

CITY OF GLADSTONE, OREGON

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

For the Fiscal Year Ended

June 30, 2017

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, 2017

City Officials

Term Expires

Tammy Stempel, Mayor
Gladstone, Oregon 97027

December 31, 2018

Council Members

Michael Milch
Gladstone, Oregon 97027

December 31, 2018

Matt Tracy
Gladstone, Oregon 97027

December 31, 2018

Thomas Mersereau
Gladstone, Oregon 97027

December 31, 2020

Neal Reisner
Gladstone, Oregon 97027

December 31, 2020

Patrick McMahon
Gladstone, Oregon 97027

December 31, 2018

Linda Neace
Gladstone, Oregon 97027

December 31, 2020

City Administrator

Jacque Betz
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, 2017, and the related notes to the financial statements, which collectively comprise City of Gladstone, Oregon's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

City of Gladstone, Oregon's 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, which represents 22 percent and 28 percent of assets and net position of the business-type activities respectively. 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. 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, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof or 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 the required supplementary information, such as management's discussion and analysis and schedule of revenues, expenditures and changes in fund balance – budget and actual, as listed in the table of contents under required supplement information, 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 the management's discussion and analysis, 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 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 schedule of revenues, expenditures and changes in fund balance – budget and actual, 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 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 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, the 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.

Reports on Other Legal and Regulatory Requirements

Other Reporting Required by Oregon Minimum Standards

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated March 19, 2018, on our consideration of 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.



For Merina & Company, LLP
West Linn, Oregon
March 19, 2018

JUNE 30, 2017
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, 2017.

Financial Highlights

The assets and deferred outflows of resources of the City of Gladstone exceeded the sum of its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$32,955,143 (net position). Of this amount, \$18,084,996 is the City's net investment in capital assets, \$8,421,370 is restricted for specific purposes, and \$6,448,777 (unrestricted) may be used to meet the City's obligations to creditors and to meet service expectations by its citizens. The City's total net position decreased by \$178,237 from the prior year.

The City's governmental activities reported total net position of \$22,902,781. Of this amount \$1,409,604 is unrestricted and thus available for spending at the City's discretion.

The City's business-type activities reported total net position of \$10,052,362. Of this amount \$5,039,173 is unrestricted and thus available for spending at the City's discretion.

The City's governmental funds reported combined ending fund balances of \$11,679,160, a decrease of \$257,589 compared to the prior year. The decrease is primarily due to capital spending.

Overview of the Financial Statements

The Management Discussion and Analysis (MD&A) is intended to serve as an introduction to the City of Gladstone's 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 required and 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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the resulting difference between them 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 reserves 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 report on general government, public safety, highways and streets, culture and recreation and urban renewal functions. Urban renewal is considered a component of the City of Gladstone even though it publishes separate financial statements and management discussion and analysis. Business-type activities consist of water and sewer operations.

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 Civic Buildings Capital Fund. All of these funds are considered to be major funds. Data from the other two non-major governmental funds (Fire and Emergency Services Special Levy Fund and Library Capital Fund) are combined into a single aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the other supplementary information described below.

Proprietary Funds. Proprietary funds represent two segments of operations, water and sewer, used to account for activities 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. The Municipal Court Fund is custodial in nature and does 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 the General Fund and major special revenue funds is presented immediately following the notes to the basic financial statements.

Other Supplementary Information. The schedules for 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 \$32,955,143 at the close of the most recent fiscal year.

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

	Summary of Net Position					
	Governmental Activities		Business type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Cash and investments	\$ 11,394,311	\$ 11,328,489	\$ 2,488,256	\$ 2,411,529	\$ 13,882,567	\$ 13,740,018
Restricted cash and investments	479,552	533,046	617,308	581,674	1,096,860	1,114,720
Other assets	513,851	473,375	3,340,281	3,520,682	3,854,132	3,994,057
Capital assets	13,689,115	12,663,818	5,868,881	6,068,515	19,557,996	18,732,333
Total assets	<u>26,076,829</u>	<u>24,998,728</u>	<u>12,314,726</u>	<u>12,582,400</u>	<u>38,391,555</u>	<u>37,581,128</u>
Deferred outflow related to pension asset	2,767,191	391,752	327,102	58,622	3,094,293	450,374
Total assets and deferred outflows of resources	<u>\$ 28,844,020</u>	<u>\$ 25,390,480</u>	<u>\$ 12,641,828</u>	<u>\$ 12,641,022</u>	<u>\$ 41,485,848</u>	<u>\$ 38,031,502</u>
Current liabilities	\$ 633,660	\$ 297,119	\$ 640,308	\$ 535,318	\$ 1,273,968	\$ 832,437
Long-term liabilities	5,228,732	1,863,256	1,939,837	1,746,642	7,168,569	3,609,898
Total liabilities	<u>5,862,392</u>	<u>2,160,375</u>	<u>2,580,145</u>	<u>2,281,960</u>	<u>8,442,537</u>	<u>4,442,335</u>
Deferred inflow related to pension asset	78,847	396,461	9,321	59,326	88,168	455,787
Net position						
Net investment in capital assets	13,689,115	12,663,818	4,395,881	4,454,515	18,084,996	17,118,333
Restricted	7,804,062	6,674,967	617,308	581,674	8,421,370	7,256,641
Unrestricted	1,409,604	3,494,859	5,039,173	5,263,547	6,448,777	8,758,406
Total net position	<u>22,902,781</u>	<u>22,833,644</u>	<u>10,052,362</u>	<u>10,299,736</u>	<u>32,955,143</u>	<u>33,133,380</u>
Total assets and deferred inflows of resources and net position	<u>\$ 28,844,020</u>	<u>\$ 25,390,480</u>	<u>\$ 12,641,828</u>	<u>\$ 12,641,022</u>	<u>\$ 41,485,848</u>	<u>\$ 38,031,502</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 \$6,448,777 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 2017 and 2016:

	Governmental and Proprietary Activities					
	<u>Governmental Activities</u>		<u>Business type Activities</u>		<u>Totals</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Receipts						
Program Receipts						
Charges for services	\$ 1,311,933	\$ 790,258	\$ 3,274,253	\$ 3,897,055	\$ 4,586,186	\$ 4,687,313
Operating grants and contributions	15,986	37,531	-	-	15,986	37,531
General receipts						
Property tax	5,505,396	5,313,248	-	-	5,505,396	5,313,248
Franchise fees and public service tax	1,678,501	2,127,032	-	-	1,678,501	2,127,032
Interest	179,576	106,197	-	-	179,576	106,197
Other	363,229	241,843	19,146	17,307	382,375	259,150
Total receipts	<u>\$ 9,054,621</u>	<u>\$ 8,616,109</u>	<u>\$ 3,293,399</u>	<u>\$ 3,914,362</u>	<u>\$12,348,020</u>	<u>\$ 12,530,471</u>
Expenses						
Governmental activities						
General government	\$ 2,499,999	\$ 1,865,183	\$ -	\$ -	\$ 2,499,999	\$ 1,865,183
Public safety	4,296,584	4,254,609	-	-	4,296,584	4,254,609
Highways and streets	755,293	632,167	-	-	755,293	632,167
Culture and recreation	1,549,966	1,564,242	-	-	1,549,966	1,564,242
Urban renewal	13,325	6,603	-	-	13,325	6,603
Business type activities						
Water	-	-	1,018,492	1,182,061	1,018,492	1,182,061
Sewer	-	-	2,376,924	2,403,114	2,376,924	2,403,114
Total expenses	<u>\$ 9,115,167</u>	<u>\$ 8,322,804</u>	<u>\$ 3,395,416</u>	<u>\$ 3,585,175</u>	<u>\$12,510,583</u>	<u>\$ 11,907,979</u>
Change in net position before transfers	<u>(60,546)</u>	<u>293,305</u>	<u>(102,017)</u>	<u>329,187</u>	<u>(162,563)</u>	<u>622,492</u>
Transfers	\$ 129,683	\$ 40,706	\$ (129,683)	\$ (40,706)	\$ -	\$ -
Equity income (loss) in joint venture	-	-	(15,674)	(43,779)	(15,674)	(43,779)
Changes in net position	69,137	334,011	(247,374)	244,702	(178,237)	578,713
Beginning 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>
Ending net position	<u>\$22,902,781</u>	<u>\$ 22,833,644</u>	<u>\$ 10,052,362</u>	<u>\$10,299,736</u>	<u>\$32,955,143</u>	<u>\$ 33,133,380</u>

Governmental Activities. Governmental activities increased the City of Gladstone's net position by \$69,137.

Business-type Activities. Business-type activities decreased the City of Gladstone's net position by \$247,374.

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 \$11,679,160.

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 appropriation transfers from Contingency to cover additional operating expenses in several departments. While the General Government function reported overexpenditures relative to final budget appropriations due to changes in staffing and operations during the year, capital expenditures were well below budgeted levels as the City deferred major projects.

Capital Assets and Debt Administration

The following tables compare capital assets and changes in capital assets as of June 30, 2017 and June 30, 2016:

	Capital Assets at Year End (Net of Depreciation)					
	Governmental Activities		Business type Activities		Total Government	
	2017	2016	2017	2016	2017	2016
Land	\$ 6,498,106	\$ 5,519,830	\$ 640,964	\$ 640,964	\$ 7,139,070	\$ 6,160,794
Buildings	3,096,296	3,135,726	9,942	10,604	3,106,238	3,146,330
Vehicles and Equipment	971,520	769,255	40,676	3,448	1,012,196	772,703
Intangible Assets	11,066	24,495	-	-	11,066	24,495
Infrastructure	3,112,127	3,214,512	5,177,299	5,413,499	8,289,426	8,628,011
Total	\$ 13,689,115	\$ 12,663,818	\$ 5,868,881	\$ 6,068,515	\$ 19,557,996	\$ 18,732,333

	Changes in Capital Assets					
	Governmental Activities		Business type Activities		Total Government	
	2017	2016	2017	2016	2017	2016
Beginning Balance	\$ 12,663,818	\$ 12,778,074	\$ 6,068,515	\$ 6,188,253	\$ 18,732,333	\$ 18,966,327
Additions	1,440,385	306,248	40,411	124,454	1,480,796	430,702
Depreciation	(415,088)	(420,504)	(240,045)	(244,192)	(655,133)	(664,696)
Deletions	-	-	-	-	-	-
Ending Balance	\$ 13,689,115	\$ 12,663,818	\$ 5,868,881	\$ 6,068,515	\$ 19,557,996	\$ 18,732,333

Long-term Debt. At June 30, 2017, the City had bonded debt outstanding of \$1,473,000 compared to \$1,614,000 at June 30, 2016. 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 approximately \$32 million.

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 approximately \$5 million and incurring long term debt of \$6.2 million.

Requests for Information. This report was modeled after "Management's Discussion and Analysis" prepared by other cities. 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.

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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 Fund

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, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Current assets:			
Cash and investments	\$ 11,394,311	\$ 2,488,256	\$ 13,882,567
Cash with county treasurer	22,658	-	22,658
Accounts receivable	122,124	557,927	680,051
Property tax receivable	330,568	-	330,568
Prepaid expenses	38,501	-	38,501
Total current assets	11,908,162	3,046,183	14,954,345
Noncurrent assets:			
Restricted cash and investments	479,552	617,308	1,096,860
Assessments receivable	-	2,547	2,547
Interest receivable	-	815	815
Investment in joint venture	-	2,778,992	2,778,992
Capital assets:			
Non depreciable	6,498,106	640,964	7,139,070
Depreciable, net	7,191,009	5,227,917	12,418,926
Total noncurrent assets	14,168,667	9,268,543	23,437,210
Total assets	26,076,829	12,314,726	38,391,555
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflow related to pension asset	2,767,191	327,102	3,094,293
Total deferred outflows of resources	2,767,191	327,102	3,094,293
Total assets and deferred outflows of resources	\$ 28,844,020	\$ 12,641,828	\$ 41,485,848
LIABILITIES:			
Current liabilities:			
Accounts payable	\$ 328,324	\$ 418,169	\$ 746,493
Interest payable	-	14,583	14,583
Accrued compensated absences	241,668	31,478	273,146
Bonds payable - current maturity	-	150,000	150,000
Other current liabilities	63,668	26,078	89,746
Total current liabilities	633,660	640,308	1,273,968
Noncurrent liabilities:			
Net pension liability	5,010,408	592,267	5,602,675
OPEB liability	218,324	24,570	242,894
Noncurrent portion of long-term obligations	-	1,323,000	1,323,000
Total noncurrent liabilities	5,228,732	1,939,837	7,168,569
Total liabilities	5,862,392	2,580,145	8,442,537
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflow related to pension asset	78,847	9,321	88,168
Total deferred inflows of resources	78,847	9,321	88,168
NET POSITION:			
Net investment in capital assets	13,689,115	4,395,881	18,084,996
Restricted for:			
Street operations	1,241,281	-	1,241,281
System development	-	617,308	617,308
Urban Renewal development	6,562,781	-	6,562,781
Unrestricted	1,409,604	5,039,173	6,448,777
Total net position	22,902,781	10,052,362	32,955,143
Total liabilities, deferred inflows of resources and net position	\$ 28,844,020	\$ 12,641,828	\$ 41,485,848

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, 2017

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental activities:			
General government	\$ 2,499,999	\$ 966,682	\$ 15,986
Public safety	4,296,584	345,251	-
Highways and streets	755,293	-	-
Urban and renewal	13,325	-	-
Culture and recreation	1,549,966	-	-
Total governmental activities	<u>9,115,167</u>	<u>1,311,933</u>	<u>15,986</u>
Business-type activities:			
Water Fund	1,018,492	1,175,098	-
Sewer Fund	<u>2,376,924</u>	<u>2,099,155</u>	<u>-</u>
Total business type activities	<u>3,395,416</u>	<u>3,274,253</u>	<u>-</u>
Total government	<u>\$ 12,510,583</u>	<u>\$ 4,586,186</u>	<u>\$ 15,986</u>

General revenues:

Taxes:

 Property taxes

 Public service taxes

Franchise fees

Grants and contributions not restricted to specific programs

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
\$ (1,517,331)	\$ -	\$ (1,517,331)
(3,951,333)	-	(3,951,333)
(755,293)	-	(755,293)
(13,325)	-	(13,325)
(1,549,966)	-	(1,549,966)
(7,787,248)	-	(7,787,248)
-	156,606	156,606
-	(277,769)	(277,769)
-	(121,163)	(121,163)
(7,787,248)	(121,163)	(7,908,411)
5,505,396	-	5,505,396
1,026,610	-	1,026,610
651,891	-	651,891
208,081	-	208,081
179,576	-	179,576
-	(15,674)	(15,674)
155,148	19,146	174,294
129,683	(129,683)	-
7,856,385	(126,211)	7,730,174
69,137	(247,374)	(178,237)
22,833,644	10,299,736	33,133,380
\$ 22,902,781	\$ 10,052,362	\$ 32,955,143

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

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.

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.

Civic Building Capital Fund

The Civic Building Capital Fund accounts for funds transferred from other funds, debt proceeds and the sale of surplus City owned property restricted to the construction of a new city hall and police station.

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CITY OF GLADSTONE, OREGON
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2017

	General Fund	Road and Street Fund	Urban Renewal Agency Fund
ASSETS:			
Cash and investments	\$ 3,413,259	\$ 705,122	\$ 6,556,973
Restricted cash and investments	-	479,552	-
Cash with county treasurer	15,823	-	3,580
Accounts receivable	62,137	59,987	-
Property taxes receivable	230,081	-	53,161
Prepaid Expenses	38,501	-	-
	<u>3,759,801</u>	<u>1,244,661</u>	<u>6,613,714</u>
Total assets	<u>\$ 3,759,801</u>	<u>\$ 1,244,661</u>	<u>\$ 6,613,714</u>
LIABILITIES:			
Accounts payable	\$ 323,944	\$ 3,380	\$ -
Other current liabilities	63,622	-	-
	<u>387,566</u>	<u>3,380</u>	<u>-</u>
Total liabilities	<u>387,566</u>	<u>3,380</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenues - property taxes	220,311	-	50,933
	<u>220,311</u>	<u>-</u>	<u>50,933</u>
Total deferred inflows of resources	<u>220,311</u>	<u>-</u>	<u>50,933</u>
FUND BALANCES:			
Restricted:			
Street operations	-	1,241,281	-
Urban Renewal development	-	-	6,562,781
Assigned:			
Fire and emergency services	-	-	-
Unassigned	3,151,924	-	-
	<u>3,151,924</u>	<u>1,241,281</u>	<u>6,562,781</u>
Total fund balance	<u>3,151,924</u>	<u>1,241,281</u>	<u>6,562,781</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 3,759,801</u>	<u>\$ 1,244,661</u>	<u>\$ 6,613,714</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.

Police and Communications Special Levy Fund	Civic Building Capital Fund	Other Governmental - Fire and Emergency Services Special Levy Fund	Total Governmental
\$ 298,259	\$ -	\$ 420,698	\$ 11,394,311
-	-	-	479,552
2,234	-	1,021	22,658
-	-	-	122,124
32,485	-	14,841	330,568
-	-	-	38,501
<u>\$ 332,978</u>	<u>\$ -</u>	<u>\$ 436,560</u>	<u>\$ 12,387,714</u>
\$ -	\$ -	\$ 1,000	\$ 328,324
-	46	-	63,668
-	46	1,000	391,992
31,106	-	14,212	316,562
31,106	-	14,212	316,562
-	-	-	1,241,281
-	-	-	6,562,781
301,872	-	421,348	723,220
-	(46)	-	3,151,878
301,872	(46)	421,348	11,679,160
<u>\$ 332,978</u>	<u>\$ -</u>	<u>\$ 436,560</u>	
			13,689,115
			2,688,344
			316,562
			<u>(5,470,400)</u>
			<u>\$ 22,902,781</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, 2017

	General Fund	State Revenue Sharing Fund	Road and Street Fund
REVENUES:			
Property taxes	\$ 3,850,869	\$ -	\$ -
Public service taxes	193,529	139,553	693,528
Franchise taxes	651,891	-	-
Grants	208,081	-	-
Charges for services	55,515	-	-
Licenses and permits	147,887	-	-
Fines and forfeitures	345,251	-	-
Special assessments	700,159	-	63,121
Contributions and donations	15,986	-	-
Interest	94,591	4,156	-
Miscellaneous	94,440	-	60,706
Total revenues	<u>6,358,199</u>	<u>143,709</u>	<u>817,355</u>
EXPENDITURES:			
Current:			
General government	1,952,264	-	-
Public safety	3,509,986	-	-
Highways and streets	-	-	383,075
Urban and renewal	-	-	-
Culture and recreation	1,356,324	-	-
Capital outlay	419,242	-	123,706
Total expenditures	<u>7,237,816</u>	<u>-</u>	<u>506,781</u>
Revenues over (under) expenditures	(879,617)	143,709	310,574
OTHER FINANCING SOURCES (USES):			
Transfers in	280,956	-	170,086
Transfers out	(82,477)	(1,047,121)	(62,308)
Total other financing sources (uses)	<u>198,479</u>	<u>(1,047,121)</u>	<u>107,778</u>
Net changes in fund balances	(681,138)	(903,412)	418,352
FUND BALANCES, BEGINNING	<u>3,833,062</u>	<u>903,412</u>	<u>822,929</u>
FUND BALANCES, ENDING	<u>\$ 3,151,924</u>	<u>\$ -</u>	<u>\$ 1,241,281</u>

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

Urban Renewal Agency Fund	Police and Communications Special Levy Fund	Civic Building Capital Fund	Other Governmental - Fire and Emergency Services Special Levy Fund	Total Governmental
\$ 854,591	\$ 543,435	\$ -	\$ 247,820	\$ 5,496,715
-	-	-	-	1,026,610
-	-	-	-	651,891
-	-	-	-	208,081
-	-	-	-	55,515
-	-	-	-	147,887
-	-	-	-	345,251
-	-	-	-	763,280
-	-	-	-	15,986
71,238	4,345	-	5,246	179,576
-	-	-	-	155,146
<u>925,829</u>	<u>547,780</u>	<u>-</u>	<u>253,066</u>	<u>9,045,938</u>
-	352,458	33,430	-	2,338,152
-	-	-	177,340	3,687,326
-	-	-	-	383,075
13,325	-	-	-	13,325
-	-	-	-	1,356,324
-	120,165	951,464	40,431	1,655,008
<u>13,325</u>	<u>472,623</u>	<u>984,894</u>	<u>217,771</u>	<u>9,433,210</u>
912,504	75,157	(984,894)	35,295	(387,272)
-	-	984,848	-	1,435,890
(94,246)	(14,120)	-	(5,935)	(1,306,207)
<u>(94,246)</u>	<u>(14,120)</u>	<u>984,848</u>	<u>(5,935)</u>	<u>129,683</u>
818,258	61,037	(46)	29,360	(257,589)
<u>5,744,523</u>	<u>240,835</u>	<u>-</u>	<u>391,988</u>	<u>11,936,749</u>
<u>\$ 6,562,781</u>	<u>\$ 301,872</u>	<u>\$ (46)</u>	<u>\$ 421,348</u>	<u>\$ 11,679,160</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, 2017

Amounts reported in the statement of activities are different because:

Net change in fund balances	\$ (257,589)
Governmental funds report pension contributions as expenditures. However, in the statements of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	(657,967)
The statements of activities reports changes in OPEB liability as an expense, whereas these amounts are not reported in the fund statements.	(14,453)
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.	1,025,297
Some revenue reported in the statement of activities do not provide current financial resources in the governmental funds.	8,681
Accrued compensated absences and OPEB obligations are not due and payable in the current period and therefore are not reported in the funds.	<u>(34,832)</u>
Change in net position of governmental activities	<u><u>\$ 69,137</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, 2017**

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS:			
Current assets:			
Cash and investments	\$ 1,437,191	\$ 1,051,065	\$ 2,488,256
Trade accounts receivable	182,675	375,252	557,927
Total current assets	1,619,866	1,426,317	3,046,183
Noncurrent assets:			
Assessments receivable	-	2,547	2,547
Interest receivable	-	815	815
Restricted cash	433,508	183,800	617,308
Investment in joint venture	2,778,992	-	2,778,992
Capital assets:			
Non-depreciable	129,414	511,550	640,964
Depreciable	3,313,861	1,914,056	5,227,917
Total noncurrent assets	6,655,775	2,612,768	9,268,543
Total assets	8,275,641	4,039,085	12,314,726
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow related to pension asset	86,921	240,181	327,102
Total deferred outflows of resources	86,921	240,181	327,102
Total assets & deferred outflows of resources	\$ 8,362,562	\$ 4,279,266	\$ 12,641,828
LIABILITIES:			
Current liabilities:			
Accounts payable	\$ 74,880	\$ 343,289	\$ 418,169
Interest payable	14,583	-	14,583
Accrued compensated absences	3,662	27,816	31,478
Bonds payable - current maturity	150,000	-	150,000
Other	26,078	-	26,078
Total current liabilities	269,203	371,105	640,308
Noncurrent liabilities:			
OPEB liability	12,122	12,448	24,570
Bonds payable	1,323,000	-	1,323,000
Net pension liability	157,384	434,883	592,267
Total noncurrent liabilities	1,492,506	447,331	1,939,837
Total liabilities	1,761,709	818,436	2,580,145
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow related to pension liability	2,477	6,844	9,321
Total deferred inflows of resources	2,477	6,844	9,321
NET POSITION:			
Net investment in capital assets	1,970,275	2,425,606	4,395,881
Restricted for:			
System development	433,508	183,800	617,308
Unrestricted	4,194,593	844,580	5,039,173
Total net position	6,598,376	3,453,986	10,052,362
Total liabilities, deferred inflows & net position	\$ 8,362,562	\$ 4,279,266	\$ 12,641,828

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, 2017**

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
OPERATING REVENUES:			
Service charges	\$ 1,140,794	\$ 2,081,786	\$ 3,222,580
Connection and installation fees	355	11,768	12,123
System development charge	33,949	5,601	39,550
Miscellaneous	15,987	3,159	19,146
Total operating revenues	<u>1,191,085</u>	<u>2,102,314</u>	<u>3,293,399</u>
OPERATING EXPENSES:			
Purchases	337,631	1,582,176	1,919,807
Salaries and fringe benefits	218,153	367,088	585,241
Contract charges	33,471	135,664	169,135
Connection turnovers	-	14,267	14,267
Maintenance and repairs	184,251	194,678	378,929
Utilities	26,383	2,215	28,598
Depreciation	162,004	78,041	240,045
Supplies	11,321	393	11,714
Miscellaneous	16,113	2,402	18,515
Total operating expenses	<u>989,327</u>	<u>2,376,924</u>	<u>3,366,251</u>
Operating income (loss)	201,758	(274,610)	(72,852)
NON-OPERATING REVENUES (EXPENSES):			
Interest expense	(29,165)	-	(29,165)
Gain (loss) in joint venture	(15,674)	-	(15,674)
Total non-operating revenues (expenses)	<u>(44,839)</u>	<u>-</u>	<u>(44,839)</u>
Income before transfers	156,919	(274,610)	(117,691)
TRANSFERS:			
Transfers in (out)	<u>(45,828)</u>	<u>(83,855)</u>	<u>(129,683)</u>
Change in net position	111,091	(358,465)	(247,374)
NET POSITION, BEGINNING	<u>6,487,285</u>	<u>3,812,451</u>	<u>10,299,736</u>
NET POSITION, ENDING	<u>\$ 6,598,376</u>	<u>\$ 3,453,986</u>	<u>\$ 10,052,362</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, 2017

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 1,232,302	\$ 2,091,407	\$ 3,323,709
Cash paid to employees for salaries and benefits	(276,612)	(284,057)	(560,669)
Cash paid to suppliers and others	(423,070)	(1,889,470)	(2,312,540)
Net cash provided by operating activities	532,620	(82,120)	450,500
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Transfers in (out)	(45,828)	(83,855)	(129,683)
Net cash provided (used) by non-capital financing activities	(45,828)	(83,855)	(129,683)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of capital assets	(5,467)	(34,943)	(40,410)
Principal paid on capital debt	(141,000)	-	(141,000)
Interest paid on capital debt	(30,561)	-	(30,561)
Proceeds from assessment receivables	-	3,515	3,515
Net cash used by capital and related financing activities	(177,028)	(31,428)	(208,456)
Net increase in cash and cash equivalents	309,764	(197,403)	112,361
CASH AND CASH EQUIVALENTS, BEGINNING	1,560,935	1,432,268	2,993,203
CASH AND CASH EQUIVALENTS, ENDING	\$ 1,870,699	\$ 1,234,865	\$ 3,105,564
COMPRISED AS FOLLOWS:			
Unrestricted	\$ 1,437,191	\$ 1,051,065	\$ 2,488,256
Restricted	433,508	183,800	617,308
Total cash and cash equivalents	\$ 1,870,699	\$ 1,234,865	\$ 3,105,564
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (loss)	\$ 201,758	\$ (274,610)	\$ (72,852)
Adjustments:			
Depreciation	162,003	78,041	240,044
Decrease (increase) in:			
Accounts receivable	15,140	(10,907)	4,233
Prepays	156,979	-	156,979
Deferred outflows related to pension	(59,874)	(208,606)	(268,480)
Increase (decrease) in:			
Accounts payable and accrued expenses	29,121	42,325	71,446
Other liabilities	26,078	-	26,078
Accrued compensated absences	(13,753)	13,615	(138)
Deferred inflows related to pension	(24,895)	(25,110)	(50,005)
Pension liability	42,818	301,139	343,957
OPEB obligation	(2,755)	1,993	(762)
Net cash provided by operating activities	\$ 532,620	\$ (82,120)	\$ 450,500
NON-CASH CAPITAL FINANCING ACTIVITIES			
NON-CASH INFORMATION:			
Increase (decrease) in joint venture	\$ (15,674)	\$ -	\$ (15,674)

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.

Agency Funds

Municipal Court Trust Fund

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

CITY OF GLADSTONE, OREGON
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2017

	<u>Agency Funds</u>
ASSETS:	
Cash and investments	\$ 45,458
Total assets	<u>\$ 45,458</u>
LIABILITIES:	
Other current liabilities	\$ 45,458
Total liabilities	<u>\$ 45,458</u>

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

1. Summary of Significant Accounting Policies

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (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 is a municipal corporation that 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.

As required by GAAP, these financial statements present the City and its component unit (Gladstone Urban Renewal Agency), an entity for which the City 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 within the City's financial statements. The Gladstone Urban Renewal Agency has a June 30 year-end. 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's financial report.

North Clackamas County Water Commission

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. The City reports its participation in the joint venture on the equity method, consistent with GAAP (see Note 6).

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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

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.

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.

GAAP 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 supplementary information.

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.

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.

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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 support the costs of additional police personnel.

The *Civic Buildings Capital Fund* accounts for resources accumulated and expended for land and other capital costs associated with acquisition or construction of City buildings.

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 fund is an agency fund. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. The City reports the *Municipal Court Trust Fund* as a fiduciary 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. 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, long-term compensated absences are recorded only when payment is due.

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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 operations 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 may 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. 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 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 basic financial statements.

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.

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 an original 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.

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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.

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 of 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 in the General Fund used for those balances not assigned to another category. Deficit balances in other governmental funds are also reported as unassigned.

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.

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.”

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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 government-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 capital assets are recorded at their acquisition value.

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, 2017.

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation included in the balances reported 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 GAAP for joint ventures. Under the equity method, the investment in the joint venture is increased or decreased by the City's equity in the increase or decrease in the net position of the joint venture. Profit on operating transactions between the City and the joint venture is eliminated in the calculation of this equity interest. Non-operating transactions increase or decrease the investment in the joint venture.

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.

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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.

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, 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 available. The City also reports deferred inflows of resources 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 capital-related debt. Net investment in capital assets does not include the

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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). The remaining net position is considered unrestricted.

R. Accounting Estimates

The preparation of financial statements in conformity with GAAP 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 estimates.

2. Cash and Investments

At June 30, 2017 investments of the City consist of the following:

	Weighted Average Maturity (Years)	Fair Value
Investments in the State Treasurer’s Local Government Investment Pool	0.00	\$ 14,597,348
Municipal bond	10.80	38,675
		<u>\$ 14,636,023</u>

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.

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 City does not have a deposit policy addressing 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

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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, 2017, the book value of the City’s deposits was \$343,404 and the bank balance was \$479,047. None of the City’s bank balances were exposed to custodial credit risk as they were fully insured or 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, 2017, 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.

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	\$ 280,956	\$ 82,477
State Revenue Sharing Fund	-	1,047,121
Road & Street Fund	170,086	62,308
Urban Renewal Agency Fund	-	94,246
Police & Communications		
Special Levy Fund	-	14,120
Civic Buildings Capital Fund	984,848	-
Fire & Emergency Services		
Levy Fund	-	5,935
Proprietary Funds		
Water Fund	-	45,828
Sewer Fund	-	83,855
	<u>\$ 1,435,890</u>	<u>\$ 1,435,890</u>

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5. Capital Assets

Capital asset activity for the year ended June 30, 2017 is as follows:

Primary Government	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, non-depreciable:				
Land	\$ 5,519,830	\$ 978,276	\$ -	\$ 6,498,106
Construction in progress	-	-	-	-
Total capital assets, non-deprec	5,519,830	978,276	-	6,498,106
Capital assets, depreciable:				
Intangible assets	70,436	-	-	70,436
Buildings, structures and improve	4,857,751	48,603	-	4,906,354
Equipment	1,333,803	33,148	-	1,366,951
Vehicles	3,371,310	380,358	(33,865)	3,717,803
Infrastructure	4,060,334	-	-	4,060,334
Total capital assets, depreciable	13,693,634	462,109	(33,865)	14,121,878
Total assets	19,213,464	1,440,385	(33,865)	20,619,984
Less accum depreciation for:				
Intangible assets	(45,941)	(13,429)	-	(59,370)
Buildings, structures and improve	(1,722,025)	(88,033)	-	(1,810,058)
Equipment	(1,268,229)	(24,344)	-	(1,292,573)
Vehicles	(2,667,629)	(186,897)	33,865	(2,820,661)
Infrastructure	(845,822)	(102,385)	-	(948,207)
Total accumulated depreciation	(6,549,646)	(415,088)	33,865	(6,930,869)
Net depreciable capital assets	7,143,988	47,021	-	7,191,009
Net capital assets	\$12,663,818	\$1,025,297	\$ -	\$13,689,115

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

Governmental activities:	
General government	\$ 30,563
Public safety	167,917
Roads and highways	122,995
Culture and recreations	<u>93,613</u>
Total depreciation expense - gov't activities	<u>\$ 415,088</u>

<u>Business-type activities Totals</u>	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Capital Assets, non-depreciable:				
Land	\$ 640,964	\$ -	\$ -	\$ 640,964
Total capital assets, non-depreciable	<u>640,964</u>	<u>-</u>	<u>-</u>	<u>640,964</u>
Capital assets, depreciable:				
Buildings	299,113	-	-	299,113
Equipment	155,650	5,467	-	161,117
Vehicles	125,991	34,944	(30,150)	130,785
Infrastructure	<u>10,894,770</u>	<u>-</u>	<u>-</u>	<u>10,894,770</u>
Total capital assets, depreciable	<u>11,475,524</u>	<u>40,411</u>	<u>(30,150)</u>	<u>11,485,785</u>
Total	12,116,488	40,411	(30,150)	12,126,749
Less accumulated depreciation for:				
Buildings	(288,509)	(662)	-	(289,171)
Equipment	(155,650)	-	-	(155,650)
Vehicles	(122,543)	(3,183)	30,150	(95,576)
Infrastructure	<u>(5,481,271)</u>	<u>(236,200)</u>	<u>-</u>	<u>(5,717,471)</u>
Total accumulated depreciation	<u>(6,047,973)</u>	<u>(240,045)</u>	<u>30,150</u>	<u>(6,257,868)</u>
Net depreciable capital assets	<u>5,427,551</u>	<u>(199,634)</u>	<u>-</u>	<u>5,227,917</u>
Net capital assets	<u>\$ 6,068,515</u>	<u>\$ (199,634)</u>	<u>\$ -</u>	<u>\$ 5,868,881</u>

Business-type activities:

Water	\$ 162,004
Sewer	<u>78,041</u>
Total depreciation expense - Business Activities	<u>\$ 240,045</u>

6. Joint Venture

The City is a member of the North Clackamas County Water Commission, a joint venture in which the City has a ten percent interest and the Sunrise Water Authority and the Oak Lodge Water Services District hold 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

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(which became the Sunrise Water Authority) and the Oak Lodge Water Services 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 Services District in 2004 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 Services District select 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, 2017 was \$2,778,992. The current year operation of the Commission resulted in a net loss on investment to the City of \$15,674. The City had water purchases from the Commission of \$286,565 for the year ended June 30, 2017.

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 inflows of resources related to unavailable revenue presented on the Governmental Funds Balance Sheet as of June 30, 2017 consist of the following:

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	General Fund	Urban Renewal Fund	Police & Communications Special Levy Fund	Non-major Governmental Fund	Total
Property Taxes	<u>\$ 220,311</u>	<u>\$ 50,933</u>	<u>\$ 31,106</u>	<u>\$ 14,212</u>	<u>\$ 316,562</u>

8. Long Term Debt

A. Changes in General Long-Term Liabilities

During the year ended June 30, 2017, long-term liability activity was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Compensated Absences	<u>\$ 206,836</u>	<u>\$ 241,668</u>	<u>\$ (206,836)</u>	<u>\$ 241,668</u>	<u>\$ 241,668</u>
Business-type Activities					
Bonds	\$ 1,614,000	\$ -	\$ 141,000	\$ 1,473,000	\$ 150,000
Compensated Absences	31,616	31,478	(31,616)	31,478	31,478
Total Business-type Activities	<u>\$ 1,645,616</u>	<u>\$ 31,478</u>	<u>\$ 109,384</u>	<u>\$ 1,504,478</u>	<u>\$ 181,478</u>
Accrued Interest - Bonds payable					
	Previous Int Pmt Date	Amt of Next Int Payment	Date through which accrued	Days to Accrue	Accrued Interest
2015 FF&C Obligations	1/1/2017	14,583	6/30/2017	180	14,583

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.

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

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repaid from proprietary fund revenues. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

Business-type Activities

During 2015-2016, the City issued \$1,614,000 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.

Total bonds payable at June 30, 2017 \$ 1,473,000

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

Fiscal Year	Series 2015 Full Faith & Credit Obligation	
	Principal	Interest
2018	\$ 150,000	\$ 27,680
2019	153,000	24,681
2020	155,000	21,632
2021	162,000	18,493
2022	165,000	15,256
2023-26	688,000	27,522
	<u>\$ 1,473,000</u>	<u>\$ 135,264</u>

9. 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.

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 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. The COLA is capped at 2.0 percent.

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, 2017 were \$354,011, excluding amounts to fund employer specific liabilities. The rates in effect for the fiscal year ended June 30, 2017 were 16.11 percent for Tier One/Tier Two General Service Member, 16.11 percent for Tier One/Tier Two Police and Fire, 8.20 percent for OPSRP Pension Program General Service Members, 12.31 percent for OPSRP Pension Program Police and Fire Members, and 6.00 percent for OPSRP Individual Account Program.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

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

At June 30, 2017, the City reported a liability of \$5,602,675 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to June 30, 2016. 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, 2016, the City's proportion was 0.0373 percent, which was increased from its proportion of 0.0332 measured as of June 30, 2015.

For the year ended June 30, 2017, the City's recognized pension expense (income) of \$683,440. At June 30, 2017, 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	\$ 185,361	\$ -
Changes of assumptions	1,194,916	-
Net difference between projected and actual earnings on investments	1,106,854	-
Changes in proportion	253,151	-
Differences between employer contributions and proportionate share of contributions	-	88,168
Total (prior to post-MD contributions)	<u>2,740,282</u>	<u>88,168</u>
Contributions subsequent to the MD	<u>354,011</u>	<u>-</u>
Total	<u>\$ 3,094,293</u>	<u>\$ 88,168</u>

\$354,011 Reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$477,636
2019	477,636
2020	885,819
2021	693,912
2022	<u>117,112</u>
Total	<u>\$2,652,115</u>

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

E. Actuarial Assumptions

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

For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	December 31, 2014
Measurement Date	June 30, 2016
Experience Study Report	2014, published September 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Inflation Rate	2.50 percent
Long-Term Expected Rate of Return	7.50 percent
Discount Rate	7.50 percent
Projected Salary Increases	3.50 percent overall payroll growth
Cost of Living Adjustments (COLA)	Blend of 2.00% COLA and grade COLA (1.25%/0.15%) in accordance with <i>Moro</i> decision, blend based on service.
Mortality	Health retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale BB, 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 (70% for males, 95% for females) of the RP-2000 Sex-distinct, generational per Scale BB, disabled
At its September 25, 2015 meeting, the PERS Board reduced the assumed rate of return on investments from 7.75 percent to 7.5 percent	

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

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 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>

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Compounded Annual Return (Geometric)</u>
Core Fixed Income	8.00%	4.00%
Short-Term Bonds	8.00%	3.61%
Bank/Leveraged Loans	3.00%	5.42%
High Yield Bonds	1.00%	6.20%
Large/Mid Cap US Equities	15.75%	6.70%
Small Cap US Equities	1.30%	6.99%
Micro Cap US Equities	1.30%	7.01%
Developed Foreign Equities	13.13%	6.73%
Emerging Foreign Equities	4.12%	7.25%
Non-US Small Cap Equities	1.88%	7.22%
Private Equities	17.50%	7.97%
Real Estate (Property)	10.00%	5.84%
Real Estate (REITS)	2.50%	6.69%
Hedge Fund of Funds - Diversified	2.50%	4.64%
Hedge Fund - Event-Driven	0.63%	6.72%
Timber	1.88%	5.85%
Farmland	1.88%	6.37%
Infrastructure	3.75%	7.13%
Commodities	1.88%	4.58%
	<hr/>	
Total	<u>100.00%</u>	
Assumed Inflation - Mean		2.50%

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 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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

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

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 7.50 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 (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
City's proportionate share of the net pension liability (asset)	\$ 9,046,452	\$ 5,602,675	\$ 2,724,280

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

There were no changes during the June 30, 2016 measurement period that require disclosure.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

L. Changes in Plan Provisions Subsequent to Measurement Date

On July 28, 2017, subsequent to the June 30, 2016 measurement date, the OPERS Board lowered the assumed rate to 7.20 percent. The current assumed rate is 7.50 percent and has been in effect for member transactions since January 1, 2016. The new rate will took effect January 1, 2018. The effect on the City has not been determined at this time.

10. 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, 2017 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

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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

The annual OPEB cost and net OPEB obligation at June 30, 2017 is as follows:

Annual Required Contribution (ARC)	\$ 49,063
Interest on Net OPEB Obligation	9,168
Adjustment to ARC	<u>(8,186)</u>
Annual OPEB cost	50,045
Contributions made	<u>(36,353)</u>
Increase in Net OPEB Obligation	13,692
Net OPEB Obligation – beginning of year	<u>229,202</u>
Net OPEB Obligation – end of year	<u>\$ 242,894</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
6/30/2017	\$ 50,045	73%	\$ 242,894
6/30/2016	48,357	86%	229,202
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 \$469,331 and also equaled the unfunded actuarial accrued liability (UAAL). The annual payroll of active employees covered by the plan (covered payroll) was \$3,142,527 and the ratio of the UAAL to the covered payroll was 14.9%.

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 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.

11. 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, 2017 equaled the required contributions.

12. 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.
- The City or the service districts may terminate the agreements upon 30 to 180 days notice.

Payments of \$1,495,575 were made to the service districts during fiscal year 2017 under these agreements.

13. 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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

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 2016 to 2017. 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.

14. 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, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 3,662,855	\$ 3,662,855	\$ 3,850,869	\$ 188,014
Public service taxes	165,000	165,000	193,529	28,529
Franchise taxes	450,500	450,500	651,891	201,391
Grants	239,469	239,469	208,081	(31,388)
Charges for services	25,500	25,500	55,515	30,015
Licenses and permits	133,800	133,800	147,887	14,087
Fines and forfeitures	220,000	220,000	345,251	125,251
Special assessments	695,196	695,196	700,159	4,963
Contributions and donations	31,000	31,000	15,986	(15,014)
Interest	30,000	30,000	94,591	64,591
Miscellaneous	257,000	257,000	94,440	(162,560)
Total revenues	<u>5,910,320</u>	<u>5,910,320</u>	<u>6,358,199</u>	<u>447,879</u>
EXPENDITURES:				
General government	1,344,085	1,775,585	1,952,264	(176,679)
Public safety	3,459,066	3,549,066	3,509,986	39,080
Cultural and recreation	1,503,442	1,381,942	1,356,324	25,618
Capital outlay	1,970,383	1,970,383	419,242	1,551,141
Contingency	400,000	-	-	-
Total expenditures	<u>8,676,976</u>	<u>8,676,976</u>	<u>7,237,816</u>	<u>1,439,160</u>
Revenues over (under) expenditures	(2,766,656)	(2,766,656)	(879,617)	1,887,039
OTHER FINANCING SOURCES (USES):				
Transfers in	229,437	229,437	280,956	51,519
Transfers out	-	-	(82,477)	(82,477)
Total other financing sources (uses)	<u>229,437</u>	<u>229,437</u>	<u>198,479</u>	<u>(30,958)</u>
Net changes in fund balances	(2,537,219)	(2,537,219)	(681,138)	1,856,081
FUND BALANCES, BEGINNING	<u>3,750,000</u>	<u>3,750,000</u>	<u>3,833,062</u>	<u>83,062</u>
FUND BALANCES, ENDING	<u>\$ 1,212,781</u>	<u>\$ 1,212,781</u>	<u>\$ 3,151,924</u>	<u>\$ 1,939,143</u>

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, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Public service taxes	\$ 105,000	\$ 105,000	\$ 139,553	\$ 34,553
Interest	3,400	3,400	4,156	756
Total revenues	<u>108,400</u>	<u>108,400</u>	<u>143,709</u>	<u>35,309</u>
EXPENDITURES:				
Capital outlay	<u>43,400</u>	<u>43,400</u>	<u>-</u>	<u>43,400</u>
Total expenditures	<u>43,400</u>	<u>43,400</u>	<u>-</u>	<u>43,400</u>
Revenues over (under) expenditures	65,000	65,000	143,709	78,709
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(995,000)</u>	<u>(995,000)</u>	<u>(1,047,121)</u>	<u>(52,121)</u>
Total other financing sources (uses)	<u>(995,000)</u>	<u>(995,000)</u>	<u>(1,047,121)</u>	<u>(52,121)</u>
Net changes in fund balances	(930,000)	(930,000)	(903,412)	26,588
FUND BALANCES, BEGINNING	<u>930,000</u>	<u>930,000</u>	<u>903,412</u>	<u>(26,588)</u>
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Public service taxes	\$ 630,000	\$ 630,000	\$ 693,528	\$ 63,528
Special assessments	10,000	10,000	63,121	53,121
Miscellaneous	15,000	15,000	60,706	45,706
Total revenues	<u>655,000</u>	<u>655,000</u>	<u>817,355</u>	<u>162,355</u>
EXPENDITURES:				
Personnel service	231,285	231,285	218,700	12,585
Materials and service	272,000	272,000	164,375	107,625
Capital outlay	698,922	698,922	123,706	575,216
Contingency	100,000	100,000	-	100,000
Total expenditures	<u>1,302,207</u>	<u>1,302,207</u>	<u>506,781</u>	<u>795,426</u>
Revenues over (under) expenditures	(647,207)	(647,207)	310,574	957,781
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	170,086	170,086
Transfers out	(62,308)	(62,308)	(62,308)	-
Total other financing sources (uses)	<u>(62,308)</u>	<u>(62,308)</u>	<u>107,778</u>	<u>170,086</u>
Net changes in fund balances	(709,515)	(709,515)	418,352	1,127,867
FUND BALANCES, BEGINNING	<u>709,515</u>	<u>709,515</u>	<u>822,929</u>	<u>113,414</u>
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,241,281</u>	<u>\$ 1,241,281</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, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 818,500	\$ 818,500	\$ 854,591	\$ 36,091
Interest	25,000	25,000	71,238	46,238
Total revenues	843,500	843,500	925,829	82,329
EXPENDITURES:				
Materials and service	56,000	56,000	13,325	42,675
Capital outlay	2,051,200	2,051,200	-	2,051,200
Total expenditures	2,107,200	2,107,200	13,325	2,093,875
Revenues over (under) expenditures	(1,263,700)	(1,263,700)	912,504	2,176,204
OTHER FINANCING SOURCES (USES):				
Transfers out	(4,500,000)	(4,500,000)	(94,246)	4,405,754
Total other financing sources (uses)	(4,500,000)	(4,500,000)	(94,246)	4,405,754
Net changes in fund balances	(5,763,700)	(5,763,700)	818,258	6,581,958
FUND BALANCES, BEGINNING	5,763,700	5,763,700	5,744,523	(19,177)
FUND BALANCES, ENDING	\$ -	\$ -	\$ 6,562,781	\$ 6,562,781

**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, 2017**

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 550,705	\$ 550,705	\$ 543,435	\$ (7,270)
Interest	2,600	2,600	4,345	1,745
Total revenues	553,305	553,305	547,780	(5,525)
EXPENDITURES:				
Personnel service	340,650	340,650	351,495	(10,845)
Materials and service	3,500	3,500	963	2,537
Capital outlay	125,000	125,000	120,165	4,835
Total expenditures	469,150	469,150	472,623	(3,473)
Revenues over (under) expenditures	84,155	84,155	75,157	(8,998)
OTHER FINANCING SOURCES (USES):				
Transfers out	(14,120)	(14,120)	(14,120)	-
Total other financing sources (uses)	(14,120)	(14,120)	(14,120)	-
Net changes in fund balances	70,035	70,035	61,037	(8,998)
FUND BALANCES, BEGINNING	267,845	267,845	240,835	(27,010)
FUND BALANCES, ENDING	<u>\$ 337,880</u>	<u>\$ 337,880</u>	<u>\$ 301,872</u>	<u>\$ (36,008)</u>

CITY OF GLADSTONE, OREGON
SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFITS
June 30, 2017

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%
7/1/2015	-	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 Four Fiscal Years

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
2017	0.03732050%	\$ 5,602,675	\$ 3,028,865	184.98%	80.53%
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 actuarially 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 Four Fiscal Years

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
2017	\$ 354,011	\$ 354,011	\$ -	\$ 3,530,528	10.03%
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 actuarially 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, 2017

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, 2017. Appropriations lapse as of year-end.

Expenditures in the following fund exceeded appropriations for the year ended June 30, 2017:

<u>Fund</u>	<u>Budget Category</u>	<u>Amount of over Expenditure</u>
General Fund	General Government	\$176,679
General Fund	Police Department	54,328
General Fund	Transfers Out	82,477
Police and Communication Fund	Personnel Service	10,845
State Revenue Sharing Fund	Transfers Out	52,121
Civic Buildings Capital Fund	Materials and Service	33,430
Water Fund	Transfers Out	30,729
Sewer Fund	Transfers Out	56,880

B. Deficit Fund Balances

The Civic Building Capital Fund had a deficit budgetary ending fund balance of \$46.

C. 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. Senate Bill 822 lowered the COLA from 2% to 1.5% for

CITY OF GLADSTONE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2017

recipients who do not pay Oregon income tax because they are not residents of Oregon.

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.

D. Changes of Assumptions

Details and a comprehensive list of changes in methods and assumptions can be found in the 2012, 2014, and 2016 Experience Study for the System, which were published on September 18, 2013, September 23, 2015, and July 26, 2017. These reports can be found at:

<http://www.oregon.gov/PERS/Pages/Financials/Actuarial-Presentations-and-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 Funds

- Budgetary Comparison Schedules
 - Enterprise Funds

Special Revenue Fund

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

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.

Capital Projects Fund

These funds are used to account for financial resources to be used for the acquisition or construction of major capital items and facilities. The fund included in this category is:

Library Capital Fund

The Library Capital Fund accounts for the construction of the City's new library. The primary source of funds are debt proceeds or current Urban Renewal funds dedicated to the library design and construction.

Agency Fund

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. The fund included in this category is:

Municipal Court Trust Fund

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

CITY OF GLADSTONE, OREGON
AGENCY FUND
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
For the Fiscal Year Ended June 30, 2017

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2017</u>
Municipal Court Trust Fund				
Assets				
Cash	<u>\$ 45,269</u>	<u>\$ 24,110</u>	<u>\$ 23,921</u>	<u>\$ 45,458</u>
Liabilities				
Other current liabilities	<u>\$ 45,269</u>	<u>\$ 24,110</u>	<u>\$ 23,921</u>	<u>\$ 45,458</u>

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 Fund
 - Fire and Emergency Services Special Levy Fund
- Capital Project Fund - Nonmajor Governmental Fund
 - Library Capital Fund
- Capital Project Fund - Major Governmental Fund
 - Civic Building Capital Fund

CITY OF GLADSTONE, OREGON
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
General Administration:				
Personnel services	\$ 583,085	\$ 696,085	\$ 698,089	\$ (2,004)
Materials and services	761,000	1,079,500	1,254,175	(174,675)
Subtotal	<u>1,344,085</u>	<u>1,775,585</u>	<u>1,952,264</u>	<u>(176,679)</u>
Municipal Court:				
Personnel services	116,500	121,000	121,529	(529) *
Materials and services	122,500	122,500	120,904	1,596
Subtotal	<u>239,000</u>	<u>243,500</u>	<u>242,433</u>	<u>1,067</u>
Police:				
Personnel services	1,843,666	1,929,166	1,982,507	(53,341)
Materials and services	381,500	381,500	382,487	(987)
Subtotal	<u>2,225,166</u>	<u>2,310,666</u>	<u>2,364,994</u>	<u>(54,328)</u>
Fire:				
Personnel services	593,400	593,400	584,634	8,766
Materials and services	401,500	401,500	317,925	83,575
Capital outlay	713,000	713,000	143,678	569,322
Subtotal	<u>1,707,900</u>	<u>1,707,900</u>	<u>1,046,237</u>	<u>661,663</u>
Parks:				
Personnel services	200,650	200,650	198,039	2,611
Materials and services	178,300	178,300	170,139	8,161
Capital outlay	416,228	416,228	137,605	278,623
Subtotal	<u>795,178</u>	<u>795,178</u>	<u>505,783</u>	<u>289,395</u>
Recreation:				
Personnel services	27,361	27,361	30,531	(3,170) *
Materials and services	32,300	32,300	25,933	6,367
Subtotal	<u>59,661</u>	<u>59,661</u>	<u>56,464</u>	<u>3,197</u>
Senior Center:				
Personnel services	262,440	190,940	192,675	(1,735) *
Materials and services	32,800	52,800	60,515	(7,715) *
Capital outlay	147,959	147,959	137,959	10,000
Subtotal	<u>443,199</u>	<u>391,699</u>	<u>391,149</u>	<u>550</u>
Library:				
Personnel services	588,459	518,459	521,258	(2,799) *
Materials and services	181,132	181,132	157,234	23,898
Capital outlay	693,196	693,196	-	693,196
Subtotal	<u>1,462,787</u>	<u>1,392,787</u>	<u>678,492</u>	<u>714,295</u>
Total expenditures	<u>\$ 8,276,976</u>	<u>\$ 8,676,976</u>	<u>\$ 7,237,816</u>	<u>\$ 1,439,160</u>

* Appropriation level is at the department level for the General Fund

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, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 250,365	\$ 250,365	\$ 247,820	\$ (2,545)
Interest	2,500	2,500	5,246	2,746
Total revenues	<u>252,865</u>	<u>252,865</u>	<u>253,066</u>	<u>201</u>
EXPENDITURES:				
Personnel service	147,700	147,700	139,286	8,414
Materials and service	40,000	40,000	38,054	1,946
Capital outlay	415,000	415,000	40,431	374,569
Total expenditures	<u>602,700</u>	<u>602,700</u>	<u>217,771</u>	<u>384,929</u>
Revenues over (under) expenditures	<u>(349,835)</u>	<u>(349,835)</u>	<u>35,295</u>	<u>385,130</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(5,935)</u>	<u>(5,935)</u>	<u>(5,935)</u>	<u>-</u>
Total other financing sources (uses)	<u>(5,935)</u>	<u>(5,935)</u>	<u>(5,935)</u>	<u>-</u>
Net changes in fund balances	<u>(355,770)</u>	<u>(355,770)</u>	<u>29,360</u>	<u>385,130</u>
FUND BALANCES, BEGINNING	<u>390,000</u>	<u>390,000</u>	<u>391,988</u>	<u>1,988</u>
FUND BALANCES, ENDING	<u>\$ 34,230</u>	<u>\$ 34,230</u>	<u>\$ 421,348</u>	<u>\$ 387,118</u>

CITY OF GLADSTONE, OREGON
LIBRARY CAPITAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Contributions and donations	\$ 2,375,000	\$ 2,375,000	\$ -	\$ (2,375,000)
Interest	-	-	-	-
Total revenues	<u>2,375,000</u>	<u>2,375,000</u>	<u>-</u>	<u>(2,375,000)</u>
EXPENDITURES:				
Capital outlay	5,380,000	5,380,000	-	5,380,000
Contingency	388,196	388,196	-	388,196
Total expenditures	<u>5,768,196</u>	<u>5,768,196</u>	<u>-</u>	<u>5,768,196</u>
Revenues over (under) expenditures	<u>(3,393,196)</u>	<u>(3,393,196)</u>	<u>-</u>	<u>3,393,196</u>
OTHER FINANCING SOURCES (USES):				
Issuance of debt	2,700,000	2,700,000	-	(2,700,000)
Transfers in	693,196	693,196	-	(693,196)
Total other financing sources (uses)	<u>3,393,196</u>	<u>3,393,196</u>	<u>-</u>	<u>(3,393,196)</u>
FUND BALANCES, BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF GLADSTONE, OREGON
CIVIC BUILDINGS CAPITAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Interest	\$ 80,000	\$ 80,000	\$ -	\$ (80,000)
Total revenues	80,000	80,000	-	(80,000)
EXPENDITURES:				
Materials and service	-	-	33,430	(33,430)
Capital outlay	11,470,000	11,470,000	951,464	10,518,536
Total expenditures	11,470,000	11,470,000	984,894	10,485,106
Revenues over (under) expenditures	(11,390,000)	(11,390,000)	(984,894)	10,405,106
OTHER FINANCING SOURCES (USES):				
Issuance of debt	3,000,000	3,000,000	-	(3,000,000)
Proceeds of sale of surplus property	3,000,000	3,000,000	-	(3,000,000)
Transfers in	5,390,000	5,390,000	984,848	(4,405,152)
Total other financing sources (uses)	11,390,000	11,390,000	984,848	(10,405,152)
Net changes in fund balances	-	-	(46)	(46)
FUND BALANCES, BEGINNING	-	-	-	-
FUND BALANCES, ENDING	\$ -	\$ -	\$ (46)	\$ (46)

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, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Service charges	\$ 1,276,000	\$ 1,276,000	\$ 1,140,794	\$ (135,206)
Connection and installation fees	12,000	12,000	355	(11,645)
System development charges	20,000	20,000	33,949	13,949
Miscellaneous	30,000	30,000	15,987	(14,013)
Total revenues	1,338,000	1,338,000	1,191,085	(146,915)
EXPENDITURES:				
Personnel service	409,745	409,745	218,153	191,592
Materials and service	724,500	724,500	558,465	166,035
Capital outlay	1,313,094	1,313,094	50,705	1,262,389
Debt service:				
Principal	141,000	141,000	141,000	-
Interest	30,562	30,562	30,561	1
Contingency	200,000	200,000	-	200,000
Total expenditures	2,818,901	2,818,901	998,884	1,820,017
Revenues over (under) expenditures	(1,480,901)	(1,480,901)	192,201	1,673,102
OTHER FINANCING SOURCES (USES):				
Transfers out	(15,099)	(15,099)	(45,828)	(30,729)
Total other financing sources (uses)	(15,099)	(15,099)	(45,828)	(30,729)
Net changes in fund balances	(1,496,000)	(1,496,000)	146,373	1,642,373
FUND BALANCE, BEGINNING- BUDGETARY BASIS	1,496,000	1,496,000	1,869,970	373,970
FUND BALANCES, ENDING - BUDGETARY BASIS	\$ -	\$ -	\$ 2,016,343	\$ 2,016,343
			Revenues	Expenditures/ Expenses
Total revenue and expenditures above			\$ 1,191,085	\$ 998,884
Operating transfers in/out			-	45,828
Debt service principal payments			-	(141,000)
Depreciation expense			-	162,004
Accrued interest payable			-	(1,396)
Equity in net income/loss of joint venture			(15,674)	-
Total revenues and expenses - generally accepted accounting principles			\$ 1,175,411	1,064,320
Change in net position				\$ 111,091

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, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Service charge	\$ 2,072,000	\$ 2,072,000	\$ 2,081,786	\$ 9,786
Connection and installation fees	10,000	10,000	11,768	1,768
System development charge	1,000	1,000	5,601	4,601
Miscellaneous	1,000	1,000	3,159	2,159
Total revenues	<u>2,084,000</u>	<u>2,084,000</u>	<u>2,102,314</u>	<u>18,314</u>
EXPENDITURES:				
Personnel service	300,175	300,175	367,088	(66,913) *
Materials and service	1,922,990	1,922,990	1,791,544	131,446
Capital outlay	1,183,860	1,183,860	175,195	1,008,665
Contingency	200,000	200,000	-	200,000
Total expenditures	<u>3,607,025</u>	<u>3,607,025</u>	<u>2,333,827</u>	<u>1,273,198</u>
Revenues over (under) expenditures	(1,523,025)	(1,523,025)	(231,513)	1,291,512
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(26,975)</u>	<u>(26,975)</u>	<u>(83,855)</u>	<u>(56,880)</u>
Total other financing sources (uses)	<u>(26,975)</u>	<u>(26,975)</u>	<u>(83,855)</u>	<u>(56,880)</u>
Net changes in fund balances	(1,550,000)	(1,550,000)	(315,368)	1,234,632
FUND BALANCE - BEGINNING BUDGETARY	1,550,000	<u>1,550,000</u>	<u>1,502,526</u>	<u>(47,474)</u>
FUND BALANCE - ENDING BUDGETARY BASIS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,187,158</u>	<u>\$ 1,187,158</u>
			<u>Revenues</u>	<u>Expenditures</u>
Total revenue and expenditures above			\$ 2,102,314	\$ 2,333,827
Operating transfers in/out			-	83,855
Expenditures capitalized			-	(34,944)
Depreciation and amortization expense			-	78,041
Total revenues and expenses - generally accepted accounting principles			<u>\$ 2,102,314</u>	<u>2,460,779</u>
Change in net position				<u>\$ (358,465)</u>

* Exception to Oregon Budget Law

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *OREGON STATE REGULATION***

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH OREGON STATE REGULATION**

Honorable Mayor and City Council
City of Gladstone, Oregon

We have audited the basic financial statements of City of Gladstone, Oregon, as of and for the year ended June 30, 2017 and have issued our report thereon dated March 19, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minimum Standards of Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State.

Compliance

As part of obtaining reasonable assurance about whether 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 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:

- 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.

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. In connection with our testing, nothing came to our attention that caused us to believe 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. The City was out of compliance with Oregon budget law, with the following exceptions:
 - a. Prior year actual resources and requirements on the City's budget document do not match the amounts reported in prior year's audited financial statements.
 - b. The approved budget resolution for the General Fund does not match the budget document and is not appropriated by department as required.

- c. Expenditures in the following fund exceeded appropriations for the year ended June 30, 2017:

<u>Fund</u>	<u>Budget Category</u>	<u>Amount of over Expenditure</u>
General Fund	General Government	\$176,679
General Fund	Police Department	54,328
General Fund	Transfers Out	82,477
Police and Communication Fund	Personnel Service	10,845
State Revenue Sharing Fund	Transfers Out	52,121
Civic Buildings Capital Fund	Materials and Service	33,430
Water Fund	Transfers Out	30,729
Sewer Fund	Transfers Out	56,880

2. The Civic Building Capital Fund had a deficit budgetary ending fund balance of \$46.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered 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 City of Gladstone, Oregon's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control and have communicated them in a separate letter to management dated March 19, 2018 that we consider to be a material weakness 2017-01.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Minimum Standards of Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State, in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



For Merina & Company, LLP
West Linn, Oregon
March 19, 2018