	<u>(3,350,354)</u>	<u>429,902</u>	<u>(44,446,939)</u>
Utility plant, net	<u>\$ 115,135,213</u>	<u>\$ 4,924,917</u>	<u>\$ (1,980,569)</u>	<u>\$ 118,079,561</u>

Note 5 - Renewable Energy Certificates

The Department had 134,516 and 131,466 REC's banked in its Western Renewable Energy Generation Information System (WREGIS) account as of June 30, 2015 and 2014, respectively. These REC's are valued at \$6.75 per REC for a total value of \$888,789 and \$882,396 as of June 30, 2015 and 2014, respectively. These REC's were obtained from the purchase of BPA Wind (environmentally preferred power). The value of these REC's is based on management's estimate of fair market value.

The Department also holds 180,462 in its WREGIS account for internally generated REC's received from Waste Management Renewable Energy and BPA Tier 1 power purchases. RECs can either be sold or used to satisfy the Department's Oregon Renewable Energy Standard (see Note 1). As these REC's are internally generated, they have no corresponding value on the statements of net position as of June 30, 2015 and 2014.

McMINNVILLE WATER AND LIGHT DEPARTMENT
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 6 – Related-Party Note Payable/Note Receivable

In September 2009, the Department entered into an interdepartmental loan resulting in a note payable from Water to Light at a stated interest rate of 1.991% and maturing November 15, 2017. Transactions on the note payable at June 30, 2015 and 2014 are as follows:

	Balance, June 30, 2014	Increases	Decreases	Balance, June 30, 2015
Total	\$ 5,646,854	\$ -	\$ (1,898,001)	\$ 3,748,853
	Balance, June 30, 2013	Increases	Decreases	Balance, June 30, 2014
Total	\$ 7,507,476	\$ -	\$ (1,860,622)	\$ 5,646,854

Maturities of the note payable are as follows:

	Principal	Interest	Total
Year Ending June 30, 2016	\$ 1,935,991	\$ 57,595	\$ 1,993,586
2017	1,612,443	19,708	1,632,151
2018	200,419	1,293	201,712
	\$ 3,748,853	\$ 78,596	\$ 3,827,449

Note 7 – Fiber Optic Activity

The Department operates and maintains a fiber optic network for the benefit of the three primary city government partners and offers dark lease agreements with other customers. The system consists of approximately 26 miles of 144 count fiber with the school district, city government, and the Department, each having exclusive rights of use for 12 strands. Each of these organizations utilizes the system to communicate to their various offices and facilities. The Department utilizes the fiber for water and electric control, monitoring, and facility communication systems.

The Department currently has seven dark fiber leases held by Light Speed networks, McMinnville Access Company, and Oregon Mutual Insurance. MWL policies allow for the expansion of the network to meet the needs of new customers or for system improvements to meet the needs of the three government partners.

McMINNVILLE WATER AND LIGHT DEPARTMENT
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 7 – Fiber Optic Activity (continued)

Selected financial data is reported as follows as of June 30:

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Dark fiber leases	\$ 43,158	\$ 36,969
Total operating revenues	<u>43,158</u>	<u>36,969</u>
OPERATING EXPENSES		
Operating expenses	36,480	38,936
Maintenance expense	5,836	5,087
Administrative and general	23,766	40,342
Depreciation expense	<u>78,188</u>	<u>58,122</u>
Total operating expenses	<u>144,270</u>	<u>142,487</u>
Operating income (loss)	<u>(101,112)</u>	<u>(105,518)</u>
NON-OPERATING INCOME (EXPENSE)		
Interest income	551	573
Other income	<u>1,816</u>	<u>15</u>
Total non-operating income	<u>2,367</u>	<u>588</u>
Change in net position	<u>\$ (98,745)</u>	<u>\$ (104,930)</u>

Note 8 – Major Customer and Supplier

Sales of electricity were made to one major commercial customer during the years ended June 30, 2015 and 2014, in amounts exceeding 10% of total sales. This customer accounted for approximately \$14,083,000 and \$13,083,000 of revenues during the years ended June 30, 2015 and 2014, respectively. At June 30, 2015 and 2014, accounts receivable from this same customer amounted to approximately \$1,146,000 and \$967,000, respectively.

Purchases were made from one major supplier of power, including supply, transmission, and distribution during the years ended June 30, 2015 and 2014, in amounts exceeding 10% of the total of such purchases. This supplier accounted for approximately \$23,856,000 and \$27,103,000 of purchases during the years ended June 30, 2015 and 2014, respectively. At June 30, 2015 and 2014, amounts due to this same supplier, and included in accounts payable, amounted to approximately \$2,416,000 and \$1,941,000, respectively.

McMINNVILLE WATER AND LIGHT DEPARTMENT

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 9 - Deferred Compensation Plan

The Department offers all employees access to a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits the employees to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or certain unforeseeable emergency. The assets and income of the plans are held in a trust for the exclusive benefit of the participants and their beneficiaries, and accordingly are not included in the Department's combined financial statements.

Note 10 - Other Post-Employment Benefits

Plan description - The Department provides post-employment health benefits, as per a contractual obligation, for certain retirees who were hired prior to August 1, 2005, and who are at least 60 years old, and their dependents. The benefits vary depending on the years of service of the retiree. The Department pays 100 percent of all health insurance costs for those employees with over 20 years of service up until the retiree reaches Medicare age. For those employees with over 25 years of service, the Department also pays for all health insurance costs of the retiree's spouse until they reach Medicare age and the children of the retiree until they reach the age of maturity. The plan is financed by the Department on a pay-as-you-go basis. Retired employees who do not have 20 years of service may continue to participate in the health insurance plan until they reach Medicare age provided the retired employees pay all insurance premiums. This "plan" is not a stand-alone plan and therefore does not issue its own financial statements. The MWL Commission is responsible for establishing and amending benefits and funding policies.

Funding policy - At June 30, 2015, 2014, and 2013, there were 16, 16, and 18 retired employees and spouses, receiving health insurance coverage provided by the Department. For the years ended June 30, 2015, 2014, and 2013 the Department incurred \$73,557, \$80,842, and \$85,844, respectively, of expenses for these health insurance premiums.

McMINNVILLE WATER AND LIGHT DEPARTMENT
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 10 - Other Post-Employment Benefits (continued)

Annual OPEB cost and net OPEB obligation - The Department's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize the actuarial liability over one year. The following table shows the components of the Department's annual OPEB cost for the years, amounts actually contributed to the plan, and changes in the Department's net OPEB obligation:

	June 30,		
	2015	2014	2013
Annual required contribution	\$ 52,734	\$ 101,739	\$ 42,734
Interest on net OPEB obligation	50,231	48,128	54,896
Annual OPEB cost	102,965	149,867	97,630
Explicit benefit payments	73,557	80,842	85,844
Increase in net OPEB obligation	29,408	69,025	11,786
Net OPEB obligation - beginning of year	1,453,199	1,384,174	1,372,388
Net OPEB obligation - end of year	<u>\$ 1,482,607</u>	<u>\$ 1,453,199</u>	<u>\$ 1,384,174</u>

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015, 2014, and 2013 were as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Contribution	Percent of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 97,630	\$ 85,844	88%	\$ 1,384,174
2014	149,867	80,842	54%	1,453,199
2015	102,965	73,557	71%	1,482,607

McMINNVILLE WATER AND LIGHT DEPARTMENT
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 10 - Other Post-Employment Benefits (continued)

Funded status and funding progress

Actuarial Valuation Date	Actuarial Accrued Liability (a)	Actuarial Value of Assets (b)	Actuarial Unfunded Liability (a) - (b)	Funded Ratio (b) / (a)	Annual Covered Payroll (c)	Unfunded Actuarial Accrued Liability as % of Payroll [(a) - (b)] / (c)
8/1/2010	\$ 1,338,305	\$ -	\$ 1,338,305	0.00%	\$ 2,558,493	52.31%
8/1/2012	1,377,227	-	1,377,227	0.00%	2,477,432	55.59%
8/1/2014	1,399,058	-	1,399,058	0.00%	2,458,630	56.90%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

Actuarial methods and assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Department and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation conducted as of August 1, 2014, the projected unit credit actuarial cost method was used. Actuarial assumptions included a discount rate of 3.5% and an annual healthcare cost trend rate will increase 5.75% in the first year (August 1, 2015 premiums compared with August 1, 2014 premiums). In future years, the medical and vision cost trend varies between 6.50% and 5.00% due to the timing of the excise tax scheduled to affect health care benefits beginning in 2018. The trend then settles to an ultimate rate of 4.75%.

McMINNVILLE WATER AND LIGHT DEPARTMENT NOTES TO COMBINED FINANCIAL STATEMENTS

Note 11 – Oregon Public Employees’ Retirement Systems (PERS)

Plan description – All qualified employees are eligible to participate in one of the Department’s two pension plans administered by the Oregon Public Employees Retirement Fund (PERS). PERS (Tier 1/Tier 2) is a cost-sharing multiple-employer defined benefit pension plan for qualifying employees hired before August 29, 2003. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to Tier 1/Tier 2 consisting of two programs: a defined benefit pension plan and a defined contribution program (the Individual Account Program or IAP). The OPSRP pension plan is effective for all new employees hired on or after August 29, 2003. The plan provides a life pension funded by employer contributions. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary, years of service and type of service (general or police/fire). Beginning January 1, 2004, all PERS member contributions go into the IAP portion of OPSRP. Tier 1/Tier 2 members retain their existing Tier 1/Tier 2 accounts, but future member contributions are deposited into the member’s IAP account. Benefit provisions under the Plans are established by State statute. PERS 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 PERS website.

Benefits Provided (Tier 1 / Tier 2) – The Tier 1 / Tier 2 pension plan provides retirement, disability benefits, annual cost-of-living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. The plan is closed to new members on or after August 29, 2003. The retirement allowance is payable monthly for life and may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results. A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer. General service employees may retire after reaching age 55. Tier 1 general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Tier 2 members are eligible for full benefits at age 60.

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member’s account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

- The member was employed by a PERS employer at the time of death
- The member died within 1200 days after termination of PERS-covered employment
- The member died as a result of injury sustained while employed in a PERS-covered job
- The member was on an official leave of absence from a PERS-covered job at the time of death.

McMINNVILLE WATER AND LIGHT DEPARTMENT

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 11 – Oregon Public Employees’ Retirement Systems (PERS) (continued)

A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 when determining the monthly benefit.

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the cost of living adjustments will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits over \$60,000.

Benefits Provided (OPSRP) – The OPSRP pension plan provides retirement, disability benefits, annual cost-of-living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. The plan is open to new members hired on or after August 29, 2003. This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit. A member of the OPSRP plan becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.

A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to a job-related injury shall receive a disability benefit of 45 percent of the member’s salary determined as of the last full month of employment before the disability occurred.

Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

Contributions – PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due.

Employer contribution rates during the period were based on the December 31, 2011 actuarial valuation as subsequently modified by 2013 legislated changes in benefit provisions. The rates based on a percentage of payroll, first became effective July 1, 2013. The state of Oregon and certain schools,

McMINNVILLE WATER AND LIGHT DEPARTMENT
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 11 – Oregon Public Employees’ Retirement Systems (PERS) (continued)

community colleges and political subdivisions have made lump sum payments to establish side accounts, and their rates have been reduced. Employer contributions for the year ended June 30, 2015 were \$691,701, excluding amounts to fund employer specific liabilities.

Pension asset, pension expense, and deferred outflows or resources and deferred inflows of resources related to pension – At June 30, 2015, the Department reported an asset of \$1,494,371 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014 and the total pension asset for each Plan used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2012 rolled forward to June 30, 2014 using standard update procedures. The Department’s proportion of the net pension liability was based on a projection of the Department’s long-term share of contributions to the Plans relative to the projected contributions for all participating employers, actuarially determined. The City of McMinnville’s proportionate share of the net pension asset for the Plans as of the measurement date was 0.25134575%. The Department’s allocation is approximately 26% of the total City of McMinnville proportionate share of the net pension asset.

For the year ended June 30, 2015, the Department recognized pension expense of \$(1,353,615). At June 30, 2015, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2015
Deferred outflows	
Contributions	\$ 691,701
Changes in proportion & contributions	83,616
Total deferred outflows	<u>\$ 775,317</u>
Deferred inflows	
Investment earnings	\$ (2,883,531)
Changes in proportion & contributions	-
Other	-
Total deferred inflows	<u>\$ (2,883,531)</u>

\$691,701 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ending June 30,	2016	\$ (702,705)
	2017	(702,705)
	2018	(702,705)
	2019	(702,705)
	2020	10,905
		<u>\$ (2,799,915)</u>

McMINNVILLE WATER AND LIGHT DEPARTMENT
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 11 – Oregon Public Employees’ Retirement Systems (PERS) (continued)

Actuarial assumptions – The total pension assets in the December 31, 2012 actuarial valuations were determined using the following actuarial assumptions:

Valuation date	December 31, 2012
Measurement date	June 30, 2014
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Discount rate	7.75%
Inflation	2.75%
Payroll growth	3.75%
Projected salary increase	3.75%
Investment rate of return	7.75%

Mortality rates for healthy retirees and beneficiaries were based on the RP-2000 Sex-distinct tables, as appropriate, with adjustments for mortality improvements based on Scale AA. Mortality rates for active members are a percentage of healthy retiree rates that vary by group, as described in the valuation. For disabled retirees, mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table.

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2012 Experience Study which reviewed experience for the four-year period ending on December 31, 2012.

Discount rate – The discount rate used to measure the total pension liability was 7.75 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

McMINNVILLE WATER AND LIGHT DEPARTMENT
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 11 – Oregon Public Employees’ Retirement Systems (PERS) (continued)

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman’s capital market assumptions team and the Oregon Investment Council’s (OIC) investment advisors. The table below shows Milliman’s assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC’s description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

Asset class	Target	Compound annual return (geometric)
Core Fixed Income	7.20%	4.50%
Short-Term Bonds	8.00	3.70
Intermediate-Term Bonds	3.00	4.10
High Yield Bonds	1.80	6.66
Large Cap US Equities	11.65	7.20
Mid Cap US Equities	3.88	7.30
Small Cap US Equities	2.27	7.45
Developed Foreign Equities	14.21	6.90
Emerging Foreign Equities	5.49	7.40
Private Equity	20.00	8.26
Opportunity Funds/Absolute Return	5.00	6.01
Real Estate (Property)	13.75	6.51
Real Estate (REITS)	2.50	6.76
Commodities	7.71	6.07

Sensitivity analysis – Below is a sensitivity analysis around the discount rate assumed in the actuarial assumptions (in thousands):

Employers' net pension liability/(asset)	1% decrease 6.75%	Current discount rate 7.75%	1% increase 8.75%
Defined benefit pension plan	\$ 3,164	\$ (1,494)	\$ (5,434)

Pension plan fiduciary net position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued OPERS financial reports.

Payable to the pension plan – At June 30, 2015, the Department did not have an outstanding amount of contributions payable to the pension plan.

McMINNVILLE WATER AND LIGHT DEPARTMENT

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 11 – Oregon Public Employees’ Retirement Systems (PERS) (continued)

Changes in plan provisions during the measurement period – Senate Bill 822, signed into law in May 2013, eliminated the SB 656/HB 3349 tax remedy payments for benefit recipients who are not subject to Oregon income tax, because they do not reside in Oregon, and limited the 2013 post-retirement COLA to 1.5% of annual benefit.

Senate Bill 861, signed into law in October 2013, limited the post-retirement COLA for years beyond 2013 to 1.25% on the first \$60,000 of annual benefit and 0.15% on annual benefits above \$60,000.

Senate Bill 862, signed into law in October 2013, makes targeted changes such as allowing garnishment of PERS benefits for convicted felons. These changes do not significantly affect System liabilities and were not reflected in the valuation.

For GASB Statement No. 67 and 68, the total pension liability must be calculated based on the benefit terms legally in effect as of the relevant fiscal year-end for the plan. Due to the timing of the benefit changes, this means only Senate Bill 822 is reflected in the June 30, 2013 total pension liability, but that the combined effects of Senate Bills 822 and 861 are reflected in the June 30, 2014 Total Pension Liability. The decrease in the Total Pension Liability resulting from Senate Bill 861, measured as of June 30, 2014, created a (\$2,423.6) million reduction in Plan pension liabilities.

Changes in plan provisions subsequent to the measurement date – The Oregon Supreme Court on April 30, 2015, ruled that the provisions of Senate Bill 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law was unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed with continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually. Restoration payments will be made to those benefit recipients. PERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire. This is a change in benefit terms subsequent to the measurement date, and is not included in the net pension asset. This change will be reflected in next measurement period.

Note 12 – Retirement Health Insurance Account (RHIA)

Plan description – As a member of OPERS, the Department contributes to the Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing multiple-employer defined benefit other post-employment benefit plan administered by OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. Oregon Revised Statute (ORS) 238.420 established this trust fund. Authority to establish and amend the benefit provisions of RHIA reside with the Oregon Legislature. The plan is closed to new entrants after January 1, 2004. OPERS issues a publicly available *Comprehensive Annual Financial Report* that includes financial statements and required supplemental information. The report may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, Oregon 97281-3700 or by calling 503-598-7377.

McMINNVILLE WATER AND LIGHT DEPARTMENT NOTES TO COMBINED FINANCIAL STATEMENTS

Note 12 – Retirement Health Insurance Account (RHIA) (continued)

Funding policy – Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that an amount equal to \$60 or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the RHIA established by the employer, and any monthly cost in excess of \$60 shall be paid by the eligible retired member in the manner provided in ORS 238.410. To be eligible to receive this monthly payment toward the premium cost, the member must: (1) have eight years or more of qualifying service in OPERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in OPERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in a OPERS sponsored health plan. A surviving spouse or dependent of a deceased OPERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from OPERS, or (2) was insured at the time the member died and the member retired before May 1, 1991.

Participating entities are contractually required to contribute to RHIA at a rate assessed each year by OPERS. The rate applied to annual covered payroll for the fiscal years 2015 and 2014 was 0.59% for Tier 1 and 2 members and 0.49% OPSRP members. The OPERS Board of Trustees sets the employer contribution rate based on the ARC of the employers, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed 30 years. The Department's contributions to RHIA for the fiscal years 2015-14, 2014-13, and 2013-12 were \$26,000, \$26,000, and \$25,000, respectively, which equaled the required contributions each year.

Note 13 – Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees. The Department is covered for comprehensive liability, property, auto liability and physical damage, employer's liability, and workers' compensation insurance through City County Insurance Services, a public entity risk pool.

For property and liability insurance, settlements did not exceed insurance coverage in any of the past three fiscal years.

McMINNVILLE WATER AND LIGHT DEPARTMENT

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 14 - Commitments and Contingency

From time to time, the Department may be involved in various commitments or contingencies arising in the ordinary course of business. Management believes the Department's losses related to such events, if any, will not have a material adverse effect on the Department's combined financial condition, results of operations, or cash flows.

The Department purchases power from Priest Rapids Development and Wanapum Development, and is required to pay a portion of the development costs under these contracts through April 1, 2052, which coincides with the expiration of the new FERC license (unless terminated earlier under terms of the contract.) Costs associated with these contracts for each of the years ended June 30, 2015 and 2014, were approximately \$723,000 and \$565,000, respectively.

Note 15 - BPA Overpayment

The Residential Exchange Program (REP) is used to distribute financial benefits of the Federal Columbia River Power System to the residential and small farm customers of the region's investor-owned utilities (IOUs). On May 3, 2007, the U.S. Ninth Circuit Court of Appeals ruled that BPA exceeded its settlement authority in 2000 when it executed the REP settlements with six IOUs, holding that BPA's decision to allocate costs of the settlements to publicly owned utilities was not in accordance with the law.

The Court remanded the issue back to BPA and as a result of the Court's decisions, BPA suspended monthly program benefits to the IOUs. This resulted in BPA's over-collection of funds from its publicly-owned utility customers. This left BPA with larger than anticipated financial reserves. Because of the over-collection from public utilities, BPA has refunded amounts directly to public utilities as well as issuing "look back adjustments" that show as credits against power costs on monthly BPA bills. The overpayment that was attributed to the Department was \$3,700,000 and this is recorded as a reduction to supply and transmission expense within operating expenses. This was refunded to the Department in October 2008. The fiscal year 2015 and 2014 credits for 2002-2006 look back amounts were \$1,056,000 and \$1,058,000 respectively. For fiscal year 2016, the look back credit will be \$1,076,000. Future look back credits have not yet been determined.

McMINNVILLE WATER AND LIGHT DEPARTMENT

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 16 - Prior Period Restatement

Subsequent to the year ended June 30, 2014, the Department corrected an error related to its accounting for a transitional liability. This transitional liability is associated with the OPERS plan and principal repayment is funded through an adder to the pension rates paid by the Department to OPERS. This information came to management's attention during the implementation of GASB Statement No. 68. A transitional liability of \$1,371,102 is included as part of the cumulative effect of restatement and decrease in beginning net position as of July 1, 2013. The total impact on the statements of net position at June 30, 2014 results in an increase to liabilities of \$1,367,254 and a decrease to unrestricted net position of \$1,367,254. The total impact on the statement of revenues, expenses and changes in net position for the year ended June 30, 2014 includes an increase in pension expense of \$3,848 and a decrease in the change in net position of \$3,848.

REQUIRED SUPPLEMENTARY INFORMATION

**McMINNVILLE WATER AND LIGHT DEPARTMENT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION ASSET
AS OF JUNE 30, 2015
LAST TEN YEARS***

		2015
Proportionate share of the net pension asset		0.06593%
Proportionate share of the net pension asset (amount)	\$	1,494,371
Covered - employee payroll	\$	4,858,713
Proportionate Share of the net pension asset as percentage of covered-employee payroll		30.76%
Plan's fiduciary net position	\$	65,401,492,664
Plan fiduciary net position as a percentage of the total pension asset		103.60%

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

McMINNVILLE WATER AND LIGHT DEPARTMENT
SCHEDULE OF CONTRIBUTIONS
AS OF JUNE 30, 2015
LAST TEN YEARS*

	2015
Contractually required contribution (actuarially determined)	\$ 601,675
Contributions in relation to the actuarially determined contribution	601,675
Contribution deficiency (excess)	\$ -
Covered-employee payroll	\$ 4,858,713
Contributions as a percentage of covered-employee payroll	12.38%

Notes to Schedule

Valuation date: 6/30/2012, rolled forward to June 30, 2014

Methods and assumptions used to determine contribution rates:

Single and Agent Employers Example	Entry age normal
Experience study report	2012, published September 18, 2013
Amortization method	Level percentage of payroll, closed
Remaining amortization period	Tier One/Tier Two - 20 years; OPSRP - 16 years
Asset valuation method	Market value of assets
Inflation	2.75%
Salary increases	3.75%
Investment rate of return	7.75%
Retirement age	55 for Tier 1/Tier 2; 65 for OPSRP
Mortality	RP-2000 Sex-distinct tables

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE AND INTERNAL
 CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
 STATEMENTS PERFORMED IN ACCORDANCE WITH
 OREGON AUDITING STANDARDS**

Board of Commissioners
 McMinnville Water and Light Department
 McMinnville, Oregon

We have audited the accompanying combined financial statements of the McMinnville Water and Light Department (the Department) as of and for the year ended June 30, 2015 and have issued our report thereon dated November 17, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement.

Compliance

As part of obtaining reasonable assurance about whether the Department's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules (OAR) 162-010-000 to 162-010-330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

- The accounting records and related internal control over financial reporting.
- The amount and adequacy of collateral pledged by depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules, and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

The results of our tests disclosed no matters of noncompliance with those provisions that are required to be reported under Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. 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.

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE AND INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
OREGON AUDITING STANDARDS (continued)**

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for determining our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's combined financial statements that is more than inconsequential will not be prevented or detected by the Department's internal controls. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the combined financial statements will not be prevented or detected by the Department's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Purpose of this Report

This report is intended solely for the information and use of the Department's management, the Board of Commissioners, and the Secretary of State, Division of Audits of the State of Oregon and is not intended to be and should not be used by anyone other than these specified parties.



Julie Desimone, Partner
for Moss Adams LLP
November 17, 2015