

**CITY OF GLADSTONE, OREGON**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**  
For the Fiscal Year Ended  
June 30, 2016  
with  
Independent Auditor's Report

**MERINA**  
& COMPANY, LLP

**CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**

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## **INTRODUCTORY SECTION**

**CITY OF GLADSTONE, OREGON**

**CITY OFFICIALS**

**June 30, 2016**

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City Officials

Thomas Mersereau, Mayor  
Gladstone, Oregon 97027

Term Expires

December 31, 2016

Council Members

Kim Sieckmann, President  
Gladstone, Oregon 97027

December 31, 2018

Kevin Johnson  
Gladstone, Oregon 97027

December 31, 2016

Steve Johnson  
Gladstone, Oregon 97027

December 31, 2018

Neal Reisner  
Gladstone, Oregon 97027

December 31, 2016

Patrick McMahon  
Gladstone, Oregon 97027

December 31, 2018

Linda Neace  
Gladstone, Oregon 97027

December 31, 2016

City Administrator

Eric Swanson  
Gladstone, Oregon 97027

Chief of Police

Jeff Jolley  
Gladstone, Oregon 97027

Assistant City Administrator

Jolene Morishita  
Gladstone, Oregon 97027

Fire Chief

Tom O'Connor  
Gladstone, Oregon 97027

Municipal Judge

Linda Beloof  
Gladstone, Oregon 97027

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## **FINANCIAL SECTION**

**INDEPENDENT AUDITOR’S REPORT**

Honorable Mayor and City Council  
City of Gladstone, Oregon

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Gladstone, Oregon, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Gladstone, Oregon’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 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 opinions on these financial statements based on our audit. We did not audit the financial statements of North Clackamas County Water Commission, a joint venture of the City of Gladstone, with represents 22 percent and 27 percent, respectively, of assets and net position of the business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for North Clackamas County Water Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial



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

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

## **Opinions**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Gladstone, Oregon, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to management's discussion and analysis, the schedule of funding progress other post-employment benefits, schedule of the proportionate share of the net pension liability, and schedule of contributions, as listed in the table of contents under 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

The budgetary comparison schedules, as listed in the table of contents under required supplementary information, are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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, this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladstone, Oregon's basic financial statements. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section 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 it.

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

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated November 30, 2016, on our consideration of the City of Gladstone, Oregon's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules.

The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

A handwritten signature in cursive script that reads "Merina & Company".

Merina & Company, LLP  
West Linn, Oregon  
November 30, 2016

**JUNE 30, 2016**  
**City of Gladstone**  
**Management's Discussion and Analysis**

Management staff of the City of Gladstone offers this executive summary of financial activities of the City for the fiscal year ended June 30, 2016.

**Financial Highlights**

The assets of the City of Gladstone exceeded its liabilities at the close of the most recent fiscal year by \$33,133,380 (net position). Of this amount, \$17,118,333 is net investment in capital assets, \$7,256,641 is restricted for specific purposes, and \$8,758,406 (unrestricted) may be used to meet the government's obligations to creditors and to meet service expectations by its citizens. The City's total net position increased by \$578,713 from the prior year.

The City's governmental activities reported total net position of \$22,833,644. Of this amount \$3,494,859 is unrestricted and thus available for spending at the City's discretion.

The City's business-type activities reported total net position of \$10,299,736. Of this amount \$5,263,547 is unrestricted and thus available for spending at the City's discretion.

The City's governmental funds reported combined ending fund balances of \$11,936,746, an increase of \$1,853,955, compared to the prior year. The increase is due to the Urban Renewal Fund holding reserves for future projects.

**Overview of the Financial Statements**

The Management Discussion and Analysis (MD&A) is intended to serve as an introduction to the City of Gladstone basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements**

These two statements present an overview of the City's finances, in a manner similar to the private sector. Each statement presents highly condensed, entity-wide information and uses the full accrual basis of accounting.

The Statement of Net Position presents information on the City's total assets and liabilities, with the resulting difference between the two presented as net position. Over time, increases or decreases to net position may serve as a useful indicator of whether the City's financial position is improving or deteriorating. The financial position of the City is best indicated by changes in cash flow and cash reserve as described in the Financial Analysis section of the City's most recent budget.

The Statement of Activities focuses on the change in net position over the last year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave). Governmental activities of the City of Gladstone include general government, public safety, highways and streets, culture and recreation and urban renewal. Urban renewal is considered a component of the City of Gladstone even though it has separate financial statements and management discussion and analysis. Business-type activities consist of water and sewer.

**Fund Financial Statements.** A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Gladstone, 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 of Gladstone can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

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. By doing so, readers may better understand the long-term impact of the City's near term financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Gladstone maintains eight individual governmental funds. Information is presented separately in the governmental balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, State Revenue Sharing Fund, Road and Street Fund, Urban Renewal Agency Fund, Police and Communications Special Levy Fund and Library Capital Fund. All of these funds are considered to be major funds. Data from the other two non-major governmental funds are combined into a single aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining schedules in the other supplementary information described below.

**Proprietary Funds.** Proprietary funds represent two segments of operations, water and sewer, used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent is that the costs of providing these services to the general public on a continuing basis be financed primarily through user charges.

**Fiduciary Funds.** Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds consisting of a Municipal Court Fund and Library Board Trust Fund are custodial in nature and do not involve measurement of results of operations.

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

**Required Supplementary Information.** Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered part of basic financial statements. A budgetary comparison schedule for major governmental funds is presented immediately following the notes to the basic financial statements.

**Other Supplementary Information.** The schedules for the non-major governmental funds and budgetary comparison schedules for both the non-major governmental funds and the proprietary funds are presented immediately following the required supplementary information.

### **Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$33,133,380 at the close of the most recent fiscal year.

The following table reflects a Summary of Net Position for these fiscal years:

	<b>Summary of Net Position</b>					
	<u>Governmental Activities</u>		<u>Business type Activities</u>		<u>Totals</u>	
	2016	2015	2016	2015	2016	2015
Cash and investments	\$ 11,328,489	\$ 9,826,467	\$ 2,411,529	\$ 2,066,833	\$ 13,740,018	\$ 11,893,300
Restricted cash and investments	533,046	291,992	581,674	324,550	1,114,720	616,542
Other assets	473,375	1,087,922	3,520,682	3,624,073	3,994,057	4,711,995
Capital assets	12,663,818	12,778,074	6,068,515	6,188,253	18,732,333	18,966,327
Total assets	<u>24,998,728</u>	<u>23,984,455</u>	<u>12,582,400</u>	<u>12,203,709</u>	<u>37,581,128</u>	<u>36,188,164</u>
Deferred outflow related to pension asset	<u>391,752</u>	<u>273,405</u>	<u>58,622</u>	<u>27,040</u>	<u>450,374</u>	<u>300,445</u>
Total assets and deferred outflows of resources	<u>\$ 25,390,480</u>	<u>\$ 24,257,860</u>	<u>\$ 12,641,022</u>	<u>\$ 12,230,749</u>	<u>\$ 38,031,502</u>	<u>\$ 36,488,609</u>
Current liabilities	\$ 297,119	\$ 333,674	\$ 535,318	\$ 461,642	\$ 832,437	\$ 795,316
Long-term liabilities	<u>1,863,256</u>	<u>199,352</u>	<u>1,746,642</u>	<u>1,592,899</u>	<u>3,609,898</u>	<u>1,792,251</u>
Total liabilities	<u>2,160,375</u>	<u>533,026</u>	<u>2,281,960</u>	<u>2,054,541</u>	<u>4,442,335</u>	<u>2,587,567</u>
Deferred inflow related to pension asset	<u>396,461</u>	<u>1,225,201</u>	<u>59,326</u>	<u>121,174</u>	<u>455,787</u>	<u>1,346,375</u>
Net position						
Net investment in capital assets	12,663,818	12,778,074	4,454,515	4,493,253	17,118,333	17,271,327
Restricted	6,674,967	5,563,060	581,674	324,550	7,256,641	5,887,610
Unrestricted	<u>3,494,859</u>	<u>4,158,499</u>	<u>5,263,547</u>	<u>5,237,231</u>	<u>8,758,406</u>	<u>9,395,730</u>
Total net position	<u>22,833,644</u>	<u>22,499,633</u>	<u>10,299,736</u>	<u>10,055,034</u>	<u>33,133,380</u>	<u>32,554,667</u>
Total assets and deferred inflows of resources and net position	<u>\$ 25,390,480</u>	<u>\$ 24,257,860</u>	<u>\$ 12,641,022</u>	<u>\$ 12,230,749</u>	<u>\$ 38,031,502</u>	<u>\$ 36,488,609</u>

By far the largest portion of the City of Gladstone's net position reflect its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets do not have financial liquidity easily available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to pay these liabilities. The remaining balance of \$8,758,406 is unrestricted net position and may be used to meet the City's ongoing obligations to citizens and creditors.

The following table summarizes revenues and expenses for fiscal years 2016 and 2015:

	<b>Governmental and Proprietary Activities</b>					
	Governmental Activities		Business type Activities		Totals	
	2016	2015	2016	2015	2016	2015
<b>Receipts</b>						
<b>Program Receipts</b>						
Charges for services	\$ 790,258	\$ 421,744	\$ 3,897,055	\$ 3,199,207	\$ 4,687,313	\$ 3,620,951
Operating grants and contributions	37,531	50,729	-	-	37,531	50,729
<b>General receipts</b>						
Property tax	5,313,248	5,139,277	-	-	5,313,248	5,139,277
Franchise fees and public service tax	2,127,032	2,124,148	-	-	2,127,032	2,124,148
Interest	106,197	67,731	-	-	106,197	67,731
Other	241,843	83,221	17,307	10,928	259,150	94,149
Total receipts	<u>\$ 8,616,109</u>	<u>\$ 7,886,850</u>	<u>\$ 3,914,362</u>	<u>\$ 3,210,135</u>	<u>\$12,530,471</u>	<u>\$ 11,096,985</u>
<b>Expenses</b>						
<b>Governmental activities</b>						
General government	\$ 1,865,183	\$ 1,515,234	\$ -	\$ -	\$ 1,865,183	\$ 1,515,234
Public safety	4,254,609	3,062,284	-	-	4,254,609	3,062,284
Highways and streets	632,167	499,928	-	-	632,167	499,928
Culture and recreation	1,564,242	1,273,297	-	-	1,564,242	1,273,297
Urban renewal	6,603	8,780	-	-	6,603	8,780
<b>Business type activities</b>						
Water	-	-	1,182,061	1,118,372	1,182,061	1,118,372
Sewer	-	-	2,403,114	1,955,180	2,403,114	1,955,180
Total expenses	<u>\$ 8,322,804</u>	<u>\$ 6,359,523</u>	<u>\$ 3,585,175</u>	<u>\$ 3,073,552</u>	<u>\$11,907,979</u>	<u>\$ 9,433,075</u>
Change in net position before transfers	<u>293,305</u>	<u>1,527,327</u>	<u>329,187</u>	<u>136,583</u>	<u>622,492</u>	<u>1,663,910</u>
Transfers	\$ 40,706	\$ 39,547	\$ (40,706)	\$ (39,547)	\$ -	\$ -
Equity income (loss) in joint venture	-	-	(43,779)	(93,129)	(43,779)	(93,129)
Changes in net position	334,011	1,566,874	244,702	3,907	578,713	1,570,781
Beginning net position, as restated*	22,499,633	20,932,759	10,055,034	10,051,127	32,554,667	30,983,886
Ending net position	<u>\$22,833,644</u>	<u>\$ 22,499,633</u>	<u>\$10,299,736</u>	<u>\$10,055,034</u>	<u>\$33,133,380</u>	<u>\$ 32,554,667</u>

\* Implementation of GABS 68 required a restatement of beginning net position

**Governmental Activities.** Governmental activities increased the City of Gladstone's net position by \$334,011.

**Business-type Activities.** Business-type activities increased the City of Gladstone's net position by \$244,702.

## **Financial Analysis of the City's Funds**

**Governmental Funds.** The focus of the City of Gladstone's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Gladstone's financial requirements. In particular, unassigned fund balance may serve as useful measure of a government's net resources available for spending at the end of the fiscal year as they have not been limited to use for a particular purpose.

At the end of the fiscal year, the City of Gladstone's governmental funds reported combined ending fund balances of \$11,936,746.

**Proprietary Funds.** The City's proprietary funds are enterprise funds and fiduciary funds. An enterprise fund is used to account for activities for which a fee is charged to external users for services. These funds provide the same type of information found in the government-wide financial statements, but in more detail. Fiduciary funds do not involve results of operations and are custodial in nature.

## **Budgetary Highlights**

Changes to the General Fund budget included an appropriation transfer from Contingency to cover additional operating expenses from the following General Fund departments: Administration, Police, Recreation, and Senior Center.

## **Capital Assets and Debt Administration**

The following tables compare capital assets and changes in capital assets as of June 30, 2016 and June 30, 2015:

	Capital Assets at Year End (Net of Depreciation)					
	Governmental Activities		Business type Activities		Total Government	
	2016	2015	2016	2015	2016	2015
Land	\$ 5,519,830	\$ 5,519,830	\$ 640,964	\$ 640,964	\$ 6,160,794	\$ 6,160,794
Construction in Progress	-	-	-	-	-	-
Buildings	3,135,726	3,223,905	10,604	12,820	3,146,330	3,236,725
Vehicles and Equipment	769,255	776,531	3,448	9,463	772,703	785,994
Intangible Assets	24,495	38,582	-	-	24,495	38,582
Infrastructure	3,214,512	3,219,226	5,413,499	5,525,006	8,628,011	8,744,232
Total	\$ 12,663,818	\$ 12,778,074	\$ 6,068,515	\$ 6,188,253	\$ 18,732,333	\$ 18,966,327



**Changes in Capital Assets**

	Governmental Activities		Business type Activities		Total Government	
	2016	2015	2016	2015	2016	2015
Beginning Balance	\$ 12,778,074	\$ 12,983,256	\$ 6,188,253	\$ 6,427,136	\$ 18,966,327	\$ 19,410,392
Additions	306,248	1,450,560	124,454	-	430,702	1,450,560
Depreciation	(420,504)	(432,401)	(244,192)	(238,883)	(664,696)	(671,284)
Deletions	-	(1,223,341)	-	-	-	(1,223,341)
Ending Balance	<u>\$ 12,663,818</u>	<u>\$ 12,778,074</u>	<u>\$ 6,068,515</u>	<u>\$ 6,188,253</u>	<u>\$ 18,732,333</u>	<u>\$ 18,966,327</u>

**Long-term Debt.** At June 30, 2016, the City had bonded debt outstanding of \$1,614,000 compared to \$1,695,000 at June 30, 2015. State statutes limit the amount of general obligation debt an Oregon city may issue to 3% of total real market value of all taxable property within its boundary. The current debt limitation for the City of Gladstone is \$32,341,102.

**Economic Factors and Next Year’s Budget.** The Gladstone community is part of the Portland Metropolitan area and business, employment and other factors generally do not directly affect the City’s financial conditions. Gladstone has virtually no vacant land and has limited potential for significant increase in property tax revenue from “qualifying improvements” as allowed by property tax limitation commonly known as Measure 50. The following fiscal year revenues should exceed expenditures.

Gladstone voters approved a new Police Station & City Hall ballot measure in November of 2015. This ballot measure allows the City to acquire property in the Portland Avenue area and construct a Police Station and City Hall that will serve the City of Gladstone. The estimated cost of the new Police Station is \$7.2 million and City Hall is estimated at \$4.0 million, for a total of \$11.2 million. Funding sources include Urban renewal funds of \$5 million, sale of properties of approximately \$3 million, and incurring long term debt of \$3.2 million.

**Requests for Information.** This report was modeled after “Management’s Discussion and Analysis” prepared by other cities, based on figures furnished by the City’s auditor. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator at 525 Portland Avenue, Gladstone, 97027, who may consult with the City’s auditor, Merina & Company, LLP.

## **BASIC FINANCIAL STATEMENTS**

## **BASIC FINANCIAL STATEMENTS**

The basic financial statements include interrelated sets of financial statements as required by the GASB. The sets of statements include:

- Government-Wide Financial Statements
- Fund Financial Statements
  - Governmental Funds
  - Proprietary Funds
  - Fiduciary Funds

In addition, the notes to the basic financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

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**CITY OF GLADSTONE, OREGON**  
**STATEMENT OF NET POSITION**  
**June 30, 2016**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Current assets:			
Cash and investments	\$ 11,328,489	\$ 2,411,529	\$ 13,740,018
Cash with county treasurer	78,465	-	78,465
Accounts receivable	73,845	560,411	634,256
Property taxes receivable	321,065	-	321,065
Prepays	-	156,979	156,979
<b>Total current assets</b>	<b>11,801,864</b>	<b>3,128,919</b>	<b>14,930,783</b>
Noncurrent assets:			
Restricted cash and investments	533,046	581,674	1,114,720
Assessments receivable	-	6,062	6,062
Interest receivable	-	2,564	2,564
Investment in joint venture	-	2,794,666	2,794,666
Capital assets:			
Non depreciable	5,519,830	640,964	6,160,794
Depreciable, net	7,143,988	5,427,551	12,571,539
<b>Total noncurrent assets</b>	<b>13,196,864</b>	<b>9,453,481</b>	<b>22,650,345</b>
<b>Total assets</b>	<b>24,998,728</b>	<b>12,582,400</b>	<b>37,581,128</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Deferred outflow related to pension asset	391,752	58,622	450,374
<b>Total deferred outflows of resources</b>	<b>391,752</b>	<b>58,622</b>	<b>450,374</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 25,390,480</b>	<b>\$ 12,641,022</b>	<b>\$ 38,031,502</b>
<b>LIABILITIES:</b>			
Current liabilities:			
Accounts payable	\$ 82,102	\$ 346,723	\$ 428,825
Interest payable	-	15,979	15,979
Accrued compensated absences	206,836	31,616	238,452
Bonds payable - current maturity	-	141,000	141,000
Other current liabilities	8,181	-	8,181
<b>Total current liabilities</b>	<b>297,119</b>	<b>535,318</b>	<b>832,437</b>
Noncurrent liabilities:			
Net pension liability	1,659,385	248,310	1,907,695
OPEB liability	203,871	25,332	229,203
Noncurrent portion of long-term obligations	-	1,473,000	1,473,000
<b>Total noncurrent liabilities</b>	<b>1,863,256</b>	<b>1,746,642</b>	<b>3,609,898</b>
<b>Total liabilities</b>	<b>2,160,375</b>	<b>2,281,960</b>	<b>4,442,335</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Deferred inflow related to pension asset	396,461	59,326	455,787
<b>Total deferred inflows of resources</b>	<b>396,461</b>	<b>59,326</b>	<b>455,787</b>
<b>NET POSITION:</b>			
Net investment in capital assets	12,663,818	4,454,515	17,118,333
Restricted for:			
Street operations	822,929	-	822,929
Senior center	107,515	-	107,515
System development	-	581,674	581,674
Urban Renewal development	5,744,523	-	5,744,523
Unrestricted	3,494,859	5,263,547	8,758,406
<b>Total net position</b>	<b>22,833,644</b>	<b>10,299,736</b>	<b>33,133,380</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 25,390,480</b>	<b>\$ 12,641,022</b>	<b>\$ 38,031,502</b>

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

**CITY OF GLADSTONE, OREGON**  
**STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2016**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental activities:			
General government	\$ 1,865,183	\$ 245,409	\$ -
Public safety	4,254,609	269,673	5,400
Highways and streets	632,167	275,176	-
Urban and renewal	6,603	-	-
Culture and recreation	1,564,242	-	32,131
Total governmental activities	<u>8,322,804</u>	<u>790,258</u>	<u>37,531</u>
Business-type activities:			
Water Fund	1,182,061	1,539,938	-
Sewer Fund	2,403,114	2,357,117	-
Total business type activities	<u>3,585,175</u>	<u>3,897,055</u>	<u>-</u>
Total government	<u>\$ 11,907,979</u>	<u>\$ 4,687,313</u>	<u>\$ 37,531</u>

General revenues:

Taxes:

    Property taxes

    Public service taxes

Franchise fees

Interest and investment earnings

Gain (loss) in joint venture

Miscellaneous

Transfers in (out)

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

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

Net Expense Revenue and Change in Net Position		
Governmental Activities	Business Type Activities	Total
\$ (1,619,774)	\$ -	\$ (1,619,774)
(3,979,536)	-	(3,979,536)
(356,991)	-	(356,991)
(6,603)	-	(6,603)
(1,532,111)	-	(1,532,111)
<u>(7,495,015)</u>	<u>-</u>	<u>(7,495,015)</u>
-	357,877	357,877
<u>-</u>	<u>(45,997)</u>	<u>(45,997)</u>
-	311,880	311,880
<u>(7,495,015)</u>	<u>311,880</u>	<u>(7,183,135)</u>
5,313,248	-	5,313,248
1,612,760	-	1,612,760
514,272	-	514,272
106,197	-	106,197
-	(43,779)	(43,779)
241,843	17,307	259,150
40,706	(40,706)	-
<u>7,829,026</u>	<u>(67,178)</u>	<u>7,761,848</u>
334,011	244,702	578,713
<u>22,499,633</u>	<u>10,055,034</u>	<u>32,554,667</u>
<u>\$ 22,833,644</u>	<u>\$ 10,299,736</u>	<u>\$ 33,133,380</u>

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

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**FUND FINANCIAL STATEMENTS**  
**Major Governmental Funds**

**General Fund**

The General Fund accounts for the financial resources of the City which are not accounted for in any other fund. Principal sources of revenue are property taxes, franchise fees, and state shared revenues. Primary expenditures are for police protection, fire protection, maintenance of parks, operation of the library and senior center, and general administration.

**State Revenue Sharing Fund**

The State Revenue Sharing Fund accounts for the receipt and expenditure of revenue sharing funds received from the State of Oregon.

**Road and Street Fund**

The Road and Street Fund accounts for revenues from state gasoline taxes apportioned from the State of Oregon.

**Urban Renewal Agency Fund**

The Urban Renewal Agency Fund accounts for property tax revenue received for the rehabilitation of blighted and deteriorated areas within the City's designated urban renewal area.

**Police and Communications Special Levy Fund**

The Police and Communications Special Levy Fund accounts for the receipts and expenditure of taxes received from a five year local option levy. Proceeds from the levy will be used to increase police personnel.

**CITY OF GLADSTONE, OREGON**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2016**

	General Fund	State Revenue Sharing Fund	Road and Street Fund
<b>ASSETS:</b>			
Cash and investments	\$ 3,765,925	\$ 853,300	\$ 341,172
Restricted cash and investments	107,515	-	425,531
Cash with county treasurer	12,657	-	60,318
Accounts receivable	23,733	50,112	-
Property taxes receivable	223,127	-	-
	<u>4,132,957</u>	<u>903,412</u>	<u>827,021</u>
Total assets	<u>\$ 4,132,957</u>	<u>\$ 903,412</u>	<u>\$ 827,021</u>
<b>LIABILITIES:</b>			
Accounts payable	\$ 77,767	\$ -	\$ 4,092
Other current liabilities	8,181	-	-
	<u>85,948</u>	<u>-</u>	<u>4,092</u>
Total liabilities	<u>85,948</u>	<u>-</u>	<u>4,092</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Unavailable revenues - property taxes	213,947	-	-
	<u>213,947</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources	<u>213,947</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES:</b>			
Restricted:			
Street operations	-	-	822,929
Senior center	107,515	-	-
Urban Renewal development	-	-	-
Assigned:			
Capital projects	-	903,412	-
Fire and emergency services	-	-	-
Unassigned	3,725,547	-	-
	<u>3,833,062</u>	<u>903,412</u>	<u>822,929</u>
Total fund balance	<u>3,833,062</u>	<u>903,412</u>	<u>822,929</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 4,132,957</u>	<u>\$ 903,412</u>	<u>\$ 827,021</u>

Amounts reported in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Pension related changes

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Net position of governmental activities

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

Urban Renewal Agency Fund	Police and Communications Special Levy Fund	Other Governmental	Total Governmental
\$ 5,739,761	\$ 237,749	\$ 390,582	\$ 11,328,489
-	-	-	533,046
2,888	1,787	815	78,465
-	-	-	73,845
<u>52,045</u>	<u>31,502</u>	<u>14,391</u>	<u>321,065</u>
<u>\$ 5,794,694</u>	<u>\$ 271,038</u>	<u>\$ 405,788</u>	<u>\$ 12,334,910</u>
\$ 243	\$ -	\$ -	\$ 82,102
-	-	-	8,181
<u>243</u>	<u>-</u>	<u>-</u>	<u>90,283</u>
49,928	30,206	13,800	307,881
<u>49,928</u>	<u>30,206</u>	<u>13,800</u>	<u>307,881</u>
-	-	-	822,929
-	-	-	107,515
5,744,523	-	-	5,744,523
-	-	-	903,412
-	240,832	391,988	632,820
-	-	-	3,725,547
<u>5,744,523</u>	<u>240,832</u>	<u>391,988</u>	<u>11,936,746</u>
<u>\$ 5,794,694</u>	<u>\$ 271,038</u>	<u>\$ 405,788</u>	
			12,663,818
			(1,664,094)
			307,881
			<u>(410,707)</u>
			<u>\$ 22,833,644</u>

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

**CITY OF GLADSTONE, OREGON**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**For the Fiscal Year Ended June 30, 2016**

	<u>General Fund</u>	<u>State Revenue Sharing Fund</u>	<u>Road and Street Fund</u>
<b>REVENUES:</b>			
Property taxes	\$ 3,708,343	\$ -	\$ -
Public service taxes	851,941	80,473	680,346
Franchise taxes	514,272	-	-
Grants	8,232	-	-
Charges for services	115,241	-	275,176
Licenses and permits	130,168	-	-
Fines and forfeitures	269,673	-	-
Contributions and donations	29,299	-	-
Interest	56,309	5,862	-
Miscellaneous	233,618	-	8,225
	<u>5,917,096</u>	<u>86,335</u>	<u>963,747</u>
<b>EXPENDITURES:</b>			
Current:			
General government	1,276,741	-	-
Public safety	2,896,484	-	-
Highways and streets	-	-	380,188
Urban and renewal	-	-	-
Culture and recreation	1,108,757	-	-
Capital outlay	271,343	1,190	231,289
	<u>5,553,325</u>	<u>1,190</u>	<u>611,477</u>
Total expenditures	<u>5,553,325</u>	<u>1,190</u>	<u>611,477</u>
Revenues over (under) expenditures	363,771	85,145	352,270
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	225,664	-	-
Transfers out	-	(105,000)	(60,493)
	<u>225,664</u>	<u>(105,000)</u>	<u>(60,493)</u>
Total other financing sources (uses)	<u>225,664</u>	<u>(105,000)</u>	<u>(60,493)</u>
Net changes in fund balances	589,435	(19,855)	291,777
<b>FUND BALANCES, BEGINNING</b>	<u>3,243,627</u>	<u>923,267</u>	<u>531,152</u>
<b>FUND BALANCES, ENDING</b>	<u><u>\$ 3,833,062</u></u>	<u><u>\$ 903,412</u></u>	<u><u>\$ 822,929</u></u>

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

Urban Renewal Agency Fund	Police and Communications Special Levy Fund	Other Governmental	Total Governmental
\$ 823,126	\$ 523,386	\$ 238,673	\$ 5,293,528
-	-	-	1,612,760
-	-	-	514,272
-	-	-	8,232
-	-	-	390,417
-	-	-	130,168
-	-	-	269,673
-	-	-	29,299
37,646	3,352	3,028	106,197
-	-	-	241,843
<u>860,772</u>	<u>526,738</u>	<u>241,701</u>	<u>8,596,389</u>
-	367,251	-	1,643,992
-	-	123,123	3,019,607
-	-	-	380,188
6,520	-	-	6,520
-	-	-	1,108,757
-	120,254	-	624,076
<u>6,520</u>	<u>487,505</u>	<u>123,123</u>	<u>6,783,140</u>
854,252	39,233	118,578	1,813,249
-	-	-	225,664
-	(13,705)	(5,760)	(184,958)
<u>-</u>	<u>(13,705)</u>	<u>(5,760)</u>	<u>40,706</u>
854,252	25,528	112,818	1,853,955
4,890,271	215,304	279,170	10,082,791
<u>\$ 5,744,523</u>	<u>\$ 240,832</u>	<u>\$ 391,988</u>	<u>\$ 11,936,746</u>

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

**CITY OF GLADSTONE, OREGON**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2016**

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Amounts reported in the statement of activities are different because:

Net change in fund balances	\$ 1,853,955
Governmental funds report pension contributions as expenditures. However, in the statements of activities, the cost of pension benefits earned net of employee contributions is reports as pension expense.	(1,346,732)
The statement of revenues, expenditures, and changes in fund balances report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	(114,256)
Some revenue reported in the statement of activities do not provide current financial resources in the governmental funds.	19,720
Accrued compensated absences and OPEB obligations are not due and payable in the current period and therefore are not reported in the funds.	<u>(78,676)</u>
Change in net position of governmental activities	<u><u>\$ 334,011</u></u>

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

## **FUND FINANCIAL STATEMENTS**

### **Proprietary Funds**

#### Enterprise Funds

These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs of providing the services to the general public on a continuing basis be financed primarily through user charges.

#### **Water Fund**

The Water Fund accounts for the City's water utility operations.

#### **Sewer Fund**

The Sewer Fund accounts for the City's sewer utility operations.

**CITY OF GLADSTONE, OREGON  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 June 30, 2016**

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>ASSETS:</b>			
Current assets:			
Cash and investments	\$ 1,161,276	\$ 1,250,253	\$ 2,411,529
Trade accounts receivable	197,815	362,596	560,411
Prepays	156,979	-	156,979
Total current assets	1,516,070	1,612,849	3,128,919
Noncurrent assets:			
Assessments receivable	-	6,062	6,062
Interest receivable	-	2,564	2,564
Restricted cash	399,659	182,015	581,674
Investment in joint venture	2,794,666	-	2,794,666
Capital assets:			
Non-depreciable	129,414	511,550	640,964
Depreciable	3,470,397	1,957,154	5,427,551
Total noncurrent assets	6,794,136	2,659,345	9,453,481
Total assets	8,310,206	4,272,194	12,582,400
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflow related to pension asset	27,047	31,575	58,622
Total deferred outflows of resources	27,047	31,575	58,622
Total assets & deferred outflows of resources	\$ 8,337,253	\$ 4,303,769	\$ 12,641,022
<b>LIABILITIES:</b>			
Current liabilities:			
Accounts payable	\$ 45,759	\$ 300,964	\$ 346,723
Interest payable	15,979	-	15,979
Accrued compensated absences	17,415	14,201	31,616
Bonds payable - current maturity	141,000	-	141,000
Total current liabilities	220,153	315,165	535,318
Noncurrent liabilities:			
OPEB liability	14,877	10,455	25,332
Bonds payable	1,473,000	-	1,473,000
Net pension liability	114,566	133,744	248,310
Total noncurrent liabilities	1,602,443	144,199	1,746,642
Total liabilities	1,822,596	459,364	2,281,960
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflow related to pension asset	27,372	31,954	59,326
Total deferred inflows of resources	27,372	31,954	59,326
<b>NET POSITION:</b>			
Net investment in capital assets	1,985,811	2,468,704	4,454,515
Restricted for:			
System development	399,659	182,015	581,674
Unrestricted	4,101,815	1,161,732	5,263,547
Total net position	6,487,285	3,812,451	10,299,736
Total liabilities, deferred inflows & net position	\$ 8,337,253	\$ 4,303,769	\$ 12,641,022

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



**CITY OF GLADSTONE, OREGON  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES,  
 AND CHANGES IN NET POSITION  
 For the Fiscal Year Ended June 30, 2016**

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>OPERATING REVENUES:</b>			
Service charges	\$ 1,294,916	\$ 2,019,504	\$ 3,314,420
Connection and installation fees	21,095	304,416	325,511
System development charge	223,927	33,197	257,124
Miscellaneous	6,405	10,902	17,307
Total operating revenues	<u>1,546,343</u>	<u>2,368,019</u>	<u>3,914,362</u>
<b>OPERATING EXPENSES:</b>			
Purchases	283,412	1,377,022	1,660,434
Salaries and fringe benefits	424,320	365,444	789,764
Maintenance and repairs	193,495	579,337	772,832
Utilities	14,899	1,698	16,597
Depreciation	165,682	78,510	244,192
Net OPEB obligation	1,330	1,103	2,433
Miscellaneous	14,188	-	14,188
Total operating expenses	<u>1,097,326</u>	<u>2,403,114</u>	<u>3,500,440</u>
Operating income (loss)	449,017	(35,095)	413,922
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest expense	(84,735)	-	(84,735)
Gain (loss) in joint venture	(43,779)	-	(43,779)
Total non-operating revenues (expenses)	<u>(128,514)</u>	<u>-</u>	<u>(128,514)</u>
Income before transfers	320,503	(35,095)	285,408
<b>TRANSFERS:</b>			
Transfers in (out)	(14,518)	(26,188)	(40,706)
Change in net position	305,985	(61,283)	244,702
<b>NET POSITION, BEGINNING</b>	<u>6,181,300</u>	<u>3,873,734</u>	<u>10,055,034</u>
<b>NET POSITION, ENDING</b>	<u>\$ 6,487,285</u>	<u>\$ 3,812,451</u>	<u>\$ 10,299,736</u>

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

**CITY OF GLADSTONE, OREGON**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2016**

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from customers	\$ 1,562,230	\$ 2,347,531	\$ 3,909,761
Cash paid to employees for salaries and benefits	(324,623)	(236,168)	(560,791)
Cash paid to suppliers and others	(501,591)	(1,897,197)	(2,398,788)
Net cash provided by operating activities	<u>736,016</u>	<u>214,166</u>	<u>950,182</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>			
Transfers in (out)	(14,518)	(26,188)	(40,706)
Net cash provided (used) by non-capital financing activities	<u>(14,518)</u>	<u>(26,188)</u>	<u>(40,706)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Purchase of capital assets	(74,452)	(50,002)	(124,454)
Interest paid on capital debt	(102,202)	-	(102,202)
Net cash used by capital and related financing activities	<u>(257,654)</u>	<u>(50,002)</u>	<u>(307,656)</u>
Net increase in cash and cash equivalents	463,844	137,976	601,820
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>1,097,091</u>	<u>1,294,292</u>	<u>2,391,383</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 1,560,935</u>	<u>\$ 1,432,268</u>	<u>\$ 2,993,203</u>
<b>COMPRISED AS FOLLOWS:</b>			
Unrestricted	\$ 1,161,276	\$ 1,250,253	\$ 2,411,529
Restricted	399,659	182,015	581,674
Total cash and cash equivalents	<u>\$ 1,560,935</u>	<u>\$ 1,432,268</u>	<u>\$ 2,993,203</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating Income	\$ 449,017	\$ (35,095)	\$ 413,922
Adjustments:			
Depreciation	165,682	78,510	244,192
Decrease (increase) in:			
Accounts receivable	15,887	(20,488)	(4,601)
Prepays	1,467	-	1,467
Deferred outflows related to pension	(9,020)	(22,562)	(31,582)
Pension asset	41,831	20,915	62,746
Increase (decrease) in:			
Accounts payable and accrued expenses	4,266	61,963	66,229
Accrued compensated absences	4,401	4,513	8,914
Deferred inflows related to pension	(53,411)	(8,437)	(61,848)
Pension liability	114,566	133,744	248,310
OPEB obligation	1,330	1,103	2,433
Net cash provided by operating activities	<u>\$ 736,016</u>	<u>\$ 214,166</u>	<u>\$ 950,182</u>
<b>NON-CASH INFORMATION:</b>			
Increase (decrease) in joint venture	<u>\$ (43,779)</u>	<u>\$ -</u>	<u>\$ (43,779)</u>

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

## **FUND FINANCIAL STATEMENTS**

### **Fiduciary Funds**

These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature and do not involve measurement of results.

**CITY OF GLADSTONE, OREGON**  
**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**June 30, 2016**

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	<u>Agency Funds</u>
<b>ASSETS:</b>	
Cash and investments	<u>\$ 45,269</u>
Total assets	<u><u>\$ 45,269</u></u>
<b>LIABILITIES:</b>	
Other current liabilities	<u>\$ 45,269</u>
Total liabilities	<u><u>\$ 45,269</u></u>

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

**CITY OF GLADSTONE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2016**

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**1. Summary of Significant Accounting Policies**

The financial statements of the City have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as applied to government units. GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The more significant accounting policies of the City are described below.

**A. Description of Reporting Entity**

The City was incorporated in 1911. The City operates under the voter-approved City of Gladstone, Oregon charter of 1984. Under the charter, the City is governed by an elected mayor and six council members who comprise the City Council.

The City is a municipal corporation governed by an elected mayor and six-member council. As required by GAAP, these financial statements present the government and its component unit (Gladstone Urban Renewal Agency), entities for which the government is considered to be financially accountable.

**Gladstone Urban Renewal Agency**

The Agency was formed to plan, direct, and manage certain projects within Gladstone. Pursuant to ORS 457.055, the City Council has been appointed governing body of the Agency. The Urban Renewal Agency Fund is reported as governmental fund type and is considered a blended component unit.

Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The Gladstone Urban Renewal Agency has a June 30 year-end. The Gladstone Urban Renewal Agency is governed by the City Council of The City of Gladstone. Complete financial statements for the Agency may be obtained at the City of Gladstone – City Hall, 525 Portland Avenue, Gladstone, Oregon 97027.

Based on the criteria from Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statement No. 14 and No. 34*, the Gladstone Seniors Foundation, a nonprofit 501(c)(3), and Gladstone Public Library Foundation, a nonprofit 501(c)(3), are considered discretely presented component units. These discretely presented component units are not considered material in relation to the City of Gladstone and accordingly, have not been included in the City of Gladstone's financial report. Only those revenues and expenditures directly processed by the City of Gladstone finance department are included in the financial statements.

The City is a ten percent partner with the Sunrise Water Authority and the Oak Lodge Water District in the North Clackamas County Water Commission, a joint venture. The purpose of this joint venture is to operate, maintain, and enhance a regional water supply system with water rights from the Clackamas River and to cooperatively conduct water resource planning (see Note 6).

**CITY OF GLADSTONE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**B. 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 statements

The statement of net position and the statement of activities display information about the City as a whole. These statements include all the financial activities of the City, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. *Program revenues* include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements

These 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, and fiduciary, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column in the financial section of the basic financial statements and are detailed in the supplemental information.

**C. 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, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The new GASB 34 model sets forth minimum criteria (percentage of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues or expenditures/expenses of either fund category or the governmental and proprietary combined) for the determination of major funds. Non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

The City reports the following major governmental funds:

The *General Fund* accounts for the financial resources of the City which are not accounted for in any other fund. Principal sources of revenue are property taxes, franchise fees, and state shared revenues. Primary expenditures are for police protection, fire protection, maintenance of parks, operation of the library and senior center, and general administration.

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The *State Revenue Sharing Fund* accounts for the receipt and expenditures of revenue sharing funds received from the State of Oregon.

The *Road and Street Fund* accounts for revenues from state gasoline taxes apportioned from the State of Oregon.

The *Urban Renewal Agency Fund* accounts for property tax revenue received for the rehabilitation of blighted and deteriorated areas within the City's designated urban renewal area.

The *Police and Communications Special Levy Fund* accounts for the receipts and expenditure of taxes received from a five year local option levy. Proceeds from the levy are used to increase police personnel.

The City reports each of its two proprietary funds as major funds. These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs of providing the services to the general public on a continuing basis be financed primarily through user charges. The City reports the following proprietary funds:

- *Water Fund*
- *Sewer Fund*

Fiduciary Funds reporting focuses on net position and changes in net position. The fiduciary category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Fiduciary funds are used to account for assets the City holds in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds. The City's only fiduciary funds are agency funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. The City reports the following fiduciary funds:

- *Municipal Court Fund*
- *Library Board Trust Fund*

#### **D. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe which transactions are recorded with the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus.

The Government-Wide Financial Statements and the Proprietary Funds Financial Statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements are reported using the current *financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as

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under accrual accounting. However, long-term compensated absences are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

A deferred inflow of resources arises in the Governmental Funds Balance Sheet when potential revenue does not meet both the measurable and available criteria for recognition in the current period. This unavailable revenue consists primarily of uncollected property taxes and assessments not deemed available to financial operation of the current period. In the government-wide Statement of Net Position, with a full accrual basis of accounting, revenue must be recognized as soon as it is earned regardless of its availability. Thus, the deferred inflow of resources created on the Governmental Fund Balance Sheet for unavailable revenue is eliminated. Note that deferred inflow of resources also arise outside the scope of measurement focus and basis of accounting, such as when the City receives resources before it has a legal claim to them. For instance, when grant monies are received prior to the incurrence of qualifying expenditures.

Similar to the way its revenues are recorded, governmental funds only record those expenditures that affect current financial resources. Principal and interest on general long-term debt are recorded as fund liabilities only when due, or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Vested compensated absences are recorded as expenditures only to the extent that they are expended to be liquidated with expendable financial resources. In the government-wide financial statements, however, with a full accrual basis of accounting, all expenditures affecting the economic resource status of the government must be recognized, thus, the expense and related accrued liability for long term portions of debt and compensated absences must be included.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. This reconciliation is part of the financial statements. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the City's Water and Sewer Funds are charges to customers for sales and services. The Water and Sewer Funds also recognize fees intended to recover the cost of connecting new customers to the City's utility systems as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and overheads, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.



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**E. Cash and Cash Equivalents**

For purposes of the statements of cash flows, the City considers cash equivalents as all highly liquid debt instruments purchased with maturity of three months or less.

Investments included in cash and cash equivalents are reported at fair value. The City invests in the State of Oregon Local Government Investment Pool, which is authorized by Oregon Revised Statutes. Interest earned from pooled investments is allocated based on a fund's portion of the total investment balance. The City maintains depository insurance under Federal depository insurance funds and state and financial institution collateral pools for its cash deposits and investments, except the Local Government Investment Pool, which is exempt from statutes requiring such insurance.

**F. Investments**

Investments are stated at share value, which approximates fair value.

**G. Restricted Cash and Investments**

Assets whose use is restricted to specific purposes by state statute are segregated on the balance sheet.

**H. Fund Balance**

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components – non-spendable, restricted, committed, assigned and unassigned.

**Non-Spendable** – Includes amounts not immediately converted to cash, such as prepaid items and inventory.

**Restricted** – Includes amounts that are restricted by external creditors, grantors or contributors, or restricted by enabling legislation.

**Committed** – Includes amounts that have been committed by resolution by the City Council which is the City's "highest level of decision-making authority." Committed amounts may not be used for any other purpose unless the City Council removes the constraint by similar council action. Commitments of fund balance must be made prior to the end of the fiscal year.

**Assigned** – Includes amounts assigned for specific purposes by council action. In accordance with the City's adopted fund policy, adopted by resolution, amounts may be assigned by the City Administrator.

**Unassigned** – This is the residual classification used for those balances not assigned to another category.

**I. Use of Restricted Resources**

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. When unrestricted resources (committed, assigned and unassigned) are available for use it is the City's policy to use committed resources first, then assigned, and then unassigned as they are needed.

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**J. Receivables and Payables**

Property taxes receivable in the governmental fund types, which have been collected within sixty days following year end, are considered measurable and available and are recognized as revenues in Governmental Funds. All other property taxes receivable for the governmental fund types are offset by deferred inflows of resources and, accordingly, have not been recorded as revenue. Property taxes become a lien against the property as of July 1 each year and are payable in three installments on November 15, February 15 and May 15 following the lien date. All property taxes receivable are due from property owners within the City.

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Receivables of the proprietary funds are recognized as revenue when earned, including services provided but not billed. Management believes that any uncollectible accounts included in the governmental fund receivable balances are not significant, and therefore no provision for uncollectible accounts has been made. No provision for uncollectible accounts has been made for receivables in proprietary funds as management believes balances are collectable.

**K. Capital Assets and Depreciation**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, street lights, etc.), are reported in the applicable governmental or business-type activities column in the governmental-wide financial statements. Capital assets are charged to expenditures as purchased in the governmental fund statements, and capitalized in the proprietary fund statements. Capital assets are recorded at historical cost, or estimated historical cost if actual cost is unknown. Donated fixed assets are recorded at their estimated fair market value at the time received.

Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more, and having useful lives extending beyond a single reporting period. Additions or improvements and other capital outlays that significantly extend the useful life of an asset, or that significantly increase the capacity of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest costs were capitalized during the year ended June 30, 2016.

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position and is provided on the straight-line basis over the following estimated useful lives:

- *Building and improvements - 50 years*
- *Supply and distribution systems (including utility plant infrastructure) - 50 years*
- *Machinery and equipment – 5-10 years*

**L. Investments Accounted For By The Equity Method**

The City's investment in the North Clackamas County Water Commission is accounted for under the equity method, as prescribed by GASB 14 for joint ventures. Under the equity method, the investment in an equity investee is increased or decreased by the investor's equity in the increase or decrease in the net position of the investee. Profit on operating transactions between the investor and investee is eliminated in the calculation of this equity interest. Non-operating transactions increase or decrease the investment in the equity investee.

**M. Compensated Absences**

Accumulated vested vacation pay is accrued as it is earned. For governmental funds, accumulated vested vacation pay is maintained separately and represents a reconciling item between the fund-level and government-wide presentations. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. Sick pay, which does not vest, is recorded in all funds when leave is taken.

Funds used to liquidate accrued compensated absences included the General Fund, Road and Street Fund, Police Communications Special Levy Fund, Fire and Emergency Services Special Levy Fund, Water Fund, and Sewer Fund.

**N. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financial sources while discounts on debt proceeds received are reported as debt service expenditures.

**O. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expenditure/expense) until then. The City has one item that qualifies for reporting in this category. It is the deferred amounts relating to pensions. This amount is deferred and recognized as an outflow of resources in the period when the City's recognizes pension expense/expenditures. Deferred outflows are included in the government-wide Statement of Net Position and the proprietary funds Statement of Net Position, if applicable.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category. Unavailable revenue from property taxes is reported in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that amount becomes

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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available. The City also reports deferred amounts related to pensions. This amount is deferred and recognized as an inflow of resources in the period when the City's recognizes pension income. Deferred inflows are included in the government-wide Statement of Net Position and the proprietary funds Statement of Net Position, if applicable.

**P. Pension**

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

**Q. Net Position**

In the government-wide financial statements and proprietary funds financial statements, net position is reported in three categories: net investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets represents capital assets less accumulated depreciation less outstanding principal of related debt. Net investment in capital assets does not include the unspent proceeds of capital debt. Restricted net position represents net position restricted by parties outside of the City (such as creditors, grantors, contributors, laws, and regulations of other governments) and includes unspent proceeds of bonds issued to acquire or construct capital assets. The City's other restricted net position is temporarily restricted (ultimately expendable) assets. The remaining net position is considered unrestricted.

**R. Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted requires that management make estimates and assumptions which affect the reporting amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimated.

**2. Cash and Investments**

At June 30, 2016 investments of the City and its component unit consist of the following:

	Weighted Average Maturity (Years)	Fair Value
Investments in the State Treasurer's Local Government Investment Pool	0.00	\$ 14,705,802
Municipal bond	9.11	37,513
Portfolio weighted average maturity	0.04	\$ 14,743,315

**A. Interest rate risk**

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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**B. Credit risk**

State statutes authorize the City to invest in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, and the State Treasurer's Oregon Local Government Investment Pool, among others. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations, but is not regulated by other laws, organizations or regulations. The reported value of the Pool is the same as the fair value of Pool shares. Investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). The Pool is not registered with the SEC as an investment company and is unrated. The City also invests in U.S. government obligations and agency obligation and commercial paper with a Standard & Poor's rating of A or better.

**C. Concentration of credit risk**

The City does not currently have an investment policy for concentration of credit risk.

**D. Custodial credit risk – deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The Federal Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The City does not have a deposit policy for custodial credit risk. The Federal Depository Insurance Corporation (FDIC) provides insurance for the City's deposits up to \$250,000 for the combined total of all deposit accounts at each financial institution. The remaining deposits are covered by the Public Funds Collateralization program (PFCP) of the State of Oregon in accordance with ORS 295. Depositories qualified under this program are required to pledge collateral against any public funds deposits in excess of deposit insurance amounts. This provides additional protection for public funds in the event of a bank failure or loss. ORS 295 sets the specific value of the collateral, as well as the types of collateral that are acceptable. ORS 295 creates a shared liability structure for participating depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. As of June 30, 2016, the book value of the City's deposits was \$111,423 and the bank balance was \$341,319. None of the City's bank balances were exposed to custodial credit risk as they were collateralized under PFCP.

**E. Custodial credit risk – investments**

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2016, the City had no investments exposed to custodial credit risk.

**F. Restricted Deposits**

Restricted cash and investments represent system development charges and transportation impact fees collected by the City which can be expended only for capital improvement projects and a bequest to the Senior Center which can only be expended for Senior Center projects.

**CITY OF GLADSTONE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**3. Assessment Liens Receivable**

Assessment liens receivable represent the uncollected amounts levied against benefited property for the cost of local improvements. Because the assessments are liens against the benefited property, an allowance for uncollectible amounts is not deemed necessary.

**4. Interfund Transfers**

Transfers between funds during the year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds		
General Fund	\$ 225,664	\$ -
Road & Street Fund	-	60,493
911 Excise Tax Resources Fund	-	13,705
State Revenue Sharing Fund	-	105,000
Total Major Governmental Funds	<u>225,664</u>	<u>179,198</u>
Non-major Governmental Funds		
Fire / Emergency Services Fund	-	5,760
Total Non-major Governmental Funds	<u>-</u>	<u>5,760</u>
Proprietary Funds		
Sewer Fund	-	26,188
Water Fund	-	14,518
Total Proprietary Funds	<u>-</u>	<u>40,706</u>
Total All Funds	<u>\$ 225,664</u>	<u>\$ 225,664</u>

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**5. Capital Assets**

Capital asset activity for the year ended June 30, 2016 is as follows:

<b>Primary Government</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
<b>Capital assets, non-depreciable:</b>				
Land	\$ 5,519,830	\$ -	\$ -	\$ 5,519,830
Total capital assets, non-depreciable	5,519,830	-	-	5,519,830
<b>Capital assets, depreciable:</b>				
Intangible assets	70,436	-	-	70,436
Buildings, structures and improve	4,859,782	19,484	-	4,857,751
Equipment	1,317,349	16,454	-	1,333,803
Vehicles	3,162,912	208,398	-	3,371,310
Infrastructure	3,976,907	61,912	-	4,060,334
Total capital assets, depreciable	13,387,386	306,248	-	13,693,634
Total assets	18,907,216	306,248	-	19,213,464
<b>Less accumulated depreciation for:</b>				
Intangible assets	(31,854)	(14,087)	-	(45,941)
Buildings, structures and improve	(1,635,877)	(91,653)	-	(1,722,025)
Equipment	(1,230,802)	(37,427)	-	(1,268,229)
Vehicles	(2,472,928)	(194,701)	-	(2,667,629)
Infrastructure	(757,681)	(82,636)	-	(845,822)
Total accumulated depreciation	(6,129,142)	(420,504)	-	(6,549,646)
Net depreciable capital assets	7,258,244	(114,256)	-	7,143,988
<b>Net capital assets</b>	<b>\$ 12,778,074</b>	<b>\$ (114,256)</b>	<b>\$ -</b>	<b>\$ 12,663,818</b>

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental activities:**

General government	\$ 34,294
Public safety	192,909
Roads and highways	112,883
Culture and recreation	80,418
Total depreciation expense	<u>\$ 420,504</u>

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<b>Business-type activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
<b>Capital assets, non-depreciable:</b>				
Land	\$ 640,964	\$ -	\$ -	\$ 640,964
Total capital assets, non-depreciable	640,964	-	-	640,964
<b>Capital assets, depreciable:</b>				
Buildings	299,113	-	-	299,113
Equipment	155,650	-	-	155,650
Vehicles	125,991	-	-	125,991
Infrastructure	10,770,316	124,454	-	10,894,770
Total capital assets, depreciable	11,351,070	124,454	-	11,475,524
Total	11,992,034	124,454	-	12,116,488
<b>Less accumulated depreciation for:</b>				
Buildings	(286,293)	(2,216)	-	(288,509)
Equipment	(152,946)	(2,704)	-	(155,650)
Vehicles	(119,232)	(3,311)	-	(122,543)
Infrastructure	(5,245,310)	(235,961)	-	(5,481,271)
Total accumulated depreciation	(5,803,781)	(244,192)	-	(6,047,973)
Net depreciable capital assets	5,547,289	(119,738)	-	5,427,551
<b>Net capital assets</b>	<b>\$ 6,188,253</b>	<b>\$ (119,738)</b>	<b>\$ -</b>	<b>\$ 6,068,515</b>
<b>Business-type activities:</b>				
Water		\$ 165,682		
Sewer		78,510		
Total depreciation expense - business-type activities		<u>\$ 244,192</u>		

**6. Joint Venture**

The City is a member of a joint venture known as the North Clackamas County Water Commission, in which the City has a ten percent interest and the Sunrise Water Authority and the Oak Lodge Water District have forty-eight and forty-two percent interests, respectively. The joint venture was created in 1998 by the First Intergovernmental Agreement between the Damascus and Mt. Scott Water Districts (which became the Sunrise Water Authority) and the Oak Lodge Water District to plan, construct, and operate a regional water supply system with water rights from the Clackamas River; to operate, maintain, and facilities for the production of potable water from the headworks on the Clackamas River, and to cooperatively conduct water resource planning and management. The Second Intergovernmental Agreement between Sunrise Water Authority and Oak Lodge Water District in 2004



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provided for the expansion of the water treatment works operated by the Commission to handle the full capacity of the intake at the headworks on the Clackamas River.

The City of Gladstone became a partner in the joint venture through the First Addendum to the Second Intergovernmental Agreement, paying \$2,609,118, transferring rights to 8,900,000 gallons per day of Clackamas River Water, and supporting the substitution of the North Clackamas County Water Commission for the City as a member of the Willamette Water Resources Commission to acquire ten percent interest in the assets and liabilities of the North Clackamas County Water Commission and an allocation of 2,500,000 gallons per day of treated water from the Commission’s water treatment facility. The Addendum also requires each of the parties to allow the other parties of the agreement access to use of their facilities to the extent that they are not needed for service of the party’s own customers. Fees for such usage are determined on a cost basis.

The Addendum to the second intergovernmental agreement reconstituted the Board of Commissioners for the North Clackamas County Water Commission. The Board of Commissioners consists of seven members: the Boards of Commissioners for Sunrise Water Authority and Oak Lodge Water District selects three commissioners each, and the Gladstone City Council selects one commissioner. The commissioners are required to be voting members of the governing body, council, or board of commissioners of the party making the selection. The commissioners select a Chair from among their members to serve a term of one year, beginning July 1 of each year. The position of Chair will rotate each year to represent each party. The commissioners will also select a Vice Chair to serve in the absence of the Chair. Each commissioner will have one vote. Five commissioners must be present to meet requirements for a quorum, and five affirmative votes will be required for adoption of any measure, ordinance, or resolution.

The City’s net position in the joint venture as of June 30, 2016 was \$2,794,666. The current year operation of the Commission resulted in a net loss on investment to the City of \$43,779. The City had water purchases from the Commission of \$262,212 for the year ended June 30, 2016.

Separate financial statements for the North Clackamas County Water Commission can be obtained from the Commission at 14496 SE River Road, Milwaukie, Oregon 97267.

**7. Deferred Inflows of Resources**

Deferred revenue as presented on the Balance Sheet as of June 30, 2016 consists of the following:

	General Fund	Fire & Emergency Services Special Levy Fund	Police & Communications Special Levy Fund	Urban Renewal Fund	Total
Property taxes	\$ 213,947	\$ 13,800	\$ 30,206	\$ 49,928	\$ 307,881

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**8. Long Term Debt**

**A. Changes in General Long-Term Liabilities**

During the year ended June 30, 2016, long-term liability activity was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
<b>Governmental Activities</b>					
Compensated absences	\$ 132,679	\$ 74,157	\$ -	\$ 206,836	\$ 206,836
Other postemployment benefits	199,352	4,519	-	203,871	-
Governmental activities Long-term liabilities	<u>\$ 332,031</u>	<u>\$ 78,676</u>	<u>\$ -</u>	<u>\$ 410,707</u>	<u>\$ 206,836</u>
<b>Business-type Activities</b>					
Bonds	\$ 1,695,000	\$ 1,614,000	\$ 1,695,000	\$ 1,614,000	\$ 141,000
Compensated absences	22,702	8,914	-	31,616	31,616
Other postemployment benefits	22,899	2,433	-	25,332	-
Business-type activities Long-term liabilities	<u>\$ 1,740,601</u>	<u>\$ 1,625,347</u>	<u>\$ 1,695,000</u>	<u>\$ 1,670,948</u>	<u>\$ 172,616</u>

For governmental activities, compensated absences are liquidated by the general fund.

**B. Advanced Refunding**

The City issued \$1,614,000 of general obligation bonds at interest rate 1.98%. The proceeds were used to advance refund \$1,570,000 of the Series 2005 bonds. Proceeds of \$1,596,290 were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the Series 2005 of water bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

The refunding was undertaken to reduce its total debt service payments over 10 years by \$1,784,974 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$26,290 with a city contribution of \$19,156 for a net savings of \$7,134. At June 30, 2016, \$1,614,000 of defeased bonds remains outstanding.

**C. Bonds Payable**

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital improvements. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

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Business Activities

<p>During 2015-2016, the City issued \$1,570,000 in full faith and credit funding to refund the 2005 bond for the water treatment plant and for capital improvements to the City’s water system. The bonds carry interest rate is 1.98%. Interest is payable semiannually on January 1 and July 1 of each year. Bond principal is payable annually through July 2025.</p>	<p><u>\$ 1,614,000</u></p>
<p>Total bonds payable</p>	<p><u>\$ 1,614,000</u></p>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Fiscal Year	Series 2015 Full Faith & Credit Bond	
	Principal	Interest
2017	\$ 141,000	\$ 30,561
2018	150,000	27,680
2019	153,000	24,681
2020	155,000	21,632
2021	162,000	18,493
2022-26	853,000	42,778
	\$ 1,614,000	\$ 165,825

**9. Net Position**

Net position resulting from the City’s receipt of state gas tax revenue is restricted for road and street repairs and improvement in the amount of \$822,929.

**10. Pension Plan**

**A. Plan Description**

Employees of the City are provided with pensions through the Oregon Public Employees Retirement System (OPERS) a cost-sharing multiple-employer defined benefit pension plan, the Oregon Legislature has delegated authority to the Public Employees Retirement Board to administer and manage the system. All benefits of the System are established by the legislature pursuant to ORS Chapters 238 and 238A. Tier One/Tier Two Retirement Benefit plan, established by ORS Chapter 238, is closed to new members hired on or after August 29, 2003. The Pension Program, established by ORS Chapter 238A, provides benefits to members hired on or after August 29, 2003. OPERS issues a publicly available Comprehensive Annual Financial Report and Actuarial Valuation that can be obtained at [http://www.oregon.gov/pers/Pages/section/financial\\_reports/financials.aspx](http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx).

**B. Benefits Provided**

**1. Tier One/Tier Two Retirement Benefit ORS Chapter 238**

**Pension Benefits**

The PERS retirement allowance is payable monthly for life. It may be selected from 13

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retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0 percent for police and fire employees, 1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer (age 45 for police and fire members). General service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

#### **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 (55 for police and fire members) 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.

## **2. OPSRP Pension Program (OPSRP DB)**

### **Pension Benefits**

The Pension Program (ORS Chapter 238A) provides benefits to 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:

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.

### **Benefit Changes After Retirement**

Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

### **3. OPSRP Individual Account Program (OPSRP IAP)**

#### **Pension Benefits**

An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

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

#### **Death Benefits**

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

#### **Recordkeeping**

OPERS contracts with VOYA Financial to maintain IAP participant records.

### **C. 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, 2013 actuarial valuation as subsequently modified by 2015 legislated changes in benefit provisions. The rates based on a percentage of payroll, first became effective July 1, 2015. Employer contributions for the year ended June 30, 2016 were \$305,104, excluding amounts to fund employer specific liabilities. The rates in effect for the fiscal year ended June 30, 2016 were 14.47 percent for Tier One/Tier Two General Service Member, 14.47 percent for Tier One/Tier Two Police and Fire, 7.14 percent for OPSRP Pension Program General Service Members, 11.25 percent for OPSRP Pension Program Police and Fire Members, and 6 percent for OPSRP Individual Account Program.

### **D. Pension Assets, Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the City reported a liability of \$1,907,695 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31,

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2013 rolled forward to June 30, 2015. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015, the City's proportion was 0.0332 percent, which was increased from its proportion of 0.0308 measured as of June 30, 2014.

For the year ended June 30, 2016, the City's recognized pension expense (income) of \$1,564,358. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 102,873	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on investments	-	399,896
Changes in proportion	42,397	-
Differences between employer contributions and proportionate share of contributions	-	55,891
Total (prior to post-MD contributions)	<u>145,270</u>	<u>455,787</u>
Contributions subsequent to the MD	<u>305,104</u>	<u>-</u>
Total	<u>\$ 450,374</u>	<u>\$ 455,787</u>

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

<u>Deferred Outflows</u>		<u>Deferred Inflows</u>	
Amortization Period		Amortization Period	
FY2017	\$ 338,119	FY2017	\$ 203,551
FY2018	33,015	FY2018	203,551
FY2019	33,015	FY2019	203,551
FY2020	33,015	FY2020	(159,870)
FY2021	13,210	FY2021	5,001
Total	<u>\$ 450,374</u>	Total	<u>\$ 455,784</u>

**E. Actuarial Assumptions**

The employer contribution rates effective July 1, 2013, through June 30, 2015 and effective July 1, 2015, through June 30, 2017, were set using the projected unit credit actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years.

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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.

The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	December 31, 2013
Measurement Date	June 30, 2015
Experience Study Report	2014, published September 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Inflation Rate	2.75 percent
Long-Term Expected Rate of Return	7.75 percent
Discount Rate	7.75 percent
Projected Salary Increases	3.75 percent overall payroll growth
Cost of Living Adjustments (COLA)	Blend of 2.00% COLA and grade COLA
Mortality	Health retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation.  Active Members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.  Disabled retirees: Mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 statistic 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.

**F. Long-term Expected Rate of Return**

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



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was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Compounded Annual Return (Geometric)</u>
Core Fixed Income	7.20%	4.50%
Short-Term Bonds	8.00%	3.70%
Intermediate -Term Bonds	3.00%	4.10%
High Yield Bonds	1.80%	6.66%
Large Cap US Equities	11.65%	7.20%
Mid Cap US Equities	3.88%	7.30%
Small Cap US Equities	2.27%	7.45%
Developed Foreign Equities	14.21%	6.90%
Emerging Foreign Equities	5.49%	7.40%
Private Equities	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	1.25%	6.07%
Total	<u>100.00%</u>	

Assumed Inflation - Mean 2.75%

**G. Depletion Date Projection**

GASB 68 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the

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extent that the plan’s Fiduciary Net Position is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 68 will often require that the actuary perform complex projections of future benefit payments and pension plan investments. GASB 68 (paragraph 67) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

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

- PERS has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.
- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100% funded position by the end of the amortization period if future experience follows assumption.
- GASB 68 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan’s funded position.

Based on these circumstances, it is our independent actuary’s opinion that the detailed depletion date projections outlined in GASB 68 would clearly indicate that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses.

**H. 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.

**I. Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
City's proportionate share of the net pension liability (asset)	\$ 4,604,150	\$ 1,907,695	\$ (364,709)

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**J. Pension Plan Fiduciary Net Position**

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

**K. Changes in Plan Provisions During the Measurement Date**

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

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

This change in benefit terms were reflected in the current valuation.

**L. Changes in Plan Provisions Subsequent to Measurement Date**

There were no changes subsequent to the June 30, 2015 measurement date.

**11. Post Employment Benefits Other than Pensions**

**A. Plan Description**

The City does not have a formal post-employment benefits plan for its employees; however, the City will allow retirees to continue health insurance coverage for themselves and their qualified dependents at the same rates as active employees, until they become eligible for Medicare, as required by ORS 243.303. Retirees' electing to remain on the City's sponsored health care plan pay the entire premium to maintain coverage. Although the City does not pay any portion of the retiree premium there is an implicit subsidy with respect to the retired employee as the medical premium rates charged are less than would they would be if the retiree were in a separately rated health care plan.

**B. Funding Policy**

The City funds the plan only to the extent of current year insurance premium requirements on a pay-as-you-go basis. The current monthly health care premium for plan members at June 30, 2016 is:

	<u>Regence</u>	<u>Kaiser</u>
Employee	\$ 558	\$ 643
Employee + child	1,021	1,164
Employee + spouse	1,164	1,327
Employee + family	1,602	1,868
Employee + children	1,392	1,624

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**C. Annual OPEB Cost and Net OPEB Obligation**

The City's annual OPEB cost is calculated based on the annual required contribution (ARC) determined by the actuary. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The annual OPEB cost and net OPEB obligation at June 30, 2016 is as follows:

	<u>2016</u>
Annual Required Contribution (ARC)	\$ 47,404
Interest on Net OPEB Obligation	8,890
Adjustment to ARC	<u>(7,937)</u>
Annual OPEB cost	48,357
Contributions made	<u>(41,405)</u>
Increase in Net OPEB Obligation	6,952
Net OPEB Obligation – beginning of year	<u>222,251</u>
Net OPEB Obligation – end of year	<u><u>\$ 229,203</u></u>

The annual OPEB cost, percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contribution	Net OPEB Obligation
6/30/2016	\$ 48,357	86%	\$ 229,203
6/30/2015	35,596	31%	222,251
6/30/2014	34,322	34%	197,747
6/30/2013	33,078	23%	174,931
6/30/2012	82,432	49%	149,372

**D. Funding Status**

As of July 1, 2015, the most recent actuarial valuation, the plan was zero percent funded. The actuarial accrued liability (AAL) for benefits was \$699,333 and also equaled the unfunded actuarial accrued liability (UAAL). The annual payroll of active employees covered by the plan (covered payroll) was \$2,937,298 and the ratio of the UAAL to the covered payroll was 23.8%.

**E. Actuarial Methods and Assumptions**

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about the future employment, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new assumptions are made about the future. Calculations are based on types of benefits provided at the time of valuation and the pattern of cost-sharing between the employer and plan members to that point. Actuarial calculations reflect a long-term prospective, including techniques designed to reduce short-term volatility in actuarial accrued

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liabilities and the actuarial value of assets.

In the July 1, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include an accrued liability discount rate of 4.0%, projected salary increases of 3.5%, general inflation 2.5%, and annual premium increase rate of 7% for 2016, grading down over seventeen years to 5%. The Unfunded Actuarial Accrued Liability (UAAL) is being amortized over an open period of 30 years.

**12. Retirement Health Insurance Account (RHIA)**

**A. Plan Description**

As a member of Oregon Public Employees Retirement System (OPERS), the City contributes to the Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing multiple-employer defined benefit other post-employment benefit plan administered by OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. Oregon Revised Statute (ORS) 238.420 established this trust fund. Authority to establish and amend the benefit provision of RHIA resides with the Oregon Legislature. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, OR 97281-3700.

**B. Funding Policy**

Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that an amount equal to \$60 or the total monthly cost of Medicare companion health insurance premiums coverage, whichever, is less shall be paid by the eligible retired member in the manner provided in ORS 238.410.

Participating employers are contractually required to contribute to RHIA at a rate assessed each year by OPERS, currently 0.53% of annual coverall payroll. The OPERS Board of Trustees sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represent a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortized any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The City's contributions to RHIA for the years ended June 30, 2016 equaled the required contributions.

**13. Agreements with Service Districts**

The City has agreements with certain service districts to collect and process City sewage. General terms of these agreements are as follows:

- The City will process and review all permit applications for hookup and inspection thereof; operate and maintain local collection facilities; bill and collect use charges and bill and collect connection charges.
- The City will collect and remit all connections charges to the service districts, except for a portion to reimburse administrative costs.

**CITY OF GLADSTONE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2016**

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- The City or the service districts may terminate the agreements upon 30 to 180 days notice.

Payments of \$1,427,023 were made to the service districts during fiscal year 2016 under these agreements.

**14. Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. Except for unemployment compensation, the City purchases commercial insurance to minimize its exposure to these risks. There has been no reduction in commercial insurance coverage from fiscal year 2015 to 2016. Workers compensation claims are insured through incurred loss retrospective policies. Settled claims have not exceeded this commercial coverage for any of the past three years.

**15. Contingency**

Management of the City believes that total amount of liability, if any, which may arise from claims and lawsuits pending against the City beyond which is covered by insurance, would not have a material effect on the City's financial condition.

## **REQUIRED SUPPLEMENTARY INFORMATION**

## **REQUIRED SUPPLEMENTARY INFORMATION**

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements.

- Budgetary Comparison Schedules
  - General Fund
  - State Revenue Sharing Fund
  - Road and Street Fund
  - Urban Renewal Agency Fund
  - Police and Communications Special Levy Fund
- Other Post Employment Benefits Schedule of Funding Progress
- Schedule of the Proportionate Share of the Net Pension Liability
- Schedule of Contributions
- Notes to the Required Supplementary Information



**CITY OF GLADSTONE, OREGON**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2016**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 3,579,927	\$ 3,579,927	\$ 3,708,343	\$ 128,416
Public service taxes	830,787	830,787	851,941	21,154
Franchise taxes	468,360	468,360	514,272	45,912
Grants	259,870	259,870	8,232	(251,638)
Charges for services	38,000	38,000	115,241	77,241
Licenses and permits	60,800	60,800	130,168	69,368
Fines and forfeitures	200,000	200,000	269,673	69,673
Contributions and donations	30,000	30,000	29,299	(701)
Interest	30,000	30,000	56,309	26,309
Miscellaneous	259,414	259,414	233,618	(25,796)
<b>Total revenues</b>	<b>5,757,158</b>	<b>5,757,158</b>	<b>5,917,096</b>	<b>159,938</b>
<b>EXPENDITURES:</b>				
General government	1,218,065	1,363,065	1,276,741	86,324
Public safety	3,290,575	3,395,575	2,896,484	499,091
Cultural and recreation	1,410,392	1,425,392	1,108,757	316,635
Capital outlay	1,454,123	1,354,123	271,343	1,082,780
Contingency	400,000	235,000	-	235,000
<b>Total expenditures</b>	<b>7,773,155</b>	<b>7,773,155</b>	<b>5,553,325</b>	<b>2,219,830</b>
Revenues over (under) expenditures	(2,015,997)	(2,015,997)	363,771	2,379,768
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	225,664	225,664	225,664	-
<b>Total other financing sources (uses)</b>	<b>225,664</b>	<b>225,664</b>	<b>225,664</b>	<b>-</b>
Net changes in fund balances	(1,790,333)	(1,790,333)	589,435	2,379,768
<b>FUND BALANCES, BEGINNING</b>	<b>3,199,621</b>	<b>3,199,621</b>	<b>3,243,627</b>	<b>44,006</b>
<b>FUND BALANCES, ENDING</b>	<b>\$ 1,409,288</b>	<b>\$ 1,409,288</b>	<b>\$ 3,833,062</b>	<b>\$ 2,423,774</b>

**CITY OF GLADSTONE, OREGON  
STATE REVENUE SHARING FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2016**

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	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Public service taxes	\$ 105,000	\$ 105,000	\$ 80,473	\$ (24,527)
Interest	3,400	3,400	5,862	2,462
Total revenues	<u>108,400</u>	<u>108,400</u>	<u>86,335</u>	<u>(22,065)</u>
<b>EXPENDITURES:</b>				
Capital outlay	<u>894,356</u>	<u>894,356</u>	<u>1,190</u>	<u>893,166</u>
Total expenditures	<u>894,356</u>	<u>894,356</u>	<u>1,190</u>	<u>893,166</u>
Revenues over (under) expenditures	(785,956)	(785,956)	85,145	871,101
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	<u>(105,000)</u>	<u>(105,000)</u>	<u>(105,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(105,000)</u>	<u>(105,000)</u>	<u>(105,000)</u>	<u>-</u>
Net changes in fund balances	(890,956)	(890,956)	(19,855)	871,101
<b>FUND BALANCES, BEGINNING</b>	<u>890,956</u>	<u>890,956</u>	<u>923,267</u>	<u>32,311</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 903,412</u>	<u>\$ 903,412</u>

**CITY OF GLADSTONE, OREGON  
ROAD AND STREET FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2016**

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	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Public service taxes	\$ 613,800	\$ 613,800	\$ 680,346	\$ 66,546
Charges for services	5,000	5,000	275,176	270,176
Special assessments	6,200	6,200	-	(6,200)
Miscellaneous	500	500	8,225	7,725
Total revenues	<u>625,500</u>	<u>625,500</u>	<u>963,747</u>	<u>338,247</u>
<b>EXPENDITURES:</b>				
Personnel service	183,669	183,669	169,287	14,382
Materials and service	327,250	327,250	210,901	116,349
Capital outlay	479,707	363,281	231,289	131,992
Total expenditures	<u>990,626</u>	<u>874,200</u>	<u>611,477</u>	<u>262,723</u>
Revenues over (under) expenditures	(365,126)	(248,700)	352,270	600,970
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	<u>(60,493)</u>	<u>(60,493)</u>	<u>(60,493)</u>	<u>-</u>
Total other financing sources (uses)	<u>(60,493)</u>	<u>(60,493)</u>	<u>(60,493)</u>	<u>-</u>
Net changes in fund balances	(425,619)	(309,193)	291,777	600,970
<b>FUND BALANCES, BEGINNING</b>	<u>425,619</u>	<u>425,619</u>	<u>531,152</u>	<u>105,533</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ -</u>	<u>\$ 116,426</u>	<u>\$ 822,929</u>	<u>\$ 706,503</u>

**CITY OF GLADSTONE, OREGON  
URBAN RENEWAL AGENCY FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2016**

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	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 910,171	\$ 910,171	\$ 823,126	\$ (87,045)
Interest	16,000	16,000	37,646	21,646
Total revenues	926,171	926,171	860,772	(65,399)
<b>EXPENDITURES:</b>				
Materials and service	53,500	53,500	6,520	46,980
Capital outlay	5,717,374	5,717,374	-	5,717,374
Total expenditures	5,770,874	5,770,874	6,520	5,764,354
Revenues over (under) expenditures	(4,844,703)	(4,844,703)	854,252	5,698,955
Net changes in fund balances	(4,844,703)	(4,844,703)	854,252	5,698,955
<b>FUND BALANCES, BEGINNING</b>	4,844,703	4,844,703	4,890,271	45,568
<b>FUND BALANCES, ENDING</b>	\$ -	\$ -	\$ 5,744,523	\$ 5,744,523

**CITY OF GLADSTONE, OREGON**  
**POLICE AND COMMUNICATIONS SPECIAL LEVY FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2016**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 535,103	\$ 535,103	\$ 523,386	\$ (11,717)
Interest	2,000	2,000	3,352	1,352
Total revenues	537,103	537,103	526,738	(10,365)
<b>EXPENDITURES:</b>				
Personnel service	346,731	352,731	366,551	(13,820)
Materials and service	124,000	3,000	700	2,300
Capital outlay	5,000	120,000	120,254	(254)
Total expenditures	475,731	475,731	487,505	(11,774)
Revenues over (under) expenditures	61,372	61,372	39,233	(22,139)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(13,705)	(13,705)	(13,705)	-
Total other financing sources (uses)	(13,705)	(13,705)	(13,705)	-
Net changes in fund balances	47,667	47,667	25,528	(22,139)
<b>FUND BALANCES, BEGINNING</b>	310,511	310,511	215,304	(95,207)
<b>FUND BALANCES, ENDING</b>	<u>\$ 358,178</u>	<u>\$ 358,178</u>	<u>\$ 240,832</u>	<u>\$ (117,346)</u>

**CITY OF GLADSTONE, OREGON**  
**SCHEDULE OF FUNDING PROGRESS**  
**OTHER POST-EMPLOYMENT BENEFITS**  
**June 30, 2016**

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Other Post-Employment Benefits

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2009	\$ -	\$ 699,333	\$ 699,333	0.00%	\$ 2,937,298	24.00%
7/1/2012	-	296,770	296,770	0.00%	2,525,297	11.80%
07/01/15	-	469,331	469,331	0.00%	3,142,527	14.93%

**CITY OF GLADSTONE, OREGON**  
**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**For the Last Three Fiscal Years**

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Year Ended June 30,	(a) City's proportion of the net pension liability (asset)	(b) City's proportionate share of the net pension liability (asset)	(c) City's covered payroll	(b/c) City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	0.03322664%	\$ 1,907,695	\$ 3,142,527	60.71%	91.90%
2015	0.03075728%	(697,180)	3,152,443	-22.12%	103.60%
2014	0.03322664%	673,613	3,083,993	21.84%	91.97%

The amounts presented for each fiscal year were actuarial determined at December 31 and rolled forward to the measurement date.

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

**CITY OF GLADSTONE, OREGON  
SCHEDULE OF CONTRIBUTIONS  
For the Last Three Fiscal Years**

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Year Ended June 30,	(a) Statutorily required contribution	(b) Contributions in relation to the statutorily required contribution	(a-b) Contribution deficiency (excess)	(c) City's covered payroll	(b/c) Contributions as a percent of covered payroll
2016	\$ 305,104	\$ 305,104	-	\$ 3,028,865	10.07%
2015	733,439	733,439	-	3,142,527	23.34%
2014	764,158	764,158	-	3,152,443	24.24%

The amounts presented for each fiscal year were actuarial determined at December 31 and rolled forward to the measurement date.

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.



**CITY OF GLADSTONE**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2016**

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**1. Stewardship, Compliance, and Accountability**

**A. Budgetary Information**

On or before June 30 of each year, the City enacts a resolution approving the budget, appropriating the expenditures, and levying the property taxes. Prior to enacting this resolution, the proposed budget is presented to a budget committee consisting of members of the City Council and a like number of interested citizens. The budget committee presents the budget to the City Council for budget hearings prior to enactment of the resolution. The City budgets all funds, except the Fiduciary Funds, as required by Oregon Local Budget Law. The basis of budgeting for all major funds is the same as GAAP.

The resolution authorizing appropriations for each fund sets the legal level of control by which expenditures cannot legally exceed appropriations. Total expenditures by department as established by the resolution are the legal level of control for the General Fund. Expenditure categories of personnel services, materials and services, capital outlay, debt service transfers, and contingency are the legal level of control for all other funds. The detail budget document, however, is required to contain more specific information for the above mentioned expenditure categories. Unexpected additional resources may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers, and adoption by the City Council. Management may modify original and supplemental budgets by the use of appropriation transfers between the legal levels of control within a fund. Such transfers require approval by the City Council. The City had appropriation transfers during the year ended June 30, 2016. Appropriations lapse as of year-end.

Expenditures in the following fund exceeded appropriations for the year ended June 30, 2016:

<u>Fund</u>	<u>Budget Category</u>	<u>Amount of over Expenditure</u>
Police and Communication Fund	Personnel Service	\$13,820
Police and Communication Fund	Capital Outlay	254

**B. Changes in Benefit Terms**

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. OPERS will make restoration payments to those benefit recipients.

OPERS 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 was not included in the net pension liability (asset) proportionate shares provided by OPERS for the years ending June 30, 2015 and June 30, 2014.

**CITY OF GLADSTONE**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2016**

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**C. Changes of Assumptions**

Details and a comprehensive list of changes in methods and assumptions can be found in the 2012 and 2014 Experience Study for the System, which were published on September 18, 2013 and September 23, 2015.

These reports can be found at:

[http://www.oregon.gov/pers/Pages/section/financial\\_reports/mercerc\\_reports.aspx](http://www.oregon.gov/pers/Pages/section/financial_reports/mercerc_reports.aspx).

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## **OTHER SUPPLEMENTARY INFORMATION**

## **OTHER SUPPLEMENTARY INFORMATION**

Other supplementary information includes financial statements and schedules not required by the GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Such statements and schedules include:

- Budgetary Comparison Schedules
  - General Fund
  - Nonmajor Governmental Fund
  
- Budgetary Comparison Schedules
  - Enterprise Funds

## COMBINING STATEMENTS

### Nonmajor Governmental Funds

#### **Special Revenue Funds**

These funds account for revenue derived from specific taxes or other earmarked revenue sources, which are legally restricted to expenditures for specified purposes. Funds included in this category are:

#### **Fire and Emergency Services Special Levy Fund**

The Fire and Emergency Services Special Levy Fund accounts for the receipt and expenditure of taxes received from a five year local option levy. Proceeds from the levy will be used to increase fire personnel and to increase current services.

#### **Agency Funds**

These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature and do not involve measurement of results. Funds included in this category are:

#### **Municipal Court Fund**

The Municipal Court Fund accounts for resources received and held by the City in a fiduciary capacity.

#### **Library Board Trust Fund**

The Library Board Trust Fund accounts for resources received and held by the City in a fiduciary capacity.

**CITY OF GLADSTONE, OREGON**  
**AGENCY FUNDS**  
**COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES**  
**For the Fiscal Year Ended June 30, 2016**

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
<b>Municipal Court Fund</b>				
Assets				
Cash	\$ 29,925	\$ 15,344	\$ -	\$ 45,269
Liabilities				
Other current liabilities	\$ 29,925	\$ 15,344	\$ -	\$ 45,269
<b>Library Board Trust Fund</b>				
Assets				
Cash	\$ 22,289	\$ -	\$ 22,289	\$ -
Liabilities				
Other current liabilities	\$ 22,289	\$ -	\$ 22,289	\$ -
<b>Totals - All Agency Funds</b>				
Assets				
Cash	\$ 52,214	\$ 15,344	\$ 22,289	\$ 45,269
Liabilities				
Other current liabilities	\$ 52,214	\$ 15,344	\$ 22,289	\$ 45,269

## **BUDGETARY COMPARISON SCHEDULES**

Pursuant to the provisions of Oregon Revised Statute, an individual schedule of revenues, expenditures, and changes in fund balances - budget and actual be displayed for each fund where legally adopted budgets are required.

These Budgetary Comparison schedules included the following:

- General Fund Schedule of Expenditures
- Special Revenue Funds - Nonmajor Governmental Funds
  - Fire and Emergency Services Special Levy Fund



**CITY OF GLADSTONE, OREGON**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2016**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>General Administration:</b>				
Personnel services	\$ 600,065	\$ 600,065	\$ 521,735	\$ 78,330
Materials and services	618,000	763,000	755,006	7,994
Subtotal	1,218,065	1,363,065	1,276,741	86,324
<b>Municipal Court:</b>				
Personnel services	120,883	120,883	142,998	(22,115)
Materials and services	130,300	130,300	79,285	51,015
Subtotal	251,183	251,183	222,283	28,900
<b>Police:</b>				
Personnel services	1,848,033	1,848,033	1,620,857	227,176
Materials and services	262,110	367,110	256,401	110,709
Capital outlay	100,000	-	87,051	(87,051)
Subtotal	2,210,143	2,215,143	1,964,309	250,834
<b>Fire:</b>				
Personnel services	554,249	554,249	453,240	101,009
Materials and services	375,000	375,000	343,703	31,297
Capital outlay	784,000	784,000	62,938	721,062
Subtotal	1,713,249	1,713,249	859,881	853,368
<b>Parks:</b>				
Personnel services	163,467	163,467	125,940	37,527
Materials and services	178,300	178,300	99,646	78,654
Capital outlay	416,228	416,228	28,638	387,590
Subtotal	757,995	757,995	254,224	503,771
<b>Recreation:</b>				
Personnel services	27,361	32,361	23,382	8,979
Materials and services	32,300	37,300	25,231	12,069
Subtotal	59,661	69,661	48,613	21,048

**CITY OF GLADSTONE, OREGON**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2016**

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	Budget		Actual	Variance with Final Budget
	Original	Final		
Senior Center:				
Personnel services	224,714	224,714	233,560	(8,846)
Materials and services	28,700	33,700	28,508	5,192
Capital outlay	153,895	153,895	17,604	136,291
Subtotal	<u>407,309</u>	<u>412,309</u>	<u>279,672</u>	<u>132,637</u>
Library:				
Personnel services	538,165	538,165	490,407	47,758
Materials and services	217,385	217,385	82,083	135,302
Capital outlay	-	-	75,112	(75,112)
Subtotal	<u>755,550</u>	<u>755,550</u>	<u>647,602</u>	<u>107,948</u>
Total expenditures	<u>\$ 7,373,155</u>	<u>\$ 7,538,155</u>	<u>\$ 5,553,325</u>	<u>\$ 1,984,830</u>

**CITY OF GLADSTONE, OREGON  
FIRE AND EMERGENCY SERVICES SPECIAL LEVY FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2016**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 248,338	\$ 248,338	\$ 238,673	\$ (9,665)
Interest	2,000	2,000	3,028	1,028
Total revenues	250,338	250,338	241,701	(8,637)
<b>EXPENDITURES:</b>				
Personnel service	134,926	134,926	117,705	17,221
Materials and service	20,000	20,000	5,418	14,582
Capital outlay	252,000	252,000	-	252,000
Total expenditures	406,926	406,926	123,123	283,803
Revenues over (under) expenditures	(156,588)	(156,588)	118,578	275,166
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(5,760)	(5,760)	(5,760)	- *
Total other financing sources (uses)	(5,760)	(5,760)	(5,760)	-
Net changes in fund balances	(162,348)	(162,348)	112,818	275,166
<b>FUND BALANCES, BEGINNING</b>	283,675	283,675	279,170	(4,505)
<b>FUND BALANCES, ENDING</b>	<u>\$ 121,327</u>	<u>\$ 121,327</u>	<u>\$ 391,988</u>	<u>\$ 270,661</u>

\* Exception to local budget law

**BUDGETARY COMPARISON SCHEDULES**  
**Enterprise Funds**

Pursuant to the provisions of Oregon Revised Statute, an individual schedule of revenues, expenditures, and changes in fund balances - budget and actual be displayed for each fund where legally adopted budgets are required.

Enterprise Budgetary Comparison schedules include the following:

- Water Fund
- Sewer Fund

**CITY OF GLADSTONE, OREGON**  
**WATER FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2016**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Service charges	\$ 1,226,421	\$ 1,226,421	\$ 1,294,916	\$ 68,495
Connection and installation fees	2,500	2,500	21,095	18,595
System development charge	5,000	5,000	223,927	218,927
Miscellaneous	1,000	1,000	6,405	5,405
Total revenues	1,234,921	1,234,921	1,546,343	311,422
<b>EXPENDITURES:</b>				
Personnel service	361,691	361,691	330,354	31,337
Materials and service	646,331	646,331	479,660	166,671
Capital outlay	1,372,974	1,372,974	100,786	1,272,188
Debt service:				
Principal	125,000	125,000	1,695,000	(1,570,000) *
Interest	64,579	64,579	67,320	(2,741) *
Total expenditures	2,570,575	2,570,575	2,673,120	(102,545)
Revenues over (under) expenditures	(1,335,654)	(1,335,654)	(1,126,777)	208,877
<b>OTHER FINANCING SOURCES (USES):</b>				
Issuance of debt		-	1,614,000	1,614,000
Transfers out	(14,518)	(14,518)	(14,518)	-
Total other financing sources (uses)	(14,518)	(14,518)	1,599,482	1,614,000
Net changes in fund balances	(1,350,172)	(1,350,172)	472,705	1,822,877
<b>FUND BALANCES, BEGINNING BUDGETARY BASIS</b>	1,350,172	1,350,172	1,229,505	(120,667)
<b>PRIOR PERIOD ADJUSTMENT</b>	-	-	167,760	167,760
<b>FUND BALANCES, ENDING BUDGETARY BASIS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,869,970</u>	<u>\$ 1,869,970</u>
			<u>Revenues</u>	<u>Expenditures</u>
Total revenue and expenditures above			\$ 1,546,343	\$ 2,673,120
Operating transfers in/out			-	14,518
Expenditures capitalized			-	(74,452)
Debt service principal payments			-	(1,695,000)
Depreciation expense			-	165,682
Accrued interest payable			-	17,415
Net pension activity			-	93,966
Net OPEB obligation			-	1,330
Equity in net income/loss of joint venture			(43,779)	-
Total revenues and expenses - generally accepted accounting principles			<u>\$ 1,502,564</u>	<u>1,196,579</u>
Change in net position				<u>\$ 305,985</u>

\* Exception to Oregon Budget Law requirements

**CITY OF GLADSTONE, OREGON**  
**SEWER FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2016**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Service charge	\$ 2,011,323	\$ 2,011,323	\$ 2,019,504	\$ 8,181
Connection and installation fees	6,000	6,000	304,416	298,416
System development charge	1,000	1,000	33,197	32,197
Miscellaneous	1,000	1,000	10,902	9,902
Total revenues	2,019,323	2,019,323	2,368,019	348,696
<b>EXPENDITURES:</b>				
Personnel service	269,051	269,051	241,784	27,267
Materials and service	1,794,986	1,994,986	1,871,297	123,689
Capital outlay	1,280,338	1,080,338	136,762	943,576
Total expenditures	3,344,375	3,344,375	2,249,843	1,094,532
Revenues over (under) expenditures	(1,325,052)	(1,325,052)	118,176	1,443,228
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(26,188)	(26,188)	(26,188)	-
Total other financing sources (uses)	(26,188)	(26,188)	(26,188)	-
Net changes in fund balances	(1,351,240)	(1,351,240)	91,988	1,443,228
<b>FUND BALANCES, BEGINNING BUDGETARY BASIS</b>	1,351,240	1,351,240	1,172,112	(179,128)
<b>PRIOR PERIOD ADJUSTMENT</b>	-	-	238,426	238,426
<b>FUND BALANCES, ENDING BUDGETARY BASIS</b>	\$ -	\$ -	\$ 1,502,526	\$ 1,502,526
			<u>Revenues</u>	<u>Expenditures</u>
Total revenue and expenditures above			\$ 2,368,019	\$ 2,249,843
Operating transfers in/out			-	26,188
Expenditures capitalized			-	(50,002)
Depreciation and amortization expense			-	78,510
Net pension activity			-	123,660
Net OPEB obligation			-	1,103
Total revenues and expenses - generally accepted accounting principles			\$ 2,368,019	2,429,302
Change in net position				\$ (61,283)

**INDEPENDENT AUDITOR'S REPORT REQUIRED  
BY OREGON STATE REGULATION**

**INDEPENDENT AUDITOR'S REPORT  
REQUIRED BY OREGON STATE REGULATION**

We have audited the basic financial statements of the City of Gladstone, Oregon, as of and for the year ended June 30, 2016 and have issued our report thereon dated November 30, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

**Compliance**

As part of obtaining reasonable assurance about whether the City of Gladstone, Oregon'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 the Oregon Administrative Rules 162-10-000 through 162-10-330 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 statement 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:

- Deposits of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions, and repayments.
- 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, and 279C).
- Accountability for collecting or receiving money by elected officials. The City does not have any elected officials collecting or receiving money.

In connection with our testing, nothing came to our attention that caused us to believe the City of Gladstone, Oregon was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in the Oregon Administrative Rules 162-10-000 through 162-10-330 of the *Minimum Standards for Audits of Oregon Municipal Corporations* except as follows:



1. Expenditures exceeded appropriations in the following fund:

Police and Communication Fund:

Personnel Service	\$13,820
Capital Outlay	254

2. The City failed to maintain compliance with ORS 279 Public Purchasing & Contract Law for its Sanitary Sewer Master Plan project.

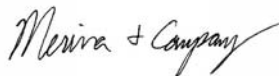
### **OAR 162-10-0230 Internal Control**

In planning and performing our audit, we considered the City of Gladstone, Oregon's internal control over financial reporting (internal control) 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 of Gladstone, Oregon's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Gladstone, Oregon's internal control.

*A deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



Merina & Company, LLP  
West Linn, Oregon  
November 30, 2016