

***CITY OF HUBBARD, OREGON
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2017***

CITY OF HUBBARD, OREGON
CITY OFFICIALS
JUNE 30, 2017

| <u>Name</u> | MAYOR | <u>Term</u> |
|--|--------------|-------------------|
| Charles Rostocil 3720 2 nd Street Hubbard, Oregon 97032 | | December 31, 2018 |

CITY COUNCIL MEMBERS

| | | |
|--|--|-------------------|
| Angie Wheatcroft 3720 2 nd Street Hubbard, Oregon 97032 | | December 31, 2018 |
| James Audritsh 3720 2 nd Street Hubbard, Oregon 97032 | | December 31, 2020 |
| Barbara Ruiz 3720 2 nd Street Hubbard, Oregon 97032 | | December 31, 2020 |
| Michelle Luna 3720 2 nd Street Hubbard, Oregon 97032 | | December 31, 2018 |

DIRECTOR OF ADMINISTRATION / 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, 2017, 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, 2017, 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 26, 2017, 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 26, 2017

CITY OF HUBBARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

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, 2017.

FINANCIAL HIGHLIGHTS

| | June 30, | | change |
|-------------------------------------|--------------|--------------|------------|
| | 2017 | 2016 | |
| Net position | \$ 3,467,005 | \$ 2,749,674 | \$ 717,331 |
| Change in net position | 717,331 | 1,029,442 | (312,111) |
| Governmental net position | 1,460,636 | 1,143,137 | 317,499 |
| Proprietary net position | 2,006,369 | 1,606,537 | 399,832 |
| Change in governmental net position | 317,499 | 496,859 | (179,360) |
| Change in proprietary net position | 399,832 | 532,583 | (132,751) |

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 and court, streets, 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 \$3,467,005 as of June 30, 2017.

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,

| | 2017 | | | 2016 | | |
|---------------------------|----------------------------|-----------------------------|---------------------|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total | Governmental Activities | Business-type Activities | Total |
| <i>Assets</i> | | | | | | |
| Cash and cash equivalents | \$ 1,475,091 | \$ 2,022,889 | \$ 3,497,980 | \$ 1,151,219 | \$ 1,625,010 | \$ 2,776,229 |
| <i>Liabilities</i> | | | | | | |
| Deposits | 14,455 | 16,520 | 30,975 | 8,082 | 18,473 | 26,555 |
| <i>Net Position</i> | | | | | | |
| Restricted | 644,414 | 1,697,633 | 2,342,047 | 628,729 | 1,345,721 | 1,974,450 |
| Unrestricted | 816,222 | 308,736 | 1,124,958 | 514,408 | 260,816 | 775,224 |
| Total net position | <u>\$ 1,460,636</u> | <u>\$ 2,006,369</u> | <u>\$ 3,467,005</u> | <u>\$ 1,143,137</u> | <u>\$ 1,606,537</u> | <u>\$ 2,749,674</u> |

Statement of Activities. During the current fiscal year, the City's net position increased by \$717,331. The key elements of the change in the City's net position for the year ended June 30, 2017 are as follows:

- Property tax revenue remained fairly constant.
- Charges for services increased slightly in both governmental and business-type activities.
- Capital grants decreased by \$332,023 primarily due to a significant decrease in system development charges for parks, streets, water and sewer.
- Police and court expenses decreased by \$147,711 as a result of decreased payroll expenses.
- Park expenses increased by \$133,136 as a result of construction projects at Rivenes Park.

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

| | 2017 | | | 2016 | | |
|---------------------------------|----------------------------|---------------------------------|--------------|----------------------------|---------------------------------|--------------|
| | Governmental Activities | Business- type Activities | Total | Governmental Activities | Business- type Activities | Total |
| Revenues | | | | | | |
| Program Revenues | | | | | | |
| Charges for services | \$ 559,276 | \$ 1,096,692 | \$ 1,655,968 | \$ 533,943 | \$ 1,046,436 | \$ 1,580,379 |
| Operating grants | 197,124 | - | 197,124 | 195,512 | - | 195,512 |
| Capital grants | 93,266 | 96,657 | 189,923 | 265,056 | 256,890 | 521,946 |
| General Revenues | | | | | | |
| Property taxes | 753,206 | - | 753,206 | 724,769 | - | 724,769 |
| Franchise taxes | 175,551 | - | 175,551 | 173,865 | - | 173,865 |
| Intergovernmental | 73,683 | - | 73,683 | 63,041 | - | 63,041 |
| Miscellaneous | 30,945 | 40,597 | 71,542 | 13,516 | 34,486 | 48,002 |
| <i>Total Revenues</i> | 1,883,051 | 1,233,946 | 3,116,997 | 1,969,702 | 1,337,812 | 3,307,514 |
| Expenses | | | | | | |
| General government | 208,720 | - | 208,720 | 195,806 | - | 195,806 |
| Police and courts | 734,485 | - | 734,485 | 882,196 | - | 882,196 |
| Community development | 248,133 | - | 248,133 | 168,757 | - | 168,757 |
| Parks | 256,843 | - | 256,843 | 123,707 | - | 123,707 |
| Street | 237,916 | - | 237,916 | 229,036 | - | 229,036 |
| Water | - | 341,944 | 341,944 | - | 336,350 | 336,350 |
| Sewer | - | 371,625 | 371,625 | - | 342,220 | 342,220 |
| <i>Total Expenses</i> | 1,686,097 | 713,569 | 2,399,666 | 1,599,502 | 678,570 | 2,278,072 |
| Transfers | 120,545 | (120,545) | - | 126,659 | (126,659) | - |
| Change in net position | 317,499 | 399,832 | 717,331 | 496,859 | 532,583 | 1,029,442 |
| Net position, beginning of year | 1,143,137 | 1,606,537 | 2,749,674 | 646,278 | 1,073,954 | 1,720,232 |
| Net position, end of year | \$ 1,460,636 | \$ 2,006,369 | \$ 3,467,005 | \$ 1,143,137 | \$ 1,606,537 | \$ 2,749,674 |

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, 2017, the City's governmental funds reported combined ending fund balances of \$1,460,636 an increase of \$317,499 in comparison with prior year.

General Fund - The General Fund is the primary operating fund of the City. The fund balance was \$650,777 as of June 30, 2017. The fund balance increased by \$280,297 during the current fiscal year, primarily due to increases in taxes and assessments and licenses and permits. As a measure of the fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Fund balance represents 49 percent of the total of General Fund expenditures.

Street Fund - Fund balance decreased by \$2,434 during the current fiscal year primarily due to a reduction of gas tax revenue allocated to the Street Fund.

Street Construction Fund - Fund balance increased by \$80,017 during the current fiscal year. This was primarily due to reduced capital outlay expenditures. 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.

Park Improvement Fund - Fund balance decreased by \$90,658 during the current fiscal year as a result of the construction project at Rivenes Park.

Reserve Fund – Fund balance increased by \$50,277 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 decreased by \$1,968 during the current fiscal year. This was due primarily to operating income of \$112,273 and transfers out of \$114,469.

Sewer Construction Fund - Fund balance increased by \$209,406 during the current fiscal year, due primarily to an SDC and charges for services collections and no current year capital expenditures.

Sewer Bond Fund – Fund balance increased by \$322 during the current fiscal year, due primarily to revenues and transfers in exceeding debt service payments.

Water Fund - Fund balance increased by \$49,460 during the current fiscal year. This was due primarily to operating income of \$198,496 and transfers out of \$149,581.

Water Construction Fund - Fund balance increased by \$142,506 during the current fiscal year, due primarily to minimal capital expenditures.

Water Bond Fund – Fund balance increased by \$96 during the current fiscal year, due primarily to revenues and transfers in exceeding debt service payments.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City Council approved two budget modifications for the fiscal year ended June 30, 2017. Appropriations were transferred from the General fund contingency to meet requirements within the fund.

LONG-TERM DEBT

The City had total debt outstanding of \$906,818 at the end of the current fiscal year. During the current fiscal year, the City's total debt decreased by \$120,345 (12 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 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 | |
|-----------------------|--------------------------|---------------------|
| | 2017 | 2016 |
| Oregon DEQ loan | \$ 383,443 | \$ 425,072 |
| Water Refunding bonds | 523,375 | 602,091 |
| | <u>\$ 906,818</u> | <u>\$ 1,027,163</u> |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's Budget Committee considered all the following factors while preparing the budget for the 2017-18 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: City Recorder
P.O. Box 380
3720 2nd Street
Hubbard, Oregon 97032
503-981-9633
finance2@cityofhubbard.org

BASIC FINANCIAL STATEMENTS

CITY OF HUBBARD, OREGON
STATEMENT OF NET POSITION (MODIFIED CASH BASIS)
JUNE 30, 2017

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Totals</u> |
|---------------------------|------------------------------------|-------------------------------------|---------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,475,091 | \$ 2,022,889 | \$ 3,497,980 |
| LIABILITIES | | | |
| Deposits | 14,455 | 16,520 | 30,975 |
| NET POSITION | | | |
| Restricted for: | | | |
| Capital acquisitions | 507,001 | 1,500,908 | 2,007,909 |
| Debt payments | - | 196,725 | 196,725 |
| Streets | 137,413 | - | 137,413 |
| Unrestricted | 816,222 | 308,736 | 1,124,958 |
| <i>Total Net Position</i> | <u>\$ 1,460,636</u> | <u>\$ 2,006,369</u> | <u>\$ 3,467,005</u> |

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

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CITY OF HUBBARD, OREGON
STATEMENT OF ACTIVITIES (MODIFIED CASH BASIS)
YEAR ENDED JUNE 30, 2017

| FUNCTIONS/PROGRAMS | Expenses | Program Revenues | | |
|---|---------------------|---|---|---|
| | | Fees, Fines and Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental activities: | | | | |
| General government | \$ 208,720 | \$ 145,237 | \$ 3,178 | \$ - |
| Police and courts | 734,485 | 128,583 | - | - |
| Community development | 248,133 | 201,839 | 700 | - |
| Parks | 256,843 | - | - | 39,195 |
| Street | 237,916 | 83,617 | 193,246 | 54,071 |
| <i>Total Governmental activities</i> | 1,686,097 | 559,276 | 197,124 | 93,266 |
| Business-type activities: | | | | |
| Water | 341,944 | 515,375 | - | 38,406 |
| Sewer | 371,625 | 581,317 | - | 58,251 |
| <i>Total Business-type activities</i> | 713,569 | 1,096,692 | - | 96,657 |
| <i>Total Activities</i> | <u>\$ 2,399,666</u> | <u>\$ 1,655,968</u> | <u>\$ 197,124</u> | <u>\$ 189,923</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> |
|---|--|---------------------|
| \$ (60,305) | \$ - | \$ (60,305) |
| (605,902) | - | (605,902) |
| (45,594) | - | (45,594) |
| (217,648) | - | (217,648) |
| 93,018 | - | 93,018 |
| <hr/> | | |
| (836,431) | - | (836,431) |
| | | |
| - | 211,837 | 211,837 |
| - | 267,943 | 267,943 |
| <hr/> | | |
| - | 479,780 | 479,780 |
| <hr/> | | |
| (836,431) | 479,780 | (356,651) |
| | | |
| 753,206 | - | 753,206 |
| 175,551 | - | 175,551 |
| 73,683 | - | 73,683 |
| 30,945 | 40,597 | 71,542 |
| <hr/> | | |
| 1,033,385 | 40,597 | 1,073,982 |
| | | |
| 120,545 | (120,545) | - |
| <hr/> | | |
| 317,499 | 399,832 | 717,331 |
| | | |
| 1,143,137 | 1,606,537 | 2,749,674 |
| <hr/> | | |
| \$ 1,460,636 | \$ 2,006,369 | \$ 3,467,005 |

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

CITY OF HUBBARD, OREGON
BALANCE SHEET (MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS
JUNE 30, 2017

| | <u>Special Revenue</u> | |
|---|------------------------|---------------|
| | <u>General</u> | <u>Street</u> |
| ASSETS | | |
| Cash and cash equivalents | \$ 665,232 | \$ 108,653 |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities: | | |
| Deposits | \$ 14,455 | \$ - |
| Fund Balance: | | |
| Restricted for: | | |
| Capital acquisitions | - | - |
| Streets | - | 108,653 |
| Committed to: | | |
| Capital acquisitions | - | - |
| Unassigned | 650,777 | - |
| <i>Total Fund Balance</i> | 650,777 | 108,653 |
| <i>Total Liabilities and Fund Balance</i> | \$ 665,232 | \$ 108,653 |

| <i>Capital Projects</i> | | | |
|----------------------------|-------------------------|----------------|--------------|
| <i>Street Construction</i> | <i>Park Improvement</i> | <i>Reserve</i> | <i>Total</i> |
| \$ 286,220 | \$ 220,781 | \$ 194,205 | \$ 1,475,091 |
| \$ - | \$ - | \$ - | \$ 14,455 |
| 286,220 | 220,781 | - | 507,001 |
| - | - | 28,760 | 137,413 |
| - | - | 165,445 | 165,445 |
| - | - | - | 650,777 |
| 286,220 | 220,781 | 194,205 | 1,460,636 |
| \$ 286,220 | \$ 220,781 | \$ 194,205 | \$ 1,475,091 |

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, 2017**

| | <u>General Fund</u> | <u>Special Revenue</u> <u>Street</u> |
|---|---------------------|---|
| REVENUES | | |
| Taxes and assessments | \$ 753,206 | \$ - |
| Fines and forfeitures | 263,190 | - |
| Licenses and permits | 210,286 | 1,755 |
| Charges for services | 175,551 | 81,559 |
| Intergovernmental | 77,560 | 135,272 |
| Miscellaneous | 28,306 | 1,707 |
| | <hr/> | <hr/> |
| <i>Total Revenues</i> | 1,508,099 | 220,293 |
| | <hr/> | <hr/> |
| EXPENDITURES | | |
| General government | 208,721 | - |
| Police and courts | 734,485 | - |
| Community development | 239,840 | - |
| Parks | 134,696 | - |
| Streets | - | 196,143 |
| Capital acquisitions | - | - |
| | <hr/> | <hr/> |
| <i>Total Expenditures</i> | 1,317,742 | 196,143 |
| | <hr/> | <hr/> |
| REVENUES OVER (UNDER) EXPENDITURES | 190,357 | 24,150 |
| | <hr/> | <hr/> |
| OTHER FINANCING SOURCES (USES) | | |
| Transfers in | 125,348 | - |
| Transfers out | (35,408) | (26,584) |
| | <hr/> | <hr/> |
| <i>Total Other Financing Sources (Uses)</i> | 89,940 | (26,584) |
| | <hr/> | <hr/> |
| NET CHANGE IN FUND BALANCE | 280,297 | (2,434) |
| | <hr/> | <hr/> |
| FUND BALANCE, beginning of year | 370,480 | 111,087 |
| | <hr/> | <hr/> |
| FUND BALANCE, end of year | \$ 650,777 | \$ 108,653 |
| | <hr/> <hr/> | <hr/> <hr/> |

| <i>Capital Projects</i> | | | |
|----------------------------|-------------------------|-------------------|---------------------|
| <i>Street Construction</i> | <i>Park Improvement</i> | <i>Reserve</i> | <i>Total</i> |
| \$ - | \$ - | \$ - | \$ 753,206 |
| - | - | - | 263,190 |
| 54,071 | 18,450 | - | 284,562 |
| - | - | - | 257,110 |
| 57,974 | 20,745 | - | 291,551 |
| 1,805 | 1,327 | 287 | 33,432 |
| <u>113,850</u> | <u>40,522</u> | <u>287</u> | <u>1,883,051</u> |
| - | - | - | 208,721 |
| - | - | - | 734,485 |
| - | - | - | 239,840 |
| - | - | - | 134,696 |
| - | - | - | 196,143 |
| 31,817 | 130,440 | 9,955 | 172,212 |
| <u>31,817</u> | <u>130,440</u> | <u>9,955</u> | <u>1,686,097</u> |
| 82,033 | (89,918) | (9,668) | 196,954 |
| - | - | 59,945 | 185,293 |
| (2,016) | (740) | - | (64,748) |
| <u>(2,016)</u> | <u>(740)</u> | <u>59,945</u> | <u>120,545</u> |
| 80,017 | (90,658) | 50,277 | 317,499 |
| 206,203 | 311,439 | 143,928 | 1,143,137 |
| <u>\$ 286,220</u> | <u>\$ 220,781</u> | <u>\$ 194,205</u> | <u>\$ 1,460,636</u> |

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, 2017

| | <u>Sewer</u> | <u>Sewer Construction</u> | <u>Sewer Bond Fund</u> |
|-----------------------------|-------------------|-------------------------------|----------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 125,623 | \$ 882,272 | \$ 38,460 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Deposits | - | - | - |
| NET POSITION | | | |
| Restricted for: | | | |
| Capital acquisitions | - | 882,272 | - |
| Debt payments | - | - | 38,075 |
| Unrestricted | 125,623 | - | 385 |
| | <u>125,623</u> | <u>882,272</u> | <u>38,460</u> |
| <i>Total Net Position</i> | <u>\$ 125,623</u> | <u>\$ 882,272</u> | <u>\$ 38,460</u> |

| <i>Water</i> | <i>Water Construction</i> | <i>Water Bond Fund</i> | <i>Total</i> |
|-------------------|-------------------------------|----------------------------|---------------------|
| \$ 275,356 | \$ 618,636 | \$ 82,542 | \$ 2,022,889 |
| 16,520 | - | - | 16,520 |
| - | 618,636 | - | 1,500,908 |
| - | - | 82,500 | 196,725 |
| 258,836 | - | 42 | 308,736 |
| <u>\$ 258,836</u> | <u>\$ 618,636</u> | <u>\$ 82,542</u> | <u>\$ 2,006,369</u> |

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, 2017**

| | <u>Sewer</u> | <u>Sewer Construction</u> | <u>Sewer Bond Fund</u> |
|--|--------------|-------------------------------|----------------------------|
| OPERATING REVENUES | | | |
| Charges for services | \$ 429,296 | \$ 152,021 | \$ - |
| Miscellaneous | 116 | - | - |
| <i>Total Operating Revenues</i> | 429,412 | 152,021 | - |
| OPERATING EXPENSES | | | |
| Personal services | 317,139 | - | - |
| Materials and services | - | - | - |
| <i>Total Operating Expenses</i> | 317,139 | - | - |
| OPERATING INCOME | 112,273 | 152,021 | - |
| NONOPERATING ITEMS | | | |
| Interest revenue | 228 | 2,470 | 332 |
| Capital acquisitions | - | - | - |
| Debt payments | | | |
| Principal | - | - | (41,629) |
| Interest | - | - | (12,857) |
| <i>Total Nonoperating Items</i> | 228 | 2,470 | (54,154) |
| NET INCOME BEFORE CONTRIBUTIONS AND TRANSFERS | 112,501 | 154,491 | (54,154) |
| Capital contributions | - | 58,251 | - |
| Transfers in | - | - | 54,486 |
| Transfers out | (114,469) | (3,336) | - |
| CHANGE IN NET POSITION | (1,968) | 209,406 | 332 |
| NET POSITION, beginning of year | 127,591 | 672,866 | 38,128 |
| NET POSITION, end of year | \$ 125,623 | \$ 882,272 | \$ 38,460 |

| <i>Water</i> | <i>Water Construction</i> | <i>Water Bond Fund</i> | <i>Total</i> |
|--------------|-------------------------------|------------------------|--------------|
| \$ 408,776 | \$ 106,599 | \$ - | \$ 1,096,692 |
| 34,084 | - | - | 34,200 |
| 442,860 | 106,599 | - | 1,130,892 |
| 244,364 | - | - | 561,503 |
| - | - | - | - |
| 244,364 | - | - | 561,503 |
| 198,496 | 106,599 | - | 569,389 |
| 545 | 2,726 | 96 | 6,397 |
| - | (1,853) | - | (1,853) |
| - | - | (78,716) | (120,345) |
| - | - | (17,011) | (29,868) |
| 545 | 873 | (95,631) | (145,669) |
| 199,041 | 107,472 | (95,631) | 423,720 |
| - | 38,406 | - | 96,657 |
| - | - | 95,727 | 150,213 |
| (149,581) | (3,372) | - | (270,758) |
| 49,460 | 142,506 | 96 | 399,832 |
| 209,376 | 476,130 | 82,446 | 1,606,537 |
| \$ 258,836 | \$ 618,636 | \$ 82,542 | \$ 2,006,369 |

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 governed 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 Improvement 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 reports payments of principal and interest on sewer-related debt. It is supported by transfers from the Sewer Fund.

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 Fund

This fund reports payments of principal and interest on water-related debt. It is supported by transfers from the Water Fund.

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 on the government-wide Statement of Net Position, the Enterprise Fund Statement of Net Position, 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, 2017

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following at June 30, 2017:

| | |
|----------------------------------|-----------------|
| Cash | |
| Cash on hand | \$ 250 |
| Cash in checking accounts | 187,679 |
| Investments | |
| Local Government Investment Pool | 3,310,051 |
| | <hr/> |
| | \$ 3,497,980 |
| | <hr/> <hr/> |

Deposits

The book balance of the City's bank deposits (checking accounts) was \$187,679 and the bank balance was \$325,221 at year end. 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, 2017, \$75,221 of the City's bank balance was covered by the PFCP.

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, 2017, 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, 2017

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:

| <i>Business-type activities</i> | <u>Original Issue</u> | <u>Outstanding July 1, 2016</u> | <u>Issued</u> | <u>Matured/ Redeemed During Year</u> | <u>Outstanding June 30, 2017</u> | <u>Due within One Year</u> |
|---|---------------------------|---|---------------|--|--|--------------------------------|
| 2006 Clean Water Revolving Fund Loan with annual payments of \$54,486 and interest of 3.1%. | \$ 1,076,123 | \$ 425,072 | \$ - | \$ (41,629) | \$ 383,443 | \$ 42,930 |
| 2013 Water Refunding Bonds with annual payments of \$95,727 with interest of 2.92%. | 825,000 | 602,091 | - | (78,716) | 523,375 | 81,032 |
| | <u>\$ 1,901,123</u> | <u>\$ 1,027,163</u> | <u>\$ -</u> | <u>\$ (120,345)</u> | <u>\$ 906,818</u> | <u>\$ 123,962</u> |

CITY OF HUBBARD, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

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 \$82,500. The City was in compliance with this requirement at June 30, 2017.

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, 2017.

Future debt service requirements are as follows:

| <i>Fiscal Year Ending June 30,</i> | <i>Principal</i> | <i>Interest</i> | <i>Total</i> |
|--|------------------|-----------------|--------------|
| 2018 | \$ 123,962 | \$ 26,251 | \$ 150,213 |
| 2019 | 127,686 | 22,527 | 150,213 |
| 2020 | 131,522 | 18,691 | 150,213 |
| 2021 | 135,474 | 14,739 | 150,213 |
| 2022 | 139,545 | 10,668 | 150,213 |
| 2023-2025 | 248,629 | 10,556 | 259,185 |
| | \$ 906,818 | \$ 103,432 | \$ 1,010,250 |

PENSION PLAN

The Oregon Public Employees Retirement System (OPERS) is a cost-sharing multiple employer defined benefit plan. Qualified employees of the City are provided with pensions through OPERS. Employees hired before August 29, 2003 belong to the Tier One/Tier Two Retirement Benefit Program (established pursuant to ORS Chapter 238), while employees hired on or after August 29, 2003 belong to the OPSRP Pension Program (established pursuant to ORS Chapter 238A). OPERS issues a publicly available financial report that can be obtained at

http://www.oregon.gov/pers/pages/section/financial_reports/financials.aspx.

Benefits provided under ORS Chapter 238 – Tier One/ Tier Two

Pension Benefits: The PERS 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 a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer (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

CITY OF HUBBARD, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

PENSION PLAN (Continued)

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.

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: the member was employed by a PERS employer at the time of death; the member died within 120 days after termination of PERS-covered employment; the member died as a result of injury sustained while employed in a PERS-covered job, or; the member was on an official leave of absence from a PERS-covered job at the time of death.

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 PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 when determining the monthly benefit.

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)

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

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.

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.

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.

CITY OF HUBBARD, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

PENSION PLAN (Continued)

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 2016 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

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. 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, 2014 actuarial valuation. The City's contribution rates in effect for the fiscal year ended June 30, 2017 were 21.07 percent for Tier One/Two members, 12.74 percent for OPSRP general service members, and 16.85 percent for OPSRP uniformed members. The City's contributions for the year ended June 30, 2017 were \$159,534, excluding amounts to fund employer specific liabilities.

Actuarial Methods and Assumptions:

The employer contribution rates effective July 1, 2015, through June 30, 2017, were set by OPERS 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.

| | |
|-----------------------------------|---|
| Valuation Date | December 31, 2014 rolled forward to June 30, 2016 |
| Experience Study Report | 2014, published September 2015 |
| 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 | 2.50 percent |
| Investment rate of return | 7.50 percent |
| Projected salary increases | 3.50 percent overall payroll growth |
| Cost of living adjustments (COLA) | Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with <i>Moro</i> decision; blend 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: |

PENSION PLAN (Continued)

Actuarial Methods and Assumptions: (Continued)

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 (70% for males, 95% for females) of the RP-2000 static combined disabled mortality sex-distinct table.

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

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

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 2015 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

CITY OF HUBBARD, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

PENSION PLAN (Continued)

Actuarial Methods and Assumptions: (Continued)

| <u>Asset Class</u> | <u>Target Allocation*</u> | <u>Compound Annual (Geometric) Return</u> |
|-----------------------------------|---------------------------|---|
| Core Fixed Income | 8.00 % | 4.00 % |
| Short-Term Bonds | 8.00 | 3.61 |
| Bank/Leveraged Loans | 3.00 | 5.42 |
| High Yield Bonds | 1.00 | 6.20 |
| Large/Mid Cap US Equities | 15.75 | 6.70 |
| Small Cap US Equities | 1.31 | 6.99 |
| Micro Cap US Equities | 1.31 | 7.01 |
| Developed Foreign Equities | 13.13 | 6.73 |
| Emerging Market Equities | 4.12 | 7.25 |
| Non-US Small Cap Equities | 1.88 | 7.22 |
| Private Equity | 17.50 | 7.97 |
| Real Estate (Property) | 10.00 | 5.84 |
| Real Estate (REITS) | 2.50 | 6.69 |
| Hedge Fund of Funds - Diversified | 2.50 | 4.64 |
| Hedge Fund - Event-driven | 0.63 | 6.72 |
| Timber | 1.88 | 5.85 |
| Farmland | 1.88 | 6.37 |
| Infrastructure | 3.75 | 7.13 |
| Commodities | 1.88 | 4.58 |
| Assumed Inflation - Mean | | 2.50 % |

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 7.50, as well as what City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

| | <u>1% Decrease (6.50%)</u> | <u>Discount Rate (7.50%)</u> | <u>1% Increase (8.50%)</u> |
|--|--------------------------------|----------------------------------|--------------------------------|
| Proportionate share of the net pension liability | \$ 2,488,186 | \$ 1,540,991 | \$ 749,301 |

CITY OF HUBBARD, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

INTERFUND TRANSFERS

Interfund transfers for the year were as follows:

| <i>Fund</i> | <i>Transfers In</i> | <i>Transfers Out</i> |
|---------------------|---------------------|----------------------|
| General | \$ 125,348 | \$ 35,408 |
| Reserve | 59,945 | - |
| Street | - | 26,584 |
| Street Construction | - | 2,016 |
| Parks Improvement | - | 740 |
| Sewer | - | 114,469 |
| Sewer Construction | - | 3,336 |
| Sewer Bond | 54,486 | - |
| Water | - | 149,581 |
| Water Construction | - | 3,372 |
| Water Bond | 95,727 | - |
| | \$ 335,506 | \$ 335,506 |

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.

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 \$8,578.

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 \$10,708.

NEW PRONOUNCEMENTS

The City implemented the following pronouncement during the current fiscal year:

GASB Statement No. 77, “Tax Abatement Disclosures,” addresses the disclosure requirements for governments that have tax abated properties in their jurisdiction. It will require governments to disclose the a description of the tax abatement program, the gross dollar amount of taxes abated during the period, and commitments made by a government, other than to abate taxes, as part of the tax abatement agreement.

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. 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.

GASB Statement No. 82, “An Amendment of GASB Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and 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.” This statement will improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for fiscal years beginning after June 15, 2016.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 26, 2017, 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, 2017**

| | <i>Budget Amounts</i> | | <i>Actual</i> | <i>Variance</i> |
|---|-----------------------|--------------|---------------|-----------------|
| | <i>Original</i> | <i>Final</i> | | |
| REVENUES | | | | |
| Taxes and assessments | \$ 742,453 | \$ 742,453 | \$ 753,206 | \$ 10,753 |
| Fines and forfeitures | 233,700 | 233,700 | 263,190 | 29,490 |
| Licenses and permits | 105,980 | 105,980 | 210,286 | 104,306 |
| Charges for services | 164,400 | 164,400 | 175,551 | 11,151 |
| Intergovernmental | 80,892 | 80,892 | 77,560 | (3,332) |
| Miscellaneous | 8,400 | 8,400 | 28,306 | 19,906 |
| <i>Total Revenues</i> | 1,335,825 | 1,335,825 | 1,508,099 | 172,274 |
| EXPENDITURES | | | | |
| Administration | 195,307 | 199,007 | 188,557 | 10,450 |
| Court | 60,012 | 60,012 | 50,614 | 9,398 |
| Council | 7,500 | 20,700 | 20,166 | 534 |
| Community development | 119,010 | 243,010 | 239,840 | 3,170 |
| Police | 839,495 | 839,495 | 683,871 | 155,624 |
| Parks | 147,909 | 147,909 | 134,696 | 13,213 |
| Contingency | 356,005 | 215,105 | - | 215,105 |
| <i>Total Expenditures</i> | 1,725,238 | 1,725,238 | 1,317,744 | 407,494 |
| REVENUES OVER (UNDER) EXPENDITURES | (389,413) | (389,413) | 190,355 | 579,768 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 129,076 | 129,076 | 125,348 | (3,728) |
| Transfers out | (35,408) | (35,408) | (35,408) | - |
| <i>Total Other Financing Sources (Uses)</i> | 93,668 | 93,668 | 89,940 | (3,728) |
| NET CHANGE IN FUND BALANCE | (295,745) | (295,745) | 280,295 | 576,040 |
| FUND BALANCE, beginning of year | 295,745 | 295,745 | 370,480 | 74,735 |
| FUND BALANCE, end of year | \$ - | \$ - | \$ 650,775 | \$ 650,775 |

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, 2017**

| | <i>Budget Amounts</i> | | <i>Actual</i> | <i>Variance</i> |
|---|-----------------------|--------------|---------------|-----------------|
| | <i>Original</i> | <i>Final</i> | | |
| REVENUES | | | | |
| Charges for services | \$ 78,275 | \$ 78,275 | \$ 81,559 | \$ 3,284 |
| Licenses and permits | 2,000 | 2,000 | 1,755 | (245) |
| Intergovernmental | 129,739 | 129,739 | 135,272 | 5,533 |
| Miscellaneous | 600 | 600 | 1,707 | 1,107 |
| <i>Total Revenues</i> | 210,614 | 210,614 | 220,293 | 9,679 |
| EXPENDITURES | | | | |
| Street | 211,980 | 211,980 | 196,143 | 15,837 |
| Contingency | 80,461 | 80,461 | - | 80,461 |
| <i>Total Expenditures</i> | 292,441 | 292,441 | 196,143 | 96,298 |
| REVENUES OVER (UNDER) EXPENDITURES | (81,827) | (81,827) | 24,150 | 105,977 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (27,170) | (27,170) | (26,584) | 586 |
| NET CHANGE IN FUND BALANCE | (108,997) | (108,997) | (2,434) | 106,563 |
| FUND BALANCE, beginning of year | 108,997 | 108,997 | 111,087 | 2,090 |
| FUND BALANCE, end of year | \$ - | \$ - | \$ 108,653 | \$ 108,653 |

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, 2017**

| | <i>Budget Amounts</i> | | <i>Actual</i> | <i>Variance</i> |
|---|-----------------------|--------------|---------------|-----------------|
| | <i>Original</i> | <i>Final</i> | | |
| REVENUES | | | | |
| Licenses and permits | \$ 41,808 | \$ 41,808 | \$ 54,071 | \$ 12,263 |
| Intergovernmental | 105,602 | 105,602 | 57,974 | (47,628) |
| Miscellaneous | 1,000 | 1,000 | 1,805 | 805 |
| <i>Total Revenues</i> | 148,410 | 148,410 | 113,850 | (34,560) |
| EXPENDITURES | | | | |
| Street construction | 162,948 | 162,948 | 31,817 | 131,131 |
| Contingency | 135,000 | 135,000 | - | 135,000 |
| <i>Total Expenditures</i> | 297,948 | 297,948 | 31,817 | 266,131 |
| REVENUES OVER (UNDER) EXPENDITURES | (149,538) | (149,538) | 82,033 | 231,571 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (2,016) | (2,016) | (2,016) | - |
| NET CHANGE IN FUND BALANCE | (151,554) | (151,554) | 80,017 | 231,571 |
| FUND BALANCE, beginning of year | 151,554 | 151,554 | 206,203 | 54,649 |
| FUND BALANCE, end of year | \$ - | \$ - | \$ 286,220 | \$ 286,220 |

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, 2017**

| | <i>Budget Amounts</i> | | <i>Actual</i> | <i>Variance</i> |
|---|-----------------------|--------------|---------------|-----------------|
| | <i>Original</i> | <i>Final</i> | | |
| REVENUES | | | | |
| Licenses and permits | \$ 44,280 | \$ 44,280 | \$ 18,450 | \$ (25,830) |
| Intergovernmental | 138,178 | 138,178 | 20,745 | (117,433) |
| Miscellaneous | 2,425 | 2,425 | 1,327 | (1,098) |
| <i>Total Revenues</i> | 184,883 | 184,883 | 40,522 | (144,361) |
| EXPENDITURES | | | | |
| Park Improvement | 424,955 | 424,955 | 130,440 | 294,515 |
| Contingency | 51,206 | 51,206 | - | 51,206 |
| <i>Total Expenditures</i> | 476,161 | 476,161 | 130,440 | 345,721 |
| REVENUES OVER (UNDER) EXPENDITURES | (291,278) | (291,278) | (89,918) | 201,360 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (1,776) | (1,776) | (740) | 1,036 |
| NET CHANGE IN FUND BALANCE | (293,054) | (293,054) | (90,658) | 202,396 |
| FUND BALANCE, beginning of year | 293,054 | 293,054 | 311,439 | 18,385 |
| FUND BALANCE, end of year | \$ - | \$ - | \$ 220,781 | \$ 220,781 |

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, 2017

| | <i>Budget Amounts</i> | | <i>Actual</i> | <i>Variance</i> |
|---|-----------------------|--------------|---------------|-----------------|
| | <i>Original</i> | <i>Final</i> | | |
| REVENUES | | | | |
| Miscellaneous | \$ 100 | \$ 100 | \$ 287 | \$ 187 |
| EXPENDITURES | | | | |
| Capital outlay | 204,726 | 204,726 | 9,955 | 194,771 |
| REVENUES OVER (UNDER) EXPENDITURES | (204,626) | (204,626) | (9,668) | 194,958 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 59,945 | 59,945 | 59,945 | - |
| NET CHANGE IN FUND BALANCE | (144,681) | (144,681) | 50,277 | 194,958 |
| FUND BALANCE, beginning of year | 144,681 | 144,681 | 143,928 | (753) |
| FUND BALANCE, end of year | \$ - | \$ - | \$ 194,205 | \$ 194,205 |

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, 2017**

| | <i>Budget Amounts</i> | | <i>Actual</i> | <i>Variance</i> |
|---|-----------------------|--------------|---------------|-----------------|
| | <i>Original</i> | <i>Final</i> | | |
| REVENUES | | | | |
| Charges for services | \$ 412,776 | \$ 412,776 | \$ 429,296 | \$ 16,520 |
| Miscellaneous | 200 | 200 | 344 | 144 |
| <i>Total Revenues</i> | 412,976 | 412,976 | 429,640 | 16,664 |
| EXPENDITURES | | | | |
| Sewer | 336,083 | 336,083 | 317,139 | 18,944 |
| Contingency | 76,318 | 76,318 | - | 76,318 |
| <i>Total Expenditures</i> | 412,401 | 412,401 | 317,139 | 95,262 |
| REVENUES OVER (UNDER) EXPENDITURES | 575 | 575 | 112,501 | 111,926 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (114,469) | (114,469) | (114,469) | - |
| CHANGE IN FUND BALANCE | (113,894) | (113,894) | (1,968) | 111,926 |
| FUND BALANCE, beginning of year | 113,894 | 113,894 | 127,591 | 13,697 |
| FUND BALANCE, end of year | \$ - | \$ - | \$ 125,623 | \$ 125,623 |

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, 2017**

| | <i>Budget Amounts</i> | | <i>Actual</i> | <i>Variance</i> |
|---|-----------------------|--------------|---------------|-----------------|
| | <i>Original</i> | <i>Final</i> | | |
| REVENUES | | | | |
| Sewer fees | \$ 147,450 | \$ 147,450 | \$ 152,021 | \$ 4,571 |
| Charges for services | 51,780 | 51,780 | 58,251 | 6,471 |
| Miscellaneous | 400 | 400 | 2,470 | 2,070 |
| <i>Total Revenues</i> | 199,630 | 199,630 | 212,742 | 13,112 |
| EXPENDITURES | | | | |
| Sewer construction | 130,000 | 130,000 | - | 130,000 |
| Contingency | 712,192 | 712,192 | - | 712,192 |
| <i>Total Expenditures</i> | 842,192 | 842,192 | - | 842,192 |
| REVENUES OVER (UNDER) EXPENDITURES | (642,562) | (642,562) | 212,742 | 855,304 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (3,336) | (3,336) | (3,336) | - |
| CHANGE IN FUND BALANCE | (645,898) | (645,898) | 209,406 | 855,304 |
| FUND BALANCE, beginning of year | 645,898 | 645,898 | 672,866 | 26,968 |
| FUND BALANCE, end of year | \$ - | \$ - | \$ 882,272 | \$ 882,272 |

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, 2017**

| | <i>Budget Amounts</i> | | <i>Actual</i> | <i>Variance</i> |
|---|-----------------------|--------------|---------------|-----------------|
| | <i>Original</i> | <i>Final</i> | | |
| REVENUES | | | | |
| Miscellaneous | \$ 100 | \$ 100 | \$ 332 | \$ 232 |
| EXPENDITURES | | | | |
| Debt service | | | | |
| Principal | 41,629 | 41,629 | 41,629 | - |
| Interest | 12,857 | 12,857 | 12,857 | - |
| <i>Total Expenditures</i> | 54,486 | 54,486 | 54,486 | - |
| REVENUES OVER (UNDER) EXPENDITURES | (54,386) | (54,386) | (54,154) | 232 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 54,486 | 54,486 | 54,486 | - |
| CHANGE IN FUND BALANCE | 100 | 100 | 332 | 232 |
| FUND BALANCE, beginning of year | 38,075 | 38,075 | 38,128 | 53 |
| FUND BALANCE, end of year | \$ 38,175 | \$ 38,175 | \$ 38,460 | \$ 285 |

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, 2017**

| | <i>Budget Amounts</i> | | <i>Actual</i> | <i>Variance</i> |
|---|-----------------------|--------------|---------------|-----------------|
| | <i>Original</i> | <i>Final</i> | | |
| REVENUES | | | | |
| Charges for services | \$ 409,177 | \$ 409,177 | \$ 408,776 | \$ (401) |
| Miscellaneous | 31,700 | 31,700 | 34,629 | 2,929 |
| <i>Total Revenues</i> | 440,877 | 440,877 | 443,405 | 2,528 |
| EXPENDITURES | | | | |
| Water | 293,882 | 293,882 | 244,364 | 49,518 |
| Contingency | 199,005 | 199,005 | - | 199,005 |
| <i>Total Expenditures</i> | 492,887 | 492,887 | 244,364 | 248,523 |
| REVENUES OVER (UNDER) EXPENDITURES | (52,010) | (52,010) | 199,041 | 251,051 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (151,687) | (151,687) | (149,581) | 2,106 |
| CHANGE IN FUND BALANCE | (203,697) | (203,697) | 49,460 | 253,157 |
| FUND BALANCE, beginning of year | 203,697 | 203,697 | 209,376 | 5,679 |
| FUND BALANCE, end of year | \$ - | \$ - | \$ 258,836 | \$ 258,836 |

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, 2017**

| | <i>Budget Amounts</i> | | <i>Actual</i> | <i>Variance</i> |
|---|-----------------------|--------------|---------------|-----------------|
| | <i>Original</i> | <i>Final</i> | | |
| REVENUES | | | | |
| Charges for services | \$ 107,309 | \$ 107,309 | \$ 106,599 | \$ (710) |
| Licenses and permits | 34,140 | 34,140 | 38,406 | 4,266 |
| Miscellaneous | 400 | 400 | 2,726 | 2,326 |
| <i>Total Revenues</i> | 141,849 | 141,849 | 147,731 | 5,882 |
| EXPENDITURES | | | | |
| Water construction | 30,000 | 30,000 | 1,853 | 28,147 |
| Contingency | 567,572 | 567,572 | - | 567,572 |
| <i>Total Expenditures</i> | 597,572 | 597,572 | 1,853 | 595,719 |
| REVENUES OVER (UNDER) EXPENDITURES | (455,723) | (455,723) | 145,878 | 601,601 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (3,372) | (3,372) | (3,372) | - |
| CHANGE IN FUND BALANCE | (459,095) | (459,095) | 142,506 | 601,601 |
| FUND BALANCE, beginning of year | 459,095 | 459,095 | 476,130 | 17,035 |
| FUND BALANCE, end of year | \$ - | \$ - | \$ 618,636 | \$ 618,636 |

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, 2017

| | <i>Budget Amounts</i> | | <i>Actual</i> | <i>Variance</i> |
|---|-----------------------|------------------|------------------|-----------------|
| | <i>Original</i> | <i>Final</i> | | |
| REVENUES | | | | |
| Miscellaneous | \$ 40 | \$ 40 | \$ 96 | \$ 56 |
| EXPENDITURES | | | | |
| Debt service | | | | |
| Principal | 78,716 | 78,716 | 78,716 | - |
| Interest | 17,011 | 17,011 | 17,011 | - |
| <i>Total Expenditures</i> | <i>95,727</i> | <i>95,727</i> | <i>95,727</i> | <i>-</i> |
| REVENUES OVER (UNDER) EXPENDITURES | (95,687) | (95,687) | (95,631) | 56 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 95,727 | 95,727 | 95,727 | - |
| CHANGE IN FUND BALANCE | 40 | 40 | 96 | 56 |
| FUND BALANCE, beginning of year | 82,500 | 82,500 | 82,446 | (54) |
| FUND BALANCE, end of year | \$ 82,540 | \$ 82,540 | \$ 82,542 | \$ 2 |

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, 2017, and have issued our report thereon dated October 26, 2017.

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 the City does not maintain historical cost records for capital assets 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 26, 2017