



REPORT OF INDEPENDENT AUDITORS  
AND COMBINED FINANCIAL STATEMENTS

**MCMINNVILLE WATER AND LIGHT DEPARTMENT  
(A COMPONENT UNIT OF THE  
CITY OF MCMINNVILLE, OREGON)**

June 30, 2022 and 2021



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**McMinnville Water and Light Department  
Officials of the Department**

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**Commissioners as of June 30, 2022**

<u>Name</u>	<u>Term Expires</u>
Remy Drabkin, Interim Mayor	December 31, 2024
Kathy Tate	December 31, 2022
Jody Christensen	December 31, 2023
Edward Gormley	December 31, 2024
Tom Tankersley	December 31, 2025

Administrative Staff

John Dietz, General Manager  
Mark Dunmire, Director of Finance  
Trena McManus, 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 Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying combined and individual financial statements of McMinnville Water and Light Department (the Department), a component of the City of McMinnville, Oregon, which comprise the combined and individual statements of net position as of June 30, 2022 and 2021, and 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.

In our opinion, the combined and individual financial statements referred to above present fairly, in all material respects, the respective financial position of the Department as of June 30, 2022 and 2021, and the respective results of its operations and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, Schedule of Proportionate Share of the Net Pension Liability as of June 30, 2022, the Schedule of Contributions as of June 30, 2022, and the Schedule of Changes in Net OPEB Liability and Related Ratios (collectively, “required supplementary information”) be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures in the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Minimum Standards for Audits of Oregon Municipal Corporations***

In accordance with the *Minimum Standards for Auditors of Oregon Municipal Corporations*, we have also issued our report dated November 15, 2022, on our consideration of the Department’s compliance with certain provisions of laws and regulations, including the provisions of the Oregon Revised Statutes as specified in Oregon Administrative Rules 162-010-0000 through 162-010-0330 of the *Minimum Standards for Audits of Oregon Municipal Corporations*. 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.



Keith Simovic, Partner, for  
Moss Adams LLP  
Portland, Oregon  
November 15, 2022

# **McMinnville Water and Light Department Management's Discussion and Analysis**

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McMinnville Water and Light Department (the Department of 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. As a Department of the City, MWL's financial statements are discretely presented as a component unit in the City of McMinnville's financial statements.

The Department serves approximately 17,250 electric customers and is committed to excellence, delivering reliable, low cost, electric power to the community. Bonneville Power Administration (BPA) supplies over 90% of the Department's electrical load through BPA transmission lines to seven substations. From the substations, power is distributed through overhead and underground facilities to customers. The remaining supply is provided by the Grant County Public Utility District and Waste Management Renewable Energy.

The Department also serves approximately 12,000 water customers through a unique water system that begins with a 6350 acre watershed located in the Coast Range that feeds two reservoirs located inside watershed. They are the McGuire and Haskins Reservoirs and have a combined capacity of 3.5 billion gallons. Just below the reservoirs, water is treated at the Norman Scott Water Treatment Plant which operates 24 hours a day / 365 days per year and has the capacity to treat up to 22 million gallons of water per day. After treatment, the water flows 10 miles through two large water transmission lines down to McMinnville and into four water storage reservoirs located on the west side of town. The water from those storage reservoirs flows through the Department's water distribution system to supply the City of McMinnville with an abundant source of high quality, low cost, drinking water.

## **Overview of financial statements**

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and supplementary information.

The basic financial statements are listed below and reports the following financial information:

- Combined Statements of Net Position
  - o Reports assets, deferred outflows, liabilities, deferred inflows and net position at the end of the June 30 fiscal year
- Combined Statements of Revenues, Expenses, and Changes in Net Position
  - o Reports revenues and expenses occurring during the fiscal year and the change in net position during the fiscal year.
- Combined Statements of Cash Flows
  - o Reports cash from operating activities, investing activities, non-capital financing activities as well as capital and related financing activities during the fiscal year.

The basic financial statements also include notes that provide information on some of the amounts contained in the basic financial statements. The notes are followed by supplementary information that further explains and supports the information in the financial statements.

# McMinnville Water and Light Department Management's Discussion and Analysis

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## 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.

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

	FY 2022	FY 2021	Increase (Decrease)	Percent Change	FY 2020	Increase (Decrease)	Percent Change
Operating revenues	\$ 50,839	\$ 50,537	\$ 302	1%	\$ 50,182	\$ 355	1%
Operating expenses	50,265	49,930	335	1%	51,121	(1,191)	-2%
Net operating income	574	607	(33)	-5%	(939)	1,546	-165%
Other revenues	4,338	2,356	1,982	84%	6,379	(4,023)	-63%
Other expenses	(245)	(680)	435	-64%	(65)	(615)	946%
Contributions	2,879	4,245	(1,366)	-32%	1,935	2,310	119%
Total other	6,972	5,921	1,051	18%	8,249	(2,328)	-28%
Change in net position	\$ 7,546	\$ 6,528	\$ 1,018	16%	\$ 7,310	\$ (782)	-11%

### Fiscal Year 2022

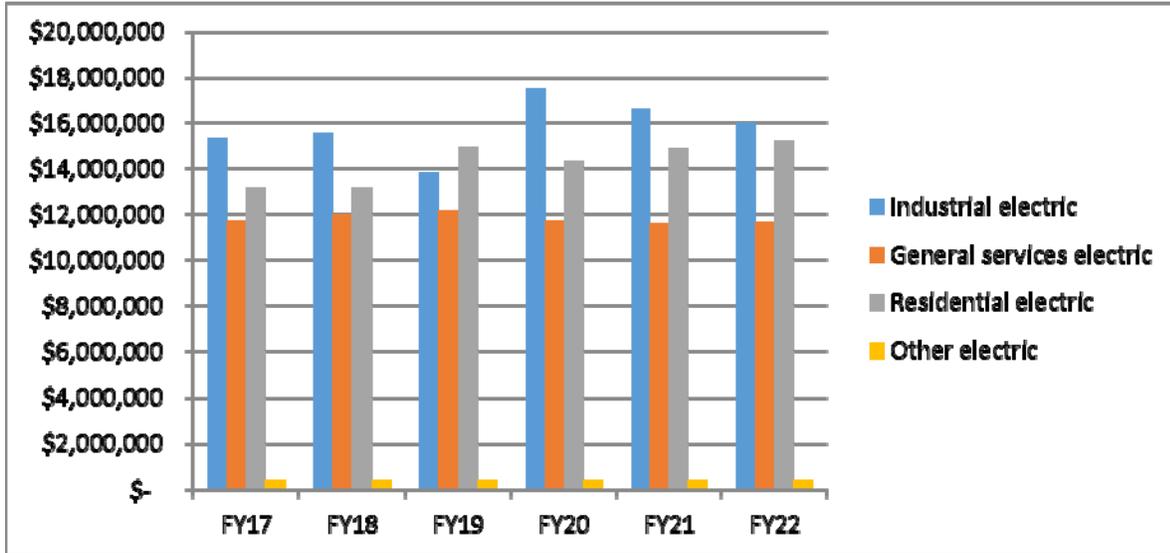
Combined operating revenue for electric and water increased by 1% over the prior year. Electric and water rates both increased during the year (1.75% and 3% respectively) and consumption was up slightly as well. Total combined operating expenses increased during the year largely due to higher Distribution and O&M costs and Depreciation. The result was a combined \$574K increase in operating revenue. Economic and/or weather conditions, along with conservation continue to be factors for both water and electric consumption. Total other net revenue increased by 18% over the prior year largely due to an increase in Timber Revenue. While strong development continued during FY 2022, contributed utility systems were down 32% because FY 2021 included significant development costs for a water line intertie to the City of Lafayette.

### Fiscal Year 2021

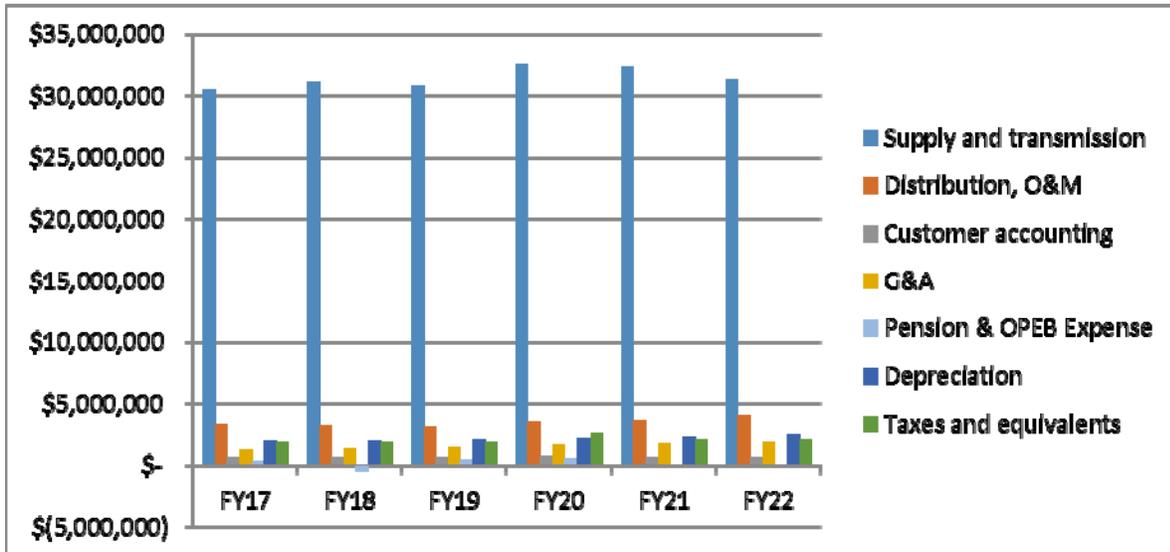
Combined operating revenue for electric and water increased by 1% over the prior year. Electric rates did not change during the year, however water rates increased by 3.0% on January 1, 2021. Electric and water consumption both saw increases during the year (110K Mwh and 50M cubic feet for electric and water respectively). The result was a combined \$355K increase in revenue. Total combined operating expenses decreased during the year largely due to changes in pension and OPEB expense and the impacts of regulatory deferrals through the application of GASB 62. Tax expense also decreased because of a prior year one-time adjustment to the payment in-lieu of tax amount paid to the City of McMinnville – see Note 1 (Due to City of McMinnville) on page 20. Economic and/or weather conditions, along with conservation continue to be factors for both water and electric consumption. Total other net revenue decreased by 28% over the prior year largely due to a reduction in Timber Revenue. Contributed utility systems were up 119% due largely to the development costs of a water line intertie to the City of Lafayette.

## McMinnville Water and Light Department Management's Discussion and Analysis

### Operating revenues – Electric



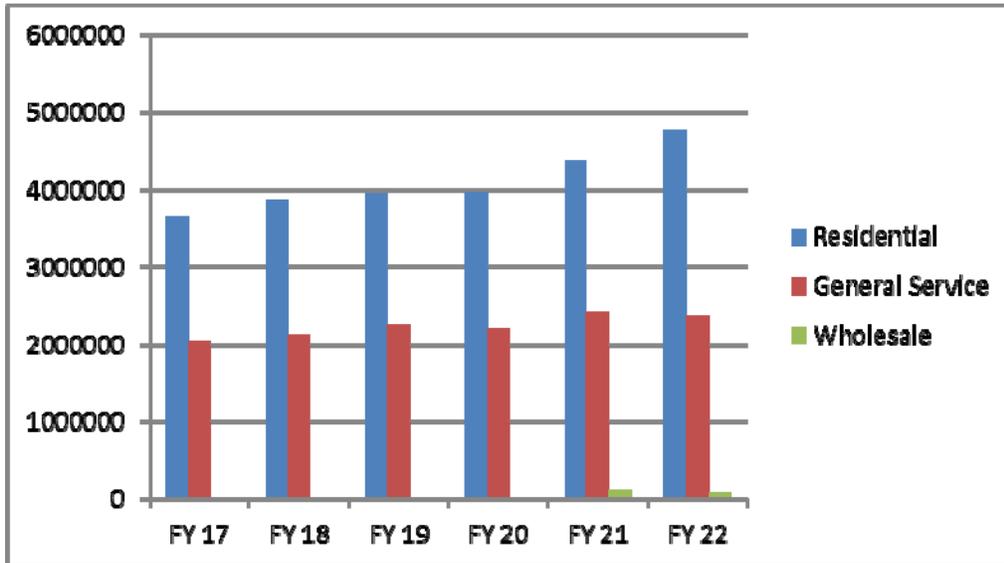
### Operating expenses – Electric



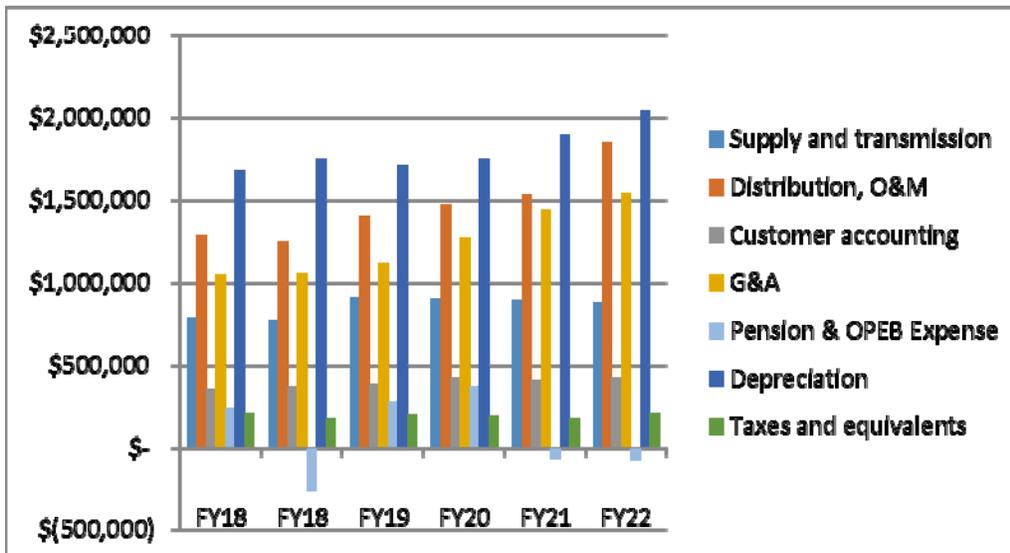
# McMinnville Water and Light Department Management's Discussion and Analysis

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## Operating revenues – Water



## Operating expenses – Water



The Combined Statements of Net Position include all of the Department's assets, deferred outflows of resources, liabilities and deferred inflows 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.

## McMinnville Water and Light Department Management's Discussion and Analysis

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

	FY 2022	FY 2021	Increase (Decrease)	Percent Change	FY 2020	Increase (Decrease)	Percent Change
<b>Assets and deferred outflows</b>							
Net utility plant	\$ 147,115	\$ 140,615	\$ 6,500	5%	\$ 136,687	\$ 3,928	3%
Current assets	64,009	61,950	2,059	3%	62,321	(371)	-1%
Other assets and deferred outflow of resources	8,558	9,819	(1,261)	-13%	8,514	1,305	15%
<b>Total assets and deferred outflows</b>	<b>\$ 219,682</b>	<b>\$ 212,384</b>	<b>\$ 7,298</b>	<b>3%</b>	<b>\$ 207,522</b>	<b>\$ 4,862</b>	<b>2%</b>
<b>Liabilities and deferred inflows</b>							
Current liabilities	\$ 6,714	\$ 5,611	\$ 1,103	20%	\$ 7,014	\$ (1,403)	-20%
Long-term liabilities	8,084	13,795	(5,711)	-41%	13,544	251	2%
Deferred inflow of resources	5,618	1,258	4,360	347%	1,772	(514)	-29%
<b>Total liabilities and deferred inflows</b>	<b>20,416</b>	<b>20,664</b>	<b>(248)</b>	<b>-1%</b>	<b>22,330</b>	<b>(1,666)</b>	<b>-7%</b>
<b>Net position</b>							
Net investment in capital assets	147,115	140,615	6,500	5%	136,687	3,928	3%
Unrestricted	52,151	51,105	1,046	2%	48,505	2,600	5%
<b>Total net position</b>	<b>199,266</b>	<b>191,720</b>	<b>7,546</b>	<b>4%</b>	<b>185,192</b>	<b>6,528</b>	<b>4%</b>
<b>Total net position, liabilities and deferred inflows of resources</b>	<b>\$ 219,682</b>	<b>\$ 212,384</b>	<b>\$ 7,298</b>	<b>3%</b>	<b>\$ 207,522</b>	<b>\$ 4,862</b>	<b>2%</b>

#### Fiscal Year 2022

The Department's total assets increased during FY 2022. This was largely due to an increase in net utility plant. Current liabilities increased primarily due to an increase in accounts payable which was driven by major capital projects including a new fuel station. The increase was also partially the result of three water infrastructure grants received during the year totaling \$550K, \$490K of which was classified as unearned revenue at 6/30/2022. The decrease in long-term liabilities and increase in deferred inflows of resources was largely the result of actuarial changes in the most recent valuation performed by PERS.

#### Fiscal Year 2021

The Department's total assets increased during FY 2021. This was largely due to an increase in net utility plant and an increase in notes receivable from the Lafayette water intertie – see Note 3 (Accounts Receivable). Current liabilities decreased primarily due to a one-time payment that was due to the City of McMinnville in the prior year. Long-term liabilities increased and deferred inflows decreased largely due to actuarial changes in the most recent valuation performed by PERS.

# McMinnville Water and Light Department Management's Discussion and Analysis

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

	FY 2022	FY 2021	Change	Percent Change	FY 2020	Change	Percent Change
Beginning cash and cash equivalents	\$ 56,450	\$ 55,462	\$ 988	2%	\$ 54,152	\$ 1,310	2%
Change in:							
Operating activities	8,693	6,423	2,270	35%	10,400	(3,977)	-38%
Capital and noncapital related financing activities	(8,246)	(4,361)	(3,885)	89%	(10,136)	5,775	-57%
Investing activities	364	(1,074)	1,438	-134%	1,046	(2,120)	-203%
Ending cash and cash equivalents	<u>\$ 57,261</u>	<u>\$ 56,450</u>	<u>\$ 811</u>	<u>1%</u>	<u>\$ 55,462</u>	<u>\$ 988</u>	<u>2%</u>

### Fiscal Year 2022

Cash flows from operating activities increased over the prior year due in large part to increased timber sales and reduced power purchase costs. Cash flows from investing activities also increased over the prior year because the prior year included a note issued to the City of Lafayette for the development of a water intertie. Cash flows from capital and related financing activities decreased over the prior year mostly due to a \$3 million water rights purchase in FY 2022.

### Fiscal Year 2021

Cash flows from all operating activities decreased over the prior year except for power purchases and payments of taxes. The most significant reduction was a \$2.9 million reduction of cash flows from timber sales. Cash flows from capital and related financing activities increased over the prior year largely because of the completion of significant capital projects in the prior year (the 36" water transmission line being the most notable). Cash from investing activities decreased due to decreased interest rates in the Local Government Investment Pool (LGIP) and the Oregon Local Government Intermediate Fund (OLGIF).

## McMinnville Water and Light Department Management's Discussion and Analysis

### Budget highlights

	In \$000s			Budget to Actual %
	Budget FY 2022	Actual FY 2022	Over / (Under) Budget	
Operating revenues	\$ 51,056	\$ 50,839	\$ (217)	100%
Operating expenses	51,925	50,265	(1,660)	97%
Net operating revenue (loss)	(869)	574	1,443	-66%
Other net revenues	2,386	4,093	1,707	172%
Contributions	1,870	2,879	1,009	154%
Changes in net position	<u>\$ 3,387</u>	<u>\$ 7,546</u>	<u>\$ 4,159</u>	<u>223%</u>

Combined Operating Revenues for Water and Electric came in at about 100% of budget and expenses came in about 3% less than budget resulting in an increase in combined net operating income of 1.4M. This was driven by better performance in the Water Division on the revenue side and on the expense side in the Light Division. Revenues were better in the Water Division due weather factors and the start of water service to the City of Carlton. Expenses came in better in the Electric Division because of lower purchased power costs that were driven largely by lower demand in the Industrial class. Other Net Revenues also performed better primarily because of increased timber sales and higher contributed utility system amounts due to of strong development activity during the year.

### Capital assets and debt administration

The Department continues to develop its infrastructure to meet the water and power needs of its customers. Capital assets, after depreciation, increased \$6.5M and \$3.9M during FY 2022 and FY2021 respectively without the use of debt financing. Highlights of FY 2022 capital activity included:

- Replaced/installed the following water main during the fiscal year:
  - 6 inch ductile iron water main – 939 feet
  - 8 inch ductile iron water main – 7,085 feet
  - 10 inch ductile iron water main – 949 feet
  - 12 inch ductile iron water main – 1,614 feet
  - 16 inch ductile iron water main – 466 feet
- Replaced/installed 84 distribution transformers
- Replaced/installed 59 distribution poles
- Replaced/installed 13,646 feet of underground primary conductor
- Replaced/installed 13,947 feet of underground secondary conductor
- Purchased a new Kubota Mini Excavator
- Purchased a new Case 321F Wheel Loader
- Purchased a new 16 foot Dump Trailer
- Significant construction completed at Baker Creek Substation
- Completed a Restroom addition in the main warehouse

## **McMinnville Water and Light Department Management's Discussion and Analysis**

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- IT hardware purchases including a new Server, Firewall, and WTP Communications Equipment.
- Completed significant construction of a new Fuel Station on Marsh Ln.
- Willamette River Water Right purchase

The Department has no outstanding long-term debt obligations as of June 30, 2022 or 2021. For additional information on capital assets, refer to Note 4 of the notes to combined financial statements.

### **Conservation measures**

The Department offers various conservation measures through programs with suppliers and partners. Historically, those programs have ranged from lighting and weatherization to low flow shower heads.

Fiscal year 2022 saw the continuance of the Department's participation in BPA's Energy Efficiency Incentive. Conservation efforts consisted of various residential and commercial projects. Completed conservation projects consisted of 26 commercial and 217 residential projects with 26 of the residential projects qualifying as low income. These efforts netted the utility 3,135,305 kWh savings.

### **Economic factors and outlook for next year**

The cash position of the Department is expected to remain stable during the 2023 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, PO Box 638, McMinnville, OR 97128.

**McMinnville Water and Light Department**  
**Combined Statements of Net Position**  
**As of June 30, 2022 and 2021**

	Water		Light		Total	
	2022	2021	2022	2021	2022	2021
<b>ASSETS AND DEFERRED OUTFLOWS</b>						
Utility plant, net	\$ 98,208,749	\$ 95,144,405	\$ 48,906,649	\$ 45,470,856	\$ 147,115,398	\$ 140,615,261
Current assets						
Cash and cash equivalents	18,574,627	17,098,764	36,126,154	37,738,176	54,700,781	54,836,940
Designated cash and cash equivalents	734,959	-	1,825,725	1,613,359	2,560,684	1,613,359
Accounts receivable, net of allowance	628,371	740,114	3,772,546	2,944,035	4,400,917	3,684,149
Current portion of notes receivable and other	20,111	19,571	51,000	149,940	71,111	169,511
Current portion of lease receivable	13,119	-	-	-	13,119	-
Inventories	473,974	372,798	1,453,748	838,460	1,927,722	1,211,258
Other current assets	85,778	85,853	249,073	348,796	334,851	434,649
Total current assets	<u>20,530,939</u>	<u>18,317,100</u>	<u>43,478,246</u>	<u>43,632,766</u>	<u>64,009,185</u>	<u>61,949,866</u>
Other assets						
Note receivable and other, less current portion	1,470,652	1,490,763	267,544	132,832	1,738,196	1,623,595
Lease receivable, less current portion	30,952	-	-	-	30,952	-
Renewable energy certificates	-	-	134,099	134,116	134,099	134,116
Regulatory asset – conservation charges	-	-	1,038,707	1,204,900	1,038,707	1,204,900
Total other assets	<u>1,501,604</u>	<u>1,490,763</u>	<u>1,440,350</u>	<u>1,471,848</u>	<u>2,941,954</u>	<u>2,962,611</u>
Deferred outflows of resources						
Deferred outflows – pension	2,171,332	2,652,791	3,257,002	3,979,190	5,428,334	6,631,981
Deferred outflows – other postemployment benefits	78,774	94,187	108,784	130,068	187,558	224,255
Total deferred outflows of resources	<u>2,250,106</u>	<u>2,746,978</u>	<u>3,365,786</u>	<u>4,109,258</u>	<u>5,615,892</u>	<u>6,856,236</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<u>\$ 122,491,398</u>	<u>\$ 117,699,246</u>	<u>\$ 97,191,031</u>	<u>\$ 94,684,728</u>	<u>\$ 219,682,429</u>	<u>\$ 212,383,974</u>

**McMinnville Water and Light Department**  
**Combined Statements of Net Position**  
**As of June 30, 2022 and 2021**

	Water		Light		Total	
	2022	2021	2022	2021	2022	2021
<b>NET POSITION, LIABILITIES AND DEFERRED INFLOWS</b>						
Net position						
Net investment in capital assets	\$ 98,208,749	\$ 95,144,405	\$ 48,906,649	\$ 45,470,856	\$ 147,115,398	\$ 140,615,261
Unrestricted	16,584,979	14,893,225	35,566,267	36,211,895	52,151,246	51,105,120
Total net position	<u>114,793,728</u>	<u>110,037,630</u>	<u>84,472,916</u>	<u>81,682,751</u>	<u>199,266,644</u>	<u>191,720,381</u>
Current liabilities						
Accounts payable	263,730	210,052	3,185,608	2,657,428	3,449,338	2,867,480
Accrued payroll	152,242	121,799	208,199	206,980	360,441	328,779
Other liabilities	513,513	19,499	310,965	291,406	824,478	310,905
Compensated absences	343,950	285,457	431,002	408,094	774,952	693,551
Due to City of McMinnville, net	831,132	913,718	152,146	144,687	983,278	1,058,405
Advances and deposits notes payable	50,000	50,000	271,904	301,598	321,904	351,598
Total current liabilities	<u>2,154,567</u>	<u>1,600,525</u>	<u>4,559,824</u>	<u>4,010,193</u>	<u>6,714,391</u>	<u>5,610,718</u>
Long-term liabilities						
Net pension liability	2,502,817	4,387,065	3,754,226	6,580,597	6,257,043	10,967,662
Regulatory liability- pension	214,590	562,666	321,888	844,002	536,478	1,406,668
Total other post-employment benefits liability	541,798	596,688	748,195	823,996	1,289,993	1,420,684
Total long-term liabilities	<u>3,259,205</u>	<u>5,546,419</u>	<u>4,824,309</u>	<u>8,248,595</u>	<u>8,083,514</u>	<u>13,795,014</u>
Deferred inflows of resources						
Deferred inflows – pension	2,023,457	272,592	3,035,186	408,888	5,058,643	681,480
Deferred inflows – other postemployment benefits	216,370	242,080	298,796	334,301	515,166	576,381
Deferred inflows- lease revenue	44,071	-	-	-	44,071	-
Total deferred inflows of resources	<u>2,283,898</u>	<u>514,672</u>	<u>3,333,982</u>	<u>743,189</u>	<u>5,617,880</u>	<u>1,257,861</u>
<b>TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS</b>	<u>\$ 122,491,398</u>	<u>\$ 117,699,246</u>	<u>\$ 97,191,031</u>	<u>\$ 94,684,728</u>	<u>\$ 219,682,429</u>	<u>\$ 212,383,974</u>

**McMinnville Water and Light Department**  
**Combined Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended June 30, 2022 and 2021**

	Water		Light		Total	
	2022	2021	2022	2021	2022	2021
<b>OPERATING REVENUES</b>						
Sales						
Residential	\$ 4,766,121	\$ 4,378,690	\$ 15,217,161	\$ 14,849,003	\$ 19,983,282	\$ 19,227,693
General service	2,362,843	2,417,982	11,626,400	11,580,371	13,989,243	13,998,353
Industrial	-	-	15,959,791	16,555,945	15,959,791	16,555,945
Rental light	-	-	127,078	129,694	127,078	129,694
Street light	-	-	261,505	255,896	261,505	255,896
Cable TV	-	-	37,269	37,020	37,269	37,020
Wholesale	83,390	115,808	-	-	83,390	115,808
Other operating revenue	13,260	7,608	384,668	208,690	397,928	216,298
Total operating revenues	<u>7,225,614</u>	<u>6,920,088</u>	<u>43,613,872</u>	<u>43,616,619</u>	<u>50,839,486</u>	<u>50,536,707</u>
<b>OPERATING EXPENSES</b>						
Supply and transmission	874,326	892,286	31,295,287	32,350,415	32,169,613	33,242,701
Distribution, operation, and maintenance	1,845,281	1,532,581	3,992,023	3,634,472	5,837,304	5,167,053
Customer accounting and meter reading	425,207	409,403	662,793	649,338	1,088,000	1,058,741
General and administrative	1,539,969	1,436,504	1,840,477	1,752,179	3,380,446	3,188,683
OPEB expense (credit)	(65,187)	(60,419)	(90,021)	(83,434)	(155,208)	(143,853)
Depreciation	2,041,496	1,892,840	2,461,754	2,271,435	4,503,250	4,164,275
Conservation	-	-	1,111,517	1,012,911	1,111,517	1,012,911
Taxes and tax equivalents	211,630	176,705	2,118,580	2,062,981	2,330,210	2,239,686
Total operating expenses	<u>6,872,722</u>	<u>6,279,900</u>	<u>43,392,410</u>	<u>43,650,297</u>	<u>50,265,132</u>	<u>49,930,197</u>
Operating income (loss)	<u>352,892</u>	<u>640,188</u>	<u>221,462</u>	<u>(33,678)</u>	<u>574,354</u>	<u>606,510</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>						
Timber sales, net of related expenses	3,067,357	590,046	-	-	3,067,357	590,046
Interest income	157,476	175,392	186,867	261,102	344,343	436,494
Grant income	60,033	-	-	-	60,033	-
Other, net	35,083	151,538	830,908	1,178,215	865,991	1,329,753
Gain (loss) on asset dispositions	37,173	(66,056)	(281,674)	(613,763)	(244,501)	(679,819)
Total non-operating income	<u>3,357,122</u>	<u>850,920</u>	<u>736,101</u>	<u>825,554</u>	<u>4,093,223</u>	<u>1,676,474</u>
Income before contributed capital	<u>3,710,014</u>	<u>1,491,108</u>	<u>957,563</u>	<u>791,876</u>	<u>4,667,577</u>	<u>2,282,984</u>
Hookup fees and contributed utility systems	<u>1,046,084</u>	<u>2,221,986</u>	<u>1,832,602</u>	<u>2,022,844</u>	<u>2,878,686</u>	<u>4,244,830</u>
Change in net position	<u>4,756,098</u>	<u>3,713,094</u>	<u>2,790,165</u>	<u>2,814,720</u>	<u>7,546,263</u>	<u>6,527,814</u>
NET POSITION, beginning of year	<u>110,037,630</u>	<u>106,324,536</u>	<u>81,682,751</u>	<u>78,868,031</u>	<u>191,720,381</u>	<u>185,192,567</u>
NET POSITION, end of year	<u>\$ 114,793,728</u>	<u>\$ 110,037,630</u>	<u>\$ 84,472,916</u>	<u>\$ 81,682,751</u>	<u>\$ 199,266,644</u>	<u>\$ 191,720,381</u>

See accompanying notes.

**McMinnville Water and Light Department**  
**Combined Statements of Cash Flows**  
**For the Years Ended June 30, 2022 and 2021**

	Water		Light		Total	
	2022	2021	2022	2021	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$ 7,337,357	\$ 7,089,656	\$ 42,785,361	\$ 44,352,379	\$ 50,122,718	\$ 51,442,035
Receipts from timber sales	3,067,357	590,046	-	-	3,067,357	590,046
Other receipts and purchases	502,572	185,455	830,908	1,178,215	1,333,480	1,363,670
Power purchases	-	-	(31,295,287)	(32,350,415)	(31,295,287)	(32,350,415)
Payments to suppliers	(993,057)	(1,852,620)	(1,671,408)	(940,547)	(2,664,465)	(2,793,167)
Conservation measures	-	-	(1,111,517)	(1,012,911)	(1,111,517)	(1,012,911)
Payments to employees	(3,602,170)	(3,159,694)	(4,834,510)	(4,743,003)	(8,436,680)	(7,902,697)
Payments of taxes	(211,630)	(176,705)	(2,111,121)	(2,736,927)	(2,322,751)	(2,913,632)
Net cash from operating activities	6,100,429	2,676,138	2,592,426	3,746,791	8,692,855	6,422,929
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Additions to utility plant, net	(4,466,072)	(2,097,245)	(5,469,684)	(4,738,761)	(9,935,756)	(6,836,006)
Hookup fees and contributions in aid	399,418	1,722,664	1,124,525	585,890	1,523,943	2,308,554
Net change in renewable energy certificates	-	-	17	11	17	11
Deductions from deferred conservation	-	-	166,193	166,193	166,193	166,193
Net cash from capital and related financing activities	(4,066,654)	(374,581)	(4,178,949)	(3,986,667)	(8,245,603)	(4,361,248)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Payments (issuance) on notes receivable	19,571	(1,510,334)	-	-	19,571	(1,510,334)
Interest received	157,476	175,392	186,867	261,102	344,343	436,494
Net cash from investing activities	177,047	(1,334,942)	186,867	261,102	363,914	(1,073,840)
Net change in cash and cash equivalents	2,210,822	966,615	(1,399,656)	21,226	811,166	987,841
CASH AND CASH EQUIVALENTS, beginning of year	17,098,764	16,132,149	39,351,535	39,330,309	56,450,299	55,462,458
CASH AND CASH EQUIVALENTS, end of year	\$ 19,309,586	\$ 17,098,764	\$ 37,951,879	\$ 39,351,535	\$ 57,261,465	\$ 56,450,299

**McMinnville Water and Light Department**  
**Combined Statements of Cash Flows**  
**For the Years Ended June 30, 2022 and 2021**

	Water		Light		Total	
	2022	2021	2022	2021	2022	2021
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b>						
Operating income (loss)	\$ 352,892	\$ 640,188	\$ 221,462	\$ (33,678)	\$ 574,354	\$ 606,510
Adjustments to reconcile operating income to net cash from operating activities						
Collections received for the City of McMinnville	10,626,237	10,415,171	-	-	10,626,237	10,415,171
Remittances of collections to City of McMinnville	(10,626,237)	(10,415,171)	-	-	(10,626,237)	(10,415,171)
Depreciation	2,041,496	1,892,840	2,461,754	2,271,435	4,503,250	4,164,275
Other, net	95,116	151,538	830,908	1,178,215	926,024	1,329,753
Timber sales, net of related expenses	3,067,357	590,046	-	-	3,067,357	590,046
Pension and OPEB change	(21,116)	(60,419)	(91,481)	(83,434)	(112,597)	(143,853)
Changes in assets and liabilities						
Accounts receivable	111,743	169,568	(828,511)	735,760	(716,768)	905,328
Inventories	(101,176)	(55,884)	(615,288)	(8,220)	(716,464)	(64,104)
Other current assets and conservation loan	75	12,605	63,951	424,609	64,026	437,214
Accounts payable	53,678	(704,077)	528,180	(148,714)	581,858	(852,791)
Accrued payroll	30,443	(430)	1,219	13,846	31,662	13,416
Other liabilities	494,014	(1,851)	19,559	19,764	513,573	17,913
Compensated absences	58,493	45,702	22,908	74,462	81,401	120,164
Due to the City of McMinnville	(82,586)	21,312	7,459	(673,946)	(75,127)	(652,634)
Advances and deposits	-	(25,000)	(29,694)	(23,308)	(29,694)	(48,308)
Net cash from operating activities	<u>\$ 6,100,429</u>	<u>\$ 2,676,138</u>	<u>\$ 2,592,426</u>	<u>\$ 3,746,791</u>	<u>\$ 8,692,855</u>	<u>\$ 6,422,929</u>
<b>NONCASH CAPITAL ACTIVITIES</b>						
Contributions from others	<u>\$ 646,666</u>	<u>\$ 499,322</u>	<u>\$ 708,077</u>	<u>\$ 1,436,954</u>	<u>\$ 1,354,743</u>	<u>\$ 1,936,276</u>

See accompanying notes.

# McMinnville Water and Light Department

## Notes to Combined Financial Statements

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### 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.

#### 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 classifications: 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.

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.

#### Cash and cash equivalents

For financial reporting purposes, the Department's cash and cash equivalents are considered to be cash on hand, designated cash set aside by the Department to fund projects as needed, 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 comprises the various net earnings from operations, non-operating revenues, expenses, and contributions of capital. Net position is classified in the following categories:

*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.

## **McMinnville Water and Light Department**

### **Notes to Combined Financial Statements**

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#### **Note 1 – Summary of Significant Accounting Policies (continued)**

*Unrestricted* – This component of net position consists of net position that does not meet the definition of “net investment in capital assets”.

#### **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 year-end (unbilled revenue).

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.

#### **Leases**

The Department recognizes lease contracts or equivalents that have a term exceeding one year and the cumulative future payments on the contract exceed \$25,000 that meet the definition of an other than short-term lease. The Department uses a discount rate that is explicitly stated or implicit in the contract. When a readily determinable discount rate is not available, the discount rate is determined using the Department's incremental borrowing rate at the start of the lease for a similar asset type and term length of the contract. Short-term lease payments are expensed when incurred.

#### **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.

# McMinnville Water and Light Department

## Notes to Combined Financial Statements

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### Note 1 – Summary of Significant Accounting Policies (continued)

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	5 to 10 years
Transportation equipment	5 to 10 years

### Renewable energy certificates

Renewable energy certificates (RECs) 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.

The Department receives RECs as part of the purchase agreement with Bonneville Power Administration (BPA) for buying "Green Energy Premium Wind." 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 or are banked to satisfy future Oregon Renewable Portfolio Standard obligations. Markets for the sale of RECs are very limited at the present time. Future sales will be transaction specific and subject to Commission approval. The RECs are recorded at cost based on the most recent price at which the Department purchases the RECs. See Note 5.

### 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. The amortization period is equivalent to the period these charges will be recovered through the Department's rates.

### Deferred outflows of resources and deferred inflows of resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources follow assets on the statement of net position.

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until that time. In the statement of net position, this includes resources that are received before the Department has met eligibility requirements related to time. Deferred inflows of resources follows liabilities on the statement of net position.

### 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.

## McMinnville Water and Light Department Notes to Combined Financial Statements

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### Note 1 – Summary of Significant Accounting Policies (continued)

#### Due to City of McMinnville

The Department bills and collects for sewer services rendered by the City. Sewer payments due to the City as of June 30, 2022 were \$831,132. In accordance with ORS 225.270, *Use of surplus earnings*, the Department also makes electric payments in lieu of tax (PILOT) to the City of McMinnville at the rate of 6% of gross power collections with the exception of customers in the industrial class which have a 3% rate. PILOT payments due to the City as of June 30, 2022 and 2021 were \$152,146 and \$144,687 respectively.

#### 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.

#### Net pension liability

The Department reports its proportionate share of the net pension liability of the Oregon Public Employees Retirement System (OPERS). The net pension liability is measured as the portion of the present value of the projected benefit payments to be provided to current active and inactive qualifying employees that is attributed to those employees' past periods of service, less the amount of the pension plan's fiduciary net position.

For purposes of measuring the net pension liability, deferred outflows and deferred inflows or resources related to pensions, and pension expense, information about the fiduciary net position of OPERS and additions to/deductions from OPERS' fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments in the Plan are reported at fair value.

#### Total other post-employment benefits (OPEB) liability

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, the Department has relied on actuarial reports. The Department pays up to 100% of certain retiree's health insurance coverage. The related expense is recognized as the Department pays premiums.

# **McMinnville Water and Light Department**

## **Notes to Combined Financial Statements**

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### **Note 1 – Summary of Significant Accounting Policies (continued)**

#### **Adoption of new accounting standards**

During the fiscal year ended, June 30, 2022, the Department implemented GASB Statement No. 87, *Leases*. Under the standard, a lessor is required to recognize a lease receivable and a deferred inflow of resources. A lease receivable is recognized at the net present value of the leased asset at a borrowing rate either explicitly described in the agreement or implicitly determined by the Department, and is reduced by principal payments received. The deferred inflow of resources is recognized in an amount equal to the sum of the lease receivable and any payments relating to a future period which were received prior to the lease commencement, and is amortized over the life of the underlying lease. Additional information is provided in Note 13.

### **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 (Pool), and certain corporate indebtedness.

The State of Oregon Local Government Investment 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 Pool includes investments in external investment pools and does not meet the requirements for "leveling" disclosures as established in GASB Statement No. 72. Therefore, fair value of the Pool is determined by the Pool's underlying portfolio.

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 \$250,000 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.

## McMinnville Water and Light Department Notes to Combined Financial Statements

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### Note 2 – Cash and Deposits (continued)

The Oregon Local Government Intermediate Fund ("OLGIF") is a commingled investment pool for local governments offered by Oregon State Treasury due to Legislation HB2140 and pursuant to ORS Chapter 294. OLGIF provides qualified local government participants with a vehicle to invest assets over an intermediate time horizon (three to five years). OLGIF is actively managed to maintain a diversified portfolio of investment grade bond investments. Based on historical market performance, it is anticipated that the returns generated over extended periods will be greater in OLGIF than in shorter maturity vehicles such as the Oregon Short Term Fund.

Interest rate risk is the risk that would adversely affect the fair value of an investment should market interest rates change. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Department management believes the liquidity in the portfolio is sufficient to meet cash flow requirements and preclude the Department from having to sell investments below original cost for that purpose.

The Commission authorized the funding for conversion of overhead power lines to underground. Cash is designated for this purpose in the amount of \$1,825,725 and \$1,613,359 as of June 30, 2022 and 2021, respectively.

The Department had the following cash and cash equivalents, including designated cash, at June 30, 2022:

	<u>Water</u>	<u>Light</u>	<u>Total</u>
Cash on hand	\$ 6,239	\$ 54,873	\$ 61,112
Cash on deposit with a bank	952,284	(299,424)	652,860
Local Government Investment Pool	18,351,063	32,883,870	51,234,933
Oregon Local Government Intermediate Fund	-	5,312,560	5,312,560
	<u>\$ 19,309,586</u>	<u>\$ 37,951,879</u>	<u>\$ 57,261,465</u>

The Department had the following cash and cash equivalents, including designated cash, at June 30, 2021:

	<u>Water</u>	<u>Light</u>	<u>Total</u>
Cash on hand	\$ 703	\$ 17,392	\$ 18,095
Cash on deposit with a bank	1,432,628	(770,338)	662,290
Local Government Investment Pool	15,665,433	32,389,618	48,055,051
Oregon Local Government Intermediate Fund	-	7,714,863	7,714,863
	<u>\$ 17,098,764</u>	<u>\$ 39,351,535</u>	<u>\$ 56,450,299</u>

## McMinnville Water and Light Department

### Notes to Combined Financial Statements

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#### Note 3 – Accounts Receivable and Notes Receivable

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

	2022		
	Water	Light	Total
Accounts receivable	\$ 636,908	\$ 3,798,484	\$ 4,435,392
Allowance for doubtful accounts	(8,537)	(25,938)	(34,475)
	<u>\$ 628,371</u>	<u>\$ 3,772,546</u>	<u>\$ 4,400,917</u>
	2021		
	Water	Light	Total
Accounts receivable	\$ 748,930	\$ 2,975,793	\$ 3,724,723
Allowance for doubtful accounts	(8,816)	(31,758)	(40,574)
	<u>\$ 740,114</u>	<u>\$ 2,944,035</u>	<u>\$ 3,684,149</u>

#### Lafayette note receivable

The Department entered into a Water Purchase Agreement with the City of Lafayette in March 2019 (see Note 12). As a part of the Agreement, the Department designed and constructed additional water system facilities (Water System Project) to connect to the Lafayette water system, and the City of Lafayette is to pay the related costs as development charges annually over a 10-year period even if the agreement is terminated prior or extended beyond this timeframe. The Project was completed in July 2020, with the development charges of the project totaling \$1,529,382. Notice of the final cost of the project was issued to Lafayette on August 1, 2020, and the first annual development charge payment became due September 1, 2020, with annual payments due September 1, thereafter. The total project development charges were recorded by the Department as contribution in aid of construction and a long term Note Receivable for the full amount. Per the terms of the Agreement, the City of Lafayette is to pay an interest rate equal to the LGIP rate as of June 30, 2020, plus 2%. Any time after the first five years since the date of the Agreement, the Department may update the interest rate to reflect the current LGIP rate. The interest rate charged for the first five years of the Note Receivable is 3.3%. Interest and principal received for the year ended June 30, 2022 and 2021 were \$69,412 and \$69,517, respectively.

## McMinnville Water and Light Department Notes to Combined Financial Statements

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### Note 3 – Accounts Receivable and Notes Receivable (continued)

Future maturities of note receivable principal and interest at June 30, 2022 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 20,111	\$ 49,195	\$ 69,306
2024	159,073	48,532	207,605
2025	163,973	43,282	207,255
2026	237,997	37,871	275,868
2027	245,329	30,017	275,347
2028–2031	664,280	40,477	553,880
	<u>\$ 1,490,763</u>	<u>\$ 249,374</u>	<u>\$ 1,589,261</u>

Notes receivable for Electric and Water at June 30, 2022 are as follows:

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Current portion of notes receivable	\$ 51,000	\$ 20,111	\$ 71,111
Non-current portion	267,544	1,470,652	1,738,196
	<u>\$ 318,544</u>	<u>\$ 1,490,763</u>	<u>\$ 1,809,307</u>

Notes receivable for Electric and Water at June 30, 2021 are as follows:

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Current portion of notes receivable	\$ 149,940	\$ 19,571	\$ 169,511
Non-current portion	132,832	1,490,763	1,623,595
	<u>\$ 282,772</u>	<u>\$ 1,510,334</u>	<u>\$ 1,793,106</u>

## McMinnville Water and Light Department

### Notes to Combined Financial Statements

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#### Note 4 – Utility Plant

Utility plant is comprised of the following:

	June 30,	
	<u>2022</u>	<u>2021</u>
<b>WATER</b>		
Structures and improvements	\$ 7,188,451	\$ 7,168,709
Water treatment plant	35,037,250	35,037,250
Supply and distribution systems	77,279,920	75,871,937
Furniture and equipment	1,245,312	1,216,965
Transportation equipment	<u>1,757,387</u>	<u>1,635,658</u>
	122,508,320	120,930,519
Less accumulated depreciation	<u>(35,365,388)</u>	<u>(33,388,220)</u>
	87,142,932	87,542,299
Land and land rights	10,059,633	7,148,799
Construction in progress	<u>1,006,184</u>	<u>453,307</u>
	98,208,749	95,144,405
Total water utility plant, net	<u>98,208,749</u>	<u>95,144,405</u>
<b>LIGHT</b>		
Structures and improvements	3,015,264	3,011,033
Supply and distribution systems	69,910,478	67,070,814
Furniture and equipment	2,181,457	2,122,891
Transportation equipment	<u>2,800,764</u>	<u>2,794,503</u>
	77,907,963	74,999,241
Less accumulated depreciation	<u>(33,888,672)</u>	<u>(31,965,950)</u>
	44,019,291	43,033,291
Land and land rights	924,885	924,885
Construction in progress	<u>3,962,473</u>	<u>1,512,680</u>
	48,906,649	45,470,856
Total light utility plant, net	<u>48,906,649</u>	<u>45,470,856</u>
Total water and light utility plant, net	<u>\$ 147,115,398</u>	<u>\$ 140,615,261</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, 2022 was as follows:

	Balance, June 30, 2021	Increases	Decreases	Balance, June 30, 2022
Land and land rights	\$ 8,073,684	\$ 2,910,834	\$ -	\$ 10,984,518
Construction in progress	1,965,987	7,984,587	(4,981,917)	4,968,657
Total non-depreciable	<u>10,039,671</u>	<u>10,895,421</u>	<u>(4,981,917)</u>	<u>15,953,175</u>
Structures and improvements	10,179,742	23,973	-	10,203,715
Water treatment plant	35,037,250	-	-	35,037,250
Supply and distribution systems	142,942,751	5,322,354	(1,074,707)	147,190,398
Furniture and equipment	3,339,856	86,913	-	3,426,769
Transportation equipment	4,430,161	249,740	(121,750)	4,558,151
Total depreciable	<u>195,929,760</u>	<u>5,682,980</u>	<u>(1,196,457)</u>	<u>200,416,283</u>
Less accumulated depreciation:				
Electric plant	(30,096,146)	(2,277,372)	467,619	(31,905,899)
Water plant	(32,566,847)	(1,934,273)	15,629	(34,485,491)
Transportation equipment	(2,691,177)	(291,605)	120,112	(2,862,670)
Total accumulated depreciation	<u>(65,354,170)</u>	<u>(4,503,250)</u>	<u>603,360</u>	<u>(69,254,060)</u>
Utility plant, net	<u>\$ 140,615,261</u>	<u>\$ 12,075,151</u>	<u>\$ (5,575,014)</u>	<u>\$ 147,115,398</u>

Utility Plant activity during the year ended June 30, 2021 was as follows:

	Balance, June 30, 2020	Increases	Decreases	Balance, June 30, 2021
Land and land rights	\$ 8,066,115	\$ 7,569	\$ -	\$ 8,073,684
Construction in progress	4,536,148	7,253,762	(9,823,923)	1,965,987
Total non-depreciable	<u>12,602,263</u>	<u>7,261,331</u>	<u>(9,823,923)</u>	<u>10,039,671</u>
Structures and improvements	9,985,987	193,755	-	10,179,742
Water treatment plant	35,014,030	23,220	-	35,037,250
Supply and distribution systems	133,891,286	10,108,885	(1,057,420)	142,942,751
Furniture and equipment	3,255,718	84,138	-	3,339,856
Transportation equipment	3,792,769	637,392	-	4,430,161
Total depreciable	<u>185,939,790</u>	<u>11,047,390</u>	<u>(1,057,420)</u>	<u>195,929,760</u>
Less accumulated depreciation:				
Electric plant	(28,378,429)	(2,092,867)	375,150	(30,096,146)
Water plant	(31,073,398)	(1,783,384)	289,935	(32,566,847)
Transportation equipment	(2,403,153)	(288,024)	-	(2,691,177)
Total accumulated depreciation	<u>(61,854,980)</u>	<u>(4,164,275)</u>	<u>665,085</u>	<u>(65,354,170)</u>
Utility plant, net	<u>\$ 136,687,073</u>	<u>\$ 14,144,446</u>	<u>\$ (10,216,258)</u>	<u>\$ 140,615,261</u>

## **McMinnville Water and Light Department**

### **Notes to Combined Financial Statements**

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#### **Note 5 – Renewable Energy Certificates**

The Department had 268,198 and 268,231 RECs banked in its Western Renewable Energy Generation Information System (WREGIS) account as of June 30, 2022 and 2021, respectively. The RECs had average values of \$.50 per REC for a total value of \$134,099 and \$134,116 as of June 30, 2022 and 2021, respectively. The majority of these RECs were obtained predominately from the purchase of BPA Wind (environmentally preferred power).

The Department also holds 512,635 in its WREGIS account for internally generated RECs received from Waste Management Renewable Energy, BPA Tier 1, and Grant County PUD power purchases. RECs can either be sold or used to satisfy the Department's Oregon Renewable Energy Standard (see Note 1). As these RECs are internally generated, they have no corresponding value on the statements of net position as of June 30, 2022 and 2021.

#### **Note 6 – 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 27 miles of 144 count fiber with the school district and city government each having exclusive rights of use for 12 strands of fiber with the remaining strands for exclusive Department rights of use. 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.

Additionally, the Department provides dark fiber leases to Bonneville Power Administration, Light Speed networks, and McMinnville Access Company (eight in total). 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.

For the year ended June 30, 2022, activity related to the fiber optic network included revenues of approximately \$46,000, expenses of approximately \$38,000, and a change in net position that totaled approximately \$8,000. For the year ended June 30, 2020, activity related to the fiber optic network included revenues of approximately \$49,000, expenses of approximately \$47,000, and a change in net position of approximately (\$2,000). The decrease in expenses and corresponding increase in net position for FY 2022 was largely due to lower operating and maintenance costs in FY 2022 than in FY 2021. Fiber optic revenues and expenses are reported as other net non-operating income on the combined statement of revenues, expenses and changes in net position.

## **McMinnville Water and Light Department**

### **Notes to Combined Financial Statements**

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#### **Note 7 – Major Customer and Supplier**

Sales of electricity were made to one major commercial customer during the years ended June 30, 2022 and 2021, in amounts exceeding 32% and 33% of total sales, respectively. This customer accounted for approximately \$14,034,000 and \$14,569,000 of revenues during the years ended June 30, 2022 and 2021, respectively. At June 30, 2022 and 2021, accounts receivable from this same customer amounted to approximately \$1,147,257 and \$521,000, respectively.

Purchases were made from one major supplier of power, including supply and transmission during the years ended June 30, 2022 and 2021, which accounted for 91% of the total of such purchases for both fiscal years. This supplier accounted for approximately \$28,465,000 and \$29,516,000 of purchases during the years ended June 30, 2022 and 2021, respectively. At June 30, 2022 and 2021, amounts due to this same supplier, and included in accounts payable, amounted to approximately \$2,178,500 and \$1,855,000, respectively.

#### **Note 8 – 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 9 – Postemployment Benefits Other Than Pensions (OPEB)**

##### **General information about the OPEB Plan**

The Department has two defined benefit OPEB plans that provide health care and life insurance benefits for eligible employees and their qualified dependents. The Department's plan is a single employer plan administered by the Department.

##### **Single Employer Plan**

The authority to establish and amend the benefit terms and financing is accomplished through contractual agreement with union employees and through board adopted personnel policies for non-union employees.

# McMinnville Water and Light Department

## Notes to Combined Financial Statements

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### Note 9 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

*Benefits provided* – The Department’s plan provides healthcare and life insurance benefits for retirees and, if eligible, their dependents. The benefit terms vary depending on whether the employee is union or non-union, and the employee’s service hours. Below is a brief summary of employee eligibility and the benefits provided:

#### Eligibility for OPEB

Age Requirement	Employee must be at least 60 years old.
Service Requirement	Employees must have over 20 years of service. Benefits vary depending on years of service.
Hire Date	Non-union employees must have been hired prior to August 1, 2005 for eligibility. Electrical union employee eligibility and benefits vary depending on hire date as shown below:

Non-Union		
Service Years	Prior to Medicare Eligibility	Medicare Eligible
Over 20 years	100% of medical, prescription drug, and dental provided to all retirees.	No benefits through McMinnville Water & Light
Over 25 years	100% of medical, prescription drug, and dental provided to all retirees, spouses, and children until they reach age of maturity.	No benefits through McMinnville Water & Light

Electrical Union Employees – Hired Before 2006		
Service Years	Prior to Medicare Eligibility	Medicare Eligible
Over 20 years	100% of medical, prescription drug, and dental provided to all retirees.	No benefits through McMinnville Water & Light
Over 25 years	100% of medical, prescription drug, and dental provided to all retirees, spouses, and children until they reach age of maturity.	No benefits through McMinnville Water & Light

Electrical Union Employees – Hired After on or After 2006		
Service Years	Prior to Medicare Eligibility	Medicare Eligible
Over 20 years	Up to \$425 per month of the retiree's medical and dental premiums.	No benefits through McMinnville Water & Light
Over 20 years	Up to \$425 per month of the retiree's medical and dental premiums. Also up to \$425 of medical premiums for the spouse and \$325 for all dependents.	No benefits through McMinnville Water & Light

## McMinnville Water and Light Department Notes to Combined Financial Statements

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### Note 9 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

*Employees covered by benefit terms* – At July 1, 2021, the following employees (union and non-union) were covered by the benefit terms:

Active employees	60
Retired employees	8
Total	68

#### Total OPEB liability

The Department’s total OPEB liability for the single employer plan was measured as of June 30, 2021 and was determined by an actuarial valuation as of July 1, 2020.

*Actuarial assumptions and other inputs* – The total OPEB liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50%
Discount rate	2.16%

Health care cost trend rates:

Pre-Medicare	Medicare
5.75% in 2021 trending to 4% in 2072 and thereafter.	N/A

100% of the retirees medical and dental premiums are paid by the Department.

The discount rate was based on the expected long term annual investment returns for Oregon’s Local Government Investment Pool and comparable investment vehicles. Mortality rates were based on the tables as detailed below:

Employee Class	Mortality Tables
All eligible employees	RP-2014 healthy annuitant, sex-distinct mortality tables blended 50/50 blue collar and white collar, set back one year for males. Mortality is projected on a generational basis using the Unisex Social Security Data Scale.

## McMinnville Water and Light Department

### Notes to Combined Financial Statements

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#### Note 9 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

##### 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.

*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 year 2022 was .05%. The rate applied to annual covered payroll for the fiscal year 2021 was .06%. The OPERS Board of Trustees sets the employer contribution rate based on an actuarial valuation.

The Department's contributions to RHIA for the fiscal years ended June 30, 2022 and 2021 were \$1,067 and \$1,057, respectively, which equaled the required contributions each year. The OPEB liability associated with the RHIA plan is reflected in the financial statements, however, is not a material component of the balance.

**McMinnville Water and Light Department**  
**Notes to Combined Financial Statements**

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**Note 9 – Postemployment Benefits Other Than Pensions (OPEB) (continued)**

**Changes in the Total OPEB Liability**

	<u>2022</u>	<u>2021</u>
BALANCE, beginning of year	\$ 1,420,684	\$ 1,470,031
Changes for the year:		
Service cost	52,032	44,132
Interest	32,293	53,716
Changes in economic/demographic gains or losses	-	(3,225)
Changes in assumptions or other inputs	4,803	(34,242)
Benefit payments	(144,637)	(138,581)
Net RHIA change	<u>(75,182)</u>	<u>28,853</u>
Net changes	<u>(130,691)</u>	<u>(49,347)</u>
BALANCE, end of year	<u>\$ 1,289,993</u>	<u>\$ 1,420,684</u>

There were no changes to benefit terms during the year or key assumptions made between fiscal year 2022 and 2021 for the Department's plan.

*Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates* – The following presents the net OPEB liability of the Department if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage point higher than the current discount rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
2022 Total OPEB Liability	<u>\$ 1,521,493</u>	<u>\$ 1,289,993</u>	<u>\$ 1,332,837</u>
2021 Total OPEB Liability	<u>\$ 1,580,932</u>	<u>\$ 1,420,684</u>	<u>\$ 1,384,610</u>

*Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates* – The following presents the net OPEB liability of the Department if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Healthcare Trend</u>	<u>1% Increase</u>
2022 Total OPEB Liability	<u>\$ 1,291,621</u>	<u>\$ 1,289,993</u>	<u>\$ 1,580,973</u>
2021 Total OPEB Liability	<u>\$ 1,342,133</u>	<u>\$ 1,420,684</u>	<u>\$ 1,642,260</u>

## McMinnville Water and Light Department

### Notes to Combined Financial Statements

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#### Note 9 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

##### OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the years ended June 30, 2022 and 2021, the Department recognized OPEB credit of \$28,515 and an OPEB expense of \$1,610, respectively. At June 30, 2022, the Department reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>                    </u>	<u>                    </u>
Differences between actual and expected experience	\$ 18,475	\$ 6,202
Changes of assumptions or other inputs	34,502	464,676
Net difference between projected and actual earnings on OPEB plan investments	-	32,225
Changes in proportionate share	7,999	12,063
Contributions subsequent to the measurement date	<u>126,582</u>	<u>-</u>
Total	<u>\$ 187,558</u>	<u>\$ 515,166</u>

At June 30, 2021, the Department reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>                    </u>	<u>                    </u>
Differences between actual and expected experience	\$ 22,405	\$ 9,003
Changes of assumptions or other inputs	32,470	566,429
Net difference between projected and actual earnings on OPEB plan investments	6,718	-
Changes in proportionate share	16,968	949
Contributions subsequent to the measurement date	<u>145,694</u>	<u>-</u>
Total	<u>\$ 224,255</u>	<u>\$ 576,381</u>

**McMinnville Water and Light Department**  
**Notes to Combined Financial Statements**

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**Note 9 – Postemployment Benefits Other Than Pensions (OPEB) (continued)**

\$126,582 is reported as deferred outflows of resources resulting from payments subsequent to the measurement date and will be recognized as a reduction of the OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred will be recognized in expense as follows:

Year ended June 30, 2023	\$ (101,996)
2024	(103,055)
2025	(98,945)
2026	(97,001)
2027	(52,740)
Thereafter	<u>(453)</u>
	<u>\$ (454,190)</u>

**Note 10 – 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.

## McMinnville Water and Light Department

### Notes to Combined Financial Statements

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#### Note 10 – Oregon Public Employees' Retirement Systems (PERS) (continued)

##### Benefits provided (Tier 1 / Tier 2)

The Tier 1 / Tier 2 pension plan provides retirement, disability benefits, annual cost-of-living adjustments (COLA), 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 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.

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 2.00 percent on the first \$60,000 of annual benefits and 0.15 percent on annual benefits over \$60,000.

## **McMinnville Water and Light Department**

### **Notes to Combined Financial Statements**

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#### **Note 10 – Oregon Public Employees’ Retirement Systems (PERS) (continued)**

##### **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.

##### **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 year ended June 30, 2022 were based on the December 31, 2019 actuarial valuation, which became effective July 1, 2021. Employer contribution rates during the year ended June 30, 2021 were based on the December 31, 2017 actuarial valuation, which became effective July 1, 2019.

For the years ended June 30, 2022 and 2021, employer contributions were \$1,287,835 and \$1,154,464 excluding amounts to fund employer specific liabilities, respectively.

## McMinnville Water and Light Department

### Notes to Combined Financial Statements

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#### Note 10 – Oregon Public Employees’ Retirement Systems (PERS) (continued)

##### Pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension

At June 30, 2022, the Department reported a liability of \$6,257,043 for its proportionate share of the net pension liability. At June 30, 2021, the Department reported a liability of \$10,967,662 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and 2020 and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019 rolled forward to June 30, 2021 and 2020 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 Department’s proportionate share of the net pension liability for the Plans as of the June 30, 2021 and 2020 measurement dates was 0.05025634% and 0.04704994%, respectively.

For the years ended June 30, 2022 and 2021, the Department’s proportionate share of system pension expense was \$2,182,210 and \$3,654,433, respectively. The Department has elected to use regulatory accounting to recognize pension expense in conjunction with the required employer contribution rates.

At June 30, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30,	
	2022	2021
Deferred outflows		
Difference between expected and actual experience	\$ 585,700	\$ 482,710
Changes in assumptions	1,566,326	588,600
Net difference between projected and actual investment earnings	-	1,289,655
Changes in employer proportion	1,842,674	2,703,832
Differences between employer contributions and proportionate share of contributions	145,800	412,720
Contributions subsequent to measurement date	1,287,835	1,154,464
Total deferred outflows	<u>\$ 5,428,335</u>	<u>\$ 6,631,981</u>
Deferred inflows		
Changes in proportion and contributions	\$ 349,255	\$ 581,528
Changes in assumptions	16,467	20,623
Net difference between projected and actual investment earnings	4,632,040	-
Differences between employer contributions and proportionate share of contributions	60,881	79,329
Total deferred inflows	<u>\$ 5,058,643</u>	<u>\$ 681,480</u>

**McMinnville Water and Light Department**  
**Notes to Combined Financial Statements**

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**Note 10 – Oregon Public Employees’ Retirement Systems (PERS) (continued)**

\$1,287,85 and \$1,154,464 were reported as deferred outflows of resources related to contributions subsequent to the measurement date as of June 30, 2022 and 2021, respectively.

Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized as pension expense as follows:

Year ending June 30,	2023		\$	728,592
	2024			(246,862)
	2025			(544,570)
	2026			(1,025,823)
	2027			170,520
				170,520
			\$	(918,143)

**Actuarial assumptions**

The total pension liabilities in the December 31, 2019 actuarial valuations were determined using the

Valuation date	December 31, 2019
Measurement date	June 30, 2021
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Discount rate	6.90%
Inflation	2.40%
Payroll growth	3.50%
Projected salary increase	3.40%
Investment rate of return	6.90%

Mortality rates for healthy retirees and beneficiaries were based on the RP-2014 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-2014 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 2018 Experience Study which reviewed experience for the four-year period ended on December 31, 2018.

## McMinnville Water and Light Department

### Notes to Combined Financial Statements

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#### Note 10 – Oregon Public Employees’ Retirement Systems (PERS) (continued)

##### Discount rate

The discount rate used to measure the total pension liability was 6.90% 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.

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in May 2019 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)
Global Equity	30.62%	5.85%
Private Equity	25.50	7.71
Core Fixed Income	23.75	2.73
Real Estate	12.25	5.66
Master Limited Partnerships	0.75	5.71
Infrastructure	1.50	6.26
Commodities	0.63	3.10
Hedge Fund of Funds - Multistrategy	1.25	5.11
Hedge Fund Equity - Hedge	0.63	5.31
Hedge Fund - Macro	5.62	5.06

## McMinnville Water and Light Department Notes to Combined Financial Statements

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### Note 10 – Oregon Public Employees’ Retirement Systems (PERS) (continued)

#### Sensitivity analysis

Below is a sensitivity analysis around the discount rate assumed in the actuarial assumptions:

As of June 30, 2022:

<u>Employers' Net Pension Liability/(Asset)</u>	<u>1% Decrease 5.90%</u>	<u>Current Discount Rate 6.90%</u>	<u>1% Increase 7.90%</u>
Defined benefit pension plan	\$ 12,287,335	\$ 6,257,043	\$ 1,211,877

As of June 30, 2021:

<u>Employers' Net Pension Liability/(Asset)</u>	<u>1% Decrease 6.20%</u>	<u>Current Discount Rate 7.20%</u>	<u>1% Increase 8.20%</u>
Defined benefit pension plan	\$ 16,286,072	\$ 10,967,662	\$ 6,507,928

#### 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 both June 30, 2022 and 2021, the Department did not have an outstanding amount of contributions payable to the pension plan.

### Note 11 – 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

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### Note 12 – 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, 2022 and 2021, were approximately \$760,000 and \$720,000, respectively.

### Wholesale Water Sales

#### *City of Lafayette*

Effective March 19, 2019, the Department entered into an 11 year Water Purchase Agreement with the City of Lafayette. As mentioned in Note 3, the Water System Project was completed in July 2020, and the Department began delivering water to the City of Lafayette in July 2020. Under the terms of the Agreement, the Department is to deliver no more than a maximum of 720,000 gallons of water per day. Lafayette may request additional water in excess of 720,000 gallons per day, however, whether such additional amount will be supplied, and the applicable rates at which water is available, shall be at the sole unreviewable discretion of the Department. The method of calculation of rates and charges for water supplied to Lafayette are specified in the agreement. Actual rates will increase from time to time as provided in the agreement. Charges to Lafayette for the year ended June 30, 2022 were:

	Volumetric Consumption Charge	Meter Charge
First 1,000 cubic feet	\$2.44 per 100 cubic feet	\$608
Over 1,000 cubic feet	\$2.77 per 100 cubic feet	Per month

There is also a minimum monthly volumetric charge as provided in the contract. Cubic feet sold, and the associated revenue, for the year ended June 30, 2022 was 2,722,500 and \$83,419, respectively. Cubic feet sold, and the associated revenue, for the year ended June 30, 2021 was 4,030,200 and \$115,808, respectively. The agreement may be renewed for two like periods of 5 years for a maximum of 21 years unless the agreement is terminated earlier as provided in the agreement. McMinnville obligations are subject to contingencies as detailed in the contract.

## McMinnville Water and Light Department Notes to Combined Financial Statements

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### Note 12 – Commitments and Contingency (continued)

#### *City of Carlton*

Effective June 17, 2021, the Department entered into a one year Water Purchase Agreement with the City of Carlton. Under the terms of the Agreement, the Department is to deliver up to 750,000 gallons of water per day at 520 gallons per minute, subject to and within the operating parameters of the flow control valve and system hydraulics. Carlton may request additional water in excess of 750,000 gallons per day, however whether such additional amount will be supplied, and the applicable rates and charges at which water is available, shall be at the sole unreviewable discretion of the Department. Any Department water system improvements necessary to deliver this additional quantity of water to the Point of Delivery or otherwise shall be paid by Carlton. The method of calculation of rates and charges for water supplied to Carlton are specified in the agreement. Actual rates will increase from time to time as provided in the agreement. Charges to Carlton for the year ended June 30, 2022 were:

	Volumetric Consumption Charge	Meter Charge
First 1,000 cubic feet	\$3.25 per 100 cubic feet	\$372
Over 1,000 cubic feet	\$3.70 per 100 cubic feet	Per month

Cubic feet sold, and the associated revenue, for the year ended June 30, 2022 was 10,842,100 and \$402,052, respectively. No water was delivered to the City of Carlton for the year ended June 30, 2021. Carlton may, under terms specified in the agreement, request a one-time contract renewal subject to Department modified conditions of service and the length of extension, not to exceed one year. McMinnville obligations are subject to contingencies as detailed in the contract.

### Note 13 – Leases

The Department is a lessor for a non-cancellable lease of real property with lease terms through 2025. For the year ended June 30, 2022, the Department recognized lease revenue of \$11,346 and lease interest income of \$2,004. No lease revenue or lease interest income was recognized for the year ended June 30, 2021.

## **Required Supplementary Information**

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**McMinnville Water and Light Department**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**As of June 30**  
**Last Ten Years\***

	2022	2021	2020	2019	2018	2017	2016	2015
Proportionate share of the net pension liability	0.05026%	0.04705%	0.05375%	0.04705%	0.05938%	0.06252%	0.07041%	0.06593%
Proportionate share of the net pension liability	\$ (6,257,043)	\$ (10,967,662)	\$ (8,138,513)	\$ (8,142,888)	\$ (8,004,641)	\$ (9,385,171)	\$ (3,990,001)	\$ 1,494,371
Covered-employee payroll	5,330,572	5,000,050	4,865,881	4,888,677	4,999,100	4,876,213	4,858,713	4,858,713
Proportionate share of the net pension liability as percentage of covered-employee payroll	117.38%	219.35%	167.26%	163.74%	163.74%	187.74%	81.83%	30.76%
Plan's fiduciary net position	\$ 84,331,316,437	\$ 68,319,296,993	\$ 70,203,720,619	\$ 69,327,500,445	\$ 66,371,703,274	\$ 62,082,059,102	\$ 64,923,626,094	\$ 65,401,492,664
Plan fiduciary net position as a percentage of the total pension liability	87.60%	75.80%	80.20%	82.10%	83.10%	80.50%	91.88%	103.60%

\* Fiscal year 2015 was the 1st year of implementation, therefore only the past six years are shown.  
Data is presented as of the measurement date, which is one year in arrears.

# McMinnville Water and Light Department

## Schedule of Contributions

### As of June 30

### Last Ten Years\*

	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 1,287,835	\$ 1,154,464	\$ 1,086,161	\$ 820,096	\$ 751,095	\$ 804,840	\$ 691,701	\$ 601,675
Contributions in relation to the actuarially determined contribution	1,287,835	1,154,464	1,086,161	820,096	751,095	804,840	691,701	60,675
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 5,630,164	\$ 5,330,572	\$ 5,000,050	\$ 4,865,881	\$ 4,888,677	\$ 4,999,100	\$ 4,876,213	\$ 4,858,713
Contributions as a percentage of covered- employee payroll	23%	22%	22%	17%	15%	16%	14%	12%

#### Notes to Schedule

Valuation date: 12/31/2019, rolled forward to June 30, 2021

Methods and assumptions used to determine contribution rates:

Single and Agent Employers Example	Entry age normal
Experience study report	2018, published July 2019
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	2.40%
Salary increases	3.40%
Investment rate of return	6.90%
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 the past seven years are shown.

**McMinnville Water and Light Department**  
**Schedule of Changes in Total OPEB Liability and Related Ratios**  
**As of June 30**  
**Last Ten Years\***

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<i>Total OPEB Liability</i>					
Service cost	\$ 52,032	\$ 44,132	\$ 38,871	\$ 80,853	\$ 88,568
Interest cost	32,293	53,716	59,779	81,690	70,010
Difference between expected and actual experience		-	-	34,195	-
Changes in economic/demographic gains or losses	-	(3,225)			
Effect of assumptions changes	4,803	(34,242)	42,160	(699,861)	(138,226)
Benefit payments	(144,637)	(138,581)	(173,010)	(210,866)	(164,408)
Net RHIA change	<u>(75,182)</u>	<u>28,853</u>	<u>(37,320)</u>	<u>(32,427)</u>	<u>(33,002)</u>
Net change in total OPEB liability	(130,691)	(49,347)	(69,520)	(746,416)	(177,058)
Total OPEB liability, beginning of period	<u>1,420,684</u>	<u>1,470,031</u>	<u>1,539,551</u>	<u>2,285,967</u>	<u>2,463,025</u>
Total OPEB liability, end of period	<u>\$ 1,289,993</u>	<u>\$ 1,420,684</u>	<u>\$ 1,470,031</u>	<u>\$ 1,539,551</u>	<u>\$ 2,285,967</u>
Covered payroll	\$ 5,630,164	\$ 5,330,572	\$ 5,000,050	\$ 4,865,881	\$ 4,888,679
Total OPEB liability as a percent of covered payroll	22.91%	26.65%	29.40%	31.64%	46.76%

\* Fiscal year 2018 was the 1st year of implementation, therefore only four years are shown.

## **Report of Independent Auditors Required by Oregon State Regulations**

Board of Commissioners  
McMinnville Water and Light Department

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of McMinnville Water and Light Department (the Department) as of and for the year ended June 30, 2022, and the related notes to the financial statements, and have issued our report thereon dated November 15, 2022.

### **Compliance**

As part of obtaining reasonable assurance about whether the Department's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including provisions of Oregon Revised Statutes (ORS) as specified in Oregon Administrative Rules (OAR) 162-010-0000 to 162-010-0330, of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the financial statements: 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.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to, the following:

- Accounting records and internal control
- The amount and adequacy of collateral pledged by depositories to secure the deposit of public funds.
- The requirements relating to insurance and fidelity bond coverage.
- 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.

In connection with our testing, nothing came to our attention that caused us to believe the Department was not in substantial compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the provisions of ORS as specified in OAR 162-010-0000 through 162-010-0330 of the Minimum Standards for Audits of Oregon Municipal Corporations.

## **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the board of commissioners and management of the Department and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.



Keith Simovic, Partner,  
for Moss Adams LLP  
Portland, Oregon  
November 15, 2022

