

***CITY OF HUBBARD, OREGON
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2015***

CITY OF HUBBARD, OREGON
CITY OFFICIALS
JUNE 30, 2015

<u>Name</u>	MAYOR	<u>Term</u>
Jim Yonally 3720 2 nd Street Hubbard, Oregon 97032		December 31, 2016

CITY COUNCIL MEMBERS

Angie Wheatcroft 3720 2 nd Street Hubbard, Oregon 97032		December 31, 2018
Matt Kennedy 3720 2 nd Street Hubbard, Oregon 97032		December 31, 2016
Barbara Ruiz 3720 2 nd Street Hubbard, Oregon 97032		December 31, 2016
Shannon Schmidt 3720 2 nd Street. Hubbard, Oregon 97032		December 31, 2018

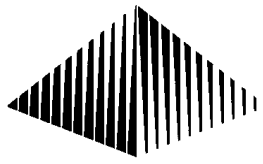
CITY RECORDER

Vickie Nogle
3720 2nd Street
Hubbard, Oregon 97032

CITY OF HUBBARD, OREGON
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FINANCIAL SECTION



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Council Members
City of Hubbard
3720 Second Street
Hubbard, Oregon 97032

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Hubbard, Oregon (the City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in the notes to the financial statements. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 opinions 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 City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the modified cash basis financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the City of Hubbard, Oregon as of June 30, 2015, and the respective changes in modified cash basis financial position thereof for the year then ended in accordance with the modified cash basis of accounting described in the summary of significant accounting policies in the notes to the financial statements.

Basis of Accounting

We draw attention to the notes of the financial statements that describes the basis of accounting. The financial statements are prepared on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Report on Supplemental and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the City's basic financial statements. Management's discussion and analysis and the supplemental information, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements.


The supplemental information as listed in the table of contents is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole on the basis of accounting described in notes to the financial statements.

Management's discussion and analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on such information.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated October 27, 2015, on our consideration of the City'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.

GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

By: 
Ryan T. Pasquarella, A Shareholder
October 27, 2015

CITY OF HUBBARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

As management of the City of Hubbard, we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2015.

FINANCIAL HIGHLIGHTS

	June 30,		change
	2015	2014	
Net position	\$ 1,720,232	\$ 1,472,421	\$ 247,811
Change in net position	247,811	20,839	226,972
Governmental net position	646,278	653,396	(7,118)
Proprietary net position	1,073,954	819,025	254,929
Change in governmental net position	(7,118)	(93,771)	86,653
Change in proprietary net position	254,929	114,610	140,319

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements include:

Statement of Net Position (Modified Cash Basis). The *statement of net position (modified cash basis)* presents information on all of the assets and liabilities of the City as of the date on the statement. Net position is what remains after the liabilities have been paid off or otherwise satisfied. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

Statement of Activities (Modified Cash Basis). The *statement of activities (modified cash basis)* presents information showing how the net position of the City changed over the most recent fiscal year by tracking revenues, expenditures and other transactions that increase or reduce net position. All changes in net position are reported as soon as funds are received or paid. Thus, revenues and expenditures are reported in this statement as cash flows occur.

In the government-wide financial statements, the City's activities are shown as governmental and business-type activities. All basic governmental functions are shown here, such as police, fire, planning, court, parks, community development and administration. These activities are primarily financed through property taxes and other intergovernmental revenues. The City's business-type (water and sewer) activities are primarily financed through user charges.

Fund Financial Statements. The fund financial statements provide more detailed information about the City's funds, focusing on its most significant or "major" funds - not the City as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. The governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

Proprietary Funds. The City charges customers for the services it provides. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *supplemental information* including combining reconciliations, schedules of revenues, expenditures and changes in fund balance - budget and actual for all funds, and other schedules.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position (Modified Cash Basis). The statement of net position (modified cash basis) is provided on a comparative basis.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$1,720,232 as of June 30, 2015.

Net position - restricted represent resources that are subject to external restrictions on their use, such as debt service payments or capital projects.

Net position - unrestricted are available for general operations of the City.

City of Hubbard
Statements of Net Position (Modified Cash Basis)
June 30,

	2015			2014		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
<i>Assets</i>						
Cash and cash equivalents	\$ 649,779	\$ 1,091,064	\$ 1,740,843	\$ 657,759	\$ 835,956	\$ 1,493,715
<i>Liabilities</i>						
Deposits	3,501	17,110	20,611	4,363	16,930	21,293
<i>Net Position</i>						
Restricted	373,382	800,053	1,173,435	536,339	598,306	1,134,645
Unrestricted	272,896	273,901	546,797	117,057	220,720	337,777
Total net position	\$ 646,278	\$ 1,073,954	\$ 1,720,232	\$ 653,396	\$ 819,026	\$ 1,472,422

Statement of Activities. During the current fiscal year, the City's net position increased by \$247,811. The key elements of the change in the City's net position for the year ended June 30, 2015 are as follows:

- Charges for services increased by \$177,651. This increase was largely due to the increase of water and sewer charges and customer fees.
- Capital grants decreased by \$166,849 primarily due to a special allotment grant and Barendse Park capital grants received in the prior year. The City did not receive similar grants in the current year.
- Parks expenses decreased by \$169,918, which was caused by the construction of the restrooms in Barendse Park which occurred in the prior year.
- Police and courts expenses increased by \$5,967 primarily due to the purchase of a police vehicle.
- Street expenses decreased by \$27,630 primarily due to budgeted street paving projects completed in the prior year.

City of Hubbard
Statements of Activities (Modified Cash Basis)
Year Ended June 30,

	2015			2014		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Revenues						
Program Revenues						
Charges for service	\$ 397,196	\$ 930,708	\$ 1,327,904	\$ 339,764	\$ 810,489	\$ 1,150,253
Operating grants	182,551	-	182,551	189,187	-	189,187
Capital grants	2,857	9,750	12,607	160,062	19,394	179,456
General Revenues						
Taxes and assessments	701,531	-	701,531	661,433	-	661,433
Franchise fees	170,492	-	170,492	162,971	-	162,971
Intergovernmental	79,214	-	79,214	102,979	-	102,979
Miscellaneous	24,489	74,778	99,267	65,711	1,451	67,162
<i>Total Revenues</i>	1,558,330	1,015,236	2,573,566	1,682,107	831,334	2,513,441
Expenses						
General government	191,291	-	191,291	171,483	-	171,483
Police and courts	938,064	-	938,064	932,097	-	932,097
Community development	61,213	-	61,213	51,508	-	51,508
Parks	145,256	-	145,256	315,174	-	315,174
Street	335,192	-	335,192	362,822	-	362,822
Water	-	322,101	322,101	-	327,388	327,388
Sewer	-	332,638	332,638	-	332,130	332,130
<i>Total Expenses</i>	1,671,016	654,739	2,325,755	1,833,084	659,518	2,492,602
Transfers	105,568	(105,568)	-	57,206	(57,206)	-
Change in net position	(7,118)	254,929	247,811	(93,771)	114,610	20,839
Net position, beginning of year	653,396	819,025	1,472,421	747,167	704,415	1,451,582
Net position, end of year	\$ 646,278	\$ 1,073,954	\$ 1,720,232	\$ 653,396	\$ 819,025	\$ 1,472,421

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements,

Governmental Funds. The focus of the City's governmental funds is to provide information on relatively short-term cash flow and funding for future basic services on a fund basis. Such information is useful in assessing the City's financing requirements. In particular, *fund balance* may serve as a useful measure of net resources available for spending at the end of a fiscal year.

At June 30, 2015, the City's governmental funds reported combined ending fund balances of \$646,278, a decrease of \$7,118 in comparison with prior year.

General Fund. The General Fund is the primary operating fund of the City. As of June 30, 2015, fund balance was \$173,879. The fund balance increased by \$56,822 during the current fiscal year primarily due to an increase in property taxes, land use fees and court fines. As a measure of the fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Fund balance represents 13 percent of the total of General Fund expenditures.

Street Fund - Fund balance decreased by \$20,260 during the current fiscal year primarily due to a reduction of gas tax revenue allocated to the Street Fund and a transfer from the Street Fund to the Equipment Reserve Fund.

Street Construction Fund - Fund balance decreased by \$77,505 during the current fiscal year. This was primarily due to a budgeted capital outlay expenditures for a road paving project. The nature of this fund is such that fund balance increases, sometimes for several years, until the funds are available to pay for a major project.

Parks Improvement Fund - Fund balance increased by \$17,369 during the current fiscal year due to minimal expenditures in the current year. The City anticipated receiving a grant that did not get awarded causing actual expenditures to significant below the budgeted amount.

Reserve Fund – Fund balance increased by \$16,456 due to transfers in exceeding capital acquisitions.

Enterprise funds. The City’s enterprise funds provide water and sanitary sewer services to customers. As with the governmental funds, fund balance may serve as a useful measure of net resources available for spending at the end of a fiscal year.

Sewer Fund - Fund balance increased by \$44,111 during the current fiscal year. This was due primarily to sewer revenues exceeding operating expenses.

Sewer Construction Fund - Fund balance increased by \$157,651 during the current fiscal year, due primarily to an increase in sewer fee allocated to the construction fund.

Sewer Bond Fund - Fund balance decreased by \$25,413 during the current fiscal year, which was anticipated based on the current year budget. Debt payments made during the fiscal year exceeded the amount transferred to the Sewer Bond Fund.

Water Fund - Fund balance increased by \$66,895 during the current fiscal year. This was due primarily to an increase in water revenue and actual operating expenditures being less than the budget amounts. The Council increased rates effective the first day of the fiscal year.

Water Construction Fund - Fund balance increased by \$44,096 during the current fiscal year, due primarily to deferred capital expenditures.

Water Bond Fund - Fund balance decreased by \$32,411 during the current fiscal year, which was anticipated based on the current year budget. Debt payments made during the fiscal year exceeded the amount transferred to the Water Bond Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City Council approved one supplemental budget to the adopted budget for the fiscal year ended June 30, 2015.

LONG-TERM DEBT

At the end of the current fiscal year, the City had total debt outstanding of \$1,143,998. During the current fiscal year, the City's total debt decreased by \$113,427 (9 percent).

State statutes limit the amount of general obligation debt a governmental entity may issue to 3 percent of its total real market value. The current debt limitation for the City is approximately \$6,852,387. The City has no outstanding general obligation debt.

Additional information on the City's long-term debt can be found in the notes to the basic financial statements.

City of Hubbard
Outstanding Debt

	Business-type Activities	
	2015	2014
Oregon DEQ loan	\$ 465,440	\$ 504,585
Water Refunding bonds	678,558	752,849
	<u>\$1,143,998</u>	<u>\$1,257,434</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's Budget Committee considered all the following factors while preparing the budget for the 2015-16 fiscal year.

- Expected rates and consumption for business-type funds
- Staffing requirements and the desired level of service
- Capital outlay

REQUESTS FOR INFORMATION

This financial report is designed to present the user (citizens, taxpayers, investors, and creditors) with a general overview of the City of Hubbard's finances and to demonstrate the City's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

City of Hubbard
Attn: Senior Accounting Specialist
3720 2nd Street
Hubbard, Oregon 97032

BASIC FINANCIAL STATEMENTS

CITY OF HUBBARD, OREGON
STATEMENT OF NET POSITION (MODIFIED CASH BASIS)
JUNE 30, 2015

	<u><i>Governmental Activities</i></u>	<u><i>Business-type Activities</i></u>	<u><i>Totals</i></u>
ASSETS			
Cash and cash equivalents	\$ 649,779	\$ 1,091,064	\$ 1,740,843
LIABILITIES			
Deposits	3,501	17,110	20,611
NET POSITION			
Restricted for:			
Capital outlay	259,088	679,478	938,566
Debt service	-	120,575	120,575
Streets	114,294	-	114,294
Unrestricted	272,896	273,901	546,797
<i>Total Net Position</i>	<u>\$ 646,278</u>	<u>\$ 1,073,954</u>	<u>\$ 1,720,232</u>

The accompanying notes are an integral part of the financial statements.

CITY OF HUBBARD, OREGON
STATEMENT OF ACTIVITIES (MODIFIED CASH BASIS)
YEAR ENDED JUNE 30, 2015

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 191,291	\$ 136,079	\$ -	\$ -
Police and courts	938,064	140,722	-	-
Community development	61,213	43,707	-	-
Parks	145,256	-	-	-
Street	335,192	76,688	182,551	2,857
<i>Total Governmental activities</i>	1,671,016	397,196	182,551	2,857
Business-type activities:				
Water	322,101	416,236	-	5,544
Sewer	332,638	514,472	-	4,206
<i>Total Business-type activities</i>	654,739	930,708	-	9,750
<i>Total Activities</i>	<u>\$ 2,325,755</u>	<u>\$ 1,327,904</u>	<u>\$ 182,551</u>	<u>\$ 12,607</u>
General Revenues:				
Property taxes				
Franchise taxes				
Intergovernmental				
Miscellaneous				
<i>Total General Revenues</i>				
Transfers				
Change in Net Position				
Net Position - beginning of year				
Net Position - end of year				

*Net (Expenses) Revenues
and Changes in Net Position*

<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>
\$ (55,212)	\$ -	\$ (55,212)
(797,342)	-	(797,342)
(17,506)	-	(17,506)
(145,256)	-	(145,256)
(73,096)	-	(73,096)
(1,088,412)	-	(1,088,412)
-	99,679	99,679
-	186,040	186,040
-	285,719	285,719
(1,088,412)	285,719	(802,693)
701,531	-	701,531
170,492	-	170,492
79,214	-	79,214
24,489	74,778	99,267
975,726	74,778	1,050,504
105,568	(105,568)	-
(7,118)	254,929	247,811
653,396	819,025	1,472,421
\$ 646,278	\$ 1,073,954	\$ 1,720,232

The accompanying notes are an integral part of the financial statements.

CITY OF HUBBARD, OREGON

BALANCE SHEET (MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS

JUNE 30, 2015

	<u>Special Revenue</u>	
	<u>General</u>	<u>Street</u>
ASSETS		
Cash and cash equivalents	\$ 177,380	\$ 89,007
	<hr/> <hr/>	<hr/> <hr/>
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Deposits	\$ 3,501	\$ -
 Fund Balance:		
Restricted for:		
Capital outlay	-	-
Streets	-	89,007
Committed to:		
Capital outlay	-	-
Unassigned	173,879	-
	<hr/>	<hr/>
<i>Total Fund Balance</i>	173,879	89,007
	<hr/>	<hr/>
<i>Total Liabilities and Fund Balance</i>	\$ 177,380	\$ 89,007
	<hr/> <hr/>	<hr/> <hr/>

Capital Projects

<i>Street Construction</i>	<i>Parks Improvement</i>	<i>Reserve</i>	<i>Total</i>
\$ 75,073	\$ 184,015	\$ 124,304	\$ 649,779
\$ -	\$ -	-	\$ 3,501
75,073	184,015	-	259,088
-	-	25,287	114,294
-	-	99,017	99,017
-	-	-	173,879
75,073	184,015	124,304	646,278
\$ 75,073	\$ 184,015	\$ 124,304	\$ 649,779

The accompanying notes are an integral part of the financial statements.

CITY OF HUBBARD, OREGON**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS****YEAR ENDED JUNE 30, 2015**

	<u>Special Revenue</u>	
	<u>General Fund</u>	<u>Street</u>
REVENUES		
Taxes and assessments	\$ 832,780	\$ -
Fines and forfeitures	141,348	-
Licenses and permits	214,199	76,688
Intergovernmental	64,420	127,786
Miscellaneous	24,569	1,013
<i>Total Revenues</i>	<u>1,277,316</u>	<u>205,487</u>
EXPENDITURES		
Current		
General government	185,291	-
Police and courts	898,324	-
Community development	61,213	-
Parks	145,243	-
Streets	-	199,709
Capital acquisitions	-	-
<i>Total Expenditures</i>	<u>1,290,071</u>	<u>199,709</u>
REVENUES OVER (UNDER) EXPENDITURES	(12,755)	5,778
OTHER FINANCING SOURCES (USES)		
Transfers in	109,871	-
Transfers out	(40,294)	(26,038)
<i>Total Other Financing Sources (Uses)</i>	<u>69,577</u>	<u>(26,038)</u>
NET CHANGE IN FUND BALANCE	56,822	(20,260)
FUND BALANCE, beginning of year	<u>117,057</u>	<u>109,267</u>
FUND BALANCE, end of year	<u>\$ 173,879</u>	<u>\$ 89,007</u>

<i>Capital Projects</i>			
<i>Street Construction</i>	<i>Parks Improvement</i>	<i>Reserve</i>	<i>Total</i>
\$ 1,157	\$ -	\$ -	\$ 833,937
-	-	-	141,348
1,597	-	-	292,484
54,765	16,418	-	263,389
459	964	167	27,172
57,978	17,382	167	1,558,330
-	-	-	185,291
-	-	-	898,324
-	-	-	61,213
-	-	-	145,243
-	-	-	199,709
135,483	13	45,740	181,236
135,483	13	45,740	1,671,016
(77,505)	17,369	(45,573)	(112,686)
-	-	62,029	171,900
-	-	-	(66,332)
-	-	62,029	105,568
(77,505)	17,369	16,456	(7,118)
152,578	166,646	107,848	653,396
\$ 75,073	\$ 184,015	\$ 124,304	\$ 646,278

The accompanying notes are an integral part of the financial statements.

CITY OF HUBBARD, OREGON

STATEMENT OF FUND NET POSITION (MODIFIED CASH BASIS) - PROPRIETARY FUNDS

JUNE 30, 2015

	<u>Sewer</u>	<u>Sewer Construction</u>	<u>Sewer Bond Fund</u>
ASSETS			
Cash and cash equivalents	\$ 123,397	\$ 378,443	\$ 38,747
 LIABILITIES			
Deposits	-	-	-
 NET POSITION			
Restricted for:			
Capital outlay	-	378,443	-
Debt service	-	-	38,075
Unrestricted	123,397	-	672
 <i>Total Net Position</i>	<u>\$ 123,397</u>	<u>\$ 378,443</u>	<u>\$ 38,747</u>

<i>Water</i>	<i>Water Construction</i>	<i>Water Bond Fund</i>	<i>Total</i>
\$ 167,051	\$ 301,035	\$ 82,391	\$ 1,091,064
17,110	-	-	17,110
-	301,035	-	679,478
109	-	82,391	120,575
149,832	-	-	273,901
\$ 149,941	\$ 301,035	\$ 82,391	\$ 1,073,954

The accompanying notes are an integral part of the financial statements.

CITY OF HUBBARD, OREGON**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
(MODIFIED CASH BASIS) - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2015**

	<u>Sewer</u>	<u>Sewer Construction</u>	<u>Sewer Bond Fund</u>
OPERATING REVENUES			
Charges for services	\$ 403,921	\$ 110,549	\$ -
Miscellaneous	1	42,883	-
<i>Total Operating Revenues</i>	403,922	153,432	-
Personal services	164,269	-	-
Materials and services	113,884	-	-
<i>Total Operating Expenses</i>	278,153	-	-
OPERATING INCOME	125,769	153,432	-
NONOPERATING ITEMS			
Interest revenue	6	284	25
Debt payments			
Principal	-	-	(39,145)
Interest	-	-	(15,341)
<i>Total Nonoperating Items</i>	6	284	(54,461)
NET INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	125,775	153,716	(54,461)
Capital contributions	-	4,206	-
Transfers in	-	-	29,048
Transfers out	(81,664)	(271)	-
CHANGE IN NET POSITION	44,111	157,651	(25,413)
NET POSITION, beginning of year	79,286	220,792	64,160
NET POSITION, end of year	\$ 123,397	\$ 378,443	\$ 38,747

<i>Water</i>	<i>Water Construction</i>	<i>Water Bond Fund</i>	<i>Total</i>
\$ 377,533	\$ 38,703	\$ -	\$ 930,706
31,099	-	-	73,983
408,632	38,703	-	1,004,689
124,862	-	-	289,131
101,511	-	-	215,395
226,373	-	-	504,526
182,259	38,703	-	500,163
46	395	41	797
-	-	(74,282)	(113,427)
-	-	(21,445)	(36,786)
46	395	(95,686)	(149,416)
182,305	39,098	(95,686)	350,747
-	5,544	-	9,750
-	-	63,275	92,323
(115,410)	(546)	-	(197,891)
66,895	44,096	(32,411)	254,929
83,046	256,939	114,802	819,025
\$ 149,941	\$ 301,035	\$ 82,391	\$ 1,073,954

The accompanying notes are an integral part of the financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hubbard, Oregon was incorporated in 1878 under the provisions of the Oregon Statutes. The City is headed by a City Council and Mayor who are responsible for rule-making, budget preparation and enforcement, expenditure approval, and hiring of the City management personnel. The Mayor and four Councilors are elected by vote of the general public. The Councilors are elected for four years, the Mayor for two years.

There are certain governmental agencies and various service districts which provide services within the City. These agencies have independently elected governing boards and the City is not financially accountable for these organizations. Therefore, financial information for these agencies is not included in the accompanying basic financial statements.

As discussed further under *Measurement Focus and Basis of Accounting*, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

Basic Financial Statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Government-wide financial statements display information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Position (Modified Cash Basis) and the Statement of Activities (Modified Cash Basis).

The Statement of Net Position (Modified Cash Basis) presents information on all of the assets and liabilities of the City of Hubbard as of the date on the statement. Net position is what remains after the liabilities have been paid off or otherwise satisfied. Net position is shown as restricted and unrestricted.

The Statement of Activities (Modified Cash Basis) demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, or fiduciary. Currently, the City has governmental funds (general, special revenue, and capital projects) and proprietary type funds (enterprise). Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues and expenditures / expenses. The various funds are reported by generic classification within the financial statements.

Accounting principles generally accepted in the United States of America set forth minimum criteria (percentage of the assets liabilities, revenues or expenditures / expenses of either fund category or the government and enterprise combined) for the determination of major funds. The City electively added funds as major funds, which either had debt outstanding or specific community focus.

The City reports the following governmental funds as major:

General Fund

This fund accounts for the financial operations of the City not accounted for in any other fund. Principal sources of revenue are property taxes, licenses and permits, franchise fees and State shared revenues. Primary expenditures are for administration, police protection, parks, planning, City Council, and municipal court.

Street Fund

Gas tax apportionments received from the State are recorded in this fund. Expenditures are for road construction and maintenance.

Street Construction Fund

This fund is for construction of major roadway projects. Revenues are from gas tax apportionments, development fees and grants.

Park Improvements Fund

This fund is used to accumulate resources for future improvements to the City's parks. Primary resources are system development charges and transfers from other funds.

Reserve Fund

This fund is used to accumulate resources to purchase equipment by transfers from other funds.

The City reports the following proprietary funds as major funds. These funds are used to account for the acquisition, operation, and maintenance of the sewer and water systems. These funds are entirely or predominantly self-supported through user charges to customers.

Sewer Fund

Financial activities of the City's sewer utility are recorded in this fund. Revenues consist primarily of user charges. Expenses are primarily for operation of the utility and for acquisition of property, plant, and equipment.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Sewer Construction Fund

This fund was established to account for revenues received from sewer system development charges and to provide for future repairs to the sewer system.

Sewer Bond Fund

This fund was established to account for revenues set aside for debt service on the sewer state revolving loan. Interfund transfers are the primary revenue source. Payments are for debt service.

Water Fund

Financial activities of the City's water utility are recorded in this fund. Revenues consist primarily of user charges. Expenses are primarily for operation of the utility and for acquisition of property, plant, and equipment.

Water Construction Fund

This fund was established to account for revenues received from water system development charges and to provide for future repairs to the water system.

Water Bond Redemption Fund

This fund was established to account for revenues set aside for debt service on the 2013 water bonds. Interfund transfers are the primary revenue source. Payments are for debt service.

Fund Balance

Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories, prepaids and deposits, and assets held for resale.

Fund balance is reported as restricted when the constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Fund balance is reported as committed when the City Council takes formal action that places specific constraints on how the resources may be used. The City Council can modify or rescind the commitment at any time through taking a similar formal action.

Resources that are constrained by the City's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent is expressed when the City Council approves which resources should be "reserved" during the adoption of the annual budget. The City uses that information to determine whether those resources should be classified as assigned or unassigned for presentation in the City's Annual Financial Report.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance (Continued)

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been restricted, committed, or assigned within the General Fund. This classification is also used to report any negative fund balance amounts in other governmental funds.

Definitions of Governmental Fund Types

The General Fund is used to account for all financial resources not accounted for in another fund.

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term “proceeds of specific revenues sources” means that the revenue sources for the fund must be from restricted or committed sources, specifically that a substantial portion of the revenue must be from these sources and be expended in accordance with those requirements.

Capital Projects Funds are utilized to account for financial resources to be used for the acquisition or construction of capital equipment and facilities.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

In the government-wide Statement of Net Position (Modified Cash Basis) and Statement of Activities (Modified Cash Basis), both governmental and business-type activities are presented using the economic resource measurement focus, within the limitations of the modified cash basis of accounting, as defined below.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus is applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an economic resource measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, change in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.
- c. The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

1. Interfund receivables and payables that are temporary borrowing and result from transactions involving cash or cash equivalents are recognized.
2. Assets that normally convert to cash or cash equivalents (e.g., certificates of deposit, external cash pools, and marketable investments) that arise from transactions and events involving cash or cash equivalents are recognized.
3. Liabilities for cash (or cash equivalents) held on behalf of others or held in escrow are recognized.

The modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods and services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value. Additionally, long-term liabilities such as debt are only reported in the notes to the financial statements.

If the City utilized the basis of accounting recognized as generally accepted in the United States of America, the fund financial statements for the governmental funds would use the modified accrual basis of accounting, and the fund financial statements for the enterprise funds would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

The City's policy, although not in accordance with accounting principles generally accepted in the United States of America, is acceptable under Oregon Law (ORS 294.333), which leaves the selection of the method of accounting to the discretion of the municipal corporation.

Enterprise funds distinguish between operating revenues and expenses and nonoperating items. Operating revenues and expenses result from providing services to customers in connection with ongoing utility operations. The principal operating revenues are charges to customers for service. Operating expenses include payroll and related costs, and materials and supplies. All revenues not considered operating are reported as nonoperating items.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents

The City maintains cash and cash equivalents in a common pool that is available for use by all funds. Each fund type's portion of this pool is displayed as cash and cash equivalents. The City considers cash on hand, demand deposits and savings accounts, and short-term investments with an original maturity of three months or less from the date of acquisition to be cash and cash equivalents.

Oregon Revised Statutes authorize the City to invest in certificates of deposit, savings accounts, bank repurchase agreements, bankers' acceptances, general obligations of U.S. Government and its agencies, certain bonded obligations of Oregon municipalities and the State Treasurer's Local Government Investment Pool, among others.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents (Continued)

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are stated at cost, which approximates fair value.

Property Taxes

Property taxes are levied by the County Assessor and collected by the County Tax Collector. The taxes are levied and become a lien as of July 1. They may be paid in three installments payable in equal payments due November 15, February 15, and May 15. The City's property tax collection records show that most of the property taxes due are collected during the year of levy and delinquent taxes are collected in the next few years.

Capital Assets

The City does not maintain historical cost or depreciation records for capital assets. Therefore, capital assets are not reported in the financial statements or in the notes to the financial statements.

Long-Term Debt

Long-term debt is presented only in the notes to the financial statements. Payments of principal and interest are recorded as expenditures / expenses when paid.

Accrued Compensated Absences

Accumulated unpaid vacation pay is not accrued. Earned but unpaid sick pay is recorded as an expenditure when paid.

Budget and Budgetary Accounting

The City adopts the budget on a function basis in the General Fund and an object basis in other funds, therefore, cash expenditures of a specific function or object within a fund may not legally exceed that function or object's appropriations for cash expenditures. The City Council may amend the budget to expend unforeseen revenues by supplemental appropriations. All supplemental appropriations are included in the budget comparison statements. Appropriations lapse at year-end and may not be carried over. The City does not use encumbrance accounting.

Use of Estimates

The preparation of basic financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results may differ from those estimates.

CITY OF HUBBARD, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following at June 30, 2015:

	<i>Carrying Value</i>	<i>Fair Value</i>
	<u> </u>	<u> </u>
Cash		
Cash on Hand	\$ 150	\$ 150
Cash in checking accounts	70,308	70,308
Investments		
Local Government Investment Pool	1,670,385	1,670,385
	<u>\$ 1,740,843</u>	<u>\$ 1,740,843</u>

Deposits

At year end, the book balance of the City’s bank deposits (checking accounts) was \$70,308 and the bank balance was \$123,853. The difference is due to transactions in process. Bank deposits are secured to legal limits by federal deposit insurance. The remaining amount is secured in accordance with ORS 295 under a collateral program administered by the Oregon State Treasurer.

Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the City’s deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the City’s deposits with financial institutions for up to \$250,000 each for the aggregate of all demand accounts and the aggregate of all time and savings deposits accounts at each institution. Deposits in excess of FDIC coverage are with institutions participating in the Oregon Public Funds Collateralization Program (PFCP). The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities. As of June 30, 2015, all of the City’s bank balances were covered by FDIC insurance.

Local Government Investment Pool

The State Treasurer of the State of Oregon maintains the Oregon Short-Term Fund, of which the Local Government Investment Pool is part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, the investment funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. The Oregon Short-Term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). At June 30, 2015, the fair value of the position in the Oregon State Treasurer’s Short-Term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-Term Fund is not subject to risk evaluation. LGIP is not rated for credit quality. Separate financial statements for the Oregon Short-Term Fund are available from the Oregon State Treasurer.

CITY OF HUBBARD, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

CASH AND CASH EQUIVALENTS (Continued)

Interest Rate Risk

In accordance with its investment policy, the City manages its exposure to declines in fair value of its investments by limiting the weighted average maturity of its investments through use of the Local Government Investment Pool.

Custodial Risk - Investments

For an investment, this is the risk that, in the event of a failure of the counterparty, the City will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. The City's investment policy limits the types of investments that may be held and does not allow securities to be held by the counterparty.

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 the investments. The purpose of the Board is to advise the Oregon State Treasury in the management and investment 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. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP.

LONG-TERM DEBT

As a result of the use of the modified cash basis of accounting in this report, obligations related to long-term debt and other obligations are not reported as liabilities in the financial statements. Long-term debt transactions for the year were as follows:

	<u>Original Issue</u>	<u>Outstanding July 1, 2014</u>	<u>Issued</u>	<u>Matured/ Redeemed During Year</u>	<u>Outstanding June 30, 2015</u>	<u>Due within One Year</u>
<i>Business-type activities</i>						
2013 Water Refunding Bonds	\$ 825,000	\$ 752,840	\$ -	\$ (74,282)	\$ 678,558	\$ 76,467
2006 Clean Water Revolving Fund Loan	1,076,123	504,585	-	(39,145)	465,440	40,368
	<u>\$ 1,901,123</u>	<u>\$ 1,257,425</u>	<u>\$ -</u>	<u>\$ (113,427)</u>	<u>\$ 1,143,998</u>	<u>\$ 116,835</u>

CITY OF HUBBARD, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2015

LONG-TERM DEBT (Continued)

2013 Water Refunding Bonds are paid from the Water Bond Fund. The bond agreement requires a restricted reserve account be maintained in the amount of \$82,391. The City was in compliance with this requirement at June 30, 2015.

The 2006 Clean Water Revolving Fund loan is paid from the Sewer Bond Fund. The loan agreement requires a restricted reserve account to be maintained in the amount of \$38,075. The City was in compliance with this requirement at June 30, 2015.

Future debt service requirements are as follows:

<i>Fiscal Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2016	\$ 116,835	\$ 33,378	\$ 150,213
2017	120,345	29,868	150,213
2018	123,962	26,251	150,213
2019	127,686	22,527	150,213
2020	131,522	18,691	150,213
2021-2025	523,648	35,963	559,611
	\$ 1,143,998	\$ 166,678	\$ 1,310,676

PENSION PLAN

General Information about the Pension Plan

Defined Benefit Plan

Name of the pension plan: The Oregon Public Employees Retirement System (OPERS) is a cost-sharing multiple-employer defined benefit plan.

Plan description. Employees of the City are provided with pensions through OPERS. All the benefits of OPERS are established by the Oregon legislature pursuant to Oregon Revised Statute (ORS) Chapters 238 and 238A. OPERS issues a publicly available financial report. This report can be obtained at the PERS website: http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx.

Benefits provided under Chapter 238-Tier One / Tier Two

1. *Pension Benefits.* The OPERS retirement allowance is payable monthly for life. It 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 (2.0 percent for police and fire employees, 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.

PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

Defined Benefit Plan (Continued)

Benefits provided under Chapter 238-Tier One / Tier Two (Continued)

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 (age 45 for police and fire members). General service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

2. *Death Benefits.* 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:
 - Member was employed by a OPERS employer at the time of death,
 - Member died within 120 days after termination of OPERS-covered employment,
 - Member died as a result of injury sustained while employed in a OPERS-covered job, or
 - Member was on an official leave of absence from a OPERS-covered job at the time of death.
3. *Disability Benefits.* 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 (including OPERS judge members) for disability benefits regardless of the length of OPERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.
4. *Benefit Changes After Retirement.* Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments.

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond 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.

Benefits provided under Chapter 238A-OPSRP Pension Program (OPSRP DB)

1. *Pension Benefits.* The ORS 238A Defined Benefit Pension Program provides benefits to members hired on or after August 29, 2003.

This portion of the OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

CITY OF HUBBARD, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

Defined Benefit Plan (Continued)

Benefits provided under Chapter 238A-OPSRP Pension Program (OPSRP DB) (Continued)

Police and fire: 1.8 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for police and fire members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire member for at least five years immediately preceding retirement.

General service: 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 pension program 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.

2. *Death Benefits.* 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.
3. *Disability Benefits.* 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 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.
4. *Benefit Changes After Retirement.* Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond 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

OPERS 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. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

Employer contribution rates during the period were based on the December 31, 2011 actuarial valuation, as subsequently modified by 2013 legislated changes in benefit provisions. The rates based on a percentage of payroll, first became effective July 1, 2013. 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, 2015 were \$149,853, excluding amounts to fund employer specific liabilities. These contributions were allocated \$105,754 to PERS/OPSRP, \$40,396 to the IAP, and \$3,703 to the Retiree Health Insurance accounts.

CITY OF HUBBARD, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Contributions (Continued)

The rates in effect for the fiscal year ended June 30, 2015 were: (1) Tier1/Tier 2 – 17.48%, (2) OPSRP general service – 13.42%, and (3) OPSRP uniformed – 16.15%.

Actuarial Valuations

The employer contribution rates effective July 1, 2013, through June 30, 2015, were set using the projected unit credit actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years. For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

Actuarial Methods and Assumptions

Valuation Date	December 31, 2012 rolled forward to June 30, 2014
Experience Study Report	2012, published September 18, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years.
Asset Valuation Method	Market value of assets
Actuarial Assumptions:	
Inflation Rate	2.75 percent
Investment Rate of Return	7.75 percent
Projected Salary Increases	3.75 percent overall payroll growth; salaries for individuals are assumed to grow at 3.75 percent plus assumed rates of merit/longevity increases based on service.
Mortality	Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation. Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation. Disabled retirees: Mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table.

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

CITY OF HUBBARD, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.75 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.

Depletion Date Projection

GASB 67 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan’s Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 67 will often require that the actuary perform complex projections of future benefit payments and asset values. GASB 67 (paragraph 43) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

The following circumstances justify an alternative evaluation of sufficiency for Oregon PERS:

- Oregon PERS has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.
- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100% funded position by the end of the amortization period if future experience follows assumption.
- GASB 67 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate of return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan’s funded position.

Based on these circumstances, it is our independent actuary’s opinion that the detailed depletion date projections outlined in GASB 67 would clearly indicate that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses.

Assumed Asset Allocation

<u>Asset Class/Strategy</u>	<u>Low Range</u>	<u>High Range</u>	<u>OIC Target</u>
Cash	0.0 %	3.0 %	0.0 %
Debt Securities	15.0	25.0	20.0
Public Equity	32.5	42.5	37.5
Private Equity	16.0	24.0	20.0
Real Estate	9.5	15.5	12.5
Alternative Equity	0.0	10.0	10.0
Opportunity Portfolio	0.0	3.0	0.0
Total			<u>100.0 %</u>

CITY OF HUBBARD, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Long-Term Expected Rate of Return

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

<u>Asset Class</u>	<u>Target</u>	<u>Compound Annual Return (Geometric)</u>
Core Fixed Income	7.20 %	4.50 %
Short-Term Bonds	8.00	3.70
Intermediate-Term Bonds	3.00	4.10
High Yield Bonds	1.80	6.66
Large Cap US Equities	11.65	7.20
Mid Cap US Equities	3.88	7.30
Small Cap US Equities	2.27	7.45
Developed Foreign Equities	14.21	6.90
Emerging Foreign Equities	5.49	7.40
Private Equity	20.00	8.26
Opportunity Funds/Absolute Return	5.00	6.01
Real Estate (Property)	13.75	6.51
Real Estate (REITS)	2.50	6.76
Commodities	7.71	6.07
Assumed Inflation - Mean		2.75

Sensitivity of the City’s proportionate share of the net pension liability to changes in the discount rate. The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.75 percent) or 1% higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Proportionate share of the net pension liability	\$ 623,898	\$ (294,619)	\$ (1,071,470)

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

CITY OF HUBBARD, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the City had an asset of \$294,619 for its proportionate share of the net pension asset. As the City utilizes the modified cash basis of accounting, this asset is not reported on the Statement of Net Position. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2012 and rolled forward to June 30, 2014. Therefore, these calculations did not reflect current year amounts paid. The City's proportion of the net pension asset was based on the City's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers.

Rates of every employer have at least two major components:

1. Normal Cost Rate: The economic value, stated as a percent of payroll, for the portion of each active member's total projected retirement benefit that is allocated to the upcoming year of service. The rate is in effect for as long as each member continues in OPERS-covered employment. The current value of all projected future Normal Cost Rate contributions is the Present Value of Future Normal Costs (PVFNC). The PVFNC represents the portion of the projected long-term contribution effort related to future service.
2. UAL Rate: If system assets are less than the actuarial liability, an Unfunded Actuarial Liability (UAL) exists. UAL can arise in a biennium when an event such as experience differing from the assumptions used in the actuarial valuation occurs. An amortization schedule is established to eliminate the UAL that arises in a given biennium over a fixed period of time if future experience follows assumption. The UAL Rate is the upcoming year's component of the cumulative amortization schedules, stated as a percent of payroll. The present value of all projected UAL Rate contributions is simply the Unfunded Actuarial Liability (UAL) itself. The UAL represents the portion of the projected long-term contribution effort related to past service.
3. Looking at both rate components, the projected long-term contribution effort is just the sum of the PVFNC and the UAL. The PVFNC part of the contribution effort pays for the value of future service while the UAL part of the contribution effort pays for the value of past service not already funded by accumulated contributions and investment earnings.

The UAL has Tier 1/Tier 2 and OPSRP pieces. The Tier 1/Tier 2 piece is based on the employer's Tier 1/Tier 2 pooling arrangement. If an employer participates in one of the two large Tier 1/Tier 2 rate pools [State & Local Government Rate Pool (SLGRP) or School Districts Rate Pool], then the employer's Tier 1/Tier 2 UAL is just their pro-rata share of their pool's UAL. The pro-rata calculation is based on the employer's payroll in proportion to the pool's total payroll. For example, if the employer's payroll is one percent of the pool's total payroll, the employer will be allocated one percent of the pool's UAL. The OPSRP piece of the UAL follows a parallel pro-rata approach, as OPSRP experience is mandatorily pooled at a state-wide level. Employers that do not participate in a Tier 1/Tier 2 pooling arrangement, who are referred to as "Independent Employers", have their Tier 1/Tier 2 UAL tracked separately in the actuarial valuation. The division of the UAL across employers is shown graphically below.

An employer's PVFNC depends on both the normal cost rates charged on the employer's payrolls, and on the underlying demographics of the respective payrolls. For OPERS funding, employers have up to three different payrolls, each with a different normal cost rate: (1) Tier 1/Tier 2 payroll, (2) OPSRP general service payroll, and (3) OPSRP police and fire payroll.

The employer's Normal Cost Rates for each payroll are combined with system-wide present value factors for each payroll to develop an estimated PVFNC. The present value factors are actuarially determined at a system level for simplicity and to allow for the PVFNC calculations to be audited in a timely, cost-effective manner. Thus for each and every system employer, the PVFNC is calculated following the format in the table below.

CITY OF HUBBARD, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Since many governments in Oregon have sold pension obligation bonds and deposited the proceeds with OPERS (referred to as side accounts or transitional liability or surplus), adjustments are required. After each employer's projected long-term contribution effort is calculated, that amount is reduced by the value of the employer's side account, transitional liability/surplus, and pre-SLGRP liability/surplus (if any). This is done as those balances increase/decrease the employer's projected long-term contribution effort because side accounts are effectively pre-paid contributions.

Looking at both rate components, the projected long-term contribution effort is just the sum of the PVFNC and UAL. The PVFNC part of the contribution effort pays for the value of future service while the UAL part of the contribution effort pays for the value of past service not already funded by accumulated contributions and investment earnings. Each of the two contribution effort components are calculated at the employer-specific level. The sum of these components across all employers is the total projected long-term contribution effort.

At June 30, 2015, the City's proportion was 0.01299760%.

For the year ended June 30, 2015, the City reported pension expense of \$294,619.

Changes in Plan Provisions Subsequent to Measurement Date

The Oregon Supreme Court on April 30, 2015, ruled that the provisions of Senate Bill 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law was unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually. The City will make restoration payments to those benefit recipients.

PERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire.

This is a change in benefit terms subsequent to the measurement date of June 30, 2014, and will not be included in the net pension liability (asset) proportionate shares provided to employers in June 2015.

It is estimated that this change will increase overall PERS net pension liability by \$178 million.

Changes in Assumptions

A summary of key changes implemented since the December 31, 2011 valuation are described briefly below. Additional detail and a comprehensive list of changes in methods and assumptions can be found in the 2012 Experience Study for the System, which was published on September 18, 2013, and can be found at the PERS website: <http://www.oregon.gov/pers/docs/2012%20Exp%20Study%20Updated.pdf>

CITY OF HUBBARD, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Changes in Actuarial Methods and Allocation Procedures

Actuarial Cost Method

The Actuarial Cost Method was changed from the Projected Unit Credit (PUC) Cost Method to the Entry Age Normal (EAN) Cost Method. This change will allow PERS to use the same cost method for contribution rate calculations as required for financial reporting under GASB Statements 67 and 68.

Tier 1/Tier 2 UAL Amortization

In combination with the change in cost method, the Board chose to re-amortize the outstanding Tier 1/Tier 2 UAL as of December 31, 2013 over a closed period of 20 years as a level percentage of projected payroll. Gains and losses between subsequent rate-setting valuations will be amortized over a closed 20 year period from the valuation in which they are first recognized.

Contribution Rate Stabilization Method

The “grade-in range” over which the rate collar gradually doubles was modified so that the collar doubles as funded status (excluding side accounts) decreases from 70% to 60% or increases from 130% to 140%. Previously the ranges had been 80% to 70% and 120% to 130%. The modification to the grade-in range was made in combination with the change to actuarial cost method, as discussed at the July 2013 PERS Board public meeting.

Allocation of Liability for Service Segments

For purposes of allocating Tier 1/Tier 2 member’s actuarial accrued liability among multiple employers, the valuation uses a weighted average of the Money Match methodology and the Full Formula methodology used by PERS when the member retires. The weights are determined based on the prevalence of each formula among the current Tier 1/Tier 2 population. For the December 31, 2010 and December 31, 2011 valuations, the Money Match was weighted 40 percent for General Service members and 10 percent for Police & Fire members. For the December 31, 2012 and December 31, 2013 valuations, this weighting has been adjusted to 30 percent for General Service members and 5 percent for Police & Fire members, based on a projection of the proportion of liability attributable to Money Match benefits at those valuation dates.

Changes in Economic Assumptions

Investment Return and Interest Crediting

The assumed investment return and interest crediting to both regular and variable account balances was reduced to 7.75%. Previously, the assumed investment return and interest crediting to regular account balances was 8.00% and the assumed interest crediting to variable account balances was 8.25%.

OPSRP Administrative Expenses

Assumed administrative expenses for the OPSRP System were reduced from \$6.6 million per year to \$5.5 million per year.

CITY OF HUBBARD, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Changes in Economic Assumptions (Continued)

Healthcare Cost Inflation

The healthcare cost inflation for the maximum RHIPA subsidy was updated based on analysis performed by Milliman's healthcare actuaries. This analysis includes the consideration of the excise tax that will be introduced in 2018 by the Patient Protection and Affordable Care Act.

Changes in Demographic Assumptions

Healthy Mortality

The healthy mortality assumption is based on the RP2000 generational mortality tables with group-specific class and setback adjustments. The group-specific adjustments have been updated to more closely match recently observed system experience.

Disabled Mortality

The disabled mortality assumption base was changed from the RP2000 healthy tables to the RP2000 disabled tables. Gender-specific adjustments were applied to align the assumption with recently observed system experience.

Disability, Retirement from Active Status, and Termination

Rates for disability, retirement from active status, and termination were adjusted. Termination rates were changed from being indexed upon age to being indexed upon duration from hire date.

Changes in Salary Increase Assumptions

Merit Increases, Unused Sick Leave, and Vacation Pay

Assumed merit increases were lowered for School District members. Unused Sick Leave and Vacation Pay rates were adjusted.

Retiree Healthcare Participation

The RHIA participation rate for healthy retirees was reduced from 48% to 45%. The RHIPA participation rate was changed from a uniform rate of 13% to a service-based table of rates. (Source: December 31, 2012 Actuarial Valuation p.89)

Defined Contribution Plan

OPSRP Individual Account Program (OPSRP IAP)

Pension Benefits

Participants in OPERS defined benefit pension plans also participate in their defined contribution plan. An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member 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, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

CITY OF HUBBARD, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Defined Contribution Plan (Continued)

OPSRP Individual Account Program (OPSRP IAP) (Continued)

Pension Benefits (Continued)

Upon retirement, a member of the OPSRP Individual Account Program (IAP) may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5, 10, 15, 20 year period or an anticipated life span option. Each distribution option has a \$200 minimum distribution limit.

Death Benefits

Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution account balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

Contributions

The City has chosen to pay the employees contributions to the plan. 6% of covered payroll is paid for general service employees and 6% of covered payroll is paid for firefighters and police officers.

Recordkeeping

PERS contracts with VOYA Financial to maintain IAP participant records

PROPORTIONATE SHARE OF THE NET PENSION LIABILITY OF THE OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

Last 10 Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Proportion of the net pension liability (asset)	0.01299760%	0.01299760%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Proportionate share of the net pension liability (asset)	\$ (294,617)	\$ 663,287	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Covered-employee payroll	150,402	151,723	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-195.89%	437.17%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

CITY OF HUBBARD, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

CONTRIBUTIONS TO THE OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Last 10 Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 150,221	\$ 151,723	\$ 150,793	\$ 160,920	\$ 126,463	\$ 156,430	\$ 143,546	\$ 141,938	unavailable	unavailable
Contributions in relation to the contractually required contribution	150,221	151,723	150,793	160,920	126,463	156,430	143,546	141,938	unavailable	unavailable
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	N/A	N/A
City's covered-employee payroll	150,402	151,723	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	99.88%	100.00%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

INTERFUND TRANSFERS

Interfund transfers for the year were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 109,871	\$ 40,294
Reserve	62,029	-
Street	-	26,038
Sewer	-	81,664
Sewer Construction	-	271
Sewer Bond	29,048	-
Water	-	115,410
Water Construction	-	546
Water Bond	63,275	-
	<u>\$ 264,223</u>	<u>\$ 264,223</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move revenues restricted to debt service from the funds collecting the revenues to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CONTINGENCIES

The City purchases commercial insurance to cover all commonly insurable risks, which includes property damage, liability and employee bonds. Most policies carry a small deductible amount. No insurance claims settled in each of the prior three years have exceeded policy coverage.

CITY OF HUBBARD, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

CONTINGENCIES (Continued)

From time to time, the City is a defendant in various litigation proceedings. Management believes any losses arising from these actions will not materially affect the City’s financial position.

RELATED PARTY TRANSACTIONS

The City conducts business with Dryden Electric Inc. a company owned by Joe Dryden, the brother of the Police Chief. The total amounts of the transactions were \$1,524.

The City also conducts business with Hubbard Shell, a company owned by former mayor Tom McCain, the father of council member Barbara Ruiz. The total amounts of the transactions were \$20,933.

EXPENDITURES IN EXCESS OF APPROPRIATIONS

Expenditures in excess of appropriations in individual funds for the year ended June 30, 2015 occurred as follows:

<i>Fund/Appropriation Category</i>	<i>Budget</i>	<i>Actual</i>	<i>Variance</i>
<i>General</i>			
Parks	\$ 140,921	\$ 145,243	\$ (4,322)

NEW PRONOUNCEMENTS

GASB Statement No. 68 “Accounting and Reporting for Pension Plans—an amendment of GASB Statement No. 27.” The statement establishes accounting and financial reporting requirements related to pensions provided by governments. The statement was implemented in the current year.

GASB Statement No. 71 “Pension Transition for Contributions Made Subsequent to the Measurement Date”. The statement amends transition provisions of GASB Statement No. 68, establishes accounting and financial reporting standards for recognition of contributions made between the measurement date of the net pension liability and implementation of GASB Statement No. 68. The statement was implemented in the current year.

The City will implement applicable new GASB pronouncements no later than the required fiscal year. Management has not determined the effect on the financial statements from implementing any of the following pronouncements.

GASB Statement No. 72 “Fair Value Measurement and Application” addresses accounting and financial reporting issues related to fair value measurements. It provides guidance for determining a fair value measurement for financial reporting purposes, as well as guidance for applying fair value to certain investments, and disclosures related to all fair value measurements. The statement is effective for fiscal years beginning after June 15, 2015.

GASB Statement No. 73 “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68”, completes the suite of pension standards. The requirements in Statement 73 for reporting pensions generally are the same as in Statement 68. The statement is generally effective for fiscal years beginning after June 15, 2015.

CITY OF HUBBARD, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

NEW PRONOUNCEMENTS (Continued)

GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”, addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. It requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. The statement is effective for fiscal years beginning after June 15, 2016.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 27, 2015, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements

SUPPLEMENTAL INFORMATION

CITY OF HUBBARD, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - GENERAL FUND****YEAR ENDED JUNE 30, 2015**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ 808,600	\$ 808,600	\$ 832,780	\$ 24,180
Fines and forfeitures	114,800	114,800	141,348	26,548
Licenses and permits	183,500	183,500	214,199	30,699
Intergovernmental	101,700	101,700	64,420	(37,280)
Miscellaneous	21,610	21,610	24,569	2,959
<i>Total Revenues</i>	1,230,210	1,230,210	1,277,316	47,106
EXPENDITURES				
Administration	212,008	212,008	180,203	31,805
Court	54,817	54,817	51,065	3,752
Council	7,000	7,000	5,088	1,912
Community development	57,968	66,836	61,213	5,623
Police	885,570	895,420	847,259	48,161
Parks	139,919	140,921	145,243	(4,322)
Contingency	65,009	39,986	-	39,986
<i>Total Expenditures</i>	1,422,291	1,416,988	1,290,071	126,917
REVENUES OVER (UNDER) EXPENDITURES	(192,081)	(186,778)	(12,755)	174,023
OTHER FINANCING SOURCES (USES)				
Transfers in	122,119	110,015	109,871	(144)
Transfers out	(37,200)	(40,294)	(40,294)	-
<i>Total Other Financing Sources and Uses</i>	84,919	69,721	69,577	(144)
NET CHANGE IN FUND BALANCE	(107,162)	(117,057)	56,822	173,879
FUND BALANCE, beginning of year	107,162	117,057	117,057	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 173,879	\$ 173,879

CITY OF HUBBARD, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - STREET FUND****YEAR ENDED JUNE 30, 2015**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Licenses and permits	\$ 74,188	\$ 74,188	\$ 76,688	\$ 2,500
Intergovernmental	129,500	129,500	127,786	(1,714)
Miscellaneous	600	600	1,013	413
<i>Total Revenues</i>	204,288	204,288	205,487	1,199
EXPENDITURES				
Personal services	131,278	131,278	126,367	4,911
Materials and services	90,430	90,430	73,342	17,088
Contingency	66,753	65,809	-	65,809
<i>Total Expenditures</i>	288,461	287,517	199,709	87,808
REVENUES OVER (UNDER) EXPENDITURES	(84,173)	(83,229)	5,778	89,007
OTHER FINANCING SOURCES (USES)				
Transfers out	(29,371)	(26,038)	(26,038)	-
NET CHANGE IN FUND BALANCE	(113,544)	(109,267)	(20,260)	89,007
FUND BALANCE, beginning of year	113,544	109,267	109,267	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 89,007	\$ 89,007

CITY OF HUBBARD, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – STREET CONSTRUCTION FUND****YEAR ENDED JUNE 30, 2015**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Licenses and permits	\$ 2,824	\$ 2,824	\$ 1,597	\$ (1,227)
Intergovernmental	105,500	105,500	54,765	(50,735)
Taxes and assessments	572	572	1,157	585
Miscellaneous	600	600	459	(141)
<i>Total Revenues</i>	109,496	109,496	57,978	(51,518)
EXPENDITURES				
Materials and services	3,900	3,900	-	3,900
Capital acquisitions	207,420	207,420	135,483	71,937
Contingency	30,696	50,754	-	50,754
<i>Total Expenditures</i>	242,016	262,074	135,483	126,591
NET CHANGE IN FUND BALANCE	(132,520)	(152,578)	(77,505)	75,073
FUND BALANCE, beginning of year	132,520	152,578	152,578	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 75,073	\$ 75,073

CITY OF HUBBARD, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - PARK IMPROVEMENT FUND
YEAR ENDED JUNE 30, 2015**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Licenses and permits	\$ 3,597	\$ 3,597	\$ -	\$ (3,597)
Intergovernmental	157,940	157,940	16,418	(141,522)
Miscellaneous	1,400	1,400	964	(436)
<i>Total Revenues</i>	162,937	162,937	17,382	(145,555)
EXPENDITURES				
Capital acquisitions	290,000	290,000	13	289,987
Contingency	38,106	39,439	-	39,439
<i>Total Expenditures</i>	328,106	329,439	13	329,426
REVENUES OVER (UNDER) EXPENDITURES	(165,169)	(166,502)	17,369	183,871
OTHER FINANCING SOURCES (USES)				
Transfers out	(144)	(144)	-	144
NET CHANGE IN FUND BALANCE	(165,313)	(166,646)	17,369	184,015
FUND BALANCE, beginning of year	165,313	166,646	166,646	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 184,015	\$ 184,015

CITY OF HUBBARD, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - RESERVE FUND

YEAR ENDED JUNE 30, 2015

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ -	\$ -	\$ 167	\$ 167
EXPENDITURES				
Capital acquisitions	165,233	169,877	45,740	124,137
REVENUES OVER (UNDER) EXPENDITURES	(165,233)	(169,877)	(45,573)	124,304
OTHER FINANCING SOURCES (USES)				
Transfers in	57,385	62,029	62,029	-
NET CHANGE IN FUND BALANCE	(107,848)	(107,848)	16,456	124,304
FUND BALANCE, beginning of year	107,848	107,848	107,848	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 124,304	\$ 124,304

CITY OF HUBBARD, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - SEWER FUND****YEAR ENDED JUNE 30, 2015**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 361,680	\$ 361,680	\$ 403,921	\$ 42,241
Miscellaneous	250	250	7	(243)
<i>Total Revenues</i>	361,930	361,930	403,928	41,998
EXPENDITURES				
Personal services	177,080	177,080	164,269	12,811
Materials and services	116,230	116,230	113,884	2,346
Contingency	56,730	66,242	-	66,242
<i>Total Expenditures</i>	350,040	359,552	278,153	81,399
REVENUES OVER (UNDER) EXPENDITURES	11,890	2,378	125,775	123,397
OTHER FINANCING SOURCES (USES)				
Transfers out	(85,461)	(81,664)	(81,664)	-
CHANGE IN FUND BALANCE	(73,571)	(79,286)	44,111	123,397
FUND BALANCE, beginning of year	73,571	79,286	79,286	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 123,397	\$ 123,397

CITY OF HUBBARD, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - SEWER CONSTRUCTION FUND
YEAR ENDED JUNE 30, 2015**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 146,916	\$ 146,916	\$ 110,549	\$ (36,367)
Licenses and permits	4,205	4,205	4,206	1
Miscellaneous	500	500	43,167	42,667
<i>Total Revenues</i>	151,621	151,621	157,922	6,301
EXPENDITURES				
Materials and services	130,000	130,000	-	130,000
Contingency	241,519	242,142	-	242,142
<i>Total Expenditures</i>	371,519	372,142	-	372,142
REVENUES OVER (UNDER) EXPENDITURES	(219,898)	(220,521)	157,922	378,443
OTHER FINANCING SOURCES (USES)				
Transfers out	(271)	(271)	(271)	-
CHANGE IN FUND BALANCE	(220,169)	(220,792)	157,651	378,443
FUND BALANCE, beginning of year	220,169	220,792	220,792	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 378,443	\$ 378,443

CITY OF HUBBARD, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – SEWER BOND FUND****YEAR ENDED JUNE 30, 2015**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ 200	\$ 200	\$ 25	(175)
EXPENDITURES				
Debt payments				
Principal	39,755	39,755	39,145	610
Interest	15,579	15,579	15,341	238
<i>Total Expenditures</i>	55,334	55,334	54,486	848
REVENUES OVER (UNDER) EXPENDITURES	(55,134)	(55,134)	(54,461)	673
OTHER FINANCING SOURCES (USES)				
Transfers in	29,696	29,048	29,048	-
CHANGE IN FUND BALANCE	(25,438)	(26,086)	(25,413)	673
FUND BALANCE, beginning of year	63,513	64,161	64,160	(1)
FUND BALANCE, end of year	\$ 38,075	\$ 38,075	\$ 38,747	\$ 672

CITY OF HUBBARD, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - WATER FUND****YEAR ENDED JUNE 30, 2015**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 383,500	\$ 383,500	\$ 377,533	\$ (5,967)
Miscellaneous	32,050	32,050	31,145	(905)
<i>Total Revenues</i>	415,550	415,550	408,678	(6,872)
EXPENDITURES				
Personal services	136,619	136,619	124,862	11,757
Materials and services	129,293	129,293	101,511	27,782
Contingency	104,339	117,274	-	117,274
<i>Total Expenditures</i>	370,251	383,186	226,373	156,813
REVENUES OVER (UNDER) EXPENDITURES	45,299	32,364	182,305	149,941
OTHER FINANCING SOURCES (USES)				
Transfers out	(114,749)	(115,410)	(115,410)	-
CHANGE IN FUND BALANCE	(69,450)	(83,046)	66,895	149,941
FUND BALANCE, beginning of year	69,450	83,046	83,046	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 149,941	\$ 149,941

CITY OF HUBBARD, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – WATER CONSTRUCTION FUND****YEAR ENDED JUNE 30, 2015**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 51,888	\$ 51,888	\$ 38,703	\$ (13,185)
Licenses and permits	3,045	3,045	5,544	2,499
Miscellaneous	128	400	395	(5)
<i>Total Revenues</i>	55,061	55,333	44,642	(10,691)
EXPENDITURES				
Capital acquisitions	9,000	9,000	-	9,000
Contingency	302,612	302,726	-	302,726
<i>Total Expenditures</i>	311,612	311,726	-	311,726
REVENUES OVER (UNDER) EXPENDITURES	(256,551)	(256,393)	44,642	301,035
OTHER FINANCING SOURCES (USES)				
Transfers out	(274)	(546)	(546)	-
CHANGE IN FUND BALANCE	(256,825)	(256,939)	44,096	301,035
FUND BALANCE, beginning of year	256,825	256,939	256,939	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 301,035	\$ 301,035

CITY OF HUBBARD, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - WATER BOND FUND****YEAR ENDED JUNE 30, 2015**

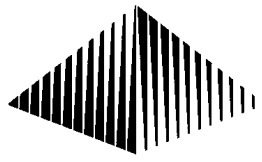
	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ 150	\$ 150	\$ 41	\$ (109)
EXPENDITURES				
Debt payments				
Principal	74,282	74,282	74,282	-
Interest	21,445	21,445	21,445	-
<i>Total Expenditures</i>	<u>95,727</u>	<u>95,727</u>	<u>95,727</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES	(95,577)	(95,577)	(95,686)	(109)
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>58,270</u>	<u>63,275</u>	<u>63,275</u>	<u>-</u>
CHANGE IN FUND BALANCE	(37,307)	(32,302)	(32,411)	(109)
FUND BALANCE, beginning of year	<u>119,807</u>	<u>114,802</u>	<u>114,802</u>	<u>-</u>
FUND BALANCE, end of year	<u>\$ 82,500</u>	<u>\$ 82,500</u>	<u>\$ 82,391</u>	<u>\$ (109)</u>

OTHER SCHEDULES

CITY OF HUBBARD, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS
YEAR ENDED JUNE 30, 2015

<i>Tax Year</i>	<i>Uncollected Balances July 1, 2014</i>	<i>2014-2015 Levy</i>	<i>Added To Rolls</i>	<i>Interest, Discounts & Adjustments</i>	<i>Turnovers</i>	<i>Uncollected Balances June 30, 2015</i>
2014-2015	\$ -	\$ 715,740	\$ 66	\$ (21,002)	\$ (676,146)	\$ 18,658
2013-2014	20,095	-	-	(214)	(11,148)	8,733
2012-2013	10,779	-	-	(170)	(5,034)	5,575
2011-2012	6,047	-	-	(66)	(3,869)	2,112
2010-2011	2,168	-	-	(46)	(1,347)	775
2009-2010	762	-	-	(39)	(172)	551
2008-2009	428	-	-	(33)	(94)	301
Prior Years	1,065	-	-	(77)	(65)	923
Total	\$ 41,344	\$ 715,740	\$ 66	\$ (21,647)	\$ (697,875)	\$ 37,628

COMPLIANCE SECTION



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

Honorable Mayor and Members of the City Council
City of Hubbard
592 Fourth Street
Hubbard, Oregon 97026

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the City of Hubbard, Oregon as of and for the year ended June 30, 2015, and have issued our report thereon dated October 27, 2015.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. 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.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- **Deposit of public funds with financial institutions (ORS Chapter 295).**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **Highway revenues used for public highways, roads, and streets.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**
- **Accountability for collecting or receiving money by elected officials - no money was collected or received by elected officials.**

In connection with our testing nothing came to our attention that caused us to believe the City was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, except as follows:

1. The City's budget for estimated beginning fund balance for the 2015-16 fiscal year did not always approximate the actual ending fund balance for the 2014-15 fiscal year. The differences noted are as follows:

Fund Name	15/16 Budgeted Beginning Fund Balance	14/15 Actual Ending Fund Balance	Dollar Variance	Percent Variance
General Fund	\$ 71,310	\$ 173,879	\$ (102,569)	-59%
Sewer Bond Fund	64,161	38,747	25,414	66%

2. The City had over expenditures of appropriations as noted in the notes to the financial statements.


OAR 162-10-0230 - Internal Control

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Restriction on Use

This report is intended solely for the information and use of the City Council and management of the City of Hubbard, Oregon and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

GROVE, MUELLER & SWANK, P.C.
 CERTIFIED PUBLIC ACCOUNTANTS

By: 
 Ryan T. Pasquarella, A Shareholder
 October 27, 2015