



Report of Independent Auditors  
and Financial Statements  
with Supplementary Information for

**Canby Utility Board**  
(A Component Unit of the City of  
Canby, Oregon)

June 30, 2015 and 2014

**MOSS-ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

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**CANBY UTILITY BOARD  
BOARD OF DIRECTORS  
YEAR ENDED JUNE 30, 2015**

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Name	Address	Title
Bob Cornelius	958 S. Grant St. Canby, Oregon	Chairman of the Board of Directors and Registered Agent
Jack Brito	2096 N. Walnut St. Canby, Oregon	Member of the Board of Directors
Gary Potter	2149 NE 20th Ave. Canby, Oregon	Member of the Board of Directors
Walt Daniels	687 N. Ash St. Canby, Oregon	Member of the Board of Directors
Bob Maxwell	645 NW 9th Ave. Canby, Oregon	Member of the Board of Directors
Daniel Murphy	1751 NE Laurelwood Lp. Canby, Oregon	Manager
Barbara Benson	630 Wedgewood Dr. Molalla, Oregon	Board Secretary

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

## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
Canby Utility Board

### **Report on Financial Statements**

We have audited the accompanying financial statements of the Canby Utility Board (the Utility), a component unit of the City of Canby, Oregon, which comprise the combined and individual statements of net position as of June 30, 2015, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

## REPORT OF INDEPENDENT AUDITORS (continued)

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Canby Utility Board as of June 30, 2015, and the results of its revenues, expenses, and changes in net position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1 to the financial statements, the Utility adopted the provisions of GASB 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, effective July 1, 2014. The beginning of year net position has been adjusted for this change. Our opinion is not modified with respect to this matter.

The combined financial statements present only the Utility and do not purport to, and do not present fairly the financial position of the City of Canby, Oregon as of June 30, 2015 and 2014 and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

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

## REPORT OF INDEPENDENT AUDITORS (continued)

### *Other Supplementary Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's financial statements. The Schedules of Revenues and Expenditures – Budget and Actual – Electric System and Water System, for the year ended June 30, 2015 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The Schedules of Revenues and Expenditures – Budget and Actual – Electric System and Water System, have been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Revenues and Expenditures – Budget and Actual – Electric System and Water System, are fairly stated in all material respects in relation to the financial statements as a whole.

### *2014 Financial Statements*

The financial statements of the Utility as of and for the year ended June 30, 2014 were audited by predecessor auditors, whose report thereon, dated November 24, 2014, expressed an unmodified opinion. We were not engaged to audit, review, or apply any procedures to the 2014 financial statements of the Utility and, accordingly, we do not express an opinion or any other form of assurance on the 2014 financial statements as a whole.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated November 24, 2015, on our consideration of the Utility's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.



For Moss Adams LLP  
Portland, Oregon  
November 24, 2015

## **CANBY UTILITY BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Canby Utility Board (the Utility) is an independent governmental subdivision of the City of Canby, an Oregon municipal corporation. The Utility is located in Canby, Oregon, a historic town of 16,900 on the banks of the Molalla River, twenty miles south of the City of Portland. The Utility was founded in 1970 and is responsible for the exclusive control and management of electric services provided to residential, commercial, and industrial customers within the city limits of Canby. In 1981, a city charter amendment transferred water utility assets ownership to the City of Canby while the Utility continued to operate and manage the water system. Subsequently, the City and the Utility formalized this relationship by entering into an intergovernmental agreement giving the Utility all the City's authority to control and manage the water system.

The Utility has approximately 6,840 electric customers and 4,870 water customers, the majority within the city limits. The Utility purchases all of its wholesale power from Bonneville Power Administration on the federal fiscal year of October through September. For the Utility's fiscal year, the Utility delivered a monthly average of 7,326,813 cubic feet of water and 13,966,667 kilowatt-hours of electricity to our customers. Our average system daily consumption was 240,882 cubic feet of water and 459,178 kilowatt-hours of electricity. Electrical demand varied from a monthly peak demand of 25,260 kilowatts in October to 33,809 kilowatts in the month of November, with an average annual system demand for the period of 19.98 average megawatts.

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

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

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

### **Overview of Financial Performance**

The Utility's combined net position has increased from \$43.4 million to \$44.8 million. This increase of \$1.4 million in combined net position is more than last year's change when combined net position increased by \$0.9 million. Unrestricted net position, which is the part of net position that can be used to finance day-to-day activities without constraints established by debt covenants or other legal requirements, has increased by \$0.5 million. Operating revenues of the Utility increased 0.6% due to increased water rates and usage. The Utility's operating expenses decreased from the previous year by 5.6%; the main driving factor was a decrease in purchased power due to a mild winter.

## **CANBY UTILITY BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **Fiscal Year 2015 Budget Results**

See the supplemental information for detailed schedules of budget to actual variances for the fiscal year. The electric and water funds' operating expenses are both under budget. The electric fund was under budget mainly due to purchased power being under the budgeted amount. The water fund was under budget mainly due to a change in accounting principle that reduced labor expenses. While there is no budget compliance requirement, the board of directors utilizes budget overages to identify projects and areas within the Utility which may require additional oversight.

### **Change in accounting principal**

The Utility adopted GASB Statement No. 68 (GASB 68) during fiscal year 2015. With the implementation of GASB 68, the Utility's beginning net position has been adjusted to conform with the new reporting and accounting requirements. The statement established accounting and financial reporting standards for employers and public pension plans, including reporting of the net pension liability on the statement of net position, deferred inflows and deferred outflows associated with investment, economic and demographic gains and losses associated with the pension plans. GASB 68 also provides guidance related to the calculation of pension expense. The financial statements for fiscal year 2014 have not been restated as the necessary information to do so was not made available by the Oregon Public Employees' Retirement System.

**CANBY UTILITY BOARD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Electric System**

Electric System Financial Highlights

(Dollars rounded in thousands)

	Years Ended June 30,	
	2015	2014
Cash and investments	\$ 8,439	\$ 7,580
Utility plant, net	17,067	17,105
Other assets	2,157	1,817
Deferred outflows of resources	145	-
Total assets and deferred outflows of resources	\$ 27,808	\$ 26,502
Total liabilities	\$ 1,081	\$ 1,031
Deferred inflows of resources	805	91
Net position:		
Net investment in capital assets	17,067	17,105
Unrestricted net position	8,855	8,275
Total liabilities, deferred inflows of resources and net position	\$ 27,808	\$ 26,502
Operating revenues	\$ 10,336	\$ 10,581
Operating expenses	(9,402)	(9,939)
Non-operating revenues	38	30
Income before contributed capital	972	672
Contributed capital	243	206
Change in net position	\$ 1,215	\$ 878

**Results of Operations - Electric**

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

Operating revenues decreased by 2.3% in 2015 due to a decrease in electric usage.

Operating expenses decreased 5.4% in 2015. This was due primarily to the decrease in purchased power expense, which decreased as a result of less electricity usage due to a mild winter.

## CANBY UTILITY BOARD

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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#### Financial Position – Electric

(As reported in the Statements of Net Position)

The Electric System's financial position improved during 2015 with an increase in net position of \$542,802. At year-end, total utility plant increased due to general capital replacements and improvements to the distribution system. Total property, plant, and equipment, net, represents 61.4% of total assets. Total net position – unrestricted, increased by 7% due to lower operating expenses.

#### Water System

##### Water System Financial Highlights

(Dollars rounded in thousands)

	Years Ended June 30,	
	2015	2014
Cash and investments	\$ 2,334	\$ 2,176
Utility plant, net	20,538	19,822
Other assets	714	527
Deferred outflows of resources	60	-
	<u>\$ 23,646</u>	<u>\$ 22,525</u>
Long-term debt	\$ 4,276	\$ 4,370
Other liabilities	179	115
Deferred inflows of resources	286	-
Net position:		
Investment in capital assets, net of related debt	16,262	15,452
Restricted net position	161	-
Unrestricted net position	2,482	2,588
	<u>\$ 23,646</u>	<u>\$ 22,525</u>
Operating revenues	\$ 2,717	\$ 2,391
Operating expenses	(2,223)	(2,371)
Non-operating revenues	(130)	(159)
	<u>364</u>	<u>(139)</u>
Loss before contributed capital		
Contributed capital	775	178
	<u>\$ 1,139</u>	<u>\$ 39</u>
Change in net position		

## **CANBY UTILITY BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **Results of Operations – Water**

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

Operating revenues increased 13.7% in 2015 due to increased water rates and consumption.

Operating expenses increased by 6.6% in 2015. This is mainly attributed to a change in accounting principle that reduced labor expenses.

### **Financial Position – Water**

(As reported in the Combined Statements of Net Position)

The Water System's financial position increased during 2015 with an increase in net position of \$864,361. At year-end, total utility plant increased due to general capital replacements and improvements to the distribution system. Total property, plant, and equipment, net, represents 87% of total assets. Total net position – unrestricted, decreased by 4.1% mainly due to an increase in capital assets.

### **Capital Asset and Long-Term Debt Activity**

During the year, the Utility had additions to capital assets in the amount of \$684,692 for the Electric Fund and \$1,323,790 for the Water Fund. The Utility paid off the 2004 Revenue Bond with a 2014 Revenue Refunding Bond. Principle payment made on the water revenue bonds totaled \$170,000 for the fiscal year.

### **Request for Information**

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

**CANBY UTILITY BOARD**  
**INDIVIDUAL AND COMBINED STATEMENTS OF NET POSITION**

	ASSETS					
	Electric System		Water System		Combined	
	June 30,		June 30,		June 30,	
	2015	2014	2015	2014	2015	2014
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 8,179,438	\$ 7,324,814	2,139,377	\$ 2,176,250	\$ 10,318,815	\$ 9,501,064
Cash and cash equivalents – restricted	259,640	255,178	195,100	-	454,740	255,178
Accounts receivable, less allowance for doubtful accounts	963,432	934,172	387,587	311,829	1,351,019	1,246,001
Materials and supplies	813,460	833,763	175,214	210,526	988,674	1,044,289
Prepaid expenses	12,217	11,844	4,072	3,948	16,289	15,792
Total current assets	<u>10,228,187</u>	<u>9,359,771</u>	<u>2,901,350</u>	<u>2,702,553</u>	<u>13,129,537</u>	<u>12,062,324</u>
PROPERTY, PLANT, AND EQUIPMENT, net	<u>17,067,376</u>	<u>17,104,972</u>	<u>20,537,750</u>	<u>19,822,358</u>	<u>37,605,126</u>	<u>36,927,330</u>
<b>OTHER ASSETS AND INVESTMENTS</b>						
Net pension asset	358,382	-	147,184	-	505,566	-
Other noncurrent assets	9,781	36,942	-	-	9,781	36,942
Total other assets and investments	<u>368,163</u>	<u>36,942</u>	<u>147,184</u>	<u>-</u>	<u>515,347</u>	<u>36,942</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred outflows - pension	144,920	-	59,546	-	204,466	-
Total deferred outflows	<u>144,920</u>	<u>-</u>	<u>59,546</u>	<u>-</u>	<u>204,466</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 27,808,646</u>	<u>\$ 26,501,685</u>	<u>\$ 23,645,830</u>	<u>\$ 22,524,911</u>	<u>\$ 51,454,476</u>	<u>\$ 49,026,596</u>

**CANBY UTILITY BOARD**  
**INDIVIDUAL AND COMBINED STATEMENTS OF NET POSITION**

	<b>LIABILITIES</b>					
	Electric System		Water System		Combined	
	June 30,		June 30,		June 30,	
	2015	2014	2015	2014	2015	2014
<b>CURRENT LIABILITIES</b>						
Accounts payable	\$ 649,498	\$ 608,147	\$ 96,468	\$ 27,150	\$ 745,966	\$ 635,297
Accrued contributions in lieu of taxes	38,208	37,518	11,808	10,874	50,016	48,392
Accrued expenses	133,843	130,047	70,915	77,095	204,758	207,142
Customer deposits	259,640	255,179	-	-	259,640	255,179
Current portion of debt	-	-	315,000	270,000	315,000	270,000
Total current liabilities	<u>1,081,189</u>	<u>1,030,891</u>	<u>494,191</u>	<u>385,119</u>	<u>1,575,380</u>	<u>1,416,010</u>
<b>NONCURRENT PORTION OF LONG-TERM DEBT</b>	<u>-</u>	<u>-</u>	<u>3,961,000</u>	<u>4,100,000</u>	<u>3,961,000</u>	<u>4,100,000</u>
Total liabilities	<u>1,081,189</u>	<u>1,030,891</u>	<u>4,455,191</u>	<u>4,485,119</u>	<u>5,536,380</u>	<u>5,516,010</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unearned contributed capital	103,761	91,296	-	-	103,761	91,296
Deferred inflows - pension	701,396	-	286,486	-	987,882	-
Total deferred inflows of resources	<u>805,157</u>	<u>91,296</u>	<u>286,486</u>	<u>-</u>	<u>1,091,643</u>	<u>91,296</u>
<b>NET POSITION</b>						
Net investment in capital assets	17,067,376	17,104,972	16,261,750	15,452,358	33,329,126	32,557,330
Restricted	-	-	160,521	-	160,521	-
Unrestricted	8,854,924	8,274,526	2,481,882	2,587,434	11,336,806	10,861,960
Total net position	<u>25,922,300</u>	<u>25,379,498</u>	<u>18,904,153</u>	<u>18,039,792</u>	<u>44,826,453</u>	<u>43,419,290</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 27,808,646</u>	<u>\$ 26,501,685</u>	<u>\$ 23,645,830</u>	<u>\$ 22,524,911</u>	<u>\$ 51,454,476</u>	<u>\$ 49,026,596</u>

**CANBY UTILITY BOARD**  
**COMBINED STATEMENTS OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**

	Electric System		Water System		Combined	
	Years Ended June 30,		Years Ended June 30,		Years Ended June 30,	
	2015	2014	2015	2014	2015	2014
<b>OPERATING REVENUES</b>						
Sales of power and water	\$ 10,125,752	\$ 10,231,618	\$ 2,711,614	\$ 2,362,795	\$ 12,837,366	\$ 12,594,413
Other, net	210,659	349,031	5,621	27,854	216,280	376,885
Total operating revenues	<u>10,336,411</u>	<u>10,580,649</u>	<u>2,717,235</u>	<u>2,390,649</u>	<u>13,053,646</u>	<u>12,971,298</u>
<b>OPERATING EXPENSES</b>						
Purchased power	6,455,856	6,671,070	-	-	6,455,856	6,671,070
Water treatment	-	-	807,103	803,070	807,103	803,070
System operations less overhead and labor capitalized	705,825	809,015	321,312	452,396	1,027,137	1,261,411
Administrative services	600,385	717,254	240,120	252,543	840,505	969,797
Customer services and conservation	422,197	609,616	114,418	143,608	536,615	753,224
Contribution in lieu of taxes	505,213	511,655	132,018	117,652	637,231	629,307
Depreciation	713,229	620,821	608,398	601,215	1,321,627	1,222,036
Total operating expenses	<u>9,402,705</u>	<u>9,939,431</u>	<u>2,223,369</u>	<u>2,370,484</u>	<u>11,626,074</u>	<u>12,309,915</u>
Net operating income	<u>933,706</u>	<u>641,218</u>	<u>493,866</u>	<u>20,165</u>	<u>1,427,572</u>	<u>661,383</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>						
Interest income	37,531	35,486	10,895	10,148	48,426	45,634
Interest expense	(1,230)	(1,072)	(148,955)	(177,976)	(150,185)	(179,048)
Gain (loss) on sale of assets	1,915	(4,036)	8,287	8,922	10,202	4,886
Total nonoperating revenue (expense)	<u>38,216</u>	<u>30,378</u>	<u>(129,773)</u>	<u>(158,906)</u>	<u>(91,557)</u>	<u>(128,528)</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>243,474</u>	<u>205,872</u>	<u>774,989</u>	<u>177,535</u>	<u>1,018,463</u>	<u>383,407</u>
Change in net position	<u>1,215,396</u>	<u>877,468</u>	<u>1,139,082</u>	<u>38,794</u>	<u>2,354,478</u>	<u>916,262</u>
NET POSITION, beginning of year, before adjustment	<u>25,379,498</u>	<u>24,502,030</u>	<u>18,039,792</u>	<u>18,000,998</u>	<u>43,419,290</u>	<u>42,503,028</u>
Less: Accumulated adjustment for change in accounting principal	<u>(672,594)</u>	<u>-</u>	<u>(274,721)</u>	<u>-</u>	<u>(947,315)</u>	<u>-</u>
NET POSITION, beginning of year, as adjusted	<u>24,706,904</u>	<u>-</u>	<u>17,765,071</u>	<u>-</u>	<u>42,471,975</u>	<u>-</u>
NET POSITION, ending	<u>\$ 25,922,300</u>	<u>\$ 25,379,498</u>	<u>\$ 18,904,153</u>	<u>\$ 18,039,792</u>	<u>\$ 44,826,453</u>	<u>\$ 43,419,290</u>

**CANBY UTILITY BOARD**  
**COMBINED STATEMENTS OF CASH FLOWS**

	Electric System		Water System		Combined	
	Years Ended June 30,		Years Ended June 30,		Years Ended June 30,	
	2015	2014	2015	2014	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Cash received from customers	\$ 10,312,707	\$ 10,635,440	\$ 2,641,477	\$ 2,391,635	\$ 12,954,184	\$ 13,027,075
Cash paid for purchased power	(6,222,534)	(6,533,325)	-	-	(6,222,534)	(6,533,325)
Cash paid to suppliers	(498,839)	(425,659)	(775,166)	(749,853)	(1,274,005)	(1,175,512)
Cash paid to employees	(1,243,291)	(1,229,192)	(512,463)	(501,078)	(1,755,754)	(1,730,270)
Cash paid for employee benefits	(352,767)	(352,660)	(179,164)	(189,740)	(531,931)	(542,400)
Cash paid for retirement obligation	(250,189)	(236,907)	(101,012)	(95,483)	(351,201)	(332,390)
Cash paid for contribution in lieu of taxes	(504,523)	(510,166)	(132,952)	(118,236)	(637,475)	(628,402)
Net cash provided by operating activities	<u>1,240,564</u>	<u>1,347,531</u>	<u>940,720</u>	<u>737,245</u>	<u>2,181,284</u>	<u>2,084,776</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest earnings on investments	<u>37,531</u>	<u>35,486</u>	<u>10,895</u>	<u>10,148</u>	<u>48,426</u>	<u>45,634</u>
Net cash provided (used) by investing activities	<u>37,531</u>	<u>35,486</u>	<u>10,895</u>	<u>10,148</u>	<u>48,426</u>	<u>45,634</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Principal payment on long-term debt	-	-	(2,045,000)	(260,000)	(2,045,000)	(260,000)
Proceeds from issuance of long-term debt	-	-	1,951,000	-	1,951,000	-
Interest paid	(1,230)	(1,072)	(158,874)	(177,976)	(160,104)	(179,048)
Contributed capital	243,474	205,872	774,989	177,535	1,018,463	383,407
Unearned contributed capital	12,465	91,296	-	-	12,465	91,296
Additions to utility plant, net	(675,633)	(1,036,860)	(1,323,790)	(278,547)	(1,999,423)	(1,315,407)
Gain (loss) on sale of assets	1,915	(4,036)	8,287	8,922	10,202	4,886
Net cash used by capital and related financing activities	<u>(419,009)</u>	<u>(744,800)</u>	<u>(793,388)</u>	<u>(530,066)</u>	<u>(1,212,397)</u>	<u>(1,274,866)</u>
Net change in cash and investments	859,086	638,217	158,227	217,327	1,017,313	855,544
CASH AND CASH EQUIVALENTS, beginning	<u>7,579,992</u>	<u>6,941,775</u>	<u>2,176,250</u>	<u>1,958,923</u>	<u>9,756,242</u>	<u>8,900,698</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 8,439,078</u>	<u>\$ 7,579,992</u>	<u>\$ 2,334,477</u>	<u>\$ 2,176,250</u>	<u>\$ 10,773,555</u>	<u>\$ 9,756,242</u>
<b>RECONCILIATION TO THE STATEMENT OF NET POSITION</b>						
Cash and cash equivalents	\$ 8,179,438	\$ 7,324,814	\$ 2,139,377	\$ 2,176,250	\$ 10,318,815	\$ 9,501,064
Cash and cash equivalents - restricted	259,640	255,178	195,100	-	454,740	255,178
	<u>\$ 8,439,078</u>	<u>\$ 7,579,992</u>	<u>\$ 2,334,477</u>	<u>\$ 2,176,250</u>	<u>\$ 10,773,555</u>	<u>\$ 9,756,242</u>

See accompanying notes.

**CANBY UTILITY BOARD**  
**COMBINED STATEMENTS OF CASH FLOWS**

	Electric System		Water System		Combined	
	Years Ended June 30,		Years Ended June 30,		Years Ended June 30,	
	2015	2014	2015	2014	2015	2014
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Net operating income	\$ 933,706	\$ 641,218	\$ 493,866	\$ 20,165	\$ 1,427,572	\$ 661,383
Adjustments to reconcile net operating income to net cash provided by operating activities						
Depreciation	713,229	620,821	608,398	601,215	1,321,627	1,222,036
Pension expense (credit)	(474,500)	-	(194,965)	-	(669,465)	-
Changes in operating assets and liabilities						
Accounts receivable, net	(29,260)	(4,580)	(75,758)	986	(105,018)	(3,594)
Materials and supplies	20,303	145,584	35,312	94,021	55,615	239,605
Prepaid expenses	(373)	(346)	(124)	(115)	(497)	(461)
Other noncurrent assets	27,161	(28,151)	-	5,751	27,161	(22,400)
Accounts payable	41,351	(80,373)	69,318	13,745	110,669	(66,628)
Accrued contributions in lieu of taxes	690	1,489	934	584	1,624	2,073
Accrued expenses	3,796	(6,430)	(6,180)	893	(2,384)	(5,537)
Customer deposits	4,461	58,299	-	-	4,461	58,299
Net cash provided by operating activities	<u>\$ 1,240,564</u>	<u>\$ 1,347,531</u>	<u>\$ 930,801</u>	<u>\$ 737,245</u>	<u>\$ 2,171,365</u>	<u>\$ 2,084,776</u>

**CANBY UTILITY BOARD**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 1 – Summary of Significant Accounting Policies**

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

All non-management employees are members of the International Brotherhood of Electrical Workers (IBEW). The agreements between the Utility and IBEW expired June 30, 2014. Subsequent to year end, the agreements between the Utility and IBEW were renewed, and will expire June 30, 2017.

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

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

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

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

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

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

## **CANBY UTILITY BOARD**

### **NOTES TO COMBINED FINANCIAL STATEMENTS**

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

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

**Operating revenue** – Operating revenue is recorded on the basis of service delivered, including an estimated amount for unbilled service. Operating revenues generally result from providing services in connection with the proprietary funds' principal ongoing operations. The credit practices of the Utility require an evaluation of each new customer's credit worthiness on a case-by-case basis. At the discretion of management, a deposit may be obtained from the customer.

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

Further, Oregon Revised Statute (ORS) 295 was established to provide a shared liability pool, increasing the protection of public funds, while allowing banks to pledge collateral, more accurately reflecting their actual public funds deposited. As of June 30, 2015 and 2014, the Utility did not have any cash in any one bank that exceeded the FDIC limit due to the Public Funds Collateralization Program administered by the Oregon Office of the State Treasurer, as the Utility only deposits money in qualified depositories in order to meet the collateral requirements established by ORS 295.

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

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

Allowances for uncollectible receivables have been provided for the Electric and Water Systems, based upon management's review of the year-end accounts receivable aging and past credit and collection history. The allowance for uncollectible receivables for electric was \$2,560 and \$7,141 as of June 30, 2015 and 2014 respectively. The allowance for uncollectible receivables for water was \$1,028 as of June 30, 2015. No allowance for water was recorded for the year ended June 30, 2014. Receivables are written off when the Utility determines an account is uncollectible.

**CANBY UTILITY BOARD**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

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

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

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

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

Buildings	50 years
Distribution plant	33 to 50 years
Equipment	8 years

The Utility follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. For the years ended June 30, 2015 and 2014, total interest incurred was \$154,482 and \$181,381, of which \$4,297 and \$2,333 was capitalized, respectively.

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

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

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

*Restricted net position* – consists of external constraints placed on net position used by creditors, grantors, contributors, or laws of regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The Utility has \$160,521 classified as restricted net position at June 30, 2015. The Utility has no restricted net position at June 30, 2014.

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

## CANBY UTILITY BOARD

### NOTES TO COMBINED FINANCIAL STATEMENTS

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

**Change in accounting principle** – In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for financial statement periods beginning after June 15, 2014. This statement provides guidance for accounting for net pension liabilities (assets), including definition of balances to be included in deferred inflows and deferred outflows of resources. The Utility adopted this guidance as of and for the year ended June 30, 2015. The specific accounts impacting the Utility are detailed in Note 4. The Utility has not restated the financial statements as of and for the year ended June 30, 2014 given that the necessary information was not made available by the Oregon Public Employees' Retirement System pension plans.

**Reclassification** – Certain accounts in the 2014 financial statements have been reclassified to conform to the presentation in the 2015 basic financial statements. Such reclassifications have no effect on the changes in net position or net position.

#### Note 2 – Cash and Cash Equivalents

Cash and investments at fair value at June 30, 2015 and 2014 are comprised of:

	<u>2015</u>	<u>2014</u>
Cash on hand	\$ 700	\$ 700
Cash deposits in bank demand accounts	904,709	535,382
Restricted cash – customer deposits and bond reserve	454,740	255,178
Investment in State Treasurer's LGIP	<u>9,413,406</u>	<u>8,964,982</u>
Total cash and cash equivalents	<u>\$ 10,773,555</u>	<u>\$ 9,756,242</u>

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

Statutes authorize the Utility to invest in obligations of the U.S. Treasury and U.S. agencies, banker's acceptances, repurchase agreements, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, the State Treasurer's Investment Pool, and deposits with banks, mutual savings banks, and savings and loan associations. All of the investments held at June 30, 2015 and 2014, are in compliance with those statutes.

**CANBY UTILITY BOARD**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 2 – Cash and Cash Equivalents (continued)**

Investments consist of cash deposits with the State of Oregon Local Government Investment Pool (LGIP), an external investment pool of the State of Oregon. The fair value of the Utility's position in the LGIP is the same as the value of the pool shares. The State of Oregon LGIP is an open-ended, no-load diversified portfolio created under Oregon Revised Statutes 294.805 to 294.895 and administered by the Oregon State Treasurer as part of the Oregon Short Term Fund. Investments are regulated by the Oregon Short Term Fund Board and approved by the Oregon Investment Council. Separate financial statements for the Oregon Short Term Fund are available from the Oregon Audits Division, 255 Capital Street NE, Suite 500, Salem, OR 97301.

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

*Custodial credit risk* – For deposits, this is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. The Utility does not have bank deposit policies to address custodial risk. Nevertheless, management does not believe that there is any substantial custodial risk related to cash due to FDIC coverage.

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

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

**CANBY UTILITY BOARD**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 3 – Property, Plant, and Equipment**

Electric system property, plant, and equipment activity during 2015 is as follows:

	Balance at July 1, 2014	Increases	Decreases	Balance at June 30, 2015
Electric plant assets not being depreciated:				
Land	\$ 1,119,741	\$ -	\$ -	\$ 1,119,741
Electric plant assets being depreciated:				
Buildings	1,054,862	-	-	1,054,862
Distribution plant	16,015,011	963,983	(58,900)	16,920,094
Substation	6,373,387	1,498	-	6,374,885
Vehicle equipment	1,141,307	-	-	1,141,307
Office furniture and equipment	685,462	28,982	-	714,444
Other equipment	450,632	16,006	-	466,638
	<u>25,720,661</u>	<u>1,010,469</u>	<u>(58,900)</u>	<u>26,672,230</u>
Less accumulated depreciation	<u>(10,050,267)</u>	<u>(804,599)</u>	<u>68,046</u>	<u>(10,786,820)</u>
Net electric plant assets being depreciated	<u>15,670,394</u>	<u>205,870</u>	<u>9,146</u>	<u>15,885,410</u>
Property held for future use	3,633	-	-	3,633
Construction work in progress	<u>311,204</u>	<u>926,725</u>	<u>(1,179,337)</u>	<u>58,592</u>
Property, plant, and equipment, net	<u>\$ 17,104,972</u>	<u>\$ 1,132,595</u>	<u>\$ (1,170,191)</u>	<u>\$ 17,067,376</u>

**CANBY UTILITY BOARD**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

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

Electric system property, plant, and equipment activity during 2014 is as follows:

	Balance at July 1, 2013	Increases	Decreases	Balance at June 30, 2014
Electric plant assets not being depreciated:				
Land	\$ 1,119,741	\$ -	\$ -	\$ 1,119,741
Electric plant assets being depreciated:				
Buildings	1,054,862	-	-	1,054,862
Distribution plant	15,543,002	522,900	(50,891)	16,015,011
Substation	3,878,474	2,494,913	-	6,373,387
Vehicle equipment	1,126,649	29,130	(14,472)	1,141,307
Office furniture and equipment	654,462	31,000	-	685,462
Other equipment	426,799	23,833	-	450,632
	<u>22,684,248</u>	<u>3,101,776</u>	<u>(65,363)</u>	<u>25,720,661</u>
Less accumulated depreciation	<u>(9,417,679)</u>	<u>(714,114)</u>	<u>81,526</u>	<u>(10,050,267)</u>
Net electric plant assets being depreciated	<u>13,266,569</u>	<u>2,387,662</u>	<u>16,163</u>	<u>15,670,394</u>
Property held for future use	3,633	-	-	3,633
Construction work in progress	<u>2,298,990</u>	<u>1,332,313</u>	<u>(3,320,099)</u>	<u>311,204</u>
Property, plant, and equipment, net	<u>\$ 16,688,933</u>	<u>\$ 3,719,975</u>	<u>\$ (3,303,936)</u>	<u>\$ 17,104,972</u>

Water system property, plant, and equipment activity during 2015 is as follows:

	Balance at July 1, 2014	Increases	Decreases	Balance at June 30, 2015
Water plant assets not being depreciated:				
Land	\$ 220,838	\$ -	\$ -	\$ 220,838
Water plant assets being depreciated:				
Buildings	6,946,200	-	-	6,946,200
Distribution plant	13,393,718	1,202,495	(73,790)	14,522,423
Water treatment plant	6,342,380	-	-	6,342,380
Vehicle equipment	321,143	-	-	321,143
Office furniture and equipment	450,719	9,661	-	460,380
Other equipment	562,471	9,920	-	572,391
	<u>28,016,631</u>	<u>1,222,076</u>	<u>(73,790)</u>	<u>29,164,917</u>
Less accumulated depreciation	<u>(8,494,489)</u>	<u>(630,993)</u>	<u>110,143</u>	<u>(9,015,339)</u>
Net water plant assets being depreciated	<u>19,522,142</u>	<u>591,083</u>	<u>36,353</u>	<u>20,149,578</u>
Construction work in progress	<u>79,378</u>	<u>698,521</u>	<u>(610,565)</u>	<u>167,334</u>
Property, plant, and equipment, net	<u>\$ 19,822,358</u>	<u>\$ 1,289,604</u>	<u>\$ (574,212)</u>	<u>\$ 20,537,750</u>

**CANBY UTILITY BOARD**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

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

Water system property, plant, and equipment activity during 2014 is as follows:

	Balance at July 1, 2013	Increases	Decreases	Balance at June 30, 2014
Water plant assets not being depreciated:				
Land	\$ 220,838	\$ -	\$ -	\$ 220,838
Water plant assets being depreciated:				
Buildings	6,946,200	-	-	6,946,200
Distribution plant	13,157,675	269,680	(33,637)	13,393,718
Water treatment plant	6,342,380	-	-	6,342,380
Vehicle equipment	329,199	20,841	(28,897)	321,143
Office furniture and equipment	450,719	-	-	450,719
Other equipment	562,471	-	-	562,471
	<u>27,788,644</u>	<u>290,521</u>	<u>(62,534)</u>	<u>28,016,631</u>
Less accumulated depreciation	<u>(7,939,583)</u>	<u>(622,731)</u>	<u>67,825</u>	<u>(8,494,489)</u>
Net water plant assets being depreciated	<u>19,849,061</u>	<u>(332,210)</u>	<u>5,291</u>	<u>19,522,142</u>
Construction work in progress	<u>75,127</u>	<u>336,955</u>	<u>(332,704)</u>	<u>79,378</u>
Property, plant, and equipment, net	<u>\$ 20,145,026</u>	<u>\$ 4,745</u>	<u>\$ (327,413)</u>	<u>\$ 19,822,358</u>

**Note 4 – Pension Plans**

**Plan description** – All qualified employees are eligible to participate in one of the Utility’s two pension plans administered by Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (Tier 1/Tier 2) is a cost-sharing multiple-employer defined benefit pension plan for qualifying employees hired before August 29, 2003. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to Tier 1/Tier 2 consisting of two programs: a defined benefit pension plan and a defined contribution program (the Individual Account Program or IAP). The OPSRP pension plan is effective for all new employees hired on or after August 29, 2003. The plan provides a life pension funded by employer contributions. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary, years of service and type of service (general or police/fire). Beginning January 1, 2004, all PERS member contributions go into the IAP portion of OPSRP. Tier 1/Tier 2 members retain their existing Tier 1/Tier 2 accounts, but future member contributions are deposited into the member’s IAP account. Benefit provisions under the Plans are established by State statute. PERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the PERS website.

**CANBY UTILITY BOARD**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 4 – Pension Plans (continued)**

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

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

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

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

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

## **CANBY UTILITY BOARD**

### **NOTES TO COMBINED FINANCIAL STATEMENTS**

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#### **Note 4 – Pension Plans (continued)**

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

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

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

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

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

Employer contribution rates during the period were based on the December 31, 2011 actuarial valuation as subsequently modified by 2013 legislated changes in benefit provisions. The rates based on a percentage of payroll, first became effective July 1, 2013. The state of Oregon and certain schools, community colleges and political subdivisions have made lump sum payments to establish side accounts, and their rates have been reduced. Employer contributions for the year ended June 30, 2015 were \$308,603, excluding amounts to fund employer-specific liabilities.

**CANBY UTILITY BOARD**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 4 – Pension Plans (continued)**

**Pension asset, pension expense, and deferred outflows or resources and deferred inflows of resources related to pension** – At June 30, 2015, The Utility reported an asset of \$505,566 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014 and the total pension asset for each Plan used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2012 rolled forward to June 30, 2014 using standard update procedures. The Utility’s proportion of the net pension asset was based on a projection of the Utility’s long-term share of contributions to the Plans relative to the projected contributions for all participating employers, actuarially determined. The Utility’s proportionate share of the net pension asset for the Plans as of June 30, 2014 was 0.02230393%.

For the year ended June 30, 2015, the Utility recognized pension expense of \$(464,999). At June 30, 2015, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 204,466	\$ -
Differences between projected and actual earnings on plan investments	-	975,538
Differences between Utility contributions and the Utility's proportionate share of contributions	-	12,344
	\$ 204,466	\$ 987,882

\$204,466 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

Years ending June 30,	2016	\$ 246,568
	2017	246,568
	2018	246,568
	2019	246,566
	2020	1,612
		\$ 987,882

## CANBY UTILITY BOARD

### NOTES TO COMBINED FINANCIAL STATEMENTS

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#### Note 4 – Pension Plans (continued)

**Actuarial Assumptions** – The total pension assets in the December 31, 2012 actuarial valuations were determined using the following actuarial assumptions.

Valuation Date	December 31, 2012
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.75%
Inflation	2.75%
Payroll Growth	3.75%
Projected Salary Increase	3.75%
Investment Rate of Return	7.75%

Mortality rates for healthy retirees and beneficiaries were based on the RP-2000 Sex-distinct tables, as appropriate, with adjustments for mortality improvements based on Scale AA. Mortality rates for active members are a percentage of healthy retiree rates that vary by group, as described in the valuation. For disabled retirees, mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table.

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

**Discount rate** – The discount rate used to measure the total pension liability was 7.75 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman’s capital market assumptions team and the Oregon Investment Council’s (OIC) investment advisors. The table below shows Milliman’s assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC’s description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption.

**CANBY UTILITY BOARD**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**Note 4 – Pension Plans (continued)**

These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

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

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

Employers' Net Pension Liability / (Asset)	Current Discount Rate		
	1% Decrease 6.75%	7.75%	1% Increase 8.75%
Defined benefit pension plan	\$ 1,070,600	\$ (505,566)	\$ (1,839,300)

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

**Payable to the pension plan** – At June 30, 2015, the Utility did not have an outstanding amount of contributions payable to the pension plan for the year ended June 30, 2015.

**Changes in plan provisions during the measurement period** – Senate Bill 822, signed into law in May 2013, eliminated the SB 656-HB 3349 tax remedy payments for benefit recipients who are not subject to Oregon income tax, because they do not reside in Oregon, and limited the 2013 post-retirement COLA to 1.5% of annual benefit.

## **CANBY UTILITY BOARD**

### **NOTES TO COMBINED FINANCIAL STATEMENTS**

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#### **Note 4 - Pension Plans (continued)**

Senate Bill 861, signed into law in October 2013, limited the post-retirement COLA for years beyond 2013 to 1.25% on the first \$60,000 of annual benefit and 0.15% on annual benefits above \$60,000.

Senate Bill 862, signed into law in October 2013, makes targeted changes such as allowing garnishment of PERS benefits for convicted felons. These changes do not significantly affect System liabilities and were not reflected in the valuation.

For GASB Statement No. 67 and 68, the total pension liability must be calculated based on the benefit terms legally in effect as of the relevant fiscal year-end for the plan. Due to the timing of the benefit changes, this means only Senate Bill 822 and 861 are reflected in the June 30, 2013 total pension liability, but that the combined effects of Senate Bills 822 and 861 are reflected in the June 30, 2014 Total Pension Liability. The decrease in the Total Pension Liability resulting from Senate Bill 861, measured as of June 30, 2014, created at (\$2,423.6) million reduction in Plan pension liabilities.

**Changes in plan provisions subsequent to the measurement period** – The Oregon Supreme Court on April 30, 2015, ruled that the provisions of Senate Bill 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law was unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually. Restoration payments will be made to those benefit recipients. PERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire. This is a change in benefit terms subsequent to the measurement date, and is not included in the net pension asset. This change will be reflected in the next measurement period.

#### **Note 5 - Long-Term Debt**

The Utility issued Water System Revenue Bonds (2004 and 2007 Water Revenue Bonds) dated September 30, 2004 and October 31, 2007 for \$2,900,000 and \$3,200,000 respectively. The Utility also issued a Water Revenue Refunding Bond, Series 2014, dated September 18, 2014, for \$1,951,000. These fixed rate bonds were issued for the purpose of refunding the outstanding 2004 Water revenue bonds and to pay costs of issuance related to the 2014 bonds. The transaction generated an approximate \$156,069 in net present value savings. All bond purchase agreements provide that principal and interest on the bonds are payable solely from and secured by the net revenues of the Water System.

**CANBY UTILITY BOARD**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**Note 5 - Long-Term Debt (continued)**

Current and long-term debt is as follows:

	<u>June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2015</u>
2004 Water Revenue Bonds, with interest rates from 2.5% to 4.5%, maturing through 2025	\$ 1,875,000	\$ -	\$ (1,875,000)	\$ -
2007 Water Revenue Bonds, with interest rates from 3.625% to 3.75%, maturing through 2027	2,495,000	-	(135,000)	2,360,000
2014 Water Revenue Refunding Bonds, with interest rates of 2.3% maturing through 2025	-	1,951,000	(35,000)	1,916,000
	<u>4,370,000</u>	<u>\$ 1,951,000</u>	<u>\$ (2,045,000)</u>	<u>4,276,000</u>
Total water system debt	4,370,000	<u>\$ 1,951,000</u>	<u>\$ (2,045,000)</u>	4,276,000
Less current portion	<u>270,000</u>			<u>315,000</u>
Long term debt	<u>\$ 4,100,000</u>			<u>\$ 3,961,000</u>

Future requirements for retirement of the 2004 and 2007 water revenue bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 315,000	\$ 133,714	\$ 448,714
2017	323,000	124,249	447,249
2018	337,000	114,499	451,499
2019	351,000	104,239	455,239
2020	362,000	93,604	455,604
2021 - 2025	1,923,000	291,902	2,214,902
2026 - 2028	<u>665,000</u>	<u>42,019</u>	<u>707,019</u>
	<u>\$ 4,276,000</u>	<u>\$ 904,226</u>	<u>\$ 5,180,226</u>

Both the 2004 and 2007 Water Revenue bonds involved the purchase of surety bonds in lieu of setting aside funds for meeting reserve requirements. These would cover the bond holders in the event of a default by the Utility, such as a failure to make payments of interest and principal on a timely basis. The surety bonds are rated municipal bonds.

## **CANBY UTILITY BOARD**

### **NOTES TO COMBINED FINANCIAL STATEMENTS**

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#### **Note 6 - Risk Management**

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

#### **Note 7 - Commitments**

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

#### **Note 8 - Related Party**

The Utility makes payments to the City for contributions in lieu of taxes. For the year ended June 30, 2015, contributions totaled \$132,018 (\$117,652 in 2014) and \$505,213 (\$511,655 in 2014) for Water and Electric, respectively. At June 30, 2015, the amount payable to the City for both Water and Electric was \$11,808 (\$10,874 at June 30, 2014) and \$38,208 (\$37,518 at June 30, 2014), respectively.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**CANBY UTILITY BOARD**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**AS OF JUNE 30, 2015**  
**LAST TEN YEARS\***

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		2015
Proportion of the net pension asset		0.02230393%
Proportionate share of the net pension asset	\$	505,566
Covered - employee payroll	\$	1,592,085
Proportionate share of the net pension asset as percentage of covered-employee payroll		32%
Plan's fiduciary net position	\$	65,401,492,664
Plan fiduciary net position as a percentage of the total pension asset		103.60%

\* Fiscal year 2015 was the 1<sup>st</sup> year of implementation, therefore only one year is shown.

**CANBY UTILITY BOARD  
SCHEDULE OF CONTRIBUTIONS  
AS OF JUNE 30, 2015  
LAST TEN YEARS\***

	2015	
Contractually required contribution (actuarially determined)	\$	204,466
Contributions in relation to the actuarially determined contribution		204,466
Contribution deficiency (excess)	\$	-
Covered-employee payroll	\$	1,592,085
Contributions as a percentage of covered-employee payroll		12.84%

**Notes to Schedule**

Valuation date: 12/31/2012, rolled forward to June 30, 2014

Methods and assumptions used to determine contribution rates:

Single and Agent Employers Example	Entry age normal
Experience study report	2012, published September 18, 2013
Amortization method	Level percentage of payroll, closed
Remaining amortization period	Tier One/Tier Two - 20 years; OPSRP - 16 years
Asset valuation method	Market value of assets
Inflation	2.75%
Salary increases	3.75%
Investment rate of return	7.75%
Retirement age	55 for Tier 1/Tier 2; 65 for OPSRP
Mortality	RP-2000 Sex-distinct tables
Discount rate	7.75%

\* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**SUPPLEMENTARY INFORMATION**

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**CANBY UTILITY BOARD**  
**SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL**  
**ELECTRIC SYSTEM**  
**YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts Final	Actual	Variance
<b>OPERATING REVENUES</b>			
Sales of power	\$ 10,363,545	\$ 10,125,752	\$ (237,793)
Other, net	331,203	210,659	(120,544)
<b>Total operating revenues</b>	<b>10,694,748</b>	<b>10,336,411</b>	<b>(358,337)</b>
<b>OPERATING EXPENSES</b>			
Purchased power	6,833,875	6,455,856	(378,019)
Board of Directors	17,897	7,359	(10,538)
Executive	247,437	137,227	(110,210)
Administrative	203,161	179,296	(23,865)
Customer service	660,081	422,197	(237,884)
Finance	348,441	276,503	(71,938)
Operations	269,788	153,539	(116,249)
Distribution	759,149	523,800	(235,349)
Risk management	29,202	28,486	(716)
Depreciation	718,450	713,229	(5,221)
Contribution in lieu of taxes	514,679	505,213	(9,466)
<b>Total operating expenses</b>	<b>10,602,160</b>	<b>9,402,705</b>	<b>(1,199,455)</b>
<b>Net operating income</b>	<b>92,588</b>	<b>933,706</b>	<b>841,118</b>
<b>OTHER INCOME – INTEREST INCOME</b>	<b>39,909</b>	<b>37,531</b>	<b>(2,378)</b>
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>			
Contributions in aid of construction	-	16,285	16,285
Hook-up fees	57,248	46,169	(11,079)
Line extension fees	485,610	181,020	(304,590)
<b>Total contributions in aid of construction</b>	<b>542,858</b>	<b>243,474</b>	<b>(299,384)</b>
<b>Change in net position</b>	<b>675,355</b>	<b>1,214,711</b>	<b>\$ 539,356</b>
<b>ADJUSTMENTS TO CHANGE IN NET POSITION ON A US GAAP BASIS</b>			
Loss on sale of assets	(500)	1,915	
Interest expense	(1,080)	(1,230)	
<b>Changes in net position – US GAAP basis</b>	<b>\$ 673,775</b>	<b>\$ 1,215,396</b>	

**CANBY UTILITY BOARD**  
**SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL**  
**WATER SYSTEM**  
**YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		
	Final	Actual	Variance
<b>OPERATING REVENUES</b>			
Sales of water	\$ 2,503,337	\$ 2,711,614	\$ 208,277
Other, net	(133,988)	5,621	139,609
<b>Total operating revenues</b>	<b>2,369,349</b>	<b>2,717,235</b>	<b>347,886</b>
<b>OPERATING EXPENSES</b>			
Board of Directors	3,301	2,431	(870)
Executive	77,663	30,708	(46,955)
Administrative	82,314	90,214	7,900
Customer service	151,791	114,418	(37,373)
Finance	112,588	116,767	4,179
Operations	133,493	98,238	(35,255)
Distribution	295,814	194,139	(101,675)
Water treatment plant	810,856	807,103	(3,753)
Risk management	29,191	28,935	(256)
Depreciation	611,391	608,398	(2,993)
Franchise tax	125,166	132,018	6,852
<b>Total operating expenses</b>	<b>2,433,568</b>	<b>2,223,369</b>	<b>(210,199)</b>
<b>Net operating income (loss)</b>	<b>(64,219)</b>	<b>493,866</b>	<b>558,085</b>
<b>OTHER INCOME – INTEREST INCOME</b>	<b>10,925</b>	<b>10,895</b>	<b>(30)</b>
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>			
Contributions in aid of construction	56,198	658,579	602,381
Hook-up fees	10,900	14,444	3,544
System development charges fees	187,500	101,966	(85,534)
<b>Total contributions in aid of construction</b>	<b>254,598</b>	<b>774,989</b>	<b>520,391</b>
<b>Change in net position</b>	<b>201,304</b>	<b>1,279,750</b>	<b>\$ 1,078,446</b>
<b>ADJUSTMENTS TO CHANGE IN NET POSITION ON A US GAAP BASIS</b>			
Loss on sale of assets	(8,500)	8,287	
Interest expense	(137,094)	(148,955)	
<b>Changes in net position – US GAAP basis</b>	<b>\$ 55,710</b>	<b>\$ 1,139,082</b>	

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE AND INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *OREGON AUDITING STANDARDS***

Board of Directors  
Canby Utility Board

We have audited the accompanying financial statements of the Canby Utility Board (the Utility) as of and for the year ended June 30, 2015 and have issued our report thereon dated November 24, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement.

**Compliance**

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules (OAR) 162-010-000 to 162-010-330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

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

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

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE AND INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH OREGON AUDITING STANDARDS  
(continued)**

**Internal Control over Financial Reporting**

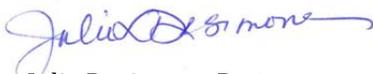
In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for determining our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the Utility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Utility's combined financial statements that is more than inconsequential will not be prevented or detected by the Utility's internal controls. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the combined financial statements will not be prevented or detected by the Utility's internal control.

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

**Purpose of this Report**

This report is intended solely for the information and use of the Utility's management, the Board of Directors, and the Secretary of State, Division of Audits of the State of Oregon and is not intended to be and should not be used by anyone other than these specified parties.



Julie Desimone, Partner  
for Moss Adams LLP  
November 24, 2015