



*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, 2017 and 2016*

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

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**Commissioners as of June 30, 2017**

<u>Name</u>	<u>Term Expires</u>
Scott Hill, Mayor	December 31, 2020
Thomas Tankersley	December 31, 2017
Patrick Fuchs	December 31, 2018
Mike Keys	December 31, 2019
Edward Gormley	December 31, 2020

**Administrative Staff**

Kem M. Carr, General Manager  
Mark Dunmire, 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 Financial Statements**

We have audited the accompanying combined and individual financial statements of McMinnville Water and Light Department (the Department), a component of the City of McMinnville, Oregon, which comprise the combined and individual statements of net position as of June 30, 2017 and 2016, and the related combined and individual statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### ***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 opinions 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined and individual financial statements.

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

***Opinion***

In our opinion, the combined and individual financial statements referred to above present fairly, in all material respects, the respective financial position of the Department as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

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 of Auditors of Oregon Municipal Corporations, we have issued our report dated October 17, 2017, 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 17, 2017

## **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**

- Purchased and installed a Caterpillar C9 300KW generator for site-wide headquarters backup
- Repainted service reservoirs 3 & 4 and the backwash tanks
- Replaced/installed 112 distribution transformers
- Replaced/installed 76 distribution poles
- Replaced/installed 9,500 feet of underground primary conductor
- Replaced/installed 7,600 feet of underground secondary conductor
- Installed 800 feet of 6" ductile iron water main
- Installed 1,200 feet of 8" ductile iron water main
- Installed 50 feet of 10" ductile iron water main
- Reduced interdepartmental loan by \$1.4 million
- Paid the Oregon Public Employee Retirement System \$1.3 million to payoff PERS transition liability

### **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 2016/17 saw the continuance of the Department's participation in BPA's Energy Efficiency Incentive. The conservation efforts for the last fiscal year recorded 222 residential conservation projects, including 20 low income qualified projects, and 52 commercial energy conservation projects. This effort netted the utility 0.14 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 2017	FY 2016	Increase (Decrease)	Percent Change	FY 2015 <i>as restated</i>	Increase (Decrease)	Percent Change
Operating revenues	\$ 46,247	\$ 45,275	\$ 972	2%	\$ 44,944	\$ 331	1%
Operating expenses	46,227	44,912	1,315	3%	44,830	82	0%
Net operating income	20	363	(343)	-94%	114	249	218%
Other revenues	3,305	3,934	(629)	-16%	4,549	(615)	-14%
Other expenses	(280)	(974)	694	-71%	(200)	(774)	387%
Contributions	1,077	975	102	10%	1,561	(586)	-38%
Total other	4,102	3,935	167	4%	5,910	(1,975)	-33%
Change in net position	\$ 4,122	\$ 4,298	\$ (176)	-4%	\$ 6,024	\$ (1,726)	-29%

#### Fiscal Year 2017

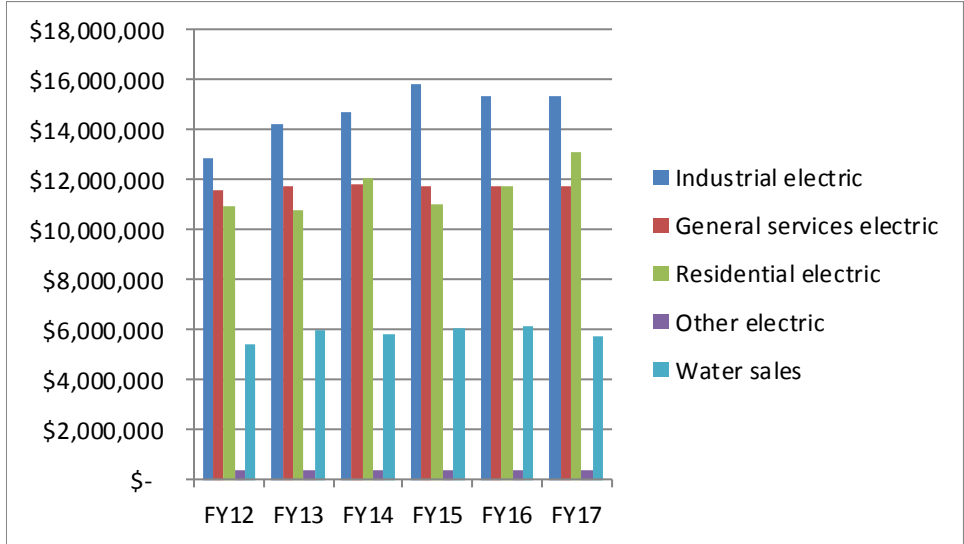
Operating revenues increased by 2%, largely due to increased revenue from electricity sales. Electricity revenues included rate increases and an increase in consumption (kWh) of 1.7%. Water (Cu. Ft.) sales decreased 6%. Operating expenses were up 3% for both electricity and water. Economic and/or weather conditions, along with conservation continue to be factors for both water and electric consumption. Total other net revenue increased 4% largely due a reduction in other expenses over the prior year. Contributions in aid of construction increased 10%.

#### Fiscal Year 2016

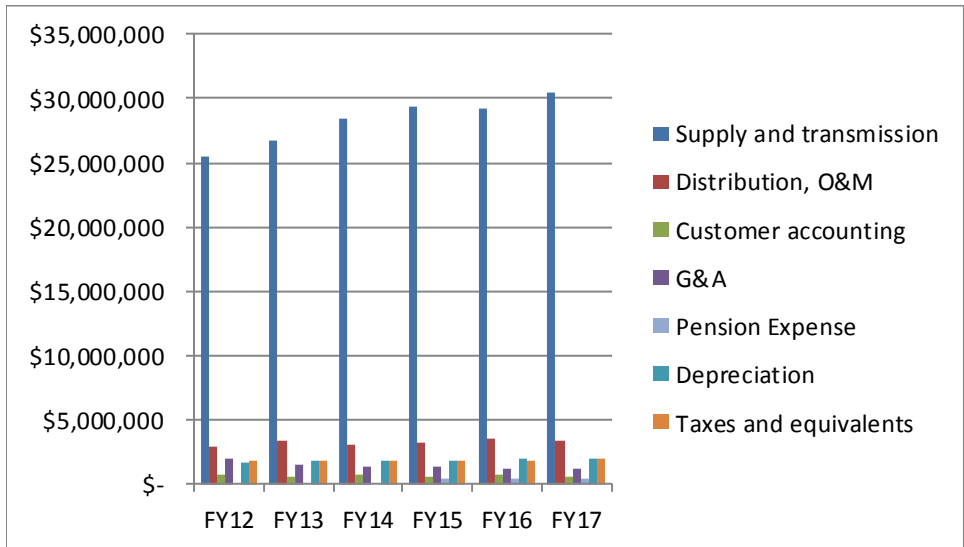
Operating revenues increased by 1%, largely due to increased revenue from electricity sales. Electricity revenues included rate increases which offset decreased consumption of electricity (kWh) by 6.4%. Water (Cu. Ft.) sales increased 2.5%. Operating expenses were neutral for both electricity and water. 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%.

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

## Operating revenues



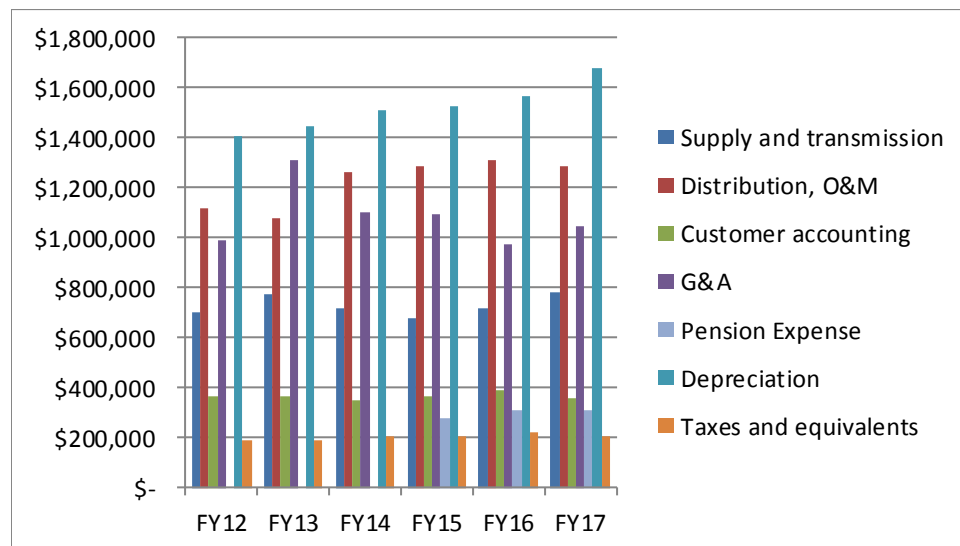
## Operating expenses – Electric





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

## Operating expenses – Water



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

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

	FY 2017	FY 2016	Increase (Decrease)	Percent Change	FY 2015 <i>as restated</i>	Increase (Decrease)	Percent Change
<b>Assets and deferred outflows</b>							
Net utility plant	\$ 123,366	\$ 123,113	\$ 253	0%	\$ 121,446	\$ 1,667	1%
Current assets	48,922	45,110	3,812	8%	42,288	2,822	7%
Other assets and deferred outflow of resources	8,102	4,238	3,864	91%	5,563	(1,325)	-24%
<b>Total assets and deferred outflows</b>	<b>\$ 180,390</b>	<b>\$ 172,461</b>	<b>\$ 7,929</b>	<b>5%</b>	<b>\$ 169,297</b>	<b>\$ 3,164</b>	<b>2%</b>
<b>Liabilities and deferred inflows</b>							
Current liabilities	\$ 5,474	\$ 5,029	\$ 445	9%	\$ 5,595	\$ (566)	-10%
Long-term liabilities	10,781	6,979	3,802	54%	5,587	1,392	25%
Deferred inflow of resources	484	924	(440)	-48%	2,884	(1,960)	0%
<b>Total liabilities and deferred inflows</b>	<b>16,739</b>	<b>12,932</b>	<b>3,807</b>	<b>29%</b>	<b>14,066</b>	<b>(1,134)</b>	<b>-8%</b>
<b>Net position</b>							
Net investment in capital assets	123,366	123,113	253	0%	121,446	1,667	1%
Unrestricted	40,285	36,416	3,869	11%	33,785	2,631	8%
<b>Total net position</b>	<b>\$ 163,651</b>	<b>\$ 159,529</b>	<b>\$ 4,122</b>	<b>3%</b>	<b>\$ 155,231</b>	<b>\$ 4,298</b>	<b>3%</b>

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

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### Fiscal Year 2017

The Department's total assets increased during FY 2017. This was largely due to increases in cash and cash equivalents and an increase in deferred outflows related to the Department's future pension obligations. Total combined current liabilities showed a net increase at year end due in part to an increase in accounts payable and other current liabilities. Long term liabilities increased as a result of an increase in the Department's net pension liability by \$5.4M during FY 2017. This increase was partially offset by the payoff of a \$1.3 million PERS transition liability.

### 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.

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

	FY 2017	FY 2016	Change	Percent Change	FY 2015	Change	Percent Change
Beginning cash and cash equivalents	\$ 38,455	\$ 35,780	\$ 2,675	7%	\$ 32,754	\$ 3,026	9%
Change in:							
Operating activities	8,081	7,429	652	9%	8,028	(599)	-7%
Capital and noncapital related financing activities	(4,274)	(4,994)	720	-14%	(5,192)	198	-4%
Investing activities	469	240	229	95%	190	50	26%
Ending cash and cash equivalents	<u>\$ 42,731</u>	<u>\$ 38,455</u>	<u>\$ 4,276</u>	<u>11%</u>	<u>\$ 35,780</u>	<u>\$ 2,675</u>	<u>7%</u>

### Fiscal Year 2017

Cash from operating activities increased overall for FY 2017. Increases in customer receipts outpaced the increase in payments for purchased power. Also payments to suppliers and employees saw reductions over the prior year. These cash increases were somewhat offset by cash reductions from lower net timber sales receipts and increases in payments for conservation measures. But the overall result was an increase in cash from operations. Cash flows from capital related financing showed an overall increase in cash due to reductions in capital spending and interest paid during the year. Cash flows from noncapital financing experienced a decrease in cash due to the payoff of the Department's PERS transition liability. Finally, cash from investing activities increased due to slight increase in Local Government Investment Pool (LGIP) rates during the year.

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

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### 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.

### **Budget highlights**

	In \$000s			Percent Change
	Budget FY 2017	Actual FY 2017	Dollar Change	
Operating revenues	\$ 48,589	\$ 46,247	\$ (2,342)	-5%
Operating expenses	47,763	45,564	(2,199)	-5%
Net operating revenue	826	683	(143)	-17%
Other net revenues	3,491	3,134	(357)	-10%
Contributions	724	1,077	353	49%
Changes in net position	\$ 5,041	\$ 4,894	\$ (147)	-3%

Electricity and Water sales came in under budget by 4.5% and 8.0%, respectively. Also, lower power and transmission costs reduced operating expenses, but the reduction was not enough to offset the revenue shortfall. As a result, net operating revenues came in 17% under budget. Other revenue came in 10% below budget largely due to lower than anticipated net timber revenue and BPA conservation reimbursements. However, contributions in aid to construction came in over budget by 49% due to strong development activity. All of these combined factors resulted in the Department's net position coming in 3% lower 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 2017 saw a net increase in capital assets, after depreciation, of \$250,000. The FY 2016 saw a net increase in capital assets, after depreciation, of \$1.7 million. 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, 2017 and 2016 amounting to \$200,419 and \$1,812,862, 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.

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

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### **Regulatory Asset/Liability – GASB 62**

The Department applied new pension reporting standards to the financial statements beginning 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 changes in expense to the Department which is not consistent with revenue recovery. The dollar amount of change from the net pension liability at June 30, 2016 to the net pension liability at June 30, 2017 was \$5.4 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 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. 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 as a result of GASB 68.

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

The cash position of the Department should remain stable during the 2018 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, 2017 and 2016**

	Water		Light		Eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>ASSETS AND DEFERRED OUTFLOWS</b>								
Utility plant, net	\$ 86,906,195	\$ 86,922,673	\$ 36,460,224	\$ 36,190,504	\$ -	\$ -	\$123,366,419	\$123,113,177
Current assets								
Cash and cash equivalents	8,733,660	7,706,360	32,722,163	29,687,494	-	-	41,455,823	37,393,854
Designated cash and cash equivalents	-	-	1,275,927	1,061,732	-	-	1,275,927	1,061,732
Accounts receivable, net of allowance	729,429	1,340,911	3,753,356	3,519,588	-	-	4,482,785	4,860,499
Current portion of note receivable and other	-	-	307,419	1,726,443	(200,419)	(1,612,443)	107,000	114,000
Inventories	226,225	203,489	608,243	576,894	-	-	834,468	780,383
Other current assets	150,359	226,417	616,139	673,489	-	-	766,498	899,906
Total current assets	9,839,673	9,477,177	39,283,247	37,245,640	(200,419)	(1,612,443)	48,922,501	45,110,374
Other assets								
Note receivable and other, less current portion	-	-	178,360	388,693	-	(200,419)	178,360	188,274
Renewable energy certificates	-	-	942,495	919,494	-	-	942,495	919,494
Regulatory asset - conservation charges	-	-	1,869,672	2,035,865	-	-	1,869,672	2,035,865
Total other assets	-	-	2,990,527	3,344,052	-	(200,419)	2,990,527	3,143,633
Deferred outflows of resources	2,044,408	437,594	3,066,613	656,391	-	-	5,111,021	1,093,985
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 98,790,276</b>	<b>\$ 96,837,444</b>	<b>\$ 81,800,611</b>	<b>\$ 77,436,587</b>	<b>\$ (200,419)</b>	<b>\$ (1,812,862)</b>	<b>\$180,390,468</b>	<b>\$172,461,169</b>

**McMinnville Water and Light Department**  
**Combined Statements of Net Position**  
**As of June 30, 2017 and 2016**

	Water		Light		Eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>								
Net position								
Net investment in capital assets	\$ 86,906,195	\$ 84,560,564	\$ 36,460,224	\$ 35,366,634	\$ -	\$ -	\$ 123,366,419	\$ 123,113,177
Unrestricted	5,706,899	5,741,966	34,577,864	33,859,867	-	-	40,284,763	36,415,854
Total net position	<u>92,613,094</u>	<u>90,302,530</u>	<u>71,038,088</u>	<u>69,226,501</u>	<u>-</u>	<u>-</u>	<u>163,651,182</u>	<u>159,529,031</u>
Current liabilities								
Accounts payable	286,796	397,408	2,933,994	2,695,552	-	-	3,220,790	3,092,960
Accrued payroll	126,902	129,216	142,012	134,020	-	-	268,914	263,236
Other liabilities	25,949	-	246,576	-	-	-	272,525	-
Compensated absences	234,080	219,826	242,611	229,762	-	-	476,691	449,588
Due to City of McMinnville	721,370	739,518	95,203	109,487	-	-	816,573	849,005
Advances and deposits	50,000	50,000	368,379	324,796	-	-	418,379	374,796
Current portion of long-term notes payable	200,419	1,612,443	-	-	(200,419)	(1,612,443)	-	-
Total current liabilities	<u>1,645,516</u>	<u>3,148,411</u>	<u>4,028,775</u>	<u>3,493,617</u>	<u>(200,419)</u>	<u>(1,612,443)</u>	<u>5,473,872</u>	<u>5,029,585</u>
Long-term liabilities								
Notes payable, less current portion	-	200,419	-	-	-	(200,419)	-	-
Pension liability	3,754,068	1,596,000	5,631,103	2,394,001	-	-	9,385,171	3,990,001
Transitional liability	-	535,563	-	803,345	-	-	-	1,338,908
PERS regulatory liability	48,513	158,731	72,770	238,098	-	-	121,283	396,829
Other post-employment benefits liability	535,523	526,332	739,531	726,839	-	-	1,275,054	1,253,171
Total long-term liabilities	<u>4,338,104</u>	<u>3,017,045</u>	<u>6,443,404</u>	<u>4,162,283</u>	<u>-</u>	<u>(200,419)</u>	<u>10,781,508</u>	<u>6,978,909</u>
Deferred inflows of resources	<u>193,562</u>	<u>369,458</u>	<u>290,344</u>	<u>554,186</u>	<u>-</u>	<u>-</u>	<u>483,906</u>	<u>923,644</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<u><u>\$ 98,790,276</u></u>	<u><u>\$ 96,837,444</u></u>	<u><u>\$ 81,800,611</u></u>	<u><u>\$ 77,436,587</u></u>	<u><u>\$ (200,419)</u></u>	<u><u>\$ (1,812,862)</u></u>	<u><u>\$ 180,390,468</u></u>	<u><u>\$ 172,461,169</u></u>

See accompanying notes.

# McMinnville Water and Light Department

## Combined Statements of Revenues, Expenses, and Changes in Net Position

### For The Years Ended June 30, 2017 and 2016

	Water		Light		Eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>OPERATING REVENUES</b>								
Sales of electricity								
Residential	\$ -	\$ -	\$ 13,117,833	\$ 11,698,884	\$ -	\$ -	\$ 13,117,833	\$ 11,698,884
General service	-	-	11,718,695	11,728,721	-	-	11,718,695	11,728,721
Industrial	-	-	15,326,249	15,351,054	-	-	15,326,249	15,351,054
Rental light	-	-	133,935	116,566	-	-	133,935	116,566
Street light	-	-	212,994	201,446	-	-	212,994	201,446
Cable TV	-	-	35,090	34,992	-	-	35,090	34,992
Sales of water	5,701,756	6,143,356	-	-	-	-	5,701,756	6,143,356
Total operating revenues	<u>5,701,756</u>	<u>6,143,356</u>	<u>40,544,796</u>	<u>39,131,663</u>	<u>-</u>	<u>-</u>	<u>46,246,552</u>	<u>45,275,019</u>
<b>OPERATING EXPENSES</b>								
Supply and transmission	783,230	716,356	30,518,122	29,226,220	-	-	31,301,352	29,942,576
Distribution, operation, and maintenance	1,283,067	1,307,973	3,294,966	3,511,693	-	-	4,578,033	4,819,666
Customer accounting and meter reading	358,050	391,281	617,731	676,336	-	-	975,781	1,067,617
General and administrative	1,049,319	970,818	1,250,073	1,228,422	-	-	2,299,392	2,199,240
Pension expense	242,071	310,619	363,106	465,929	-	-	605,177	776,548
Depreciation	1,680,641	1,563,781	1,961,710	1,889,502	-	-	3,642,351	3,453,283
Conservation	-	1,378	725,153	653,129	-	-	725,153	654,507
Taxes and tax equivalents	206,475	219,189	1,892,810	1,779,064	-	-	2,099,285	1,998,253
Total operating expenses	<u>5,602,853</u>	<u>5,481,395</u>	<u>40,623,671</u>	<u>39,430,295</u>	<u>-</u>	<u>-</u>	<u>46,226,524</u>	<u>44,911,690</u>
Operating income (loss)	<u>98,903</u>	<u>661,961</u>	<u>(78,875)</u>	<u>(298,632)</u>	<u>-</u>	<u>-</u>	<u>20,028</u>	<u>363,329</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>								
Timber sales, net of related expenses	1,837,271	2,364,804	-	-	-	-	1,837,271	2,364,804
Interest income	93,642	54,738	393,471	265,348	(17,794)	(79,598)	469,319	240,488
Other, net	22,289	40,865	975,996	1,263,837	-	-	998,285	1,304,702
Loss on asset dispositions	(10,502)	(18,673)	(236,056)	(895,142)	-	-	(246,558)	(913,815)
Interest expense	(31,062)	(79,598)	(19,902)	(36,441)	17,794	79,598	(33,170)	(36,441)
Total non-operating income	<u>1,911,638</u>	<u>2,362,136</u>	<u>1,113,509</u>	<u>597,602</u>	<u>-</u>	<u>-</u>	<u>3,025,147</u>	<u>2,959,738</u>
Income before contributed capital	2,010,541	3,024,097	1,034,634	298,970	-	-	3,045,175	3,323,067
Hookup fees and contributed utility systems	300,023	348,490	776,953	626,342	-	-	1,076,976	974,832
Change in net position	<u>2,310,564</u>	<u>3,372,587</u>	<u>1,811,587</u>	<u>925,312</u>	<u>-</u>	<u>-</u>	<u>4,122,151</u>	<u>4,297,899</u>
<b>NET POSITION,</b>								
beginning of year	<u>90,302,530</u>	<u>86,929,943</u>	<u>69,226,501</u>	<u>68,301,189</u>	<u>-</u>	<u>-</u>	<u>159,529,031</u>	<u>155,231,132</u>
<b>NET POSITION,</b>								
end of year	<u>\$ 92,613,094</u>	<u>\$ 90,302,530</u>	<u>\$ 71,038,088</u>	<u>\$ 69,226,501</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 163,651,182</u>	<u>\$ 159,529,031</u>

**McMinnville Water and Light Department  
Combined Statements of Cash Flows  
For the Years Ended June 30, 2017 and 2016**

	Water		Light		Eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Receipts from customers	\$ 6,313,238	\$ 5,858,654	\$ 40,311,028	\$ 39,331,126	\$ -	\$ -	\$ 46,624,266	\$ 45,189,780
Receipts from timber sales	1,837,271	2,364,804	-	-	-	-	1,837,271	2,364,804
Other receipts and purchases	98,347	187,973	975,996	1,263,837	-	-	1,074,343	1,451,810
Power purchases	-	-	(30,518,122)	(29,226,220)	-	-	(30,518,122)	(29,226,220)
Payments to suppliers	(124,308)	(119,925)	(1,253,041)	(2,438,971)	-	-	(1,377,349)	(2,558,896)
Conservation measures	-	(1,378)	(725,153)	(653,129)	-	-	(725,153)	(654,507)
Payments to employees	(3,430,705)	(3,456,982)	(3,304,067)	(3,682,471)	-	-	(6,734,772)	(7,139,453)
Payments of taxes	(206,475)	(219,189)	(1,892,810)	(1,779,064)	-	-	(2,099,285)	(1,998,253)
Net cash from operating activities	4,487,368	4,613,957	3,593,831	2,815,108	-	-	8,081,199	7,429,065
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>								
Additions to utility plant, net	(1,374,642)	(3,789,515)	(1,690,533)	(1,269,466)	-	-	(3,065,175)	(5,058,981)
Additions from renewable energy certificates	-	-	(23,001)	(30,705)	-	-	(23,001)	(30,705)
Deductions from deferred conservation	-	-	166,193	166,193	-	-	166,193	166,193
Proceeds from (payment on) interfund loan	(1,632,150)	(1,935,991)	1,632,150	1,935,991	-	-	-	-
Proceeds from (payments on) note payable	19,707	-	-	-	-	-	19,707	-
Interest paid	(31,062)	(79,598)	(19,902)	(36,441)	17,794	79,598	(33,170)	(36,441)
Net cash from capital and related financing activities	(3,018,147)	(5,805,104)	64,907	765,572	17,794	79,598	(2,935,446)	(4,959,934)
<b>CASH FLOWS FROM NONCAPITAL RELATED FINANCING ACTIVITIES</b>								
Payment (additions) on transitional liability	(535,563)	(13,684)	(803,345)	(20,525)	-	-	(1,338,908)	(34,209)
Net cash from noncapital related financing activities	(535,563)	(13,684)	(803,345)	(20,525)	-	-	(1,338,908)	(34,209)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>								
Interest received	93,642	54,738	393,471	265,348	(17,794)	(79,598)	469,319	240,488
Net cash from investing activities	93,642	54,738	393,471	265,348	(17,794)	(79,598)	469,319	240,488
Net change in cash and cash equivalents	1,027,300	(1,150,093)	3,248,864	3,825,503	-	-	4,276,164	2,675,410
CASH AND CASH EQUIVALENTS, beginning of year	7,706,360	8,856,453	30,749,226	26,923,723	-	-	38,455,586	35,780,176
CASH AND CASH EQUIVALENTS, end of year	\$ 8,733,660	\$ 7,706,360	\$ 33,998,090	\$ 30,749,226	\$ -	\$ -	\$ 42,731,750	\$ 38,455,586



# McMinnville Water and Light Department

## Combined Statements of Cash Flows

### For the Years Ended June 30, 2017 and 2016

	Water		Light		Eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
RECONCILIATION OF OPERATING								
INCOME TO NET CASH								
FROM OPERATING ACTIVITIES								
Operating income	\$ 98,903	\$ 661,961	\$ (78,875)	\$ (298,632)	\$ -	\$ -	\$ 20,028	\$ 363,329
Adjustments to reconcile operating income to net cash from operating activities								
Collections received for the City of McMinnville								
McMinnville	9,069,968	8,687,276	-	-	-	-	9,069,968	8,687,276
Remittances of collections to City of McMinnville								
McMinnville	(9,088,116)	(8,669,285)	-	-	-	-	(9,088,116)	(8,669,285)
Depreciation	1,680,641	1,563,781	1,961,710	1,889,502	-	-	3,642,351	3,453,283
Other, net	22,289	40,865	975,996	1,263,837	-	-	998,285	1,304,702
Timber sales, net of related expenses	1,837,271	2,364,804	-	-	-	-	1,837,271	2,364,804
Other post-employment benefits liability	9,191	(96,363)	12,692	(133,073)	-	-	21,883	(229,436)
Pension expense (credit)	242,071	310,619	363,106	465,929	-	-	605,177	776,548
Transition liability amortization	9,801	13,684	14,702	20,525	-	-	24,503	34,209
Interest on pension	13,268	24,294	19,902	36,441	-	-	33,170	60,735
Changes in assets and liabilities:								
Accounts receivable	611,482	(284,702)	(233,768)	199,463	-	-	377,714	(85,239)
BPA receivable	-	-	-	222,589	-	-	-	222,589
Inventories	(22,736)	(7,857)	(31,349)	39,071	-	-	(54,085)	31,214
Other current assets	76,058	147,108	54,557	(448,198)	-	-	130,615	(301,090)
Accounts payable	(110,612)	(11,170)	238,442	(318,326)	-	-	127,830	(329,496)
Accrued payroll	(2,314)	(4,002)	7,992	(12,558)	-	-	5,678	(16,560)
Other liabilities	25,949	-	246,576	(102,356)	-	-	272,525	(102,356)
Compensated absences	14,254	(2,056)	12,849	(4,164)	-	-	27,103	(6,220)
Due to the City of McMinnville	-	-	(14,284)	2,186	-	-	(14,284)	2,186
Advances and deposits	-	(125,000)	43,583	(7,128)	-	-	43,583	(132,128)
Net cash from operating activities	\$ 4,487,368	\$ 4,613,957	\$ 3,593,831	\$ 2,815,108	\$ -	\$ -	\$ 8,081,199	\$ 7,429,065
NONCASH CAPITAL ACTIVITIES								
Contributions from others								
	\$ 75,845	\$ 97,111	\$ 69,313	\$ 147,471	\$ -	\$ -	\$ 145,158	\$ 244,582

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

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### Note 1 – Summary of Significant Accounting Policies

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

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

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

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, 2017 and 2016, 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.

# McMinnville Water and Light Department

## Notes to Combined Financial Statements

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### 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, designated cash set aside by the Department to fund projects as needed, demand deposits, short-term investments with original maturities of three months or less from the date of acquisition, and the State of Oregon Local Government Investment Pool deposits.

**Net position** – Net position comprises the various net earnings from operations, non-operating revenues, expenses, and contributions of capital. Net position is classified in the following categories:

- **Net investment in capital assets** – This component of net position consists of capital assets, net of accumulated depreciation, less outstanding balances of any debt borrowings that are attributable to the acquisition, construction or improvement of those assets.
- **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.

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

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

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

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

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

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

# McMinnville Water and Light Department

## Notes to Combined Financial Statements

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

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

Electric and water plant	20 to 100 years
Office and other equipment	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. The amortization period is equivalent to the period these charges will be recovered through the Department’s rates.

**Deferred outflows and inflows 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 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.

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

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### 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.

**Transitional Liability** – The transitional liability is associated with the Oregon Public Employees Retirement Fund (OPERS) and principal repayment is funded through an adder to the pension rates paid to the Department to OPERS. The Department paid off the transitional liability in October 2016.

**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.

## McMinnville Water and Light Department

### Notes to Combined Financial Statements

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

Deposits less than \$250,000 are covered by federal depository insurance. As required by Oregon Revised Statutes, deposits in excess of federal depository insurance were held at a qualified depository for public funds. All qualified depositories for public funds are included in the multiple financial institution collateral pool that is maintained by and in the name of the Office of the State Treasurer.

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

The Commission authorized the funding for conversion of overhead power lines to underground. Cash is designated for this purpose in the amount of \$1,275,927 and \$1,061,732 as of June 30, 2017 and 2016, respectively.

The Department had the following cash and cash equivalents, including designated cash, at June 30, 2017:

	Water	Light	Total
Cash on hand	\$ -	\$ 1,700	\$ 1,700
Cash on deposit with a bank	709,475	(58,698)	650,777
Local Government Investment Pool	8,024,185	34,055,088	42,079,273
	<u>\$ 8,733,660</u>	<u>\$ 33,998,090</u>	<u>\$ 42,731,750</u>

The Department had the following cash and cash equivalents 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
	<u>\$ 7,706,360</u>	<u>\$ 30,749,226</u>	<u>\$ 38,455,586</u>

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

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**Note 3 – Accounts Receivable**

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

	2017		
	Water	Light	Total
Accounts receivable	\$ 741,237	\$ 3,796,323	\$ 4,537,560
Allowance for doubtful accounts	(11,808)	(42,967)	(54,775)
	<u>\$ 729,429</u>	<u>\$ 3,753,356</u>	<u>\$ 4,482,785</u>
	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)
	<u>\$ 1,340,911</u>	<u>\$ 3,519,588</u>	<u>\$ 4,860,499</u>



## McMinnville Water and Light Department

### Notes to Combined Financial Statements

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#### Note 4 – Utility Plant

Utility plant is comprised of the following:

	June 30,	
	2017	2016
<b>WATER</b>		
Structures and improvements	\$ 6,636,515	\$ 6,584,661
Water treatment plant	35,000,022	34,735,996
Supply and distribution systems	62,173,899	61,585,567
Furniture and equipment	1,168,367	1,039,314
Transportation equipment	1,195,302	1,100,730
	<u>106,174,105</u>	<u>105,046,268</u>
Less accumulated depreciation	<u>(26,807,404)</u>	<u>(25,154,648)</u>
	79,366,701	79,891,620
Land and land rights	6,618,293	6,610,003
Construction in progress	<u>921,201</u>	<u>421,050</u>
	<u>86,906,195</u>	<u>86,922,673</u>
<b>LIGHT</b>		
Structures and improvements	2,385,420	2,307,639
Supply and distribution systems	53,431,321	52,827,606
Furniture and equipment	1,657,573	1,604,443
Transportation equipment	1,798,642	1,860,310
	<u>59,272,956</u>	<u>58,599,998</u>
Less accumulated depreciation	<u>(24,918,397)</u>	<u>(23,529,633)</u>
	34,354,559	35,070,365
Land and land rights	656,930	650,866
Construction in progress	<u>1,448,735</u>	<u>469,273</u>
	<u>36,460,224</u>	<u>36,190,504</u>
	<u>\$ 123,366,419</u>	<u>\$ 123,113,177</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, 2017 was as follows:

	Balance, June 30, 2016	Increases	Decreases	Balance, June 30, 2017
Land and land rights	\$ 7,260,869	\$ 14,354	\$ -	\$ 7,275,223
Construction in progress	890,323	3,241,384	(1,761,771)	2,369,936
Total non-depreciable	<u>8,151,192</u>	<u>3,255,738</u>	<u>(1,761,771)</u>	<u>9,645,159</u>
Structures and improvements	8,892,300	129,635	-	9,021,935
Water treatment plant	34,735,996	264,026	-	35,000,022
Supply and distribution systems	114,413,173	1,704,252	(512,205)	115,605,220
Furniture and equipment	2,643,757	182,183	-	2,825,940
Transportation equipment	2,961,040	123,827	(90,923)	2,993,944
Total depreciable	<u>163,646,266</u>	<u>2,403,923</u>	<u>(603,128)</u>	<u>165,447,061</u>
Less accumulated depreciation:				
Electric plant	(22,284,270)	(1,961,710)	572,946	(23,673,034)
Water plant	(24,654,095)	(1,680,641)	27,885	(26,306,851)
Transportation equipment	(1,745,916)	-	-	(1,745,916)
Total accumulated depreciation	<u>(48,684,281)</u>	<u>(3,642,351)</u>	<u>600,831</u>	<u>(51,725,801)</u>
Utility plant, net	<u>\$ 123,113,177</u>	<u>\$ 2,017,310</u>	<u>\$ (1,764,068)</u>	<u>\$ 123,366,419</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, 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
<b>Total non-depreciable</b>	<b>12,739,919</b>	<b>5,280,263</b>	<b>(9,868,990)</b>	<b>8,151,192</b>
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
<b>Total depreciable</b>	<b>155,792,519</b>	<b>10,382,817</b>	<b>(2,529,070)</b>	<b>163,646,266</b>
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)
<b>Total accumulated depreciation</b>	<b>(47,085,976)</b>	<b>(3,453,283)</b>	<b>1,854,978</b>	<b>(48,684,281)</b>
<b>Utility plant, net</b>	<b>\$ 121,446,462</b>	<b>\$ 12,209,797</b>	<b>\$ (10,543,082)</b>	<b>\$ 123,113,177</b>

#### Note 5 – Renewable Energy Certificates

The Department had 242,137 and 196,135 RECs banked in its Western Renewable Energy Generation Information System (WREGIS) account as of June 30, 2017 and 2016, respectively. The RECs had average values of \$3.89 and \$4.69 per REC for a total value of \$942,495 and \$919,494 as of June 30, 2017 and 2016, 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, 2017 and 2016.

## 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, 2017 and 2016 are as follows:

	Balance, June 30, 2016	Increases	Decreases	Balance, June 30, 2017
Total	\$ 1,812,862	\$ -	\$ (1,612,443)	\$ 200,419
	\$ 1,812,862	\$ -	\$ (1,612,443)	\$ 200,419
	Balance, June 30, 2015	Increases	Decreases	Balance, June 30, 2016
Total	\$ 3,748,853	\$ -	\$ (1,935,991)	\$ 1,812,862
	\$ 3,748,853	\$ -	\$ (1,935,991)	\$ 1,812,862

Maturities of the note payable are as follows:

	Principal	Interest	Total
Year Ending June 30, 2018	\$ 200,419	\$ 1,293	\$ 201,712
	\$ 200,419	\$ 1,293	\$ 201,712

### 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:

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>		
Dark fiber leases	\$ 49,696	\$ 41,883
Total operating revenues	<u>49,696</u>	<u>41,883</u>
<b>OPERATING EXPENSES</b>		
Operating expenses	40,188	36,537
Maintenance expense	6,096	5,984
Administrative and general	39,372	34,710
Depreciation expense	<u>80,851</u>	<u>79,630</u>
Total operating expenses	<u>166,507</u>	<u>156,861</u>
Operating income (loss)	<u>(116,811)</u>	<u>(114,978)</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>		
Interest income	1,189	694
Other income	19	23
Hookup fees and contributed utility systems	<u>-</u>	<u>28,021</u>
Total non-operating income	<u>1,208</u>	<u>28,738</u>
Change in net position	<u>\$ (115,603)</u>	<u>\$ (86,240)</u>

#### Note 8 – Major Customer and Supplier

Sales of electricity were made to one major commercial customer during the years ended June 30, 2017 and 2016, in amounts exceeding 10% of total sales. This customer accounted for approximately \$13,416,000 and \$13,506,000 of revenues during the years ended June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, accounts receivable from this same customer amounted to approximately \$1,249,000 and \$1,076,000, respectively.

Purchases were made from one major supplier of power, including supply, transmission, and distribution during the years ended June 30, 2017 and 2016, in amounts exceeding 10% of the total of such purchases. This supplier accounted for approximately \$27,699,000 and \$27,046,000 of purchases during the years ended June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, amounts due to this same supplier, and included in accounts payable, amounted to approximately \$2,308,000 and \$2,153,000, respectively.

## **McMinnville Water and Light Department**

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

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#### **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, 2017, 2016, and 2015, there were 15 retired employees and spouses receiving health insurance coverage provided by the Department. For the years ended June 30, 2017, 2016, and 2015 the Department incurred \$95,271, \$101,321, and \$73,557, respectively, of expenses for these health insurance premiums.

## McMinnville Water and Light Department

### Notes to Combined Financial Statements

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#### 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,		
	2017	2016	2015
Annual required contribution (refund)	\$ 74,464	\$ (178,820)	\$ 52,734
Interest on net OPEB obligation	42,690	50,705	50,231
Annual OPEB cost (credit)	117,154	(128,115)	102,965
Explicit benefit payments	95,271	101,321	73,557
Increase (decrease) in net OPEB obligation	21,883	(229,436)	29,408
Net OPEB obligation – beginning of year	1,253,171	1,482,607	1,453,199
Net OPEB obligation – end of year	<u>\$ 1,275,054</u>	<u>\$ 1,253,171</u>	<u>\$ 1,482,607</u>

The Department’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017, 2016, and 2015 were as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Contribution	Percent of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 102,965	\$ 73,557	71%	\$ 1,482,607
2016	(128,115)	101,321	-79%	1,253,171
2017	117,154	95,271	81%	1,275,054

## 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)
8/1/2010	\$ 1,338,305	\$ -	\$ 1,338,305	0.00%	\$ 2,558,493	52.31%
8/1/2012	1,337,227	-	1,337,227	0.00%	2,477,432	55.59%
8/1/2014	1,190,958	-	1,190,958	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 July 1, 2016, 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 7.00% in the first year (July 1, 2016 premiums compared with July 1, 2015 premiums). In future years, the medical and vision cost trend varies between 7.50% 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 5.00%.



## McMinnville Water and Light Department

### Notes to Combined Financial Statements

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#### 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.

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

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### **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 2.00 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.

**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, 2013 actuarial valuation, which became effective July 1, 2015.

## McMinnville Water and Light Department

### Notes to Combined Financial Statements

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#### 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, 2017 and 2016 employer contributions were \$605,177 and \$776,548 excluding amounts to fund employer specific liabilities, respectively.

**Pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension** – At June 30, 2017, the Department reported a liability of \$9,385,171 and for its proportionate share of the net pension liability. At June 30, 2016, the Department reported a liability of \$3,990,001 and for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 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, 2014 rolled forward to June 30, 2016 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, 2017 and 2016, the Department’s proportionate share of system pension expense was \$1,628,153 and \$3,988,026, 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 \$605,177.

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

	June 30,	
	2017	2016
Deferred outflows		
Contributions	\$ 605,177	\$ 776,548
Changes in proportion & contributions	4,505,844	317,437
Total deferred outflows	<u>\$ 5,111,021</u>	<u>\$ 1,093,985</u>
Deferred inflows		
Investment earnings	\$ (483,906)	\$ (923,644)
Changes in proportion & contributions	-	-
Other	-	-
Total deferred inflows	<u>\$ (483,906)</u>	<u>\$ (923,644)</u>

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

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

\$605,177 and \$776,548 were reported as deferred outflows of resources related to contributions subsequent to the measurement date.

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

		Deferred Inflows		Deferred Outflows
Year ending June 30,	2018	\$ 116,162		\$ 1,526,504
	2019	116,162		812,406
	2020	116,162		1,488,435
	2021	105,768		1,121,827
	2022	29,652		161,849
		\$ 483,906		\$ 5,111,021

**Actuarial assumptions** – The total pension assets in the December 31, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation date	December 31, 2014
Measurement date	June 30, 2016
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Discount rate	7.50%
Inflation	2.50%
Payroll growth	3.50%
Projected salary increase	3.50%
Investment rate of return	7.50%

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 2014 Experience Study which reviewed experience for the four-year period ending on December 31, 2014.

## McMinnville Water and Light Department

### Notes to Combined Financial Statements

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

**Discount rate** – The discount rate used to measure the total pension liability was 7.50% 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 June 2015 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 on the next page 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	8.00%	4.00%
Short-Term Bonds	8.00	3.61
Bank/Leveraged Loans	3.00	5.42
High Yield Bonds	1.00	6.20
Large/Mid Cap US Equities	15.75	6.70
Small Cap US Equities	1.31	6.99
Micro Cap US Equities	1.31	7.01
Developed Foreign Equities	13.13	6.73
Emerging Market Equities	4.12	7.25
Non-US Small Cap Equities	1.88	7.22
Private Equity	17.50	7.97
Real Estate (Property)	10.00	5.84
Real Estate (REITS)	2.50	6.69
Hedge Fund of Funds - Diversified	2.50	4.64
Hedge Fund - Event-driven	0.63	6.72
Timber	1.88	5.85
Farmland	1.88	6.37
Infrastructure	3.75	7.12
Commodities	1.88	4.58

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

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### 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 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Defined benefit pension plan	\$ 15,154	\$ 9,385	\$ 4,564

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

**Payable to the pension plan** – At both June 30, 2017 and 2016, the Department did not have an outstanding amount of contributions payable to the pension plan.

### 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.

## **McMinnville Water and Light Department**

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

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

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 2017 was 53% for Tier 1 and 2 members and 45% for OPSRP members. 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. 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, 2017, 2016 and 2015 were \$24,000, \$24,000, 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, 2017 and 2016, were approximately \$605,000 and \$681,000, respectively.

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

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### 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 2017 and 2016 credits for 2002–2006 look back amounts were \$1,080,000 and \$1,076,000 respectively. For fiscal year 2018, the look back credit will be \$1,089,000. Future look back credits have not yet been determined.



## **Required Supplementary Information**

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**McMinnville Water and Light Department**  
**Schedule of Proportionate Share of the Net Pension Asset (Liability)**  
**As of June 30, 2017**  
**Last Ten Years\***

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	2017	2016	2015
Proportionate share of the net pension asset (liability)	0.06252%	0.07041%	0.06593%
Proportionate share of the net pension asset (liability)	\$ (9,385,171)	\$ (3,990,001)	\$ 1,494,371
Covered - employee payroll	\$ 4,999,100	\$ 4,876,213	\$ 4,858,713
Proportionate Share of the net pension asset (liability) as percentage of covered-employee payroll	187.74%	81.83%	30.76%
Plan's fiduciary net position	\$ 62,082,059,102	\$ 64,923,626,094	\$ 65,401,492,664
Plan fiduciary net position as a percentage of the total pension liability	80.50%	91.88%	103.60%

**McMinnville Water and Light Department**  
**Schedule of Contributions**  
**As of June 30, 2017**  
**Last Ten Years\***

	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 804,840	\$ 691,701	\$ 601,675
Contributions in relation to the actuarially determined contribution	<u>804,840</u>	<u>691,701</u>	<u>601,675</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 4,999,100	\$ 4,876,213	\$ 4,858,713
Contributions as a percentage of covered-employee payroll	16%	14%	12%

**Notes to Schedule**

Valuation date: 12/31/2014, rolled forward to June 30, 2016

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	2.50%
Salary increases	3.50%
Investment rate of return	7.50%
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, 2017, and have issued our report thereon dated October 17, 2017. 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 and individual 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) 162-10-000 to 162-10-330, 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 structure.
- 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.

***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 control.

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.

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 17, 2017