



Report of Independent Auditors  
and Financial Statements for

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

June 30, 2014 and 2013

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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

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**Commissioners as of June 30, 2014**

<u>Name</u>	<u>Term Expires</u>
Thomas Tankersley, Chairperson	December 31, 2017
Rick Olson, Mayor	December 31, 2016
Edward Gormley	December 31, 2016
Patrick Fuchs	December 31, 2014
Mike Keyes	December 31, 2015

Administrative Staff

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

Department Address

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

## REPORT OF INDEPENDENT AUDITORS

To the Board of Commissioners  
McMinnville Water and Light Department

### **Report on the Financial Statements**

We have audited the accompanying combined and individual financial statements of McMinnville Water and Light Department (the Department), a component unit of the City of McMinnville, Oregon, which comprise the combined and individual statements of net position as of June 30, 2014 and 2013, the related combined and individual statements of revenues, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

## REPORT OF INDEPENDENT AUDITORS (continued)

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of June 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the Department and do not purport to, and do not present fairly the financial position of the City of McMinnville, Oregon, as of June 30, 2014 and 2013 and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, then comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated October 16, 2014, on our consideration of the Department's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.



Julie Desimone, Partner  
for Moss Adams LLP  
October 16, 2014

## **McMINNVILLE WATER AND LIGHT DEPARTMENT MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

### **Financial highlights**

- Completed construction of Walnut City Substation
- Replaced breakers 91 & 92 at Windishar Substation
- Started Construction of Second Finished Water Tunnel
- Completed feeder 34 energy efficiency project
- Installed approximately 400 radio read meters
- Replaced Bank #2 transformer at Windishar Substation
- Replaced Circuit Switchers on Bank #2 and #4 transformers
- Replaced 30 distribution poles
- Continued work outlined in Water Master Plan

### **Overview of financial statements**

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

Fiscal year 2014 saw the continuance of BPA's Energy Conservation Agreement program. The conservation efforts for the last fiscal year recorded over 230 residential and 15 commercial energy conservation projects, including a major lighting retrofit with Cascade Steel savings over 400k kWh per year. This effort netted the utility 0.34 average megawatts of conservation.

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

The Combined Statements of Revenues, Expenses, and Changes in Net Position show the financial results of activities for any given fiscal year. These statements measure the success of the Department's operations during the last three years and can be used to determine whether all of its costs have been successfully recovered.

## McMINNVILLE WATER AND LIGHT DEPARTMENT MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	FY 2014	FY 2013	Increase (Decrease)	Percent Change	FY 2012	Increase (Decrease)	Percent Change
Operating revenues	\$ 44,662	\$ 43,030	\$ 1,632	4%	\$ 41,123	\$ 1,907	5%
Operating expenses	42,922	41,262	1,660	4%	40,072	1,190	3%
Net operating income (loss)	1,740	1,768	(28)	-2%	1,051	717	68%
Other revenues	3,761	5,061	(1,300)	-26%	3,688	1,373	37%
Other expenses	(265)	(571)	306	-54%	(555)	(16)	3%
Contributions	910	475	435	92%	643	(168)	-26%
Total other	4,406	4,965	(559)	-11%	3,776	1,189	31%
Changes in fund net position	\$ 6,146	\$ 6,733	\$ (587)	-9%	\$ 4,827	\$ 1,906	39%

#### Fiscal Year 2014

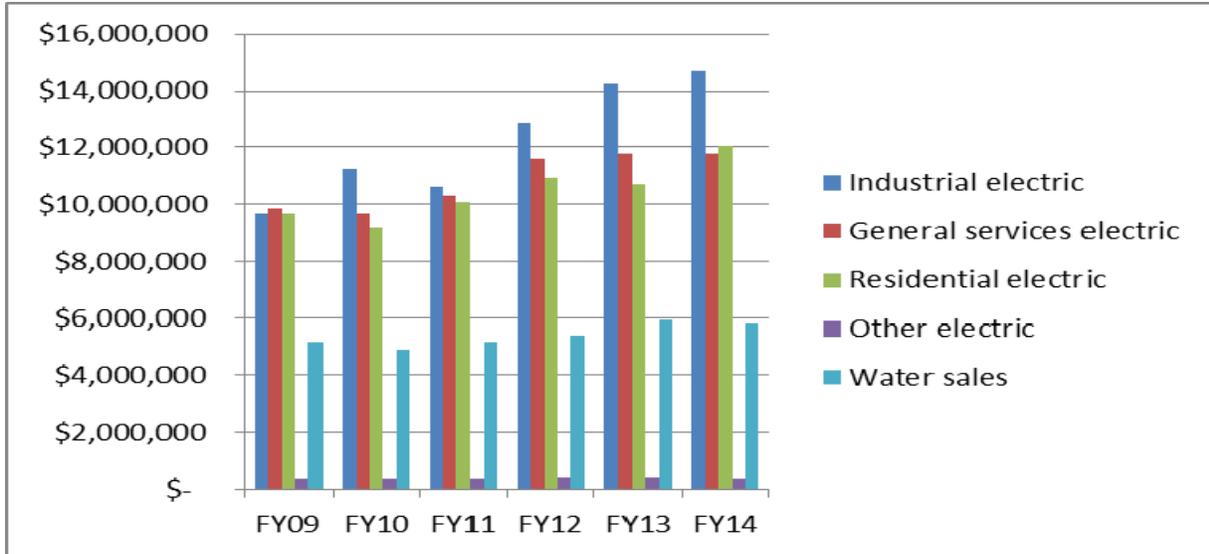
Operating revenues increased by 4%, largely due to increased revenue from electricity sales by 4.8% and decreased revenue from water sales by 2.4%. Electricity revenues included rate increases (October 1, 2013) and increased consumption of electricity (kWh) by 1.9%. Water (Cu. Ft.) sales decreased 4.2%. Operating expenses came in 4.6% higher and 0.1% higher than the prior year for electricity and water, respectively. Economic and/or weather conditions, along with conservation continue to be factors with relatively flat consumption for water and some growth for electric consumption. After netting positive changes to other expenses and contributions in aid, total other net revenue decreased by 11% for the fiscal year largely due to decreased net timber revenue.

#### Fiscal Year 2013

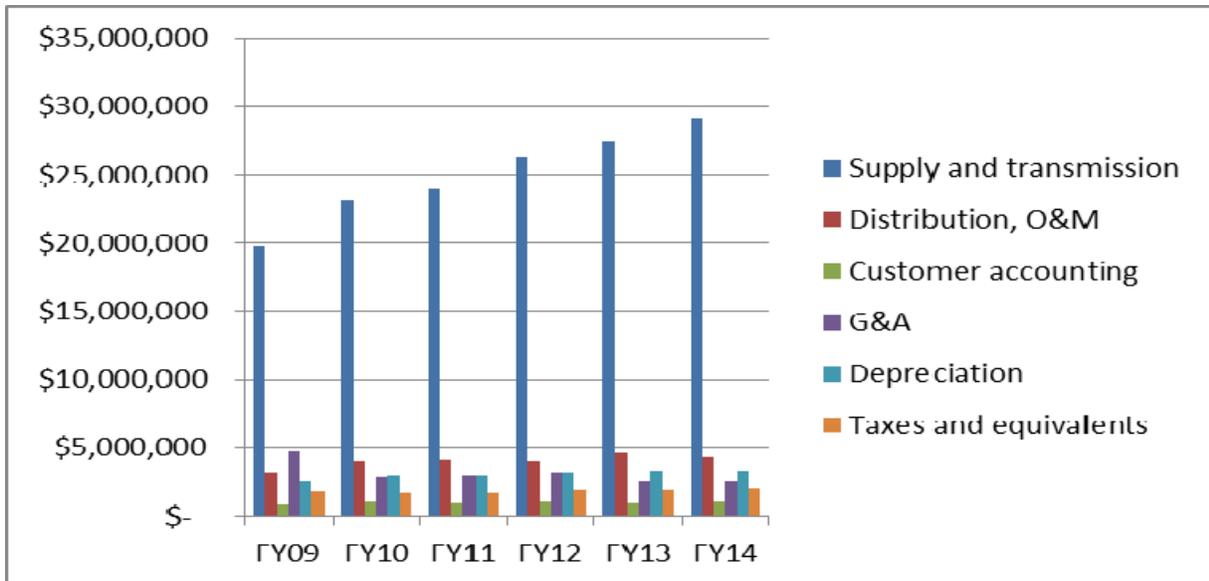
Operating revenues increased by 5%. This was largely due to increased revenue from electricity by 3.7% and increased revenue from water sales by 10.5%, both largely due to rate increases. Consumption of electricity (kWh) and water (Cu. Ft.) increased by 1.2% and 7.1%, respectively. Operating expenses came in 3.4% higher and 0.2% lower the prior year for electric and water, respectively. Economic and/or weather conditions, along with conservation continue to be factors with flat consumption for electricity and some growth for water consumption. Total other net revenue increased by 38% for the fiscal year largely due to increased net timber revenue.

## McMINNVILLE WATER AND LIGHT DEPARTMENT MANAGEMENT'S DISCUSSION AND ANALYSIS

### Operating revenues

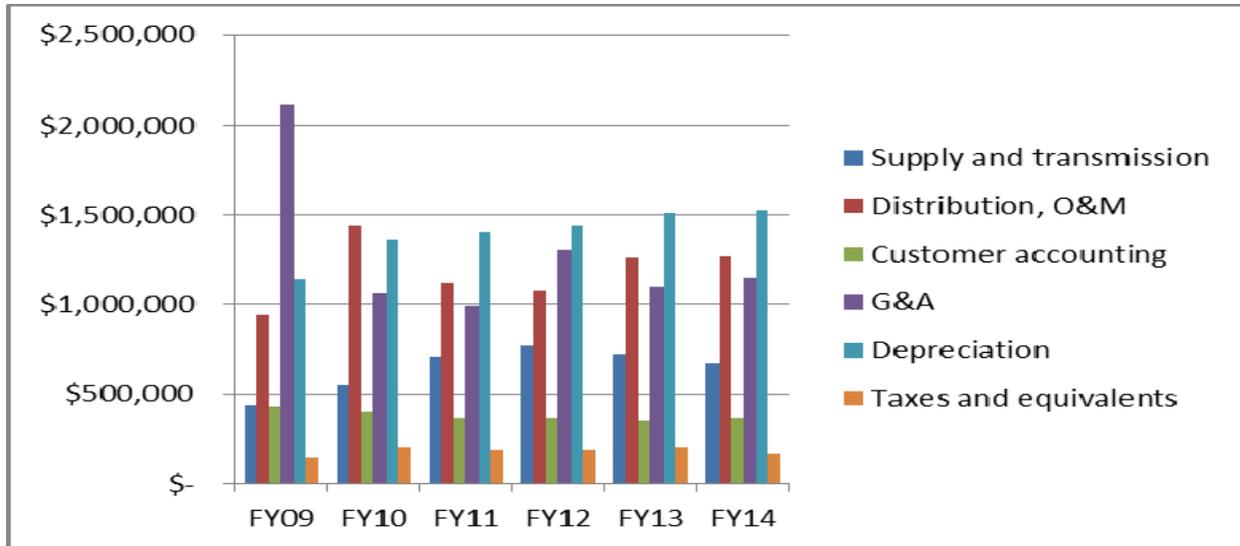


### Operating expenses - Electric



# McMINNVILLE WATER AND LIGHT DEPARTMENT MANAGEMENT'S DISCUSSION AND ANALYSIS

## Operating expenses – Water



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

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

	FY 2014	FY 2013	Increase (Decrease)	Percent Change	FY 2012	Increase (Decrease)	Percent Change
<b>Assets</b>							
Net utility plant	\$ 118,080	\$ 115,135	\$ 2,945	3%	\$ 116,015	\$ (880)	-1%
Current assets	38,416	34,623	3,793	11%	26,129	8,494	33%
Other assets	3,493	3,677	(184)	-5%	3,970	(293)	-7%
<b>Total assets</b>	<b>\$ 159,989</b>	<b>\$ 153,435</b>	<b>\$ 6,554</b>	<b>4%</b>	<b>\$ 146,114</b>	<b>\$ 7,321</b>	<b>5%</b>
<b>Liabilities</b>							
Current liabilities	\$ 5,302	\$ 4,963	\$ 339	7%	\$ 4,387	\$ 576	13%
Long-term liabilities	1,453	1,384	69	5%	1,372	12	1%
<b>Total liabilities</b>	<b>6,755</b>	<b>6,347</b>	<b>408</b>	<b>6%</b>	<b>5,759</b>	<b>588</b>	<b>10%</b>
<b>Net position</b>							
Net investment in capital assets	118,080	115,135	2,944	3%	116,015	(880)	-1%
Unrestricted	35,154	31,952	3,202	10%	24,340	7,612	31%
<b>Total net position</b>	<b>\$ 153,234</b>	<b>\$ 147,088</b>	<b>\$ 6,146</b>	<b>4%</b>	<b>\$ 140,355</b>	<b>\$ 6,733</b>	<b>5%</b>

## McMINNVILLE WATER AND LIGHT DEPARTMENT MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Fiscal Year 2014

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

### Fiscal Year 2013

The Department's total assets increased by 5% during FY 2013. This was largely due to increases in cash and cash equivalents for both the water and electric sides of the Department. Cash continued to build from net timber revenue. Liabilities for both sides of the business grew due to normal accruals from vendors at year end.

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

	FY 2014	FY 2013	Increase (Decrease)	Percent Change	FY 2012	Increase (Decrease)	Percent Change
Beginning cash and cash equivalents	\$ 29,269	\$ 21,241	\$ 8,028	38%	\$ 17,267	\$ 3,974	23%
Change in:							
Operating activities	8,827	10,313	(1,486)	-14%	8,250	2,063	25%
Capital and related financing activities	(5,459)	(2,364)	(3,095)	131%	(4,545)	2,181	-48%
Investing activities	117	79	38	48%	269	(190)	-71%
Ending cash and cash equivalents	<u>\$ 32,754</u>	<u>\$ 29,269</u>	<u>\$ 3,485</u>	<u>12%</u>	<u>\$ 21,241</u>	<u>\$ 8,028</u>	<u>38%</u>

### Fiscal Year 2014

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

### Fiscal Year 2013

Cash from operating activities increased overall largely due to increases in net timber revenue, receipts from customers, and other receipts. The receipts from customers increased due to rate increases and increased consumption for both electric and water customers. Cash flows used in capital financing activities decreased from the prior year due to the increased efforts in repairs and maintenance of system assets.

## McMINNVILLE WATER AND LIGHT DEPARTMENT MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Budget highlights

	In \$000s			
	<u>Budget FY 2014</u>	<u>Actual FY 2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenues	\$ 45,289	\$ 44,662	\$ (627)	-1%
Operating expenses	<u>44,914</u>	<u>42,922</u>	<u>(1,992)</u>	<u>-4%</u>
Net operating revenue	<u>375</u>	<u>1,740</u>	<u>1,365</u>	<u>364%</u>
Other revenues (expenses)	4,000	3,496	(504)	-13%
Contributions	<u>923</u>	<u>910</u>	<u>(13)</u>	<u>-1%</u>
Changes in net position	<u>\$ 5,298</u>	<u>\$ 6,146</u>	<u>\$ 848</u>	<u>16%</u>

The FY 2014 budget included electric rate increases that impacted the last nine months of the year. Electricity and Water sales came in under and over budget by (1.6%) and 1.0%, respectively. Expenses came in lower than budgeted, thus lessening the impact of lower than expected revenues. Other revenue also contributed to a favorable budget variance. Contributions in aid were 1% lower than anticipated. The above, combined factors resulted in MWL's changes in net position coming in 16% higher than anticipated.

### Capital assets and debt administration

The Department continues to develop its infrastructure to meet the water and power needs of its customers. The FY 2014 saw a net increase in capital assets, after depreciation, of \$2.9 million. A net decrease of \$879,000 was reported for FY 2013. For additional information on capital assets, refer to Note 4 of the Notes to combined financial statements.

The Department had outstanding interdepartmental loans during the fiscal years ended June 30, 2014 and 2013 amounting to \$5,646,854 and \$7,507,476, respectively, for the financing of the Norm Scott Water Treatment Plant. These loans were eliminated in the total combined balance column for financial statement purposes.

### Economic factors and outlook for next year

The cash position of the Water and Light Departments should be stable during the 2015 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.

## **McMINNVILLE WATER AND LIGHT DEPARTMENT MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **Requests for information**

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

**McMINNVILLE WATER AND LIGHT DEPARTMENT**  
**COMBINED STATEMENTS OF NET POSITION**  
**AS OF JUNE 30, 2014 AND 2013**

	Water		Light		Total	
	2014	2013	2014	2013	2014	2013
<b>ASSETS</b>						
Utility plant, net	\$ 81,784,879	\$ 80,205,679	\$ 36,294,682	\$ 34,929,534	\$ 118,079,561	\$ 115,135,213
Current assets						
Cash and cash equivalents	9,550,566	9,317,973	22,542,317	19,486,980	32,092,883	28,804,953
Designated cash and cash equivalents	-	-	661,061	463,599	661,061	463,599
Accounts receivable, net of allowance	618,901	656,040	3,700,046	3,386,895	4,318,947	4,042,935
Current portion of note receivable and other	-	-	2,062,001	2,126,592	164,000	265,970
Inventories	224,379	155,103	606,907	604,765	831,286	759,868
Other current assets	163,011	157,322	184,523	127,487	347,534	284,809
Total current assets	10,556,857	10,286,438	29,756,855	26,196,318	38,415,711	34,622,134
Other assets						
Note receivable and other, less current portion	-	-	3,986,933	5,902,144	238,080	255,290
Renewable energy certificates	-	-	887,396	887,436	887,396	887,436
Regulatory asset - conservation charges	-	-	2,368,251	2,534,444	2,368,251	2,534,444
Total other assets	-	-	7,242,580	9,324,024	3,493,727	3,677,170
<b>TOTAL ASSETS</b>	<b>\$ 92,341,736</b>	<b>\$ 90,492,117</b>	<b>\$ 73,294,117</b>	<b>\$ 70,449,876</b>	<b>\$ 159,988,999</b>	<b>\$ 153,434,517</b>
<b>LIABILITIES AND NET POSITION</b>						
Net position						
Net investment in capital assets	\$ 76,138,025	\$ 72,698,203	\$ 36,294,682	\$ 34,929,534	\$ 118,079,561	\$ 115,135,213
Unrestricted	8,084,692	8,529,815	32,716,309	30,930,130	35,154,147	31,952,469
Total net position	84,222,717	81,228,018	69,010,991	65,859,664	153,233,708	147,087,682
Current liabilities						
Accounts payable	676,705	217,422	2,463,787	2,348,102	3,140,492	2,565,524
Accrued payroll	120,971	109,904	132,323	130,796	253,294	240,700
Other liabilities	-	-	201,080	405,288	201,080	405,288
Compensated absences	186,320	177,468	219,730	230,927	406,050	408,395
Due to City of McMinnville	700,251	617,901	110,811	96,202	811,062	714,103
Advances and deposits	175,000	50,000	315,114	578,651	490,114	628,651
Current portion of long-term notes payable	1,898,001	1,860,622	-	-	-	-
Total current liabilities	3,757,248	3,033,317	3,442,845	3,789,966	5,302,092	4,962,661
Long-term liabilities						
Notes payable, less current portion	3,748,853	5,646,854	-	-	-	-
Other post-employment benefits liability	612,918	583,928	840,281	800,246	1,453,199	1,384,174
Total long-term liabilities	4,361,771	6,230,782	840,281	800,246	1,453,199	1,384,174
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 92,341,736</b>	<b>\$ 90,492,117</b>	<b>\$ 73,294,117</b>	<b>\$ 70,449,876</b>	<b>\$ 159,988,999</b>	<b>\$ 153,434,517</b>

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

**McMINNVILLE WATER AND LIGHT DEPARTMENT**  
**COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	Water		Light		Total	
	2014	2013	2014	2013	2014	2013
<b>OPERATING REVENUES</b>						
Sales of electricity						
Residential	\$ -	\$ -	\$ 12,025,508	\$ 10,744,132	\$ 12,025,508	\$ 10,744,132
General service	-	-	11,784,061	11,777,861	11,784,061	11,777,861
Industrial	-	-	14,704,443	14,208,783	14,704,443	14,208,783
Rental light	-	-	117,138	127,423	117,138	127,423
Street light	-	-	202,535	200,176	202,535	200,176
Cable TV	-	-	33,529	33,999	33,529	33,999
Sales of water	5,794,919	5,937,887	-	-	5,794,919	5,937,887
Total operating revenues	<u>5,794,919</u>	<u>5,937,887</u>	<u>38,867,214</u>	<u>37,092,374</u>	<u>44,662,133</u>	<u>43,030,261</u>
<b>OPERATING EXPENSES</b>						
Supply and transmission	674,631	718,716	28,501,672	26,770,715	29,176,303	27,489,431
Distribution, operation, and maintenance	1,270,024	1,260,765	3,046,326	3,118,395	4,316,350	4,379,160
Customer accounting and meter reading	367,319	352,699	639,098	587,232	1,006,417	939,931
General and administrative	1,146,231	1,100,434	1,359,631	1,439,559	2,505,862	2,539,993
Depreciation	1,524,773	1,509,425	1,825,581	1,791,945	3,350,354	3,301,370
Conservation	-	-	576,786	646,186	576,786	646,186
Taxes and tax equivalents	168,228	203,513	1,821,934	1,762,241	1,990,162	1,965,754
Total operating expenses	<u>5,151,206</u>	<u>5,145,552</u>	<u>37,771,028</u>	<u>36,116,273</u>	<u>42,922,234</u>	<u>41,261,825</u>
Operating income	<u>643,713</u>	<u>792,335</u>	<u>1,096,186</u>	<u>976,101</u>	<u>1,739,899</u>	<u>1,768,436</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>						
Timber sales, net of related expenses	2,243,586	3,962,482	-	-	2,243,586	3,962,482
Interest income	53,715	47,676	276,447	302,620	199,400	182,845
Other, net	79,292	5,977	1,239,256	909,184	1,318,548	915,161
Loss on asset dispositions	(14,226)	(34,226)	(250,864)	(536,857)	(265,090)	(571,083)
Interest expense	(130,762)	(167,451)	-	(5)	-	(5)
Total non-operating income	<u>2,231,605</u>	<u>3,814,458</u>	<u>1,264,839</u>	<u>674,942</u>	<u>3,496,444</u>	<u>4,489,400</u>
Income before contributed capital	<u>2,875,318</u>	<u>4,606,793</u>	<u>2,361,025</u>	<u>1,651,043</u>	<u>5,236,343</u>	<u>6,257,836</u>
Hookup fees and contributed utility systems	<u>119,381</u>	<u>118,735</u>	<u>790,302</u>	<u>356,165</u>	<u>909,683</u>	<u>474,900</u>
Change in net position	<u>2,994,699</u>	<u>4,725,528</u>	<u>3,151,327</u>	<u>2,007,208</u>	<u>6,146,026</u>	<u>6,732,736</u>
<b>NET POSITION,</b>						
beginning of year	<u>81,228,018</u>	<u>76,502,490</u>	<u>65,859,664</u>	<u>63,852,456</u>	<u>147,087,682</u>	<u>140,354,946</u>
<b>NET POSITION,</b>						
end of year	<u>\$ 84,222,717</u>	<u>\$ 81,228,018</u>	<u>\$ 69,010,991</u>	<u>\$ 65,859,664</u>	<u>\$ 153,233,708</u>	<u>\$ 147,087,682</u>

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

**McMINNVILLE WATER AND LIGHT DEPARTMENT  
COMBINED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	Water		Light		Total	
	2014	2013	2014	2013	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$ 5,832,058	\$ 5,800,723	\$ 38,554,063	\$ 36,918,765	\$ 44,386,121	\$ 42,719,488
Receipts from timber sales	2,243,586	3,962,482	-	-	2,243,586	3,962,482
Other receipts	86,667	4,198	1,239,256	660,116	1,325,923	664,314
Power purchases	-	-	(28,501,672)	(26,770,715)	(28,501,672)	(26,770,715)
Payments to suppliers	318,323	(51,585)	(1,872,711)	(1,430,841)	(1,554,388)	(1,482,426)
Conservation measures	-	-	(576,786)	(150,818)	(576,786)	(150,818)
Payments to employees	(3,143,326)	(3,205,542)	(3,362,392)	(3,458,304)	(6,505,718)	(6,663,846)
Payments of taxes	(168,228)	(203,513)	(1,821,934)	(1,762,241)	(1,990,162)	(1,965,754)
Net cash from operating activities	5,169,080	6,306,763	3,657,824	4,005,962	8,826,904	10,312,725
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Additions to utility plant, net	(2,998,818)	(1,043,649)	(2,651,291)	(1,474,557)	(5,650,109)	(2,518,206)
Deductions from renewable energy certificates	-	-	40	-	40	-
Deductions from deferred conservation	-	-	166,193	166,193	166,193	166,193
Proceeds from (payment on) interfund loan	(1,860,622)	(1,823,979)	1,860,622	1,823,979	-	-
Interest paid	(130,762)	(167,451)	-	-	24,746	(11,943)
Net cash from capital and related financing activities	(4,990,202)	(3,035,079)	(624,436)	515,615	(5,459,130)	(2,363,956)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest received	53,715	47,676	219,411	186,174	117,618	78,342
Net cash from investing activities	53,715	47,676	219,411	186,174	117,618	78,342
Net change in cash and cash equivalents	232,593	3,319,360	3,252,799	4,707,751	3,485,392	8,027,111
CASH AND CASH EQUIVALENTS, beginning of year	9,317,973	5,998,613	19,950,579	15,242,828	29,268,552	21,241,441
CASH AND CASH EQUIVALENTS, end of year	\$ 9,550,566	\$ 9,317,973	\$ 23,203,378	\$ 19,950,579	\$ 32,753,944	\$ 29,268,552

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

**McMINNVILLE WATER AND LIGHT DEPARTMENT  
COMBINED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	Water		Light		Total	
	2014	2013	2014	2013	2014	2013
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b>						
Operating income	\$ 643,713	\$ 792,335	\$ 1,096,186	\$ 976,101	\$ 1,739,899	\$ 1,768,436
Adjustments to reconcile operating income to net cash from operating activities						
Collections received for the City of McMinnville	8,099,884	7,936,893	-	-	8,099,884	7,936,893
Remittances of collections to City of McMinnville	(8,030,598)	(7,921,431)	-	-	(8,030,598)	(7,921,431)
Depreciation	1,524,773	1,509,425	1,825,581	1,791,945	3,350,354	3,301,370
Other, net	79,292	5,977	1,239,256	909,184	1,318,548	915,161
Timber sales, net of related expenses	2,243,586	3,962,482	-	-	2,243,586	3,962,482
Other post-employment benefits liability	28,990	4,950	40,035	6,836	69,025	11,786
Changes in assets and liabilities:						
Accounts receivable	37,139	(137,164)	(313,151)	(173,609)	(276,012)	(310,773)
BPA receivable	-	-	(39,970)	(21,911)	(39,970)	(21,911)
Inventories	(69,276)	(27,663)	(2,142)	16,075	(71,418)	(11,588)
Other current assets	(5,689)	(866)	159,150	122,561	153,461	121,695
Accounts payable	459,283	192,310	115,685	224,254	574,968	416,564
Accrued payroll	11,067	(2,104)	1,527	(2,481)	12,594	(4,585)
Other liabilities	-	-	(204,208)	144,885	(204,208)	144,885
Compensated absences	8,852	(7,468)	(11,197)	(8,956)	(2,345)	(16,424)
Due to the City of McMinnville	13,064	(913)	14,609	(1,722)	27,673	(2,635)
Advances and deposits	125,000	-	(263,537)	22,800	(138,537)	22,800
Net cash from operating activities	<u>\$ 5,169,080</u>	<u>\$ 6,306,763</u>	<u>\$ 3,657,824</u>	<u>\$ 4,005,962</u>	<u>\$ 8,826,904</u>	<u>\$ 10,312,725</u>
<b>NONCASH CAPITAL ACTIVITIES</b>						
Contributions from others	<u>\$ 31,801</u>	<u>\$ 1,525,472</u>	<u>\$ 269,535</u>	<u>\$ 235,103</u>	<u>\$ 301,336</u>	<u>\$ 1,760,575</u>

# 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. Interfund notes receivable and payable are eliminated in the combined total column.

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

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

The Department has applied all applicable GASB pronouncements including GASB No. 65 *Items Previously Reported as Assets and Liabilities*. The Statement requires reclassification of certain items previously reported as assets or liabilities to deferred outflows of resources or deferred inflows of resources. The statement also limits the term “deferred” to items reported as deferred outflows of resources or deferred inflows of resources.

In preparing the Department’s 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

## **McMINNVILLE WATER AND LIGHT DEPARTMENT**

### **NOTES TO COMBINED FINANCIAL STATEMENTS**

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

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

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

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

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

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

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.

## **McMINNVILLE WATER AND LIGHT DEPARTMENT**

### **NOTES TO COMBINED FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

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

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

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

#### **Note 2 – Cash and Deposits**

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

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

The combined total bank balance at June 30, 2014, is \$725,369. Of these deposits, \$500,000 was covered by federal depository insurance. As required by Oregon Revised Statutes, deposits in excess of federal depository insurance were held at a qualified depository for public funds. All qualified depositories for public funds are included in the multiple financial institution collateral pool that is maintained by and in the name of the Office of the State Treasurer.

The Commission authorized the funding for conversion of overhead power lines to underground. Cash is designated for this purpose in the amount of \$661,061.

**McMINNVILLE WATER AND LIGHT DEPARTMENT**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 2 - Cash and Deposits (continued)**

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

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

The Department had the following cash and cash equivalents at June 30, 2013:

	<u>Water</u>	<u>Light</u>	<u>Total</u>
Cash on hand	\$ -	\$ 1,400	\$ 1,400
Cash on deposit with a bank	445,662	539,551	985,213
Local Government Investment Pool	<u>8,872,311</u>	<u>19,409,628</u>	<u>28,281,939</u>
	<u>\$ 9,317,973</u>	<u>\$ 19,950,579</u>	<u>\$ 29,268,552</u>

**Note 3 - Accounts Receivable**

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

	<u>2014</u>		
	<u>Water</u>	<u>Light</u>	<u>Total</u>
Accounts receivable	\$ 625,782	\$ 3,731,276	\$ 4,357,058
Allowance for doubtful accounts	<u>(6,881)</u>	<u>(31,230)</u>	<u>(38,111)</u>
	<u>\$ 618,901</u>	<u>\$ 3,700,046</u>	<u>\$ 4,318,947</u>
	<u>2013</u>		
	<u>Water</u>	<u>Light</u>	<u>Total</u>
Accounts receivable	\$ 663,088	\$ 3,416,835	\$ 4,079,923
Allowance for doubtful accounts	<u>(7,048)</u>	<u>(29,940)</u>	<u>(36,988)</u>
	<u>\$ 656,040</u>	<u>\$ 3,386,895</u>	<u>\$ 4,042,935</u>

**McMINNVILLE WATER AND LIGHT DEPARTMENT**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**Note 4 - Utility Plant**

Utility plant is comprised of the following:

	June 30,	
	2014	2013
<b>WATER</b>		
Structures and improvements	\$ 6,489,558	\$ 6,447,204
Water treatment plant	34,720,492	34,712,323
Supply and distribution systems	54,065,586	53,591,403
Furniture and equipment	1,016,361	978,779
Transportation equipment	956,703	856,443
	<u>97,248,700</u>	<u>96,586,152</u>
Less accumulated depreciation	<u>(22,129,556)</u>	<u>(20,688,597)</u>
	75,119,144	75,897,555
Land and land rights	3,778,080	3,774,125
Construction in progress	<u>2,887,655</u>	<u>533,999</u>
	<u>81,784,879</u>	<u>80,205,679</u>
<b>LIGHT</b>		
Structures and improvements	2,244,472	2,223,598
Supply and distribution systems	50,499,938	49,354,642
Furniture and equipment	1,515,565	1,442,124
Transportation equipment	1,836,961	1,572,609
	<u>56,096,936</u>	<u>54,592,973</u>
Less accumulated depreciation	<u>(22,317,383)</u>	<u>(20,837,890)</u>
	33,779,553	33,755,083
Land and land rights	650,866	650,866
Construction in progress	<u>1,864,263</u>	<u>523,585</u>
	<u>36,294,682</u>	<u>34,929,534</u>
	<u>\$ 118,079,561</u>	<u>\$ 115,135,213</u>

**McMINNVILLE WATER AND LIGHT DEPARTMENT**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 4 - Utility Plant (continued)**

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

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

**McMINNVILLE WATER AND LIGHT DEPARTMENT**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**Note 4 - Utility Plant (continued)**

Utility Plant activity during the year ended June 30, 2013 was as follows:

	Balance, June 30, 2012	Increases	Decreases	Balance, June 30, 2013
Land and land rights	\$ 2,805,911	\$ 1,619,080	\$ -	\$ 4,424,991
Construction in progress	2,760,068	2,615,458	(4,317,942)	1,057,584
Total non-depreciable	5,565,979	4,234,538	(4,317,942)	5,482,575
Structures and improvements	8,636,487	34,315	-	8,670,802
Water treatment plant	34,700,586	11,737	-	34,712,323
Supply and distribution systems	101,981,591	1,761,498	(797,044)	102,946,045
Furniture and equipment	2,097,556	323,347	-	2,420,903
Transportation equipment	2,152,225	276,827	-	2,429,052
Total depreciable	149,568,445	2,407,724	(797,044)	151,179,125
Less accumulated depreciation:				
Electric plant	(18,852,481)	(1,685,820)	857,231	(19,681,070)
Water plant	(18,823,399)	(1,422,462)	36,897	(20,208,964)
Transportation equipment	(1,443,984)	(193,088)	619	(1,636,453)
Total accumulated depreciation	(39,119,864)	(3,301,370)	894,747	(41,526,487)
Utility plant, net	\$ 116,014,560	\$ 3,340,892	\$ (4,220,239)	\$ 115,135,213

**Note 5 - Renewable Energy Certificates**

The Department had 131,466 and 131,472 REC's banked in its Western Renewable Energy Generation Information System (WREGIS) account as of June 30, 2014 and 2013, respectively. These REC's are valued at \$6.75 per REC for a total value of \$887,396 and \$887,436 as of June 30, 2014 and 2013, respectively. These REC's were obtained from the purchase of BPA Wind (environmentally preferred power). The value of these REC's is based on management's estimate of fair market value.

The Department also holds 144,127 in its WREGIS account for internally generated REC's received from Waste Management Renewable Energy and BPA Tier 1 power purchases. RECs can either be sold or used to satisfy the Department's Oregon Renewable Energy Standard (see Note 1). As these REC's are internally generated, they have no corresponding value on the statements of net position as of June 30, 2014 and 2013.

**McMINNVILLE WATER AND LIGHT DEPARTMENT**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 6 – Related-Party Note Payable/Note Receivable**

In September 2009, the Department entered into an interdepartmental loan resulting in a note payable from Water to Light at a stated interest rate of 1.991% and maturing November 15, 2017. Transactions on the note payable at June 30, 2014 and 2013 are as follows:

	Balance, June 30, 2013	Increases	Decreases	Balance, June 30, 2014
Total	\$ 7,507,476	\$ -	\$ (1,860,622)	\$ 5,646,854

	Balance, June 30, 2012	Increases	Decreases	Balance, June 30, 2013
Total	\$ 9,331,455	\$ -	\$ (1,823,979)	\$ 7,507,476

Maturities of the note payable are as follows:

	Principal	Interest	Total
Year Ending June 30, 2015	\$ 1,898,001	\$ 95,585	\$ 1,993,586
2016	1,935,991	57,595	1,993,586
2017	1,612,443	19,708	1,632,151
2018	200,419	1,293	201,712
	<u>\$ 5,646,854</u>	<u>\$ 174,181</u>	<u>\$ 5,821,035</u>

**Note 7 – Fiber Optic Activity**

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

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

**McMINNVILLE WATER AND LIGHT DEPARTMENT**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 7 – Fiber Optic Activity (continued)**

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

	2014	2013
<b>OPERATING REVENUES</b>		
Dark fiber leases	\$ 36,969	\$ 35,783
Total operating revenues	36,969	35,783
<b>OPERATING EXPENSES</b>		
Operating expenses	38,936	11,467
Maintenance expense	5,087	358
Administrative and general	40,342	4,052
Depreciation expense	58,122	10,133
Total operating expenses	142,487	26,010
Operating income (loss)	(105,518)	9,773
<b>NON-OPERATING INCOME (EXPENSE)</b>		
Interest income	573	606
Loss on disposition of assets	-	(1,035)
Other income (expense)	15	16
Total non-operating expense	588	(413)
Change in net position	\$ (104,930)	\$ 9,360

**Note 8 – Major Customer and Supplier**

Sales of electricity were made to one major commercial customer during the years ended June 30, 2014 and 2013, in amounts exceeding 10% of total sales. This customer accounted for approximately \$13,083,000 and \$12,661,000 of revenues during the years ended June 30, 2014 and 2013, respectively. At June 30, 2014 and 2013, accounts receivable from this same customer amounted to approximately \$967,000 and \$971,000, respectively.

## **McMINNVILLE WATER AND LIGHT DEPARTMENT**

### **NOTES TO COMBINED FINANCIAL STATEMENTS**

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#### **Note 8 – Major Customer and Supplier (continued)**

Purchases were made from one major supplier of power, including supply, transmission, and distribution during the years ended June 30, 2014 and 2013, in amounts exceeding 10% of the total of such purchases. This supplier accounted for approximately \$27,103,000 and \$24,795,000 of purchases during the years ended June 30, 2014 and 2013, respectively. At June 30, 2014 and 2013, amounts due to this same supplier, and included in accounts payable, amounted to approximately \$1,941,000 and \$1,649,500, respectively.

#### **Note 9 – Deferred Compensation Plan**

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

#### **Note 10 – Other Post-Employment Benefits**

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

**Funding policy** – At June 30, 2014, 2013, and 2012, there were 19, 16, and 21 retired employees and spouses, receiving health insurance coverage provided by the Department. For the years ended June 30, 2014, 2013, and 2012 the Department incurred \$80,842, \$85,844, and \$113,284, respectively, of expenses for these health insurance premiums.

**McMINNVILLE WATER AND LIGHT DEPARTMENT**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**Note 10 - Other Post-Employment Benefits (continued)**

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

	June 30,		
	2014	2013	2012
Annual required contribution	\$ 101,739	\$ 42,734	\$ 221,324
Interest on net OPEB obligation	48,128	54,896	48,588
Annual OPEB cost	149,867	97,630	269,912
Explicit benefit payments	80,842	85,844	113,284
Increase in net OPEB obligation	69,025	11,786	156,628
Net OPEB obligation - beginning of year	1,384,174	1,372,388	1,215,760
Net OPEB obligation - end of year	<u>\$ 1,453,199</u>	<u>\$ 1,384,174</u>	<u>\$ 1,372,388</u>

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2013, and 2014 were as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Contribution	Percent of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 269,912	\$ 113,284	42%	\$ 1,372,388
2013	97,630	85,844	88%	1,384,174
2014	149,867	80,842	54%	1,453,199

## McMINNVILLE WATER AND LIGHT DEPARTMENT NOTES TO COMBINED FINANCIAL STATEMENTS

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### Note 10 - Other Post-Employment Benefits (continued)

#### Funded status and funding progress

Actuarial Valuation Date	Actuarial Accrued Liability (a)	Actuarial Value of Assets (b)	Actuarial Accrued Unfunded Liability (a) - (b)	Funded Ratio (b) / (a)	Annual Covered Payroll (c)	Unfunded Actuarial Accrued Liability as % of Payroll [(a) - (b)] / (c)
8/1/2008	\$ 1,191,313	\$ -	\$ 1,191,313	0.00%	\$ 2,634,910	45.21%
8/1/2010	1,338,305	-	1,338,305	0.00%	2,558,493	52.31%
8/1/2012	1,377,227	-	1,377,227	0.00%	2,477,432	55.59%

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

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

In the actuarial valuation conducted as of August 1, 2012, the projected unit credit actuarial cost method was used. Actuarial assumptions included a discount rate of 4% and an annual healthcare cost trend rate of 8.5% in the first year, 7.5% in the second year, 6.5% in the third year, 6% for the 4th through 23rd year, 5.5% for the 24th through 47th year, and 5% thereafter.

### Note 11 - Public Employee Retirement Systems (PERS)

**Plan description** – The Department contributes to two pension plans administered by the Oregon Public Employees Retirement System (OPERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the Department's contribution for qualifying employees who were hired before August 29, 2003, and is a cost-sharing multiple-employer defined benefit pension plan. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to the OPERF and consists of two programs: the Pension Program and the Individual Account Program (IAP). The Pension Program, the defined benefit portion of the plan, applies to qualifying Department employees hired after August 29, 2003.

## **McMINNVILLE WATER AND LIGHT DEPARTMENT**

### **NOTES TO COMBINED FINANCIAL STATEMENTS**

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#### **Note 11 – Public Employee Retirement Systems (PERS) (continued)**

Both OPERS plans provide retirement and disability benefits, post-employment healthcare benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service. OPERF members are allowed to retire at age 58 with unreduced benefits, but retirement is generally available after age 55 with reduced benefits. Compulsory retirement age is 70. Retirement benefits are payable in lump sum or monthly amounts using several payment options. The 1995 Oregon Legislature established a second tier of OPERF benefits for employees who established membership on or after January 1, 1996 called Tier Two. The second tier does not have the Tier One assumed earnings rate guarantee and has a higher retirement age of 60 with unreduced benefits. OPSRP members are allowed to retire at age 65 with unreduced benefits.

OPERS is administered under *Oregon Revised Statute (ORS) Chapter 238*, which establishes the Public Employees Retirement Board as the governing body of OPERS. OPERS issues a publicly available *Comprehensive Annual Financial Report* that includes financial statements and required supplementary information. This 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** – The Department is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPERF plan, and a general service rate for the qualifying employees under the OPSRP plan. The Department's employer contributions are paid as a percentage of covered employees' salaries. The OPERF (Tier One and Tier Two) rate in effect for each of the years ended June 30, 2014, 2013, and 2012 was 19.96%, 18.12%, and 18.12%, respectively. The OPSRP rate in effect for the years ended June 30, 2014, 2013, and 2012 was 18.43%, 14.06%, and 14.06%, respectively.

Beginning January 1, 2004, all OPERS member contributions go into the Individual Account Program (IAP), the defined contribution portion of the plan. OPERS members retain their existing OPERS accounts, but any future member contributions are deposited into the member's IAP account, not the member's OPERS account. All employees who serve a six-month waiting period in a qualifying position are eligible to participate; benefits generally vest after five years of continuous service.

The employee contribution of 6% of covered compensation, referred to as the employee pickup, is paid by the Department. As of January 1, 2004, Tier One and Two employee contributions are also deposited into the IAP. Employer contribution requirements are established and may be amended by the OPERS Public Employees Retirement Board while the employee members' rate is set by statute, ORS 238.200.

**Annual pension cost** – The Department's contributions to OPERS for the years ended June 30, 2014, 2013, and 2012, were approximately \$1,012,000, \$1,054,000, and \$1,005,000, respectively. The annual pension costs were equal to the required contributions for fiscal years ended June 30, 2014, 2013, and 2012.

## **McMINNVILLE WATER AND LIGHT DEPARTMENT**

### **NOTES TO COMBINED FINANCIAL STATEMENTS**

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#### **Note 12 – Retirement Health Insurance Account (RHIA)**

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

**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 rates applied to annual covered payroll for the fiscal years 2014 and 2013 were 0.59% and 0.59% for Tier 1 and 2 members and 0.49% and 0.50% OPSRP members. The OPERS Board of Trustees sets the employer contribution rate based on the ARC of the employers, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed 30 years. The Department's contributions to RHIA for the fiscal years 2014-13, 2013-12, and 2012-11 were \$26,000, \$25,000, and \$25,000, respectively, which equaled the required contributions each year.

## **McMINNVILLE WATER AND LIGHT DEPARTMENT**

### **NOTES TO COMBINED FINANCIAL STATEMENTS**

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#### **Note 13 – Risk Management**

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

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

#### **Note 14 – Commitments and Contingency**

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

The Department purchases power from Priest Rapids Development and Wanapum Development, and is required to pay a portion of the development costs under these contracts through April 1, 2052, which coincides with the expiration of the new FERC license (unless terminated earlier under terms of the contract.) Costs associated with these contracts for each of the years ended June 30, 2014 and 2013, were approximately \$565,000 and \$554,000, respectively.

#### **Note 15 – BPA Overpayment**

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

The Court remanded the issue back to BPA and as a result of the Court's decisions, BPA suspended monthly program benefits to the IOUs. This resulted in BPA's over-collection of funds from its publicly-owned utility customers. This left BPA with larger than anticipated financial reserves. Because of the over-collection from public utilities, BPA has refunded amounts directly to public utilities as well as issuing "look back adjustments" that show as credits against power costs on monthly BPA bills. The overpayment that was attributed to the Department was \$3,700,000 and this is recorded as a reduction to supply and transmission expense within operating expenses. This was refunded to the Department in October 2008. The fiscal year 2014 and 2013 credits for 2002–2006 look back amounts were \$1,058,000 and \$1,079,000 respectively. For fiscal year 2015, the look back credit will be \$1,056,000. Future look back credits have not yet been determined.

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

Board of Commissioners  
McMinnville Water and Light Department  
McMinnville, Oregon

We have audited the accompanying combined financial statements of the McMinnville Water and Light Department (the Department) as of and for the year ended June 30, 2014 and have issued our report thereon dated October 16, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

### **Compliance**

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

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

The results of our tests disclosed no matters of noncompliance with those provisions that are required to be reported under Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

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

**Internal Control over Financial Reporting**

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal controls. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

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

**Purpose of this Report**

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



Julie Desimone, Partner  
for Moss Adams LLP  
October 16, 2014