



REPORT OF INDEPENDENT AUDITORS AND FINANCIAL
STATEMENTS WITH SUPPLEMENTARY INFORMATION

**CANBY UTILITY BOARD (A COMPONENT UNIT OF
THE CITY OF CANBY, OREGON)**

June 30, 2019 and 2018

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**Canby Utility Board
Board of Directors
Year Ended June 30, 2019**

Name	Address	Title
Bob Hill	260 NE 10th Ave. Canby, Oregon	Chairman of the Board of Directors and Registered Agent
David Horrax	1025 North N. Noble Ct. Canby, Oregon	Member of the Board of Directors
Jack Brito	2096 N. Walnut St. Canby, Oregon	Member of the Board of Directors
Todd Wagner	1260 N Ponderosa St. Canby, Oregon	Member of the Board of Directors
Walt Daniels	687 N. Ash St. Canby, Oregon	Member of the Board of Directors
Daniel Murphy	1751 NE Laurelwood Lp. Canby, Oregon	Manager
Barbara Benson	630 Wedgewood Dr. Molalla, Oregon	Board Secretary

Board Meeting – Second Tuesday of Each Month
Registered Office – Canby, Oregon

Report of Independent Auditors

To the Board of Directors
Canby Utility Board

Report on Financial Statements

We have audited the accompanying financial statements of the electric system, water system, and combined total systems of Canby Utility Board (the Utility), a component unit of the City of Canby, Oregon, which comprise the individual and combined statements of net position as of June 30, 2019 and 2018, and the related individual and combined statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the combined and individual financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

Opinions

In our opinion, the individual and combined financial statements referred to above present fairly, in all material respects, the financial position of the Canby Utility Board as of June 30, 2019 and 2018, and the results of its operations, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The financial statements present only Canby Utility Board and do not purport to, and do not present fairly the financial position of the City of Canby, Oregon as of June 30, 2019 and 2018 and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of contributions, and the schedule of changes in the total OPEB liability and related ratios be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures 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 and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's financial statements. The schedules of revenues and expenditures – budget and actual – electric system and water system, for the year ended June 30, 2019 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The schedules of revenues and expenditures – budget and actual – electric system and water system, have been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of revenues and expenditures – budget and actual – electric system and water system, are fairly stated in all material respects in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated December 5, 2019, on our consideration of the Utility'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.

A handwritten signature in blue ink that reads "Julius D. Simone" with a long horizontal flourish extending to the right.

For Moss Adams LLP
Portland, Oregon
December 5, 2019

Canby Utility Board Management's Discussion and Analysis

Canby Utility Board (the Utility) is an independent governmental subdivision of the City of Canby, an Oregon municipal corporation. The Utility is located in Canby, Oregon, a historic town of 17,817 on the banks of the Molalla River, twenty miles south of the City of Portland. The Utility was founded in 1970 and is responsible for the exclusive control and management of electric services provided to residential, commercial, and industrial customers within the city limits of Canby. In 1981, a city charter amendment transferred water utility assets ownership to the City of Canby while the Utility continued to operate and manage the water system. Subsequently, the City and the Utility formalized this relationship by entering into an intergovernmental agreement giving the Utility all the City's authority to control and manage the water system.

The Utility has approximately 7,504 electric customers and 5,226 water customers, the majority within the city limits. The Utility purchases all of its wholesale power from Bonneville Power Administration on the federal fiscal year of October through September. For the Utility's fiscal year, the Utility delivered a monthly average of 16,010,588 kilowatt-hours of electricity and 7,894,172 cubic feet of water to our customers. Our average system daily consumption was 526,376 kilowatt-hours of electricity and 259,534 cubic feet of water. Electrical demand varied from a monthly peak demand of 26,560 kilowatts in October to 37,290 kilowatts in the month of February, with an average annual system demand for the period of 22.47 average megawatts.

The Utility is dedicated to providing its customers the highest quality products and services possible at reasonable, stable prices.

The following is provided as a narrative analysis of the Electric and Water Systems' financial activities based on currently known facts, decisions, and conditions. This should be read in conjunction with the Combined Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows, which follow.

The Combined Statements of Revenues, Expenses and Changes in Net Position report all revenues and expenses for the year. The Combined Statements of Net Position include all assets and liabilities, deferred inflows and outflows, and indicates those that are restricted. The Combined Statements of Cash Flows report the cash from operating activities, as well as cash from capital and related financing activities, and investing activities.

Overview of Financial Performance

The Utility's combined net position has increased from \$53.2 million as of June 30, 2018 to \$56.6 million as of June 30, 2019. This increase of \$3.4 million in combined net position is less than the increase of combined net position of \$3.7 million from June 30, 2017 to June 30, 2018. Unrestricted net position, which is the part of net position that can be used to finance day-to-day activities without constraints established by debt covenants or other legal requirements, has increased by \$1.8 million. Operating revenues of the Utility increased 1.5% due to increased usage and consumption. The Utility's operating expenses increased from the previous year by 2.0%; mainly due to purchased power and transmission costs.

Canby Utility Board

Management's Discussion and Analysis

Fiscal Year 2019 Budget Results

Overall electric and water increased the Utility's net position more than budgeted. The operating revenues for electric and water are both over budget, 2.47% and 6.98% respectively. The electric's operating expenses are over budget 0.57% mainly due to higher purchased power & transmission, which is mostly offset by the timing of hiring for vacant positions, more capitalized labor, and depreciation. The water's operating expenses are under budget 10.60% mainly due to the timing of hiring for vacant positions and more capitalized labor. While there is no budget compliance requirement, the board of directors utilizes budget experience to identify projects and areas within the Utility which may require additional oversight. For more detailed schedules of budget to actual variances for the fiscal year see the supplementary information.

Electric System

Electric System Financial Highlights

(Dollars rounded in thousands)

	Years Ended June 30,		
	2019	2018	2017
Cash and investments	\$ 10,701	\$ 9,549	\$ 11,498
Utility plant, net	22,763	22,278	17,825
Other assets	2,235	2,048	2,118
Deferred outflows of resources	775	675	1,212
Total assets and deferred outflows of resources	\$ 36,474	\$ 34,550	\$ 32,653
Total liabilities	\$ 3,866	\$ 3,703	\$ 3,475
Deferred inflows of resources	352	318	673
Net position			
Net investment in capital assets	22,763	22,278	17,825
Unrestricted net position	9,493	8,251	10,680
Total liabilities, deferred inflows of resources, and net position	\$ 36,474	\$ 34,550	\$ 32,653
Operating revenues	\$ 13,147	\$ 12,964	\$ 12,229
Operating expenses	(12,170)	(11,799)	(11,098)
Non-operating revenues	214	178	802
Income before contributed capital	1,191	1,343	1,933
Contributed capital	535	760	244
Change in net position	\$ 1,726	\$ 2,103	\$ 2,177

Results of Operations – Electric

(As reported in the Combined Statements of Revenues, Expenses and Changes in Net Position)

Operating revenues increased by 1.4% in 2019 mainly due to more kWh sales. Operating revenues increased by 6.0% in 2018 mainly due to a rate increase that was effective November 2017 and reimbursements of qualifying conservation rebates.

Operating expenses increased by 3.2% in 2019 mainly due to an increase in purchased power & transmission. Operating expenses increased by 6.3% in 2018. This was primarily due to an increase in purchased power & transmission and customer conservation payments.

Financial Position – Electric

(As reported in the Statements of Net Position)

The Electric System's financial position improved during 2019 with an increase in net position of \$1.7 million. At year-end, total utility plant increased due to general capital replacements and improvements to the distribution system. Total property, plant, and equipment, net, represents 62.4% of total assets. Total net position – unrestricted, increased by 15.0% mainly due to contributed capital and vacant staff positions.

The Electric System's financial position improved during 2018 with an increase in net position of \$2.1 million. At year-end, total utility plant increased due to general capital replacements and improvements to the distribution system. Total property, plant and equipment, net, represents 64.5% of total assets. Total net position – unrestricted, decreased by 22.7% mainly due to investment in the new utility facility.

Canby Utility Board

Management's Discussion and Analysis

Water System

Water System Financial Highlights

(Dollars rounded in thousands)

	Years Ended June 30,		
	2019	2018	2017
Cash and investments	\$ 5,207	\$ 4,407	\$ 4,041
Utility plant, net	22,453	21,721	20,731
Other assets	769	744	623
Deferred outflows of resources	340	338	512
Total assets and deferred outflows of resources	\$ 28,769	\$ 27,210	\$ 25,907
Long-term debt	\$ 2,993	\$ 3,364	\$ 3,638
Other liabilities	1,298	1,080	1,167
Deferred inflows of resources	155	110	75
Net position			
Investment in capital assets, net of related debt	19,460	18,357	17,093
Restricted net position	377	375	165
Unrestricted net position	4,486	3,924	3,769
Total liabilities, deferred inflows of resources, and net position	\$ 28,769	\$ 27,210	\$ 25,907
Operating revenues	\$ 3,453	\$ 3,398	\$ 3,113
Operating expenses	(2,947)	(3,019)	(2,660)
Non-operating revenues	44	(13)	(74)
Income before contributed capital	550	366	379
Contributed capital	1,116	1,302	880
Change in net position	\$ 1,666	\$ 1,668	\$ 1,259

Results of Operations – Water

(As reported in the Combined Statements of Revenues, Expenses and Changes in Net Position)

Operating revenues increased 1.63% in 2019 due to consumption. Operating revenues increased by 9.2% in 2018 due to consumption.

Operating expenses decreased by 2.4% in 2019. This is mainly attributed to more distribution labor being capitalized and staff vacancies. Operating expenses increased by 13.5% in 2018. This is mainly attributed to a change in the proportionate share of the PERS pension expense, bond refunding expenses, and more labor expensed for maintenance on the distribution system.

Financial Position – Water

(As reported in the Combined Statements of Net Position)

The Water System's financial position increased during 2019 with an increase in net position of \$1.7 million. At year-end, total utility plant increased due to general capital replacements and improvements to the distribution system. Total property, plant, and equipment, net, represents 78.0% of total assets. Total net position – unrestricted, increased by 14.3% mainly due to an increase in current assets.

The Water System's financial position increased during 2018 with an increase in net position of \$1.6 million. At year end, total utility plant increased due to general capital replacements and improvements to the distribution system. Total property, plant and equipment, net, represents 79.8% of total assets. Total net position – unrestricted, increased by 4.1% mainly due to an increase in current assets.

Capital Asset and Long-Term Debt Activity

During 2019, the Utility had additions to capital assets in the amount of \$6,832,301 for the Electric Systems and \$1,245,475 for the Water Systems. Principal payment made on the water revenue bonds totaled \$371,000 for the 2019 fiscal year.

During 2018, the Utility had additions to capital assets in the amount of \$884,731 for the Electric Systems and \$1,630,791 for the Water Systems. Principal payment made on the water revenue bonds totaled \$2,262,000 for the 2018 fiscal year, \$2,075,000 of that paid the 2007 Bond when refunded with a 2017 Bond.

Request for Information

This financial report is designed to provide a general overview of the Utility's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Manager at PO Box 1070, Canby, OR 97013.

Canby Utility Board

Individual and Combined Statements of Net Position

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	Electric System		Water System		Combined	
	June 30,		June 30,		June 30,	
	2019	2018	2019	2018	2019	2018
CURRENT ASSETS						
Cash and cash equivalents	\$ 10,374,592	\$ 9,216,336	\$ 4,813,013	\$ 4,013,618	\$ 15,187,605	\$ 13,229,954
Cash and cash equivalents – restricted	326,517	332,506	393,900	393,900	720,417	726,406
Accounts receivable, net	1,216,586	1,173,575	462,055	489,727	1,678,641	1,663,302
Materials and supplies	991,926	848,814	296,729	249,362	1,288,655	1,098,176
Prepaid expenses	20,632	13,986	10,544	4,662	31,176	18,648
Total current assets	12,930,253	11,585,217	5,976,241	5,151,269	18,906,494	16,736,486
PROPERTY, PLANT, AND EQUIPMENT, net	22,763,195	22,278,395	22,452,778	21,720,693	45,215,973	43,999,088
OTHER ASSETS	6,309	11,103	-	-	6,309	11,103
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows – pension	773,372	665,923	339,851	333,640	1,113,223	999,563
Deferred outflows – other postemployment benefits	1,210	9,473	532	4,746	1,742	14,219
Total deferred outflows of resources	774,582	675,396	340,383	338,386	1,114,965	1,013,782
Total assets and deferred outflows of resources	\$ 36,474,339	\$ 34,550,111	\$ 28,769,402	\$ 27,210,348	\$ 65,243,741	\$ 61,760,459

Canby Utility Board
Individual and Combined Statements of Net Position

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	Electric System		Water System		Combined	
	June 30,		June 30,		June 30,	
	2019	2018	2019	2018	2019	2018
CURRENT LIABILITIES						
Accounts payable	\$ 1,284,412	\$ 1,321,604	\$ 337,520	\$ 94,071	\$ 1,621,932	\$ 1,415,675
Accrued contributions in lieu of taxes	98,199	49,309	30,310	17,555	128,509	66,864
Accrued expenses	167,322	142,376	55,838	38,141	223,160	180,517
Customer deposits	326,517	332,506	-	-	326,517	332,506
Current portion of debt	-	-	380,000	371,000	380,000	371,000
Total current liabilities	<u>1,876,450</u>	<u>1,845,795</u>	<u>803,668</u>	<u>520,767</u>	<u>2,680,118</u>	<u>2,366,562</u>
LONG-TERM DEBT, net	-	-	2,613,000	2,993,000	2,613,000	2,993,000
OTHER LIABILITIES						
Net pension liability	1,936,963	1,776,574	851,179	890,096	2,788,142	2,666,670
Total OPEB liability	53,039	80,471	23,308	40,317	76,347	120,788
Total other liabilities	<u>1,990,002</u>	<u>1,857,045</u>	<u>874,487</u>	<u>930,413</u>	<u>2,864,489</u>	<u>2,787,458</u>
DEFERRED INFLOWS OF RESOURCES						
Unearned contributed capital	-	98,916	-	-	-	98,916
Deferred inflows – pension	323,936	215,079	142,350	107,759	466,286	322,838
Deferred inflows – other postemployment benefits	28,119	3,568	12,356	1,788	40,475	5,356
Total deferred inflows of resources	<u>352,055</u>	<u>317,563</u>	<u>154,706</u>	<u>109,547</u>	<u>506,761</u>	<u>427,110</u>
NET POSITION						
Net investment in capital assets	22,763,195	22,278,395	19,459,778	18,356,693	42,222,973	40,635,088
Restricted	-	-	377,526	375,469	377,526	375,469
Unrestricted	9,492,637	8,251,313	4,486,237	3,924,459	13,978,874	12,175,772
Total net position	<u>32,255,832</u>	<u>30,529,708</u>	<u>24,323,541</u>	<u>22,656,621</u>	<u>56,579,373</u>	<u>53,186,329</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 36,474,339</u>	<u>\$ 34,550,111</u>	<u>\$ 28,769,402</u>	<u>\$ 27,210,348</u>	<u>\$ 65,243,741</u>	<u>\$ 61,760,459</u>

See accompanying notes.

Canby Utility Board
Individual and Combined Statements of Revenues, Expenses,
and Changes in Net Position

	Electric System		Water System		Combined	
	Years Ended June 30,		Years Ended June 30,		Years Ended June 30,	
	2019	2018	2019	2018	2019	2018
OPERATING REVENUES						
Sales of power and water	\$ 12,903,516	\$ 12,329,995	\$ 3,448,488	\$ 3,377,360	\$ 16,352,004	\$ 15,707,355
Other, net	243,657	633,567	4,688	20,314	248,345	653,881
Total operating revenues	13,147,173	12,963,562	3,453,176	3,397,674	16,600,349	16,361,236
OPERATING EXPENSES						
Purchased power	7,893,002	7,585,003	-	-	7,893,002	7,585,003
Water treatment	-	-	984,185	928,024	984,185	928,024
System operations less overhead and labor capitalized	1,215,110	1,013,037	580,853	689,099	1,795,963	1,702,136
Administrative services	1,014,623	982,962	357,307	400,831	1,371,930	1,383,793
Customer services and conservation	628,197	869,851	170,528	175,188	798,725	1,045,039
Contribution in lieu of taxes	646,882	616,081	172,527	168,033	819,409	784,114
Depreciation	772,563	732,288	681,373	657,844	1,453,936	1,390,132
Total operating expenses	12,170,377	11,799,222	2,946,773	3,019,019	15,117,150	14,818,241
Net operating income	976,796	1,164,340	506,403	378,655	1,483,199	1,542,995
NONOPERATING REVENUE (EXPENSE)						
Interest income	225,855	180,364	120,755	70,124	346,610	250,488
Interest expense	(7,870)	(4,938)	(65,439)	(88,943)	(73,309)	(93,881)
Gain (loss) on sale of assets	(3,947)	2,327	(11,200)	6,068	(15,147)	8,395
Total nonoperating revenue (expense)	214,038	177,753	44,116	(12,751)	258,154	165,002
CONTRIBUTIONS IN AID OF CONSTRUCTION	535,290	759,592	1,116,401	1,302,479	1,651,691	2,062,071
Change in net position	1,726,124	2,101,685	1,666,920	1,668,383	3,393,044	3,770,068
NET POSITION, beginning of year, before adjustment	30,529,708	28,504,567	22,656,621	21,026,588	53,186,329	49,531,155
Less: Accumulated adjustment for change in accounting principle	-	(76,544)	-	(38,350)	-	(114,894)
NET POSITION, beginning of year, as adjusted	30,529,708	28,428,023	22,656,621	20,988,238	53,186,329	49,416,261
NET POSITION, ending	\$ 32,255,832	\$ 30,529,708	\$ 24,323,541	\$ 22,656,621	\$ 56,579,373	\$ 53,186,329

Canby Utility Board
Individual and Combined Statements of Cash Flows

	Electric System		Water System		Combined	
	Years Ended June 30,		Years Ended June 30,		Years Ended June 30,	
	2019	2018	2019	2018	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 13,187,395	\$ 12,955,905	\$ 3,480,848	\$ 3,324,261	\$ 16,668,243	\$ 16,280,166
Cash paid for purchased power	(7,828,526)	(7,107,584)	-	-	(7,828,526)	(7,107,584)
Cash paid to suppliers	(756,104)	(547,974)	(864,472)	(1,068,215)	(1,620,576)	(1,616,189)
Cash paid to employees	(1,410,863)	(1,326,705)	(615,093)	(638,974)	(2,025,956)	(1,965,679)
Cash paid for employee benefits	(463,081)	(407,511)	(247,887)	(280,761)	(710,968)	(688,272)
Cash paid for retirement obligation	(274,873)	(257,775)	(144,776)	(158,765)	(419,649)	(416,540)
Cash paid for contribution in lieu of taxes	(695,772)	(613,976)	(185,282)	(170,986)	(881,054)	(784,962)
Net cash provided by operating activities	1,758,176	2,694,380	1,423,338	1,006,560	3,181,514	3,700,940
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest earnings on investments	255,855	180,364	120,755	70,124	376,610	250,488
Net cash provided by investing activities	255,855	180,364	120,755	70,124	376,610	250,488
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Principal payment on long-term debt	-	-	(371,000)	(2,262,000)	(371,000)	(2,262,000)
Interest paid	(3,200)	(2,599)	(65,439)	(91,319)	(68,639)	(93,918)
Proceeds from the issuance of long-term debt	-	-	-	1,988,000	-	1,988,000
Contributed capital	535,290	759,592	1,116,401	1,302,479	1,651,691	2,062,071
Unearned contributed capital	(98,916)	(396,598)	-	-	(98,916)	(396,598)
Proceeds from sale of property, plant, and equipment	(3,947)	-	(11,200)	-	(15,147)	-
Additions to utility plant, net	(1,290,991)	(5,184,007)	(1,413,460)	(1,647,753)	(2,704,451)	(6,831,760)
Net cash used by capital and related financing activities	(861,764)	(4,823,612)	(744,698)	(710,593)	(1,606,462)	(5,534,205)
Net change in cash and investments	1,152,267	(1,948,868)	799,395	366,091	1,951,662	(1,582,777)
CASH AND CASH EQUIVALENTS, beginning	9,548,842	11,497,710	4,407,518	4,041,427	13,956,360	15,539,137
CASH AND CASH EQUIVALENTS, ending	\$ 10,701,109	\$ 9,548,842	\$ 5,206,913	\$ 4,407,518	\$ 15,908,022	\$ 13,956,360
RECONCILIATION TO THE STATEMENT OF NET POSITION						
Cash and cash equivalents	\$ 10,374,592	\$ 9,216,336	\$ 4,813,013	\$ 4,013,618	\$ 15,187,605	\$ 13,229,954
Cash and cash equivalents – restricted	326,517	332,506	393,900	393,900	720,417	726,406
	\$ 10,701,109	\$ 9,548,842	\$ 5,206,913	\$ 4,407,518	\$ 15,908,022	\$ 13,956,360

See accompanying notes.

Canby Utility Board

Individual and Combined Statements of Cash Flows

	Electric System		Water System		Combined	
	Years Ended June 30,		Years Ended June 30,		Years Ended June 30,	
	2019	2018	2019	2018	2019	2018
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Net operating income	\$ 976,796	\$ 1,164,340	\$ 506,403	\$ 378,655	\$ 1,483,199	\$ 1,542,995
Adjustments to reconcile net operating income to net cash provided by operating activities						
Depreciation	772,563	732,288	681,373	657,844	1,453,936	1,390,132
Pension expense	161,796	64,829	(10,535)	131,475	151,261	196,304
OPEB expense (credit)	5,382	(1,978)	(2,227)	(991)	3,155	(2,969)
Changes in operating assets and liabilities						
Accounts receivable, net	(43,011)	(49,582)	27,672	(73,413)	(15,339)	(122,995)
Materials and supplies	(143,112)	120,755	(47,367)	(47,108)	(190,479)	73,647
Prepaid expenses	(6,646)	(756)	(5,882)	(252)	(12,528)	(1,008)
Other noncurrent assets	4,794	819	-	-	4,794	819
Accounts payable	(37,192)	613,131	243,449	(29,637)	206,257	583,494
Accrued contributions in lieu of taxes	48,890	2,105	12,755	2,953	61,645	5,058
Accrued expenses	24,946	11,189	17,697	(21,411)	42,643	(10,222)
Customer deposits	(5,989)	39,326	-	-	(5,989)	39,326
Misc. expenses	(1,041)	(2,086)	-	8,445	(1,041)	6,359
Net cash provided by operating activities	<u>\$ 1,758,176</u>	<u>\$ 2,694,380</u>	<u>\$ 1,423,338</u>	<u>\$ 1,006,560</u>	<u>\$ 3,181,514</u>	<u>\$ 3,700,940</u>

Note 1 – Summary of Significant Accounting Policies

Reporting entity

The Canby Utility Board (the Utility) is a component unit of the City of Canby (the City). The Utility was established on November 3, 1970, and is responsible for the exclusive control and management of electric services provided to residential and commercial customers within the city limits of Canby, Oregon. These basic financial statements include the Utility's electric system, and the City's water system, as the Utility is financially accountable for the administration and operation of the City's water service.

All non-management employees are members of the International Brotherhood of Electrical Workers (IBEW). The agreements between the Utility and IBEW expire June 30, 2020.

The Utility purchases all of its wholesale power from Bonneville Power Administration (see Note 8).

Basis of accounting

The Utility's financial statements are presented on the flow of economic resources measurement focus and the accrual basis of accounting and conform to the accounting principles generally accepted in the United States of America for proprietary (enterprise) funds. Accordingly, revenues are recorded when earned and expenses are recorded when incurred.

The financial statements of the Utility have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

The Utility accounts for the activities of the Utility in two systems, the Electric system and the Water system. The Electric system accounts for all activities related to the distribution of power to customers of the Utility. The Water system accounts for all activities related to the distribution of water to customers of the Utility. The accounts of the Utility are organized on the basis of a proprietary (enterprise) fund type.

The activities of each system are accounted for with a separate set of self-balancing accounts that comprise the Utility's assets, liabilities, deferred inflows and outflows, net position, revenues, and expenses. All inter-system activity has been eliminated in the combined financial statements.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include the depreciation of utility plant, valuation allowances for receivables, and obligations related to employee pension and postemployment benefits. Actual results could differ from those estimates.

Canby Utility Board

Notes to Combined Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Operating revenue

Operating revenue is recorded on the basis of service delivered, including an estimated amount for unbilled service. Operating revenues generally result from providing services in connection with the proprietary funds' principal ongoing operations. The credit practices of the Utility require an evaluation of each new customer's credit worthiness on a case-by-case basis. At the discretion of management, a deposit may be obtained from the customer. Operating expenses include cost of power, administrative expenses, and depreciation on plant assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and cash equivalents

The Utility considers cash and other financial instruments with an original maturity of 3 months or less to be cash and cash equivalents. The Utility maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor.

Further, Oregon Revised Statute (ORS) 295 was established to provide a shared liability pool, increasing the protection of public funds, while allowing banks to pledge collateral, more accurately reflecting their actual public funds deposited. As of June 30, 2019 and 2018 the Utility had a book balance of \$1,424,878 and \$1,170,026, respectively. Of these deposits, \$250,000 was covered by the FDIC and \$1,174,878 and \$920,026 was collateralized in accordance with Oregon Revised Statutes (ORS) 295 as of June 30, 2019 and 2018, respectively.

Institutions with deposits in excess of FDIC coverage participate in the Oregon Public Funds Collateralization Program (PFCP) as defined in Oregon Revised Statutes (ORS) 295. This provides additional protection for public funds in the event of a bank failure, although it does not guarantee 100% protection. The Office of the State Treasurer categorizes the financial institutions in Oregon.

ORS authorize the Utility to invest in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, time certificates of deposit, and commercial paper, among others.

Cash restricted by provisions of bond resolutions and agreements with other parties are identified as restricted assets. When the restricted assets are expendable within the terms of the agreements, it is the Utility's policy to spend restricted resources first, then unrestricted resources as needed.

Receivables

Accounts receivable primarily represent user charges for electric and water service, which are recognized as earned. Accounts receivable also include estimated revenues that are accrued for power and water deliveries not yet billed to customers from meter reading dates prior to month end (unbilled revenue). The Utility discontinues electric, and in some circumstances water, service on delinquent accounts until payment is received. Concentrations of credit risk with respect to receivables for residential customers are limited due to the large number of residential customers comprising the Utility's customer base.

Note 1 – Summary of Significant Accounting Policies (continued)

Allowances for uncollectible receivables have been provided for the Electric and Water Systems, based upon management's review of the year-end accounts receivable aging and past credit and collection history. The allowance for uncollectible receivables for electric was \$485 and \$805 as of June 30, 2019 and 2018, respectively. The allowance for uncollectible receivables for water was \$143 and \$1,100 as of June 30, 2019 and 2018, respectively. Receivables are written off when the Utility determines an account is uncollectible.

Materials and supplies

Materials and supplies are stated at the lower of cost or market, with cost determined using a weighted average basis.

Property, plant, and equipment

Property, plant, and equipment are stated at cost. Costs include labor, materials, and related indirect costs, such as engineering, used during construction. The cost of additions, renewals, and betterments is capitalized. Projects constructed by others and contributed to the Utility are stated at approximate cost. Repairs and minor replacements are charged to operating expenses. The cost of property and removal cost, less salvage, is charged to accumulated depreciation when property is retired.

Depreciation is computed on assets placed in service using the straight-line method over their estimated useful lives as follows:

Buildings	50 years
Distribution plant	33 to 50 years
Equipment	6 to 25 years

The Utility follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. For the years ended June 30, 2019 and 2018, total interest incurred was \$67,484 and \$94,657, of which \$2,044 and \$5,714 was capitalized, respectively.

Compensated absences

Accumulated, unpaid compensated absences (vacation) are recorded as an expense when earned. Sick pay is recorded when leave is taken as such amounts do not vest to the employees.

Net pension liability

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

Canby Utility Board

Notes to Combined Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

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

Total OPEB liability

The Utility allows retired employees to purchase health insurance at the same rates as active employees. For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources to OPEB, and OPEB expense, the Utility has relied on actuarial reports.

Deferred outflows of resources and deferred inflows of resources

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

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

Unearned contributed capital represents an inflow of resources from customers where the related construction project has not been completed as of the end of the fiscal year. The contributed capital is recognized as the projects are completed and eligibility requirements are met.

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 three categories:

Net investment in capital assets – consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – consists of external constraints placed on net position used by creditors, grantors, contributors, or laws of regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The Utility has \$377,526 and \$375,469 classified as restricted net position at June 30, 2019 and 2018, respectively.

Unrestricted net position – consists of all other net position that is not included in the other categories previously mentioned.

Canby Utility Board
Notes to Combined Financial Statements

Note 2 – Cash and Cash Equivalents

Cash and cash equivalents at fair value at June 30, 2019 and 2018 are comprised of:

	2019	2018
Cash on hand	\$ 900	\$ 700
Cash deposits in bank demand accounts	704,461	443,621
Restricted cash – customer deposits and bond reserve	720,417	726,406
Investment in State Treasurer's LGIP	14,482,244	12,785,633
Total cash and cash equivalents	\$ 15,908,022	\$ 13,956,360

Customer deposits are required prior to the provision of service in all cases where acceptable credit has not been demonstrated or a co-signer has not been accepted. A deposit may also be required if a customer has had two disconnect notices within a six-month period. Any deposit held by the Utility accrues interest to the customer's account at the rate earned by the Utility's cash and cash equivalents.

Statutes authorize the Utility to invest in obligations of the U.S. Treasury and U.S. agencies, banker's acceptances, repurchase agreements, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, the State Treasurer's Investment Pool, and deposits with banks, mutual savings banks, and savings and loan associations. No financial instruments that meet the definition of an investment under GASB Statement 72 were held as of June 30, 2019 or 2018.

Cash equivalents consist of cash deposits with the State of Oregon Local Government Investment Pool (LGIP), an external investment pool of the State of Oregon. The fair value of the Utility's position in the LGIP is the same as the value of the pool shares.

The State of Oregon LGIP is an open-ended, no-load diversified portfolio created under Oregon Revised Statutes 294.805 to 294.895 and administered by the Oregon State Treasurer as part of the Oregon Short Term Fund. Investments are regulated by the Oregon Short Term Fund Board and approved by the Oregon Investment Council. Separate financial statements for the Oregon Short Term Fund are available from the Oregon Audits Division, 255 Capital Street NE, Suite 500, Salem, OR 97301.

Interest rate risk – In accordance with its investment policy, the Utility manages its exposure to declines in fair value of its investments by limiting its investments to the LGIP.

Custodial credit risk – For deposits, this is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. The Utility does not have bank deposit policies to address custodial risk.

Nevertheless, management does not believe that there is any substantial custodial risk related to cash due to FDIC coverage.

Canby Utility Board

Notes to Combined Financial Statements

Note 2 – Cash and Cash Equivalents (continued)

Concentration of credit risk – Financial instruments that are exposed to concentrations of credit risk consist primarily of cash and receivables. Credit is extended to customers generally without collateral requirements, however, deposits are obtained from certain customers and formal shut-off procedures are in place.

For an investment, there is the risk that, in the event of a failure of the counterparty, the Utility will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended, no-load diversified portfolio offered to any agency, political subdivision, or public corporation of the State that by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon legislature established the Oregon Short Term Fund Board, which has established diversification percentages and specifies the types and maturities of investments of the LGIP. These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form.

Note 3 – Property, Plant, and Equipment

Electric system property, plant, and equipment activity during 2019 is as follows:

	Balance at July 1, 2018	Increases	Decreases	Balance at June 30, 2019
Electric plant assets not being depreciated:				
Land	\$ 1,078,741	\$ -	\$ -	\$ 1,078,741
Electric plant assets being depreciated:				
Buildings	625,661	5,716,367	-	6,342,028
Distribution plant	18,613,913	737,857	(7,132)	19,344,638
Substation	6,374,885	3,254	-	6,378,139
Vehicle equipment	1,451,006	113,383	-	1,564,389
Office furniture and equipment	462,584	226,700	-	689,284
Other equipment	509,996	39,716	-	549,712
	<u>28,038,045</u>	<u>6,837,277</u>	<u>(7,132)</u>	<u>34,868,190</u>
Less accumulated depreciation	<u>(12,441,406)</u>	<u>(859,681)</u>	<u>7,361</u>	<u>(13,293,726)</u>
Net electric plant assets being depreciated	<u>15,596,639</u>	<u>5,977,596</u>	<u>229</u>	<u>21,574,464</u>
Property held for future use	3,633	-	-	3,633
Construction work in progress	<u>5,599,382</u>	<u>1,958,126</u>	<u>(7,451,151)</u>	<u>106,357</u>
Property, plant, and equipment, net	<u>\$ 22,278,395</u>	<u>\$ 7,935,722</u>	<u>\$ (7,450,922)</u>	<u>\$ 22,763,195</u>

Canby Utility Board
Notes to Combined Financial Statements

Note 3 – Property, Plant, and Equipment (continued)

Electric system property, plant, and equipment activity during 2018 is as follows:

	Balance at July 1, 2017	Increases	Decreases	Balance at June 30, 2018
Electric plant assets not being depreciated:				
Land	\$ 1,078,741	\$ -	\$ -	\$ 1,078,741
Electric plant assets being depreciated:				
Buildings	625,661	-	-	625,661
Distribution plant	17,808,869	831,185	(26,141)	18,613,913
Substation	6,374,885	-	-	6,374,885
Vehicle equipment	1,458,227	35,636	(42,857)	1,451,006
Office furniture and equipment	462,584	-	-	462,584
Other equipment	492,086	17,910	-	509,996
	<u>27,222,312</u>	<u>884,731</u>	<u>(68,998)</u>	<u>28,038,045</u>
Less accumulated depreciation	<u>(11,663,128)</u>	<u>(831,911)</u>	<u>53,633</u>	<u>(12,441,406)</u>
Net electric plant assets being depreciated	<u>15,559,184</u>	<u>52,820</u>	<u>(15,365)</u>	<u>15,596,639</u>
Property held for future use	3,633	-	-	3,633
Construction work in progress	<u>1,183,044</u>	<u>5,355,504</u>	<u>(939,166)</u>	<u>5,599,382</u>
Property, plant, and equipment, net	<u>\$ 17,824,602</u>	<u>\$ 5,408,324</u>	<u>\$ (954,531)</u>	<u>\$ 22,278,395</u>

Canby Utility Board

Notes to Combined Financial Statements

Note 3 – Property, Plant, and Equipment (continued)

Water system property, plant, and equipment activity during 2019 is as follows:

	Balance at July 1, 2018	Increases	Decreases	Balance at June 30, 2019
Water plant assets not being depreciated:				
Land	\$ 220,838	\$ -	\$ -	\$ 220,838
Water plant assets being depreciated:				
Buildings	6,946,200	-	-	6,946,200
Distribution plant	16,986,811	1,042,298	(7,001)	18,022,108
Water treatment plant	6,342,380	145,633	-	6,488,013
Vehicle equipment	488,630	6,575	-	495,205
Office furniture and equipment	400,176	1,268	-	401,444
Other equipment	754,657	49,701	(8,441)	795,917
	<u>31,918,854</u>	<u>1,245,475</u>	<u>(15,442)</u>	<u>33,148,887</u>
Less accumulated depreciation	<u>(10,724,466)</u>	<u>(710,981)</u>	<u>9,303</u>	<u>(11,426,144)</u>
Net water plant assets being depreciated	<u>21,194,388</u>	<u>534,494</u>	<u>(6,139)</u>	<u>21,722,743</u>
Construction work in progress	<u>305,467</u>	<u>940,173</u>	<u>(736,443)</u>	<u>509,197</u>
Property, plant, and equipment, net	<u>\$ 21,720,693</u>	<u>\$ 1,474,667</u>	<u>\$ (742,582)</u>	<u>\$ 22,452,778</u>

Canby Utility Board
Notes to Combined Financial Statements

Note 3 – Property, Plant, and Equipment (continued)

Water system property, plant, and equipment activity during 2018 is as follows:

	Balance at July 1, 2017	Increases	Decreases	Balance at June 30, 2018
Water plant assets not being depreciated:				
Land	\$ 220,838	\$ -	\$ -	\$ 220,838
Water plant assets being depreciated:				
Buildings	6,946,200	-	-	6,946,200
Distribution plant	15,633,330	1,362,713	(9,232)	16,986,811
Water treatment plant	6,342,380	-	-	6,342,380
Vehicle equipment	321,555	216,076	(49,001)	488,630
Office furniture and equipment	400,176	-	-	400,176
Other equipment	702,655	52,002	-	754,657
	<u>30,346,296</u>	<u>1,630,791</u>	<u>(58,233)</u>	<u>31,918,854</u>
Less accumulated depreciation	<u>(10,110,406)</u>	<u>(675,709)</u>	<u>61,649</u>	<u>(10,724,466)</u>
Net water plant assets being depreciated	<u>20,235,890</u>	<u>955,082</u>	<u>3,416</u>	<u>21,194,388</u>
Construction work in progress	<u>274,056</u>	<u>1,158,944</u>	<u>(1,127,533)</u>	<u>305,467</u>
Property, plant, and equipment, net	<u>\$ 20,730,784</u>	<u>\$ 2,114,026</u>	<u>\$ (1,124,117)</u>	<u>\$ 21,720,693</u>

Note 4 – Pension Plans

Plan description

All qualified employees are eligible to participate in one of the Utility's two pension plans administered by Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (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.

Canby Utility Board

Notes to Combined Financial Statements

Note 4 – Pension Plans (continued)

Benefits Provided (Tier 1 / Tier 2)

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

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

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

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

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

Note 4 – Pension Plans (continued)

Benefits Provided (OPSRP)

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

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

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

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

Contributions

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

Employer contribution rates during the period were based on the December 31, 2016 actuarial valuation, which became effective July 1, 2016 and remained effective through June 30, 2019.

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. Employer contributions for the year ended June 30, 2019 and 2018 were \$305,600 and \$306,220, respectively, excluding amounts to fund employer-specific liabilities.

Canby Utility Board

Notes to Combined Financial Statements

Note 4 – Pension Plans (continued)

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

At June 30, 2019 the utility reported a liability of \$2,788,142 for its proportionate share of the net pension liability. At June 30, 2018 the utility reported a liability of \$2,666,670 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 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, 2016 rolled forward to June 30, 2018 using standard update procedures. The Utility's proportion of the net pension liability was based on a projection of the Utility's long-term share of contributions to the Plans relative to the projected contributions for all participating employers, actuarially determined. The Utility's proportionate share of the net pension liability for the Plans as of the June 30, 2018 and 2017 measurement dates was 0.01840518% and 0.01978236%, respectively.

For the years ended June 30, 2019 and 2018, the Utility recognized GASB 68 pension expense of \$151,261 and \$196,304, respectively. At June 30, 2019 and 2018, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2019		June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 305,600	\$ -	\$ 306,220	\$ -
Changes in assumptions	648,238	-	486,086	-
Differences between expected and actual experience	94,844	-	128,961	-
Changes in employer proportion	16,400	318,496	28,115	280,196
Differences between projected and actual earnings on plan investments	-	123,809	27,473	-
Differences between Utility contributions and the Utility's proportionate share of contributions	48,141	23,981	22,708	42,642
	<u>\$ 1,113,223</u>	<u>\$ 466,286</u>	<u>\$ 999,563</u>	<u>\$ 322,838</u>

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense (credit) as follows:

Years ending June 30,	2020	\$ 254,227
	2021	155,064
	2022	(87,094)
	2023	6,701
	2024	12,439
		<u>\$ 341,337</u>

Note 4 – Pension Plans (continued)

Actuarial assumptions

The total pension liability in the December 31, 2016 actuarial valuations was determined using the following actuarial assumptions:

Valuation Date	December 31, 2016
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.20%
Inflation	2.50%
Projected Salary Increase	3.50%
Investment Rate of Return	7.20%

Mortality rates for healthy retirees and beneficiaries, active members, and disabled retirees were based on the RP-2014 Sex-distinct tables.

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 2016 Experience Study which reviewed experience for the four-year period ended on December 31, 2016.

Discount rate

The discount rate used to measure the total pension liability was 7.20% percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 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 below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption.

Canby Utility Board

Notes to Combined Financial Statements

Note 4 – Pension Plans (continued)

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%	3.49%
Short-Term Bonds	8.00%	3.38%
Bank/Leveraged Loans	3.00%	5.09%
High Yield Bonds	1.00%	6.45%
Large/Mid Cap US Equities	15.75%	6.30%
Small Cap US Equities	1.31%	6.69%
Micro Cap US Equities	1.31%	6.80%
Developed Foreign Equities	13.13%	6.71%
Emerging Market Equities	4.13%	7.45%
Non-US Small Cap Equities	1.88%	7.01%
Private Equity	17.50%	7.82%
Real Estate (Property)	10.00%	5.51%
Real Estate (REITS)	2.50%	6.37%
Hedge Fund of Funds - Diversified	2.50%	4.09%
Hedge Fund - Event-driven	0.63%	5.86%
Timber	1.88%	5.62%
Farmland	1.88%	6.15%
Infrastructure	3.75%	6.60%
Commodities	1.88%	3.84%

Sensitivity analysis

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

Employers' Net Pension Liability / (Asset)	1% Decrease 6.20%	Current Discount Rate 7.20%	1% Increase 8.20%
Defined benefit pension plan	\$ 4,659,500	\$ 2,788,142	\$ 1,243,500

Pension plan fiduciary net position

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

Payable to the pension plan

At June 30, 2019 and 2018, the Utility did not have an outstanding amount of contributions payable to the pension plan.

Canby Utility Board
Notes to Combined Financial Statements

Note 5 – Post Employment Benefits Other than Pensions

Plan description and benefits provided

The Utility has a health insurance continuation option available for retirees. It is a substantive post-employment benefits plan offered under Oregon Revised Statutes (ORS) 243.303. ORS 243.303 requires that the Utility provide retirees and their dependents with an opportunity to participate in group health and dental insurance from the date of retirement to age 65, with a rate calculated using claims experience from retirees and active employees for health plan rating purposes. Providing the same rate to retirees as provided to current employees constitutes an implicit rate subsidy for OPEB. This single-employer plan is not a stand-alone plan and therefore does not issue its own financial statements. Retirees pay 100% of the premium and coverage may lapse if their premium is unpaid. As of June 30, 2019, the following employees were covered under the plan:

Active participants	23
Retired employees	<u>1</u>
Total participants	<u><u>24</u></u>

Total OPEB liability, OPEB expense (credit), and deferred outflows of resources and deferred inflows of resources related to OPEB

The Utility's total OPEB liability of \$76,347 was measured as of June 30, 2019 and was determined by an actuarial valuation as of July 1, 2018.

At June 30, 2019 the Utility reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>June 30, 2019</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions or inputs	\$ -	\$ 40,475
Contributions made subsequent to measurement date	<u>1,742</u>	<u>-</u>
	<u><u>\$ 1,742</u></u>	<u><u>\$ 40,475</u></u>

Deferred inflows of resources related to OPEB will be recognized in OPEB expense (credit) as follows:

Years ending June 30,	2020	\$ (7,477)
	2021	(7,477)
	2022	(7,477)
	2023	(7,477)
	2024	(7,289)
	Thereafter	<u>(3,278)</u>
		<u><u>\$ (40,475)</u></u>

Canby Utility Board

Notes to Combined Financial Statements

Note 5 – Post Employment Benefits Other than Pensions (continued)

Actuarial assumptions

The total OPEB liability in the actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	July 1, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	3.50%
Inflation	2.50%
Projected Salary Increase	3.50%

Mortality rates for healthy retirees and beneficiaries were based on the RP-2014 Sex-distinct tables, as appropriate, with adjustments for mortality improvements based on the Unisex Social Security Data Scale.

Discount rate

The discount rate used to measure the total pension OPEB liability was 3.50% percent for the June 30, 2019 measurement date. This rate is consistent with the Bond Buyer 20-year General Obligation Bond index.

Health care cost trend

The health care cost trend starts at 6.75% in the first year and in future years varies between 7.00% and 5.00% due to the timing of the excise tax scheduled to affect health care benefits. The trend then settles to an ultimate rate of 4.75%. Dental costs are assumed to increase 4.50% in all future years.

Changes in total OPEB liability

Changes in the total OPEB liability for the year ended June 30, 2019 are shown below:

	<u>Total OPEB Liability</u>
Balance as of July 1, 2018	\$ 120,788
Changes for the year:	
Service Cost	8,015
Interest on total OPEB Liability	4,359
Effect of economic/demographic gains or losses	(19,723)
Effect of assumptions changes or inputs	(22,873)
Benefit payments	<u>(14,219)</u>
Balance as of June 30, 2019	<u>\$ 76,347</u>

Canby Utility Board
Notes to Combined Financial Statements

Note 5 – Post Employment Benefits Other than Pensions (continued)

Sensitivity analysis

Below is a sensitivity analysis around the discount rate of 3.50% as well as the healthcare trend rate assumed in the actuarial assumptions:

Discount Rate	1% Decrease 2.50%	Current Discount Rate 3.50%	1% Increase 4.50%
Total OPEB Liability	\$ 81,865	\$ 76,347	\$ 71,237

Healthcare Cost Trend	1% Decrease 5.75%	Current Trend Rate 6.75%	1% Increase 7.75%
Total OPEB Liability	\$ 68,987	\$ 76,347	\$ 85,107

Note 6 – Long-Term Debt

The Utility issued Water System Revenue Bonds (2004 and 2007 Water Revenue Bonds) dated September 30, 2004 and October 31, 2007 for \$2,900,000 and \$3,200,000 respectively. The Utility also issued a Water Revenue Refunding Bond, Series 2014, dated September 18, 2014, for \$1,951,000. These fixed rate bonds were issued for the purpose of refunding the outstanding 2004 Water revenue bonds and to pay costs of issuance related to the 2014 bonds. All bond purchase agreements provide that principal and interest on the bonds are payable solely from and secured by the net revenues of the Water System.

In October 2017, Canby Utility Board issued \$1,988,000 in 2017 water revenue refunding bonds and utilized the proceeds to redeem the remaining balance on the 2007 water revenue bonds and pay for the costs of issuance. The refunding transaction resulted in a net present value savings of \$148,468.

Current and long-term debt is as follows:

	June 30, 2018	Increases	Decreases	June 30, 2019
2014 Water Revenue Refunding Bonds, with interest rates of 2.3% maturing through 2025	\$ 1,376,000	\$ -	\$ (191,000)	\$ 1,185,000
2017 Water Revenue Refunding Bonds, with interest rates of 2.09% maturing through 2028	1,988,000	-	(180,000)	1,808,000
Total water system debt	3,364,000	<u>\$ -</u>	<u>\$ (371,000)</u>	2,993,000
Less current portion	<u>371,000</u>			<u>380,000</u>
Long term debt	<u>\$ 2,993,000</u>			<u>\$ 2,613,000</u>

Canby Utility Board

Notes to Combined Financial Statements

Note 6 – Long-Term Debt (continued)

Future requirements for retirement of the 2014 water revenue bonds and 2017 water revenue refunding bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 380,000	\$ 61,281	\$ 441,281
2021	387,000	52,720	439,720
2022	399,000	44,013	443,013
2023	410,000	35,050	445,050
2024	416,000	25,908	441,908
2025–2028	<u>1,001,000</u>	<u>37,670</u>	<u>1,038,670</u>
	<u>\$ 2,993,000</u>	<u>\$ 256,642</u>	<u>\$ 3,249,642</u>

The 2017 Water revenue refunding bonds and the 2014 Water revenue refunding bonds involved the purchase of surety bonds in lieu of setting aside funds for meeting reserve requirements. These would cover the bond holders in the event of a default by the Utility, such as a failure to make payments of interest and principal on a timely basis. The surety bonds are rated municipal bonds.

Note 7 – Risk Management

The Utility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Utility carries commercial insurance for risks of loss including workers' compensation, property and liability, automobile liability, directors' and officers' liability, and employee dishonesty coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the current and prior fiscal years.

Note 8 – Commitments

Purchase power agreements

The Utility entered into a Full Service Power Sales Agreement with the Bonneville Power Administration (BPA) on December 9, 2009. This agreement provided that the Utility will use BPA as its power source from October 1, 2011 through September 30, 2028. Wholesale power rates under the agreement are not fixed.

Note 9 – Related Party

The Utility makes payments to the City for contributions in lieu of taxes. For the year ended June 30, 2019, contributions totaled \$172,527 (\$168,033 in 2018) and \$646,882 (\$616,081 in 2018) for Water and Electric, respectively. At June 30, 2019, the amount payable to the City for both Water and Electric was \$30,310 (\$17,555 at June 30, 2018) and \$98,199 (\$49,309 at June 30, 2018), respectively.

Note 10 – Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Utility recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued.

Subsequent to year end, the Utility entered into a property exchange agreement with the City of Canby where the Utility will exchange its 54.3% ownership in land in exchange for five acres of the City of Canby's land. This agreement was signed by both parties on October 15, 2019.

Required Supplementary Information

Canby Utility Board
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2018
Last Ten Years*

	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the net pension asset (liability)	0.01840518%	0.01978236%	0.02175027%	0.02530615%	0.02230393%
Proportionate share of the net pension asset (liability)	\$ (2,788,142)	\$ (2,666,670)	\$ (3,265,221)	\$ (1,452,943)	\$ 505,566
Covered-employee payroll	\$ 1,692,959	\$ 1,719,358	\$ 1,747,999	\$ 1,810,490	\$ 1,592,085
Proportionate share of the net pension asset (liability) as percentage of covered-employee payroll	165%	155%	187%	80%	32%
Plan's fiduciary net position	\$ 69,327,500,445	\$ 66,371,703,247	\$ 62,082,059,102	\$ 64,923,626,094	\$ 65,401,492,664
Plan fiduciary net position as a percentage of the total pension asset (liability)	82.10%	83.10%	80.50%	91.90%	103.60%

* Fiscal year 2014 was the 1st year of implementation, therefore only five years are shown.

Canby Utility Board
Schedule of Contributions
As of June 30, 2019
Last Ten Years*

	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 305,600	\$ 306,220	\$ 230,179	\$ 225,984	\$ 204,466
Contributions in relation to the actuarially determined contribution	305,600	306,220	230,179	225,984	204,466
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 1,898,808	\$ 1,692,959	\$ 1,719,358	\$ 1,747,999	\$ 1,810,490
Contributions as a percentage of covered-employee payroll	16.09%	18.09%	13.39%	12.93%	11.29%

Notes to Schedule

Valuation date: 12/31/2016, rolled forward to June 30, 2018

Methods and assumptions used to determine contribution rates:

	2019	2018	2017	2016	2015
Single and Agent Employers Example	Entry age normal	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Experience study report	2016, published July 2017	2014, published September 2015	2012, published September 2013	2012, published September 2013	2012, published September 2013
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Remaining amortization period	Tier One/Tier Two - 20 years; OPSRP - 16 years	Tier One/Tier Two - 20 years; OPSRP - 16 years	Tier One/Tier Two - 20 years; OPSRP - 16 years	Tier One/Tier Two - 20 years; OPSRP - 16 years	Tier One/Tier Two - 20 years; OPSRP - 16 years
Asset valuation method	Market value of assets	Market value of assets	Market value of assets	Market value of assets	Market value of assets
Inflation	2.50%	2.50%	2.75%	2.75%	2.75%
Salary increases	3.50%	3.50%	3.75%	3.75%	3.75%
Investment rate of return	7.20%	7.50%	7.50%	7.75%	7.75%
Retirement age	55 for Tier 1/Tier 2; 65 for OPSRP	55 for Tier 1/Tier 2; 65 for OPSRP	55 for Tier 1/Tier 2; 65 for OPSRP	55 for Tier 1/Tier 2; 65 for OPSRP	55 for Tier 1/Tier 2; 65 for OPSRP
Mortality	RP-2014 Sex-distinct tables	RP-2000 Sex-distinct tables	RP-2000 Sex-distinct tables	RP-2000 Sex-distinct tables	RP-2000 Sex-distinct tables
Discount rate	7.20%	7.50%	7.50%	7.75%	7.75%

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

Canby Utility Board
Schedule of Changes in Total OPEB Liability and Related Ratios
As of June 30, 2019
Last Ten Years*

	June 30,	
	2019	2018
<i>Total OPEB Liability</i>		
Service cost	\$ 8,015	\$ 8,507
Interest cost	4,359	3,667
Effect of assumptions changes or inputs	(22,873)	(6,280)
Effect of economic/demographic gains or losses	(19,723)	-
Benefit payments	(14,219)	(10,457)
Net change in total OPEB liability	(44,441)	(4,563)
Total OPEB liability, beginning of period	120,788	125,351
Total OPEB liability, end of period	<u>\$ 76,347</u>	<u>\$ 120,788</u>
Covered employee payroll	\$ 1,898,808	\$ 1,838,667
Total OPEB liability as a percent of covered payroll	4.02%	6.57%

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

Supplementary Information

Canby Utility Board
Schedule of Revenues and Expenditures – Budget and Actual
Electric System
Year Ended June 30, 2019

Budget results

The supplemental information includes detailed schedules of budget to actual variances for the fiscal year. While there is no budget compliance requirement, the board of directors utilizes budget overages to identify projects and areas within the Utility which may require additional oversight.

	Budgeted Amounts		
	Final	Actual	Variance
OPERATING REVENUES			
Sales of power	\$ 12,601,633	\$ 12,903,516	\$ 301,883
Other, net	229,156	243,657	14,501
Total operating revenues	<u>12,830,789</u>	<u>13,147,173</u>	<u>316,384</u>
OPERATING EXPENSES			
Purchased power	7,561,267	7,893,002	331,735
Board of Directors	10,257	4,468	(5,789)
Executive	234,191	247,648	13,457
Administrative	221,232	265,285	44,053
Customer service	623,199	628,197	4,998
Finance	442,371	463,341	20,970
Operations	433,400	395,097	(38,303)
Distribution	1,039,728	820,014	(219,714)
Risk management	30,767	33,880	3,113
Depreciation	874,678	772,563	(102,115)
Contribution in lieu of taxes	630,081	646,882	16,801
Total operating expenses	<u>12,101,171</u>	<u>12,170,377</u>	<u>69,206</u>
Net operating income	<u>729,618</u>	<u>976,796</u>	<u>247,178</u>
OTHER INCOME – INTEREST INCOME	<u>185,743</u>	<u>225,855</u>	<u>40,112</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION			
Contributions in aid of construction	-	85,706	85,706
Line extension fees	522,861	144,427	(378,434)
Hook-up fees	40,128	305,157	265,029
Total contributions in aid of construction	<u>562,989</u>	<u>535,290</u>	<u>(27,699)</u>
Change in net position	1,478,350	1,737,941	<u>\$ 259,591</u>
ADJUSTMENTS TO CHANGE IN NET POSITION ON A US GAAP BASIS			
Gain on sale of assets	9,000	(3,947)	
Interest expense	4,200	(7,870)	
Changes in net position	<u>\$ 1,491,550</u>	<u>\$ 1,726,124</u>	

Canby Utility Board
Schedule of Revenues and Expenditures – Budget and Actual
Water System
Year Ended June 30, 2019

	Budgeted Amounts Final	Actual	Variance
OPERATING REVENUES			
Sales of water	\$ 3,227,000	\$ 3,448,488	\$ 221,488
Other, net	1,009	4,688	3,679
Total operating revenues	<u>3,228,009</u>	<u>3,453,176</u>	<u>225,167</u>
OPERATING EXPENSES			
Board of Directors	3,495	1,449	(2,046)
Executive	73,585	67,522	(6,063)
Administrative	111,085	114,934	3,849
Customer service	178,520	170,528	(7,992)
Finance	164,172	143,781	(20,391)
Operations	178,994	160,184	(18,810)
Distribution	686,960	420,672	(266,288)
Water treatment plant	981,541	984,185	2,644
Risk management	28,668	29,618	950
Depreciation	727,615	681,373	(46,242)
Franchise tax	161,350	172,527	11,177
Total operating expenses	<u>3,295,985</u>	<u>2,946,773</u>	<u>(349,212)</u>
Net operating income (loss)	<u>(67,976)</u>	<u>506,403</u>	<u>574,379</u>
OTHER INCOME – INTEREST INCOME	<u>88,829</u>	<u>120,755</u>	<u>31,926</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION			
Contributions in aid of construction	726,786	598,980	(127,806)
Hook-up fees	28,381	120,624	92,243
System development charges fees	694,504	396,797	(297,707)
Total contributions in aid of construction	<u>1,449,671</u>	<u>1,116,401</u>	<u>(333,270)</u>
Change in net position	1,470,524	1,743,559	<u>\$ 273,035</u>
ADJUSTMENTS TO CHANGE IN NET POSITION ON A US GAAP BASIS			
Gain (loss) on sale of assets	-	(11,200)	
Interest expense	(67,478)	(65,439)	
Changes in net position	<u>\$ 1,403,046</u>	<u>\$ 1,666,920</u>	

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 Directors
Canby Utility Board

We have audited the accompanying financial statements of the Canby Utility Board (the Utility) as of and for the year ended June 30, 2019 and have issued our report thereon dated December 5, 2019. 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 Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules (OAR) 162-010-000 to 162-010-330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

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

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for determining our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility'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 Utility'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 Utility's combined financial statements that is more than inconsequential will not be prevented or detected by the Utility's internal controls. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the combined financial statements will not be prevented or detected by the Utility's internal control.

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

Purpose of this Report

This report is intended solely for the information and use of the Utility's management, the Board of Directors, 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
December 5, 2019

