REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

FOR

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

June 30, 2017 and 2016

Table of Contents

Canby Utility Board
Board of Directors
Year Ended June 30, 2017

Name	Address	Title
Gary Potter	2149 NE 20th Ave. Canby, Oregon	Chairman of the Board of Directors and Registered Agent
Jack Brito	2096 N. Walnut St. Canby, Oregon	Member of the Board of Directors
Todd Wagner	845 NE Territorial Rd. Canby, Oregon	Member of the Board of Directors
Walt Daniels	687 N. Ash St. Canby, Oregon	Member of the Board of Directors
Bob Maxwell	645 NW 9th Ave. 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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016 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 and the schedule of contributions 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, 2017 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 November 14, 2017, 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.

Julie Desimone

For Moss Adams LLP
Portland, Oregon
November 14, 2017

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 16,900 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 6,960 electric customers and 4,970 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 7,668,323 cubic feet of water and 14,307,392 kilowatt-hours of electricity to our customers. Our average system daily consumption was 252,109 cubic feet of water and 470,380 kilowatt-hours of electricity. Electrical demand varied from a monthly peak demand of 20,075 kilowatts in October to 34,740 kilowatts in the month of November, with an average annual system demand for the period of 20.19 average megawatts.

The Utility is dedicated to providing our 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 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 $46.1 million as of June 30, 2016 to $49.5 million as of June 30, 2017. This increase of $3.4 million in combined net position is more than the increase of combined net position increase of $1.3 million from June 30, 2016 to June 30, 2015. 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 $2.4 million. Operating revenues of the Utility increased 5.8% due to increased rates and increased electric usage. The Utility’s operating expenses decreased from the previous year by 4.4%; mainly due to more labor being capitalized, staff vacancies, and lower customer conservation payments.

Fiscal Year 2017 Budget Results

See the supplemental information for detailed schedules of budget to actual variances for the fiscal year. The electric and water funds' operating expenses are both under budget, mainly due to more labor being capitalized and staff vacancies. The electric budget was also impacted due to purchased power being under budget. 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.

Electric System

Electric System Financial Highlights

(Dollars rounded in thousands)

	Years Ended June 30,		
	2017	2016	2015
Cash and investments	$ 11,498	$ 9,703	$ 8,439
Utility plant, net	17,825	17,147	17,067
Other assets	2,118	1,840	2,157
Deferred outflows of resources	1,212	245	145
Total assets and deferred outflows of resources	$ 32,653	$ 28,935	$ 27,808
Total liabilities	$ 3,475	$ 2,196	$ 1,081
Deferred inflows of resources	673	411	805
Net position:			
Net investment in capital assets	17,825	17,147	17,067
Unrestricted net position	10,680	9,181	8,855
Total liabilities, deferred inflows of resources and net position	$ 32,653	$ 28,935	$ 27,808
Operating revenues	$ 12,229	$ 11,552	$ 10,336
Operating expenses	(11,098)	(11,477)	(9,402)
Non-operating revenues	802	53	38
Income before contributed capital	1,933	128	972
Contributed capital	244	277	243
Change in net position	$ 2,177	$ 405	$ 1,215

Results of Operations – Electric

(As reported in the Combined Statements of Revenues, Expenses and Changes in Net Position) Operating revenues increased by 5.9% in 2017 due to a fully year of a rate increase that occurred in 2016 and increased kWh sales. Operating revenues increased by 11.8% in 2016 due to an increase in electric usage and an increase in conservation payments.

Operating expenses decreased by 3.3% in 2017. This was due primarily to more labor being capitalized, staff vacancies, and lower customer conservation payments. Operating expenses increased by 22.1% in 2016. This was due primarily to change in the Utility's proportionate share of the PERS pension expense.

Financial Position – Electric

(As reported in the Statements of Net Position)

The Electric System's financial position improved during 2017 with an increase in net position of $2.2 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 54.6% of total assets. Total net position – unrestricted, increased by 16.3% due to the sale of the office building, contributed capital, vacant staff positions, and lower customer conservation payments.

The Electric System's financial position improved during 2016 with an increase in net position of $404,939. 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 59.3% of total assets. Total net position – unrestricted, increased by 3.7% due to increased operating revenues.

Water System

Water System Financial Highlights

(Dollars rounded in thousands)

	Years Ended June 30,		
	2017	2016	2015
Cash and investments	$ 4,041	$ 3,089	$ 2,334
Utility plant, net	20,731	20,697	20,538
Other assets	623	532	714
Deferred outflows of resources	512	111	60
Total assets and deferred outflows of resources	$ 25,907	$ 24,429	$ 23,646
Long-term debt	$ 3,638	$ 3,961	$ 4,276
Other liabilities	1,167	580	179
Deferred inflows of resources	75	120	286
Net position:			
Investment in capital assets, net of related debt	17,093	16,736	16,262
Restricted net position	165	163	161
Unrestricted net position	3,769	2,869	2,482
Total liabilities, deferred inflows of resources and net position	$ 25,907	$ 24,429	$ 23,646
Operating revenues	$ 3,113	$ 2,950	$ 2,717
Operating expenses	(2,660)	(2,908)	(2,223)
Non-operating revenues	(74)	(111)	(130)
Loss before contributed capital	379	(69)	364
Contributed capital	880	932	775
Change in net position	$ 1,259	$ 863	$ 1,139

Results of Operations – Water
(As reported in the Combined Statements of Revenues, Expenses and Changes in Net Position)
Operating revenues increased by 5.5% in 2017 due to a current year rate increase. Operating revenues increased 8.6% in 2016 due to increased water rates and consumption.

Operating expenses decreased by 8.5% in 2017. This is mainly attributed to more distribution labor being capitalized and staff vacancies. Operating expenses increased by 30.8% in 2016. This is mainly attributed to a change in the proportionate share of the PERS pension expense.

Financial Position – Water
(As reported in the Combined Statements of Net Position)
The Water System's financial position increased during 2017 with an increase in net position of $1.3 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 80% of total assets. Total net position – unrestricted, increased by 31.4% mainly due to an increase in current assets.

The Water System's financial position increased during 2016 with an increase in net position of $863,549. 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 84.7% of total assets. Total net position – unrestricted, increased by 15.6% mainly due to an increase in current assets.

Capital Asset and Long-Term Debt Activity
During the year, the Utility had additions to capital assets in the amount of $886,831 for the Electric Systems and $747,567 for the Water Systems. Principle payment made on the water revenue bonds totaled $323,000 for the fiscal year.

During 2016, the Utility had additions to capital assets in the amount of $565,658 for the Electric Systems and $605,634 for the Water Systems. Principle payment made on the water revenue bonds totaled $315,000 for the 2016 fiscal year.

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,	
	2017	2016	2017	2016	2017	2016
CURRENT ASSETS						
Cash and cash equivalents	$ 11,204,530	$ 9,431,947	$ 3,846,327	$ 2,893,453	$ 15,050,857	$ 12,325,400
Cash and cash equivalents – restricted	293,180	270,926	195,100	195,100	488,280	466,026
Accounts receivable, less allowance for uncollectable receivables	1,123,993	987,302	416,314	365,427	1,540,307	1,352,729
Materials and supplies	969,569	824,942	202,254	161,984	1,171,823	986,926
Prepaid expenses	13,230	12,737	4,410	4,246	17,640	16,983
Total current assets	13,604,502	11,527,854	4,664,405	3,620,210	18,268,907	15,148,064
PROPERTY, PLANT, AND EQUIPMENT, net	17,824,602	17,146,507	20,730,784	20,697,377	38,555,386	37,843,884
OTHER ASSETS						
Other noncurrent assets	11,922	15,099	-	-	11,922	15,099
Total other assets and investments	11,922	15,099	-	-	11,922	15,099
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows – pension	1,212,164	244,991	512,148	110,888	1,724,312	355,879
Total deferred outflows	1,212,164	244,991	512,148	110,888	1,724,312	355,879
Total assets and deferred outflows of resources	$ 32,653,190	$ 28,934,451	$ 25,907,337	$ 24,428,475	$ 58,560,527	$ 53,362,926

See accompanying notes.

LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION

	Electric System		Water System		Combined	
	June 30,		June 30,		June 30,	
	2017	2016	2017	2016	2017	2016
Accounts payable	$ 708,473	$ 752,811	$ 123,708	$ 49,139	$ 832,181	$ 801,950
Accrued contributions in lieu of taxes	47,204	42,637	14,602	12,802	61,806	55,439
Accrued expenses	131,187	129,628	59,552	65,298	190,739	194,926
Customer deposits	293,180	270,926	-	-	293,180	270,926
Current portion of debt	-	-	337,000	323,000	337,000	323,000
Total current liabilities	1,180,044	1,196,002	534,862	450,239	1,714,906	1,646,241
NONCURRENT PORTION OF LONG-TERM DEBT	-	-	3,301,000	3,638,000	3,301,000	3,638,000
NET PENSION LIABILITY	2,295,399	1,000,225	969,822	452,718	3,265,221	1,452,943
Total liabilities	3,475,443	2,196,227	4,805,684	4,540,957	8,281,127	6,737,184
DEFERRED INFLOWS OF RESOURCES						
Unearned contributed capital	495,514	146,267	-	-	495,514	146,267
Deferred inflows – pension	177,666	264,718	75,065	119,816	252,731	384,534
Total deferred inflows of resources	673,180	410,985	75,065	119,816	748,245	530,801
NET POSITION						
Net investment in capital assets	17,824,602	17,146,507	17,092,784	16,736,377	34,917,386	33,882,884
Restricted	-	-	165,204	162,822	165,204	162,822
Unrestricted	10,679,965	9,180,732	3,768,600	2,868,503	14,448,565	12,049,235
Total net position	28,504,567	26,327,239	21,026,588	19,767,702	49,531,155	46,094,941
Total liabilities, deferred inflows of resources and net position	$ 32,653,190	$ 28,934,451	$ 25,907,337	$ 24,428,475	$ 58,560,527	$ 53,362,926

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,	
	2017	2016	2017	2016	2017	2016
OPERATING REVENUES						
Sales of power and water	$ 11,955,935	$ 11,095,627	$ 3,112,905	$ 2,950,966	$ 15,068,840	$ 14,046,593
Other, net	273,340	456,222	(126)	(471)	273,214	455,751
Total operating revenues	12,229,275	11,551,849	3,112,779	2,950,495	15,342,054	14,502,344
OPERATING EXPENSES						
Purchased power	7,237,674	6,880,794	-	-	7,237,674	6,880,794
Water treatment	-	-	907,694	843,652	907,694	843,652
System operations less overhead and labor capitalized	991,855	1,412,266	479,807	710,936	1,471,662	2,123,202
Administrative services	903,589	1,002,254	313,627	353,782	1,217,216	1,356,036
Customer services and conservation	641,702	903,614	173,091	221,088	814,793	1,124,702
Contribution in lieu of taxes	600,673	555,389	155,365	149,084	756,038	704,473
Depreciation	722,914	723,030	630,809	629,652	1,353,723	1,352,682
Total operating expenses	11,098,407	11,477,347	2,660,393	2,908,194	13,758,800	14,385,541
Net operating income	1,130,868	74,502	452,386	42,301	1,583,254	116,803
NONOPERATING REVENUE (EXPENSE)						
Interest income	110,867	54,217	40,460	16,196	151,327	70,413
Interest expense	(2,813)	(1,559)	(113,938)	(127,227)	(116,751)	(128,786)
Gain (loss) on sale of assets	694,288	350	(466)	458	693,822	808
Total nonoperating revenue (expense)	802,342	53,008	(73,944)	(110,573)	728,398	(57,565)
CONTRIBUTIONS IN AID OF CONSTRUCTION	244,118	277,429	880,444	931,821	1,124,562	1,209,250
Change in net position	2,177,328	404,939	1,258,886	863,549	3,436,214	1,268,488
NET POSITION, beginning of year	26,327,239	25,922,300	19,767,702	18,904,153	46,094,941	44,826,453
NET POSITION, ending	$ 28,504,567	$ 26,327,239	$ 21,026,588	$ 19,767,702	$ 49,531,155	$ 46,094,941

See accompanying notes.

	Electric System		Water System		Combined	
	Years Ended June 30,		Years Ended June 30,		Years Ended June 30,	
	2017	2016	2017	2016	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	$ 12,113,846	$ 11,539,956	$ 3,061,892	$ 2,972,655	$ 15,175,738	$ 14,512,611
Cash paid for purchased power	(7,133,550)	(6,571,911)	-	-	(7,133,550)	(6,571,911)
Cash paid to suppliers	(683,597)	(825,094)	(900,732)	(938,778)	(1,584,329)	(1,763,872)
Cash paid to employees	(1,275,075)	(1,267,867)	(549,478)	(550,466)	(1,824,553)	(1,818,333)
Cash paid for employee benefits	(361,794)	(387,169)	(204,529)	(189,354)	(566,323)	(576,523)
Cash paid for retirement obligation	(263,585)	(243,942)	(116,398)	(106,872)	(379,983)	(350,814)
Cash paid for contribution in lieu of taxes	(596,106)	(550,960)	(157,165)	(150,078)	(753,271)	(701,038)
Net cash provided by operating activities	1,800,139	1,693,013	1,133,590	1,037,107	2,933,729	2,730,120
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest earnings on investments	110,867	54,217	40,460	16,196	151,327	70,413
Net cash provided (used) by investing activities	110,867	54,217	40,460	16,196	151,327	70,413
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Principal payment on long-term debt	-	-	(323,000)	(315,000)	(323,000)	(315,000)
Interest paid	992	(691)	(116,314)	(127,227)	(115,322)	(127,918)
Contributed capital	244,118	277,429	880,444	931,821	1,124,562	1,209,250
Unearned contributed capital	349,247	42,506	-	-	349,247	42,506
Proceeds from sale of property, plant, and equipment	900,000	-	-	-	900,000	-
Additions to utility plant, net	(1,610,526)	(802,679)	(662,306)	(788,821)	(2,272,832)	(1,591,500)
Net cash used by capital and related financing activities	(116,169)	(483,435)	(221,176)	(299,227)	(337,345)	(782,662)
Net change in cash and investments	1,794,837	1,263,795	952,874	754,076	2,747,711	2,017,871
CASH AND CASH EQUIVALENTS, beginning	9,702,873	8,439,078	3,088,553	2,334,477	12,791,426	10,773,555
CASH AND CASH EQUIVALENTS, ending	$ 11,497,710	$ 9,702,873	$ 4,041,427	$ 3,088,553	$ 15,539,137	$ 12,791,426
RECONCILIATION TO THE STATEMENT OF NET POSITION						
Cash and cash equivalents	$ 11,204,530	$ 9,431,947	$ 3,846,327	$ 2,893,453	$ 15,050,857	$ 12,325,400
Cash and cash equivalents – restricted	293,180	270,926	195,100	195,100	488,280	466,026
	$ 11,497,710	$ 9,702,873	$ 4,041,427	$ 3,088,553	$ 15,539,137	$ 12,791,426

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,	
	2017	2016	2017	2016	2017	2016
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Net operating income	$ 1,130,868	$ 74,502	$ 452,386	$ 42,301	$ 1,583,254	$ 116,803
Adjustments to reconcile net operating income to net cash provided by operating activities						
Depreciation	722,914	723,030	630,809	629,652	1,353,723	1,352,682
Pension expense (credit)	240,949	821,858	71,093	381,890	312,042	1,203,748
Changes in operating assets and liabilities						
Accounts receivable, net	(136,691)	(23,870)	(50,887)	22,160	(187,578)	(1,710)
Materials and supplies	(144,627)	(11,482)	(40,270)	13,230	(184,897)	1,748
Prepaid expenses	(493)	(520)	(164)	(174)	(657)	(694)
Other noncurrent assets	3,177	(5,318)	-	-	3,177	(5,318)
Accounts payable	(44,338)	103,313	74,569	(47,329)	30,231	55,984
Accrued contributions in lieu of taxes	4,567	4,429	1,800	994	6,367	5,423
Accrued expenses	1,559	(4,215)	(5,746)	(5,617)	(4,187)	(9,832)
Customer deposits	22,254	11,286	-	-	22,254	11,286
Net cash provided by operating activities	$ 1,800,139	$ 1,693,013	$ 1,133,590	$ 1,037,107	$ 2,933,729	$ 2,730,120

See accompanying notes.

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 expired June 30, 2017 and is currently in negotiations.

The Utility purchases all of its wholesale power from Bonneville Power Administration (see Note 7).

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 a liability is 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, fund 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 benefits. Actual results could differ from those estimates.

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, 2017 the Utility had a book balance of $802,291, of these deposits, $250,000 was covered by the FDIC and $552,291was collateralized in accordance with Oregon Revised Statutes (ORS) 295.

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 uncollectable receivables for electric was $2,135 and $4,020 as of June 30, 2017 and 2016, respectively. The allowance for uncollectable receivables for water was $658 and $680 as of June 30, 2017 and 2016, 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, 2017 and 2016, total interest incurred was $121,890 and $131,413, of which $7,952 and $4,186 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.

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.

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred inflows of resources represents 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.

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 are reported at fair value.

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 requirement 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 $165,204 and $162,822 classified as restricted net position at June 30, 2017 and 2016, respectively.

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

Note 2 – Cash and Cash Equivalents

Cash and cash equivalents at fair value at June 30, 2017 and 2016 are comprised of:

	2017	2016
Cash on hand	$ 700	$ 700
Cash deposits in bank demand accounts	315,012	790,881
Restricted cash – customer deposits and bond reserve	488,280	466,026
Investment in State Treasurer's LGIP	14,735,145	11,533,819
Total cash and cash equivalents	$ 15,539,137	$ 12,791,426

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, 2017 or 2016.

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.

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.

Note 2 – Cash and Cash Equivalents (continued)

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 2017 is as follows:

	Balance at July 1, 2016	Increases	Decreases	Balance at June 30, 2017
Electric plant assets not being depreciated:				
Land	$ 1,119,741	$ -	$ (41,000)	$ 1,078,741
Electric plant assets being depreciated:				
Buildings	1,054,862	-	(429,201)	625,661
Distribution plant	17,297,607	531,833	(20,571)	17,808,869
Substation	6,374,885	-	-	6,374,885
Vehicle equipment	1,275,322	285,553	(102,648)	1,458,227
Office furniture and equipment	714,444	58,008	(309,868)	462,584
Other equipment	480,649	11,437	-	492,086
	27,197,769	886,831	(862,288)	27,222,312
Less accumulated depreciation	(11,548,849)	(817,122)	702,843	(11,663,128)
Net electric plant assets being depreciated	15,648,920	69,709	(159,445)	15,559,184
Property held for future use	3,633	-	-	3,633
Construction work in progress	374,213	1,860,246	(1,051,415)	1,183,044
Property, plant, and equipment, net	$ 17,146,507	$ 1,929,955	$ (1,251,860)	$ 17,824,602

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

Electric system property, plant, and equipment activity during 2016 is as follows:

	Balance at July 1, 2015	Increases	Decreases	Balance at June 30, 2016
Electric plant assets not being depreciated:				
Land	$ 1,119,741	$ -	$ -	$ 1,119,741
Electric plant assets being depreciated:				
Buildings	1,054,862	-	-	1,054,862
Distribution plant	16,920,094	393,100	(15,587)	17,297,607
Substation	6,374,885	-	-	6,374,885
Vehicle equipment	1,141,307	158,547	(24,532)	1,275,322
Office furniture and equipment	714,444	-	-	714,444
Other equipment	466,638	14,011	-	480,649
	26,672,230	565,658	(40,119)	27,197,769
Less accumulated depreciation	(10,786,820)	(811,095)	49,066	(11,548,849)
Net electric plant assets being depreciated	15,885,410	(245,437)	8,947	15,648,920
Property held for future use	3,633	-	-	3,633
Construction work in progress	58,592	1,036,716	(721,095)	374,213
Property, plant, and equipment, net	$ 17,067,376	$ 791,279	$ (712,148)	$ 17,146,507

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

Water system property, plant, and equipment activity during 2017 is as follows:

	Balance at July 1, 2016	Increases	Decreases	Balance at June 30, 2017
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	15,072,713	604,453	(43,836)	15,633,330
Water treatment plant	6,342,380	-	-	6,342,380
Vehicle equipment	321,555	-	-	321,555
Office furniture and equipment	460,703	32,551	(93,078)	400,176
Other equipment	592,092	110,563	-	702,655
	29,735,643	747,567	(136,914)	30,346,296
Less accumulated depreciation	(9,609,708)	(649,570)	148,872	(10,110,406)
Net water plant assets being depreciated	20,125,935	97,997	11,958	20,235,890
Construction work in progress	350,604	689,009	(765,557)	274,056
Property, plant, and equipment, net	$ 20,697,377	$ 787,006	$ (753,599)	$ 20,730,784

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

Water system property, plant, and equipment activity during 2016 is as follows:

	Balance at July 1, 2015	Increases	Decreases	Balance at June 30, 2016
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	14,522,423	585,198	(34,908)	15,072,713
Water treatment plant	6,342,380	-	-	6,342,380
Vehicle equipment	321,143	412	-	321,555
Office furniture and equipment	460,380	323	-	460,703
Other equipment	572,391	19,701	-	592,092
	29,164,917	605,634	(34,908)	29,735,643
Less accumulated depreciation	(9,015,339)	(649,754)	55,385	(9,609,708)
Net water plant assets being depreciated	20,149,578	(44,120)	20,477	20,125,935
Construction work in progress	167,334	521,889	(338,619)	350,604
Property, plant, and equipment, net	$ 20,537,750	$ 477,769	$ (318,142)	$ 20,697,377

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.

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 as 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, 2014 actuarial valuation, which became effective July 1, 2015 and remained effective through June 30, 2017.

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, 2017 and 2016 were $230,179 and $225,984, respectively, excluding amounts to fund employer-specific liabilities.

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, 2017 the utility reported a liability of $3,265,221 for its proportionate share of the net pension liability. At June 30, 2016 the utility reported a liability of $1,452,943 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 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, 2016 and 2015 measurement dates was 0.02175027% and 0.02530615%, respectively.

For the years ended June 30, 2017 and 2016, the Utility recognized additional GASB 68 pension expense of $312,042 and $1,203,749, respectively. At June 30, 2017 and 2016, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2017		June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 230,179	$ -	$ 225,984	$ -
Changes in assumptions	696,393			
Differences between expected and actual experience	108,028	-	78,350	-
Changes in employer proportion	39,830	191,428	51,545	-
Differences between projected and actual earnings on plan investments	645,071	-	-	304,570
Differences between Utility contributions and the Utility's proportionate share of contributions	4,811	61,303	-	79,964
	$ 1,724,312	$ 252,731	$ 355,879	$ 384,534

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

Years ending June 30,	2018	$ 210,517
	2019	210,517
	2020	449,418
	2021	331,475
	2022	39,475
		$ 1,241,402

Note 4 – Pension Plans (continued)

Actuarial assumptions
The total pension assets in the December 31, 2013 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 ended on December 31, 2014.

Discount rate
The discount rate used to measure the total pension liability was 7.50% 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 2013 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption.

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%	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%	7.22%
Real Estate (Property)	10.00%	7.97%
Real Estate (REITS)	2.50%	5.84%
Hedge Fund of Funds - Diversified	2.50%	6.69%
Hedge Fund - Event-driven	0.63%	4.64%
Timber	1.88%	6.72%
Farmland	1.88%	5.85%
Infrastructure	3.75%	6.37%
Commodities	1.88%	7.12%

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

Employers' Net Pension Liability / (Asset)	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Defined benefit pension plan	$ 5,272,200	$ 3,265,221	$ (1,587,700)

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, 2017 and 2016, the Utility did not have an outstanding amount of contributions payable to the pension plan.

Note 4 – Pension Plans (continued)

Changes in Terms and Assumptions

The PERS Board adopted assumption changes that were used to measure the June 30, 2016 total pension liability. The changes include the lowering of the long-term expected rate of return to 7.50 percent and lowering of the assumed inflation to 2.50 percent. In addition, the healthy mortality assumption was changed to reflect an updated mortality improvement scale for all groups, and assumptions were updated for merit increases, unused sick leave, and vacation pay were updated.

Subsequent to year end, at its July 28, 2017 meeting, the PERS Board lowered its effective "assumed rate" from 7.5% to 7.2% effective, January 1, 2018. The assumed rate is the rate of investment return (including inflation) that the PERS Fund's regular account is expected to earn over the long term. Oregon Administrative Rule 459 007-0001(2) states that the assumed rate "means the actuarial assumed rate of return on investments as adopted by the Board for the most recent actuarial valuation."

Note 5 – 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.

Current and long-term debt is as follows:

	June 30, 2016	Increases	Decreases	June 30, 2017
2007 Water Revenue Bonds, with interest rates from 3.625% to 3.75%, maturing through 2027	$ 2,220,000	$ -	$ (145,000)	$ 2,075,000
2014 Water Revenue Refunding Bonds, with interest rates of 2.3% maturing through 2025	1,741,000	-	(178,000)	1,563,000
Total water system debt	3,961,000	$ -	$ (323,000)	3,638,000
Less current portion	323,000			337,000
Long term debt	$ 3,638,000			$ 3,301,000

Note 5 – Long-Term Debt (continued)

Future requirements for retirement of the 2007 water revenue bonds and 2014 water revenue refunding bonds are as follows:

	Principal	Interest	Total
2018	$ 337,000	$ 114,499	$ 451,499
2019	351,000	104,239	455,239
2020	362,000	93,604	455,604
2021	372,000	82,438	454,438
2022	386,000	63,739	449,739
2023 - 2027	1,600,000	128,049	1,728,049
2028 - 2029	230,000	4,773	234,773
	$ 3,638,000	$ 591,341	$ 4,229,341

The 2007 Water revenue 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 6 – 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 year.

Note 7 – 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 8 – Related Party

The Utility makes payments to the City for contributions in lieu of taxes. For the year ended June 30, 2017, contributions totaled $155,365 ($149,084 in 2016) and $600,673 ($555,389 in 2016) for Water and Electric, respectively. At June 30, 2017, the amount payable to the City for both Water and Electric was $14,602 ($12,802 at June 30, 2016) and $47,204 ($42,637 at June 30, 2016), respectively.

Note 9 – Subsequent event

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.

Required Supplementary Information

Canby Utility Board
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2016
Last Ten Years*

	6/30/2016	6/30/2015	6/30/2014
Proportion of the net pension asset (liability)	0.02175027%	0.02530615%	0.02230393%
Proportionate share of the net pension asset (liability)	$ (3,265,221)	$ (1,452,943)	$ 505,566
Covered-employee payroll	$ 1,747,999	$ 1,810,490	$ 1,592,085
Proportionate share of the net pension asset (liability) as percentage of covered-employee payroll	187%	80%	32%
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 asset (liability)	80.50%	91.90%	103.60%

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

Canby Utility Board
Schedule of Contributions
As of June 30, 2017
Last Ten Years*

	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 230,179	$ 225,984	$ 204,466
Contributions in relation to the actuarially determined contribution	230,179	225,984	204,466
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 1,759,669	$ 1,747,999	$ 1,810,490
Contributions as a percentage of covered-employee payroll	13.08%	12.93%	11.29%

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	Entry age normal	Entry age normal
Experience study report	2014, published September 2015	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
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
Asset valuation method	Market value of assets	Market value of assets	Market value of assets
Inflation	2.50%	2.75%	2.75%
Salary increases	3.50%	3.75%	3.75%
Investment rate of return	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
Mortality	RP-2000 Sex-distinct tables	RP-2000 Sex-distinct tables	RP-2000 Sex-distinct tables
Discount rate	7.50%	7.75%	7.75%

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

Supplementary Information

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	$ 11,888,016	$ 11,955,935	$ 67,919
Other, net	361,860	273,340	(88,520)
Total operating revenues	12,249,876	12,229,275	(20,601)
OPERATING EXPENSES			
Purchased power	7,391,629	7,237,674	(153,955)
Board of Directors	13,632	4,043	(9,589)
Executive	240,052	246,732	6,680
Administrative	203,445	221,976	18,531
Customer service	693,586	641,702	(51,884)
Finance	364,542	397,971	33,429
Operations	263,978	176,385	(87,593)
Distribution	1,056,890	815,470	(241,420)
Risk management	32,687	32,867	180
Depreciation	730,681	722,914	(7,767)
Contribution in lieu of taxes	594,396	600,673	6,277
Total operating expenses	11,585,518	11,098,407	(487,111)
Net operating income	664,358	1,130,868	466,510
OTHER INCOME – INTEREST INCOME	66,702	110,867	44,165
CONTRIBUTIONS IN AID OF CONSTRUCTION			
Contributions in aid of construction	90,131	69,618	(20,513)
Hook-up fees	95,312	174,500	79,188
Total contributions in aid of construction	185,443	244,118	58,675
Change in net position	916,503	1,485,853	$ 569,350
ADJUSTMENTS TO CHANGE IN NET POSITION ON A US GAAP BASIS			
Gain on sale of assets	9,500	694,288	
Interest expense	(1,176)	(2,813)	
Changes in net position	$ 924,827	$ 2,177,328	

Canby Utility Board
Schedule of Revenues and Expenditures – Budget and Actual
Water System
Year Ended June 30, 2017

	Budgeted Amounts Final	Actual	Variance
OPERATING REVENUES			
Sales of water	$ 2,784,366	$ 3,112,905	$ 328,539
Other, net	506	(126)	(632)
Total operating revenues	2,784,872	3,112,779	327,907
OPERATING EXPENSES			
Board of Directors	2,424	1,347	(1,077)
Executive	68,925	69,681	756
Administrative	81,327	87,592	6,265
Customer service	162,954	173,090	10,136
Finance	120,131	122,103	1,972
Operations	139,498	77,287	(62,211)
Distribution	451,010	402,522	(48,488)
Water treatment plant	904,520	907,694	3,174
Risk management	30,600	32,903	2,303
Depreciation	643,213	630,809	(12,404)
Franchise tax	139,218	155,365	16,147
Total operating expenses	2,743,820	2,660,393	(83,427)
Net operating income (loss)	41,052	452,386	411,334
OTHER INCOME – INTEREST INCOME	20,673	40,460	19,787
CONTRIBUTIONS IN AID OF CONSTRUCTION			
Contributions in aid of construction	33,634	78,374	44,740
Hook-up fees	27,231	135,903	108,672
System development charges fees	344,377	666,167	321,790
Total contributions in aid of construction	405,242	880,444	475,202
Change in net position	466,967	1,373,290	$ 906,323
ADJUSTMENTS TO CHANGE IN NET POSITION ON A US GAAP BASIS			
Gain (loss) on sale of assets	4,000	(466)	
Interest expense	(121,866)	(113,938)	
Changes in net position	$ 349,101	$ 1,258,886	

See report of independent auditors.

MOSSADAMS

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, 2017 and have issued our report thereon dated November 14, 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 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

Julie Desimone, Partner
for Moss Adams LLP
November 14, 2017