Report of Independent Auditors
and Combined Financial Statements for

McMinnville Water and Light Department

(A Component Unit of the City of McMinnville, Oregon)

June 30, 2016 and 2015

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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Commissioners as of June 30, 2016

Name	Term Expires
Thomas Tankersley, Chairperson	December 31, 2017
Rick Olson, Mayor (*term expired*)	September 30, 2016
Kevin Jeffries, Acting Mayor	December 31, 2016
Edward Gormley	December 31, 2016
Patrick Fuchs	December 31, 2018
Mike Keyes	December 31, 2019

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

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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, 2016 and 2015, the related combined and individual statements of revenues, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

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

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

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

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

REPORT OF INDEPENDENT AUDITORS (continued)

Opinions

In our opinion, the combined and individual financial statements referred to above present fairly, in all material respects, the financial position of the Department as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the combined financial statements present only the Department and do not purport to, and do not present fairly the financial position of the City of McMinnville, Oregon, as of June 30, 2016 and 2015 and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As described in Note 16 to the financial statements, the Department has restated the June 30, 2015 financial statements for a change in their application of an accounting policy, Regulatory Assets and Liabilities of GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The beginning of year net position had been restated for this change. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated October 18, 2016, on our consideration of the Department's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statues 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

Julie Desimone, Partner
for Moss Adams LLP
October 18, 2016

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 Second Water Tunnel
- Replaced/installed 183 distribution transformers
- Replaced/installed 72 distribution poles
- Replaced/installed 7,500 feet of underground primary conductor
- Replaced/installed 9,600 feet of underground secondary conductor
- Replaced obsolete feeder protective relays at Baker Creek Substation
- Installed 900 feet of 6" ductile iron water main
- Installed 1,200 feet of 8" ductile iron water main
- Installed 1,600 feet of 10" ductile iron water main
- Installed 600 feet of 12" ductile iron water main
- Reduced interdepartmental loan by $1.9 million
- Obtained water rights from International Paper for $2.8 million

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 2015/16 saw the continuance of the Department's participation in BPA's Energy Efficiency Incentive. The conservation efforts for the last fiscal year recorded 166 residential conservation projects, including 3 low income qualified projects, and 45 commercial energy conservation projects. This effort netted the utility 0.16 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.

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

	FY 2016	FY 2015 *as restated*	Increase (Decrease)	Percent Change	FY 2014	Increase (Decrease)	Percent Change
Operating revenues	$ 45,275	$ 44,944	$ 331	1%	$ 44,662	$ 282	1%
Operating expenses	44,912	44,830	82	0%	42,922	1,908	4%
Net operating income	363	114	249	218%	1,740	(1,626)	-93%
Other revenues	3,934	4,549	(615)	-14%	3,765	784	21%
Other expenses	(974)	(200)	(774)	387%	(265)	65	-25%
Contributions	975	1,561	(586)	-38%	910	651	72%
Total other	3,935	5,910	(1,975)	-33%	4,410	1,500	34%
Change in net position	$ 4,298	$ 6,024	$ (1,726)	-29%	$ 6,150	$ (126)	-2%

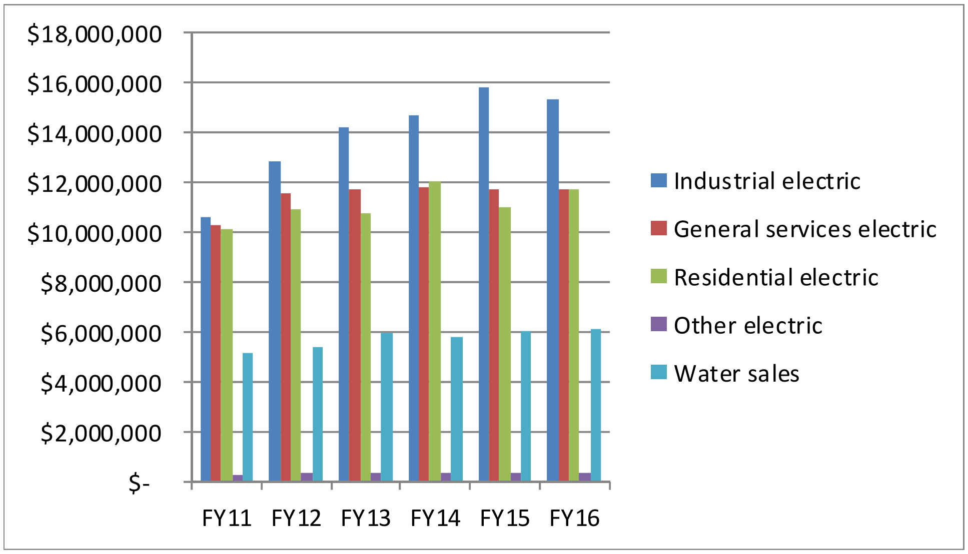
Fiscal Year 2016

Operating revenues increased by 1%, largely due to increased revenue from electricity sales. Electricity revenues included rate increases which offset decreased consumption of electricity (kWh) by 6.4%. Water (Cu. Ft.) sales increased 2.5%. Operating expenses were neutral for both electricity and water. Economic and/or weather conditions, along with conservation continue to be factors for both water and electric consumption. Total other net revenue decreased 33% largely due to a decrease in net timber revenue. Contributions in aid of construction decreased 38%.

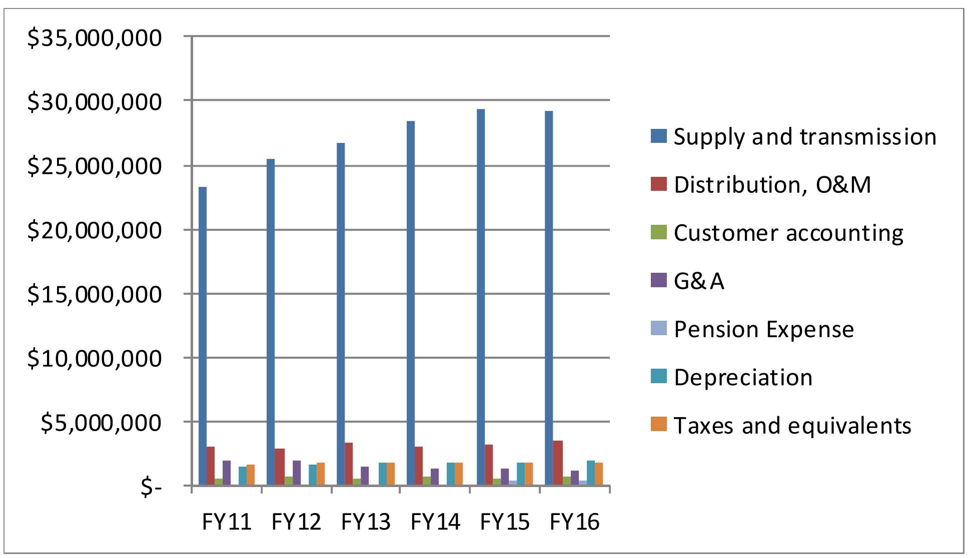
Fiscal Year 2015

Operating revenues increased overall by 1%, largely due to increased revenue from water sales by 4%. Electricity revenues increased due to increased consumption of electricity (kWh) by 0.2%. Water (Cu. Ft.) sales increased 4.6%. Operating expenses increased 4% for electricity and 5% for water, due to increases in power costs and pension costs from GASB 68. Economic and/or weather conditions continue to be factors for both water and electric consumption. After netting positive changes to other expenses and contributions in aid, total other net revenue increased by 34% for the fiscal year largely due to increased net timber revenue and contributions in aid of construction.

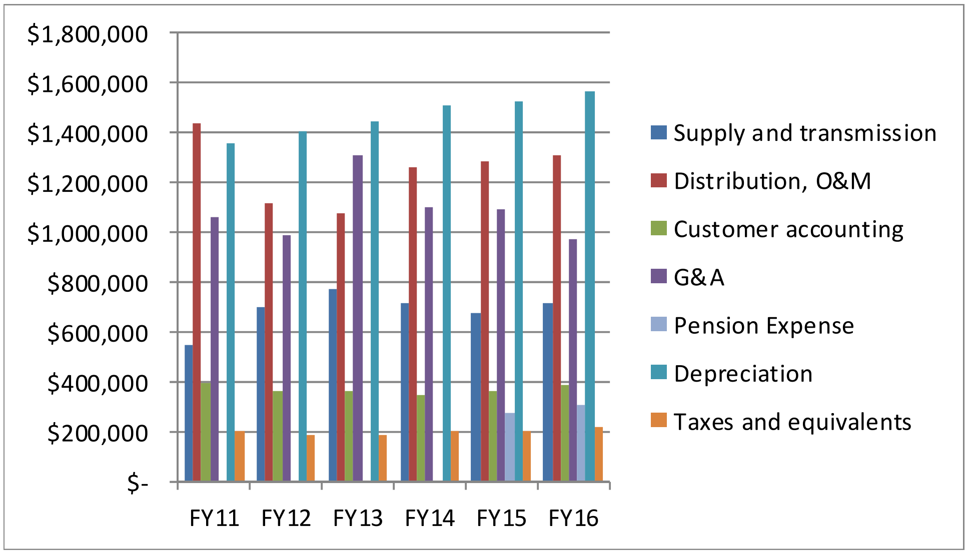
Operating revenues



Operating expenses – Electric



Operating expenses – Water



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

Condensed combined statements of net position ($000s)

	FY 2016	FY 2015 *as restated*	Increase (Decrease)	Percent Change	FY 2014	Increase (Decrease)	Percent Change
Assets and deferred outflows							
Net utility plant	$ 123,113	$ 121,446	$ 1,667	1%	$ 118,079	$ 3,367	3%
Current assets	45,110	42,288	2,822	7%	38,416	3,872	10%
Other assets and deferred outflow of resources	4,238	5,563	(1,325)	-24%	3,494	2,069	59%
Total assets and deferred outflows	$ 172,461	$ 169,297	$ 3,164	2%	$ 159,989	$ 9,308	6%
Liabilities and deferred inflows							
Current liabilities	$ 5,029	$ 5,595	$ (566)	-10%	$ 5,302	$ 293	6%
Long-term liabilities	6,979	5,587	1,392	25%	2,821	2,766	98%
Deferred inflow of resources	924	2,884	(1,960)	-68%	-	2,884	0%
Total liabilities and deferred inflows	12,932	14,066	(1,134)	-8%	8,123	5,943	73%
Net position							
Net investment in capital assets	123,113	121,446	1,667	1%	118,080	3,366	3%
Unrestricted	36,416	33,785	2,631	8%	33,786	(1)	0%
Total net position	$ 159,529	$ 155,231	$ 4,298	3%	$ 151,866	$ 3,365	2%

Fiscal Year 2016

The Department's total assets increased during FY 2016. This was largely due to increases in cash and cash equivalents as well as increases in net utility plant for the electric side of the Department. These increases were offset by some degree to the change of the pension asset to a pension liability in the current year. Total combined current liabilities showed a net decrease at year end due in part to a decrease in accounts payable and other current liabilities. Long-term liabilities also included the offset of an increase in pension liability against decreases in a regulatory liability and deferred inflows of resources. With the new pension reporting requirements, the Department went from a net pension asset of $1.5 million in FY 2015 to a net pension liability of $4.0 million in FY 2016.

Fiscal Year 2015

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

Condensed combined statement of cash flows ($000s)

	FY 2016	FY 2015	Change	Percent Change	FY 2014	Change	Percent Change
Beginning cash and cash equivalents	$ 35,780	$ 32,754	$ 3,026	9%	$ 29,269	$ 3,485	12%
Change in:							
Operating activities	7,429	8,028	(599)	-7%	8,827	(799)	-9%
Capital and noncapital related financing activities	(4,994)	(5,192)	198	-4%	(5,459)	267	-5%
Investing activities	240	190	50	26%	117	73	62%
Ending cash and cash equivalents	$ 38,455	$ 35,780	$ 2,675	7%	$ 32,754	$ 3,026	9%

Fiscal Year 2016

Cash from operating activities decreased overall for FY 2016. While receipts from customers and payments for power purchases contributed to increases in cash from operations, lower receipts from timber sales (net), payments to suppliers and payments to employees were the main factors for the decreased cash from operations. Cash flows from capital and noncapital related financing showed an overall increase in cash flow due to reductions in capital spending and interest paid. Cash flows from investing increased due to slight increase in Local Government Investment Pool (LGIP) rates during the latter half of FY 2016.

Fiscal Year 2015

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

Budget highlights

	In $000s			
	Budget FY 2016	Actual FY 2016	Dollar Change	Percent Change
Operating revenues	$ 47,548	$ 45,275	$ (2,273)	-5%
Operating expenses	47,469	44,912	(2,557)	-5%
Net operating revenue	79	363	284	359%
Other net revenues	1,907	2,960	1,053	55%
Contributions	1,237	975	(262)	-21%
Changes in net position	$ 3,223	$ 4,298	$ 1,075	33%

Electricity and Water sales came in under and over budget by (5.7%) and 2.5%, respectively. Power and transmission costs also came in under budget by 9.6%. Operating expenses came in 5.0% lower after factoring in increases from GASB 68. Other revenue also contributed to a favorable variance due to higher than anticipated net timber revenue and BPA conservation reimbursements. Contributions in aid were 21% lower than anticipated. The above, combined factors resulted in MWL's changes in net position coming in 33% 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 2016 saw a net increase in capital assets, after depreciation, of $1.7 million. A net increase of $3.4 million was reported for FY 2015. 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, 2016 and 2015 amounting to $1,812,862 and $3,748,853, respectively, for the financing of the Norm Scott Water Treatment Plant renovations. These loans were eliminated in the total combined balance column for financial statement purposes.

Regulatory Asset/Liability – GASB 62

The Department applied new pension reporting standards to the financial statements for Fiscal Year 2015 as required by GASB statement No. 68. The intent of GASB 68 was to improve the financial reporting, transparency and comparability of pension benefit obligations. However, implementation of GASB 68 has resulted in significant non-cash swings in expense to the Department which is not consistent with revenue recovery. The dollar amount of change from the net pension asset at June 30, 2015 to the net pension liability at June 30, 2016 was $5.5 million.

To this end, the Department received approval from the Commission to treat the non-cash portion of the pension expense as a regulatory deferral and applied GASB 62 during the current year. Under regulatory accounting, revenues and expenses are allowed to be deferred and recognized in the period when those items are included in rates. This treatment will allow the Department to defer the non-cash GASB 68 expenses and credits until future rate periods when revenue requirements will include the effects of those changes in PERS contribution rates. This treatment will also reduce the year to year volatility in non-cash expenses that occur with the implementation of GASB 68.

Economic factors and outlook for next year

The cash position of the Department should remain stable during the 2017 fiscal year. The economy, weather and power costs will continue to be important factors for sales of water and electricity that will ultimately impact cash reserves.

Requests for information

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

McMINNVILLE WATER AND LIGHT DEPARTMENT
COMBINED STATEMENTS OF NET POSITION
AS OF JUNE 30, 2016 AND 2015

	Water		Light		Total	
	2016	2015	2016	2015	2016	2015
		as restated		*as restated*		*as restated*
ASSETS AND DEFERRED OUTFLOWS						
Utility plant, net	$ 86,922,673	$ 84,367,122	$ 36,190,504	$ 37,079,340	$ 123,113,177	$ 121,446,462
Current assets						
Cash and cash equivalents	7,706,360	8,856,453	29,687,494	26,064,016	37,393,854	34,920,469
Designated cash and cash equivalents	-	-	1,061,732	859,707	1,061,732	859,707
Accounts receivable, net of allowance	1,340,911	1,056,209	3,519,588	3,719,051	4,860,499	4,775,260
Current portion of note receivable and other	-	-	1,726,443	2,284,580	114,000	348,589
Inventories	203,489	195,632	576,894	615,965	780,383	811,597
Other current assets	226,417	373,525	673,489	198,917	899,906	572,442
Total current assets	9,477,177	10,481,819	37,245,640	33,742,236	45,110,374	42,288,064
Other assets						
Note receivable and other, less current portion	-	-	388,693	2,015,510	188,274	202,648
Renewable energy certificates	-	-	919,494	888,789	919,494	888,789
Pension asset	-	597,749	-	896,622	-	1,494,371
Regulatory asset - conservation charges	-	-	2,035,865	2,202,058	2,035,865	2,202,058
Total other assets	-	597,749	3,344,052	6,002,979	3,143,633	4,787,866
Deferred outflows of resources	437,594	310,126	656,391	465,191	1,093,985	775,317
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 96,837,444	$ 95,756,816	$ 77,436,587	$ 77,289,746	$ 172,461,169	$ 169,297,709
LIABILITIES, DEFERRED INFLOWS AND NET POSITION						
Net position						
Net investment in capital assets	$ 84,560,564	$ 80,618,269	$ 35,366,634	$ 37,079,340	$ 123,113,177	$ 121,446,462
Unrestricted	5,741,966	6,311,674	33,859,867	31,221,849	36,415,854	33,784,670
Total net position	90,302,530	86,929,943	69,226,501	68,301,189	159,529,031	155,231,132
Current liabilities						
Accounts payable	397,408	408,578	2,695,552	3,013,878	3,092,960	3,422,456
Accrued payroll	129,216	133,218	134,020	146,578	263,236	279,796
Other liabilities	-	-	-	102,356	-	102,356
Compensated absences	219,826	221,882	229,762	233,926	449,588	455,808
Due to City of McMinnville	739,518	721,527	109,487	107,301	849,005	828,828
Advances and deposits	50,000	175,000	324,796	331,924	374,796	506,924
Current portion of long-term notes payable	1,612,443	1,935,991	-	-	-	-
Total current liabilities	3,148,411	3,596,196	3,493,617	3,935,963	5,029,585	5,596,168
Long-term liabilities						
Notes payable, less current portion	200,419	1,812,862	-	-	-	-
Pension liability	1,596,000	-	2,394,001	-	3,990,001	-
Transitional liability	535,563	549,247	803,345	823,870	1,338,908	1,373,117
PERS regulatory liability	158,731	1,092,461	238,098	1,638,693	396,829	2,731,154
Other post-employment benefits liability	526,332	622,695	726,839	859,912	1,253,171	1,482,607
Total long-term liabilities	3,017,045	4,077,265	4,162,283	3,322,475	6,978,909	5,586,878
Deferred inflows of resources	369,458	1,153,412	554,186	1,730,119	923,644	2,883,531
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$ 96,837,444	$ 95,756,816	$ 77,436,587	$ 77,289,746	$ 172,461,169	$ 169,297,709

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, 2016 AND 2015

	Water		Light		Total	
	2016	2015 *as restated*	2016	2015 *as restated*	2016	2015 *as restated*
OPERATING REVENUES						
Sales of electricity						
Residential	$ -	$ -	$ 11,698,884	$ 11,044,912	$ 11,698,884	$ 11,044,912
General service	-	-	11,728,721	11,717,372	11,728,721	11,717,372
Industrial	-	-	15,351,054	15,832,162	15,351,054	15,832,162
Rental light	-	-	116,566	101,479	116,566	101,479
Street light	-	-	201,446	195,473	201,446	195,473
Cable TV	-	-	34,992	35,105	34,992	35,105
Sales of water	6,143,356	6,017,939	-	-	6,143,356	6,017,939
Total operating revenues	6,143,356	6,017,939	39,131,663	38,926,503	45,275,019	44,944,442
OPERATING EXPENSES						
Supply and transmission	716,356	673,046	29,226,220	29,433,678	29,942,576	30,106,724
Distribution, operation, and maintenance	1,307,973	1,283,354	3,511,693	3,284,511	4,819,666	4,567,865
Customer accounting and meter reading	391,281	363,740	676,336	600,233	1,067,617	963,973
General and administrative	970,818	1,097,371	1,228,422	1,321,974	2,199,240	2,419,345
Pension expense	310,619	274,335	465,929	411,503	776,548	685,838
Depreciation	1,563,781	1,523,561	1,889,502	1,833,570	3,453,283	3,357,131
Conservation	1,378	-	653,129	689,807	654,507	689,807
Taxes and tax equivalents	219,189	208,735	1,779,064	1,831,036	1,998,253	2,039,771
Total operating expenses	5,481,395	5,424,142	39,430,295	39,406,312	44,911,690	44,830,454
Operating income (loss)	661,961	593,797	(298,632)	(479,809)	363,329	113,988
NON-OPERATING INCOME (EXPENSE)						
Timber sales, net of related expenses	2,364,804	3,324,530	-	-	2,364,804	3,324,530
Interest income	54,738	47,297	265,348	250,709	264,782	204,668
Other, net	40,865	10,014	1,263,837	1,009,328	1,304,702	1,019,342
Loss on asset dispositions	(18,673)	(20,661)	(895,142)	(178,959)	(913,815)	(199,620)
Interest expense	(79,598)	(93,338)	(36,441)	-	(60,735)	-
Total non-operating income	2,362,136	3,267,842	597,602	1,081,078	2,959,738	4,348,920
Income before contributed capital	3,024,097	3,861,639	298,970	601,269	3,323,067	4,462,908
Hookup fees and contributed utility systems	348,490	456,152	626,342	1,104,777	974,832	1,560,929
Change in net position	3,372,587	4,317,791	925,312	1,706,046	4,297,899	6,023,837
NET POSITION, beginning of year, before restatement	86,929,943	83,675,815	68,301,189	68,190,639	155,231,132	151,866,454
Cumulative effect of restatement (Note 16)	-	(1,063,663)	-	(1,595,496)	-	(2,659,159)
beginning of year, after restatement	86,929,943	82,612,152	68,301,189	66,595,143	155,231,132	149,207,295
NET POSITION, end of year	$ 90,302,530	$ 86,929,943	$ 69,226,501	$ 68,301,189	$ 159,529,031	$ 155,231,132

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, 2016 AND 2015

	Water		Light		Total	
	2016	2015 *as restated*	2016	2015 *as restated*	2016	2015 *as restated*
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	$ 5,858,654	$ 5,580,631	$ 39,331,126	$ 38,907,498	$ 45,189,780	$ 44,488,129
Receipts from timber sales	2,364,804	3,324,530	-	-	2,364,804	3,324,530
Other receipts and purchases	187,973	(213,564)	1,263,837	1,009,328	1,451,810	795,764
Power purchases	-	-	(29,226,220)	(29,433,678)	(29,226,220)	(29,433,678)
Payments to suppliers	(119,925)	(304,720)	(2,438,971)	(1,462,027)	(2,558,896)	(1,766,747)
Conservation measures	(1,378)	-	(653,129)	(689,807)	(654,507)	(689,807)
Payments to employees	(3,456,982)	(3,260,245)	(3,682,471)	(3,390,157)	(7,139,453)	(6,650,402)
Payments of taxes	(219,189)	(208,735)	(1,779,064)	(1,831,036)	(1,998,253)	(2,039,771)
Net cash from operating activities	4,613,957	4,917,897	2,815,108	3,110,121	7,429,065	8,028,018
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Additions to utility plant, net	(3,789,515)	(3,670,313)	(1,269,466)	(1,692,410)	(5,058,981)	(5,362,723)
Additions from renewable energy certificates	-	-	(30,705)	(1,393)	(30,705)	(1,393)
Deductions from deferred conservation	-	-	166,193	166,193	166,193	166,193
Proceeds from (payment on) interfund loan	(1,935,991)	(1,898,001)	1,935,991	1,898,001	-	-
Interest paid	(79,598)	(93,338)	(36,441)	-	(36,441)	-
Net cash from capital and related financing activities	(5,805,104)	(5,661,652)	765,572	370,391	(4,959,934)	(5,197,923)
CASH FLOWS FROM NONCAPITAL RELATED FINANCING ACTIVITIES						
Payment (additions) on transitional liability	(13,684)	2,345	(20,525)	3,518	(34,209)	5,863
Net cash from noncapital related financing activities	(13,684)	2,345	(20,525)	3,518	(34,209)	5,863
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received	54,738	47,297	265,348	236,315	240,488	190,274
Net cash from investing activities	54,738	47,297	265,348	236,315	240,488	190,274
Net change in cash and cash equivalents	(1,150,093)	(694,113)	3,825,503	3,720,345	2,675,410	3,026,232
CASH AND CASH EQUIVALENTS, beginning of year	8,856,453	9,550,566	26,923,723	23,203,378	35,780,176	32,753,944
CASH AND CASH EQUIVALENTS, end of year	$ 7,706,360	$ 8,856,453	$ 30,749,226	$ 26,923,723	$ 38,455,586	$ 35,780,176

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, 2016 AND 2015

	Water		Light		Total	
	2016	2015 *as restated*	2016	2015 *as restated*	2016	2015 *as restated*
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES						
Operating income	$ 661,961	$ 593,797	$ (298,632)	$ (479,809)	$ 363,329	$ 113,988
Adjustments to reconcile operating income to net cash from operating activities						
Collections received for the City of McMinnville	8,687,276	8,390,392	-	-	8,687,276	8,390,392
Remittances of collections to City of McMinnville	(8,669,285)	(8,356,052)	-	-	(8,669,285)	(8,356,052)
Depreciation	1,563,781	1,523,561	1,889,502	1,833,570	3,453,283	3,357,131
Other, net	40,865	10,014	1,263,837	1,009,328	1,304,702	1,019,342
Timber sales, net of related expenses	2,364,804	3,324,530	-	-	2,364,804	3,324,530
Other post-employment benefits liability	(96,363)	9,777	(133,073)	19,631	(229,436)	29,408
Pension expense (credit)	310,619	274,335	465,929	411,503	776,548	685,838
Transition liability amortization	13,684	-	20,525	-	34,209	-
Interest on pension	24,294	-	36,441	-	60,735	-
Changes in assets and liabilities:						
Accounts receivable	(284,702)	(437,308)	199,463	(19,005)	(85,239)	(456,313)
BPA receivable	-	-	222,589	(39,970)	222,589	(39,970)
Inventories	(7,857)	28,747	39,071	(9,058)	31,214	19,689
Other current assets	147,108	(210,514)	(448,198)	(109,187)	(301,090)	(319,701)
Accounts payable	(11,170)	(268,127)	(318,326)	550,091	(329,496)	281,964
Accrued payroll	(4,002)	12,247	(12,558)	14,255	(16,560)	26,502
Other liabilities	-	-	(102,356)	(98,724)	(102,356)	(98,724)
Compensated absences	(2,056)	35,562	(4,164)	14,196	(6,220)	49,758
Due to the City of McMinnville	-	(13,064)	2,186	(3,510)	2,186	(16,574)
Advances and deposits	(125,000)	-	(7,128)	16,810	(132,128)	16,810
Net cash from operating activities	$ 4,613,957	$ 4,917,897	$ 2,815,108	$ 3,110,121	$ 7,429,065	$ 8,028,018
NONCASH CAPITAL ACTIVITIES						
Contributions from others	$ 97,111	$ 331,228	$ 147,471	$ 499,692	$ 244,582	$ 830,920

See accompanying notes.

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.

During the fiscal year ended June 30, 2015, the Department implemented GASB Statement No. 68*, Accounting and Financial Reporting for Pensions,* effective July 1, 2014*.* The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures.

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, effective for financial statements for years beginning after June 15, 2015. This statement clarifies the definition of fair value, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. This statement establishes a three-level hierarchy to the valuation techniques used to measure fair value. Disclosure is required to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. As of June 30, 2016 and 2015, the Department's Renewable Energy Certificates (RECs or Certificates) are the only assets held by the Department that meet the scope of Statement No. 72. See Note 5 for further discussion on these RECs.

Note 1 – Summary of Significant Accounting Policies (continued)

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, 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.

In accordance with GASB 72, Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Fair Value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

Note 1 – Summary of Significant Accounting Policies (continued)

Valuation inputs are assumptions that market participants use in pricing an asset or liability. The hierarchy of inputs used to generate the valuation is classified into three different Levels:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the government can access at the measurement date.

Level 2 – Quoted prices for similar assets or liabilities in markets that are active; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable for an asset, either directly or indirectly.

Level 3 – Unobservable inputs from the asset or liability where there is very little market activity and they should be used only when relevant Level 1 and Level 2 inputs are unavailable.

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.

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.

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	10 to 14 years
Transportation equipment	5 to 10 years

Renewable energy certificates – REC 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. Certificates are recorded at fair market value and considered a level 3 input. See Note 5.

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 RECs are very limited at the present time. Future sales will be transaction specific and subject to Commission approval.

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

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

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

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.

Pension – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Oregon Public Employees Retirement Fund. See Note 11.

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.

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

The Commission authorized the funding for conversion of overhead power lines to underground. Cash is designated for this purpose in the amount of $1,061,732 and $859,707 as of June 30, 2016 and 2015, respectively.

Note 2 – Cash and Deposits (continued)

The Department had the following cash and cash equivalents, including designated cash, at June 30, 2016:

	Water	Light	Total
Cash on hand	$ -	$ 1,700	$ 1,700
Cash on deposit with a bank	773,651	(140,614)	633,037
Local Government Investment Pool	6,932,709	30,888,140	37,820,849
	$ 7,706,360	$ 30,749,226	$ 38,455,586

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

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

Note 3 – Accounts Receivable

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

	2016		
	Water	Light	Total
Accounts receivable	$ 1,354,286	$ 3,548,244	$ 4,902,530
Allowance for doubtful accounts	(13,375)	(28,656)	(42,031)
	$ 1,340,911	$ 3,519,588	$ 4,860,499

	2015		
	Water	Light	Total
Accounts receivable	$ 1,063,427	$ 3,747,001	$ 4,810,428
Allowance for doubtful accounts	(7,218)	(27,950)	(35,168)
	$ 1,056,209	$ 3,719,051	$ 4,775,260

Note 4 – Utility Plant

Utility plant is comprised of the following:

	June 30, 2016	June 30, 2015
WATER		
Structures and improvements	$ 6,584,661	$ 6,578,168
Water treatment plant	34,735,996	34,735,996
Supply and distribution systems	61,585,567	54,918,747
Furniture and equipment	1,039,314	1,029,988
Transportation equipment	1,100,730	1,077,592
	105,046,268	98,340,491
Less accumulated depreciation	(25,154,648)	(23,696,734)
	79,891,620	74,643,757
Land and land rights	6,610,003	3,778,153
Construction in progress	421,050	5,945,212
Total water	86,922,673	84,367,122
LIGHT		
Structures and improvements	2,307,639	2,297,623
Supply and distribution systems	52,827,606	51,717,364
Furniture and equipment	1,604,443	1,558,467
Transportation equipment	1,860,310	1,878,574
	58,599,998	57,452,028
Less accumulated depreciation	(23,529,633)	(23,389,242)
	35,070,365	34,062,786
Land and land rights	650,866	650,866
Construction in progress	469,273	2,365,688
Total light	36,190,504	37,079,340
Total water and light	$ 123,113,177	$ 121,446,462

Note 4 – Utility Plant (continued)

Utility Plant activity during the year ended June 30, 2016 was as follows:

	Balance, June 30, 2015	Increases	Decreases	Balance, June 30, 2016
Land and land rights	$ 4,429,019	$ 2,831,850	$ -	$ 7,260,869
Construction in progress	8,310,900	2,448,413	(9,868,990)	890,323
Total non-depreciable	12,739,919	5,280,263	(9,868,990)	8,151,192
Structures and improvements	8,875,791	16,509	-	8,892,300
Water treatment plant	34,735,996	-	-	34,735,996
Supply and distribution systems	106,636,111	10,151,753	(2,374,691)	114,413,173
Furniture and equipment	2,588,455	68,150	(12,848)	2,643,757
Transportation equipment	2,956,166	146,405	(141,531)	2,961,040
Total depreciable	155,792,519	10,382,817	(2,529,070)	163,646,266
Less accumulated depreciation:				
Electric plant	(22,232,422)	(1,718,835)	1,666,987	(22,284,270)
Water plant	(23,217,101)	(1,491,320)	54,326	(24,654,095)
Transportation equipment	(1,636,453)	(243,128)	133,665	(1,745,916)
Total accumulated depreciation	(47,085,976)	(3,453,283)	1,854,978	(48,684,281)
Utility plant, net	$ 121,446,462	$ 12,209,797	$ (10,543,082)	$ 123,113,177

Note 4 – Utility Plant (continued)

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

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

Note 5 – Renewable Energy Certificates

The Department had 196,135 and 134,516 RECs banked in its Western Renewable Energy Generation Information System (WREGIS) account as of June 30, 2016 and 2015, respectively. The RECs had average values of $4.69 and $6.61 per REC for a total value of $919,494 and $888,789 as of June 30, 2016 and 2015, respectively. The majority of these RECs were obtained predominately from the purchase of BPA Wind (environmentally preferred power). The value of these RECs is based on management's estimate of fair market value, as well as management's assessment of the REC attributes. The fair market value of these RECs is determined by the most recent price at which the Department purchases the RECs. Management reevaluates fair market value on an annual basis.

The Department also holds 229,192 in its WREGIS account for internally generated RECs 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 RECs are internally generated, they have no corresponding value on the statements of net position as of June 30, 2016 and 2015.

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, 2016 and 2015 are as follows:

	Balance, June 30, 2015	Increases	Decreases	Balance, June 30, 2016
Total	$ 3,748,853	$ -	$ (1,935,991)	$ 1,812,862

	Balance, June 30, 2014	Increases	Decreases	Balance, June 30, 2015
Total	$ 5,646,854	$ -	$ (1,898,001)	$ 3,748,853

Maturities of the note payable are as follows:

		Principal	Interest	Total
Year Ending June 30,	2017	$ 1,612,443	$ 19,708	$ 1,632,151
	2018	200,419	1,293	201,712
		$ 1,812,862	$ 21,001	$ 1,833,863

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.

Note 7 – Fiber Optic Activity (continued)

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

	2016	2015
OPERATING REVENUES		
Dark fiber leases	$ 41,883	$ 43,158
Total operating revenues	41,883	43,158
OPERATING EXPENSES		
Operating expenses	36,537	36,480
Maintenance expense	5,984	5,836
Administrative and general	34,710	23,766
Depreciation expense	79,630	78,188
Total operating expenses	156,861	144,270
Operating income (loss)	(114,978)	(101,112)
NON-OPERATING INCOME (EXPENSE)		
Interest income	694	551
Other income	23	1,816
Hookup fees and contributed utility systems	28,021	-
Total non-operating income	28,738	2,367
Change in net position	$ (86,240)	$ (98,745)

Note 8 – Major Customer and Supplier

Sales of electricity were made to one major commercial customer during the years ended June 30, 2016 and 2015, in amounts exceeding 10% of total sales. This customer accounted for approximately $13,506,000 and $14,083,000 of revenues during the years ended June 30, 2016 and 2015, respectively. At June 30, 2016 and 2015, accounts receivable from this same customer amounted to approximately $1,076,000 and $1,146,000, respectively.

Purchases were made from one major supplier of power, including supply, transmission, and distribution during the years ended June 30, 2016 and 2015, in amounts exceeding 10% of the total of such purchases. This supplier accounted for approximately $27,046,000 and $27,450,000 of purchases during the years ended June 30, 2016 and 2015, respectively. At June 30, 2016 and 2015, amounts due to this same supplier, and included in accounts payable, amounted to approximately $2,153,000 and $2,259,000, 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 combined financial statements.

Note 10 – Other Post-Employment Benefits

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

Funding policy – At June 30, 2016, 2015, and 2014, there were 16 retired employees and spouses, receiving health insurance coverage provided by the Department. For the years ended June 30, 2016, 2015, and 2014 the Department incurred $101,321, $73,557, and $80,842, respectively, of expenses for these health insurance premiums.

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, 2016	June 30, 2015	June 30, 2014
Annual required contribution (refund)	$ (178,820)	$ 52,734	$ 101,739
Interest on net OPEB obligation	50,705	50,231	48,128
Annual OPEB cost (credit)	(128,115)	102,965	149,867
Explicit benefit payments	101,321	73,557	80,842
Increase (decrease) in net OPEB obligation	(229,436)	29,408	69,025
Net OPEB obligation – beginning of year	1,482,607	1,453,199	1,384,174
Net OPEB obligation – end of year	$ 1,253,171	$ 1,482,607	$ 1,453,199

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016, 2015, and 2014 were as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Contribution	Percent of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	$ 149,867	$ 80,842	54%	$ 1,453,199
2015	102,965	73,557	71%	1,482,607
2016	(128,115)	101,321	-79%	1,253,171

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)
8/1/2010	$ 1,338,305	$ -	$ 1,338,305	0.00%	$ 2,558,493	52.31%
8/1/2012	1,377,227	-	1,377,227	0.00%	2,477,432	55.59%
8/1/2014	1,399,052	-	1,399,052	0.00%	2,458,630	56.90%

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

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

In the actuarial valuation conducted as of August 1, 2014, the projected unit credit actuarial cost method was used. Actuarial assumptions included a discount rate of 3.50% and an annual healthcare cost trend rate will increase 5.75% in the first year (August 1, 2015 premiums compared with August 1, 2014 premiums). In future years, the medical and vision cost trend varies between 6.50% and 5.00% due to the timing of the excise tax scheduled to affect health care benefits beginning in 2018. The trend then settles to an ultimate rate of 4.75%.

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

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

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

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

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

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

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

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

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

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

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

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

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

The state of Oregon and certain schools, community colleges and political subdivisions have made lump sum payments to establish side accounts, and their rates have been reduced. For the years ended June 30, 2016 and 2015 employer contributions were $776,548 and $691,701 excluding amounts to fund employer specific liabilities, respectively.

Pension asset, pension liability, pension expense, and deferred outflows or resources and deferred inflows of resources related to pension – At June 30, 2016, the Department reported a liability of $3,990,001 and for its proportionate share of the net pension liability. At June 30, 2015, the Department reported an asset of $1,494,371. The net pension liability was measured as of June 30, 2015 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, 2013 rolled forward to June 30, 2015 using standard update procedures. The Department's proportion of the net pension liability was based on a projection of the Department's long-term share of contributions to the Plans relative to the projected contributions for all participating employers, actuarially determined. The City of McMinnville's proportionate share of the net pension liability for the Plans as of the measurement date was 0.25803964%. The Department's allocation is approximately 27% of the total City of McMinnville proportionate share of the net pension liability.

For the years ended June 30, 2016 and 2015, the Department's proportionate share of system pension expense was $3,988,026 and $1,353,615, respectively. The Department has elected to use regulatory accounting to recognize pension expense in conjunction with the required employer contribution rates. Accordingly, the Department recognized pension expense related to Tier One/Tier Two and OPSRP of $776,548.

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

	June 30,	
	2016	2015
Deferred outflows		
Contributions	$ 776,548	$ 691,701
Changes in proportion & contributions	317,437	83,616
Total deferred outflows	$ 1,093,985	$ 775,317
Deferred inflows		
Investment earnings	$ (923,644)	$ (2,883,531)
Changes in proportion & contributions	-	-
Other	-	-
Total deferred inflows	$ (923,644)	$ (2,883,531)

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

$776,548 and $691,701 reported as deferred outflows of resources related to contributions subsequent to the measurement date were recognized as a reduction of the net pension liability in the years ended June 30, 2016 and 2015, respectively.

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

Year ending June 30,	2017	$	(346,076)
	2018		(346,076)
	2019		(346,076)
	2020		416,280
	2021		15,741
		$	(606,207)

Actuarial assumptions – The total pension assets in the December 31, 2013 actuarial valuations were determined using the following actuarial assumptions:

Valuation date	December 31, 2013
Measurement date	June 30, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Discount rate	7.75%
Inflation	2.75%
Payroll growth	3.75%
Projected salary increase	3.75%
Investment rate of return	7.75%

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

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2012 Experience Study which reviewed experience for the four-year period ending on December 31, 2014.

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

Discount rate – The discount rate used to measure the total pension liability was 7.75% 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 July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

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

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

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

Employers' Net Pension Liability/(Asset)	1% Decrease 6.75%	Current Discount Rate 7.75%	1% Increase 8.75%
Defined benefit pension plan	$ 9,757	$ 3,990	$ (773)

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

Payable to the pension plan – At June 30, 2016, the Department did not have an outstanding amount of contributions payable to the pension plan.

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

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

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

Note 12 – Retirement Health Insurance Account (RHIA)

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

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 2016 was 0.53% for Tier 1 and 2 members and 0.45% for OPSRP members. For fiscal year 2015, rates were 0.59% for Tier 1 and 2 members and 0.49% OPSRP members. The OPERS Board of Trustees sets the employer contribution rate based on the ARC of the employers, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed 30 years. The Department's contributions to RHIA for the fiscal years ended June 30, 2016, 2015 and 2014 were $24,000, $26,000, and $26,000, respectively, which equaled the required contributions each year.

Note 13 – Risk Management

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

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

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, 2016 and 2015, were approximately $681,000 and $723,000, 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 2016 and 2015 credits for 2002–2006 look back amounts were $1,076,000 and $1,056,000 respectively. For fiscal year 2017, the look back credit will be $1,080,000. Future look back credits have not yet been determined.

Note 16 – Restatement for Change in Accounting Policy

The Department applied new pension reporting standards to the financial statements for Fiscal Year 2015 as required by GASB statement No. 68. The intent of GASB 68 was to improve the financial reporting, transparency and comparability of pension benefit obligations. However, implementation of GASB 68 has resulted in significant non-cash swings in expense to the Department which is not consistent with revenue recovery. The Department received approval from the Commission to treat the non-cash portion of the pension expense as a regulatory deferral and applied GASB 62 during the current year and restated the prior year. Under regulatory accounting, revenues and expenses are allowed to be deferred and recognized in the period when those items are included in rates.

Note 16 – Restatement for Change in Accounting Policy (continued)

The following table shows restated amounts of effected balances within the financial statements:

Restatement due to implementation of regulatory accounting:

	2015 As Previously Reported	Effect of Restatement	2015 As Restated
Statement of net position			
Deferred inflow of resources			
PERS regulatory liability	$ -	$ 2,731,154	$ 2,731,154
Unrestricted net position	36,515,824	(2,731,154)	33,784,670
Statement of revenues, expenses, and changes in net position			
General and administrative	2,505,862	(86,517)	2,419,345
Pension expense	-	685,838	685,838

Change in Net Position due to restatement:

Net position beginning of year	151,866,454	(2,659,159)	149,207,295
Net position end of year	$ 157,962,286	$ (2,731,154)	$ 155,231,132

REQUIRED SUPPLEMENTARY INFORMATION

McMINNVILLE WATER AND LIGHT DEPARTMENT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION ASSET
AS OF JUNE 30, 2016
LAST TEN YEARS*

	2016	2015
Proportionate share of the net pension asset (liability)	0.07041%	0.06593%
Proportionate share of the net pension asset (liability)	$ (3,990,001)	$ 1,494,371
Covered - employee payroll	$ 4,876,213	$ 4,858,713
Proportionate Share of the net pension asset (liability) as percentage of covered-employee payroll	81.83%	30.76%
Plan's fiduciary net position	$ 64,923,626,094	$ 65,401,492,664
Plan fiduciary net position as a percentage of the total pension liability	91.88%	103.60%

* Fiscal year 2015 was the 1st year of implementation, therefore only the past two years are shown.

McMINNVILLE WATER AND LIGHT DEPARTMENT
SCHEDULE OF CONTRIBUTIONS
AS OF JUNE 30, 2016
LAST TEN YEARS*

	2016	2015
Contractually required contribution (actuarially determined)	$ 691,701	$ 601,675
Contributions in relation to the actuarially determined contribution	691,701	601,675
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 4,876,213	$ 4,858,713
Contributions as a percentage of covered-employee payroll	14%	12%

Notes to Schedule

Valuation date:	12/31/2013, rolled forward to June 30, 2015

Methods and assumptions used to determine contribution rates:

Single and Agent Employers Example	Entry age normal
Experience study report	2014, published September 2015
Amortization method	Level percentage of payroll, closed
Remaining amortization period	Tier One/Tier Two - 20 years; OPSRP - 16 years
Asset valuation method	Market value of assets
Inflation	2.75%
Salary increases	3.75%
Investment rate of return	7.75%
Retirement age	55 for Tier 1/Tier 2; 65 for OPSRP
Mortality	RP-2000 Sex-distinct tables

* Fiscal year 2015 was the 1st year of implementation, therefore only the past two years are shown.

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

Board of Commissioners
McMinnville Water and Light Department
McMinnville, Oregon

We have audited the accompanying combined and individual financial statements of the McMinnville Water and Light Department (the Department) as of and for the year ended June 30, 2016 and have issued our report thereon dated October 18, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement.

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

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

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

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

Internal Control over Financial Reporting

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

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

Julie Desimone, Partner
for Moss Adams LLP
October 18, 2016