

CITY OF GLADSTONE, OREGON

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

For the Fiscal Year Ended

June 30, 2018

with

Independent Auditor's Report

MERINA
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7624 SW MOHAWK STREET • TUALATIN, OR 97062
PHONE: (503) 723-0300 • FAX: (503) 723-9946 • WWW.MERINA.COM

CITY OF GLADSTONE, OREGON
TABLE OF CONTENTS

Page

INTRODUCTORY SECTION

City Officials..... i

FINANCIAL SECTION

Independent Auditor’s Report.....1
Management’s Discussion and Analysis4

Basic Financial Statements.....11

Government-Wide Financial Statements:

Statement of Net Position.....12
Statement of Activities13

Fund Financial Statements:.....15

Governmental Funds:

Balance Sheet.....16
Statement of Revenues, Expenditures, and Changes in Fund Balances.....18
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances to the Statement of Activities20

Proprietary Funds:21

Statement of Net Position.....22
Statement of Revenues, Expenses, and Changes in Net Position23
Statement of Cash Flows.....24

Fiduciary Funds:.....25

Statement of Fiduciary Net Position26

Notes to the Basic Financial Statements.....27

Required Supplementary Information58

Budgetary Comparison Schedules:

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:

General Fund59
Road and Street Fund60
Police and Communications Special Levy Fund.....61
Fire and Emergency Services Special Levy Fund.....62
Urban Renewal Agency Fund63

Schedule of the Proportionate Share of the Net Pension Liability64

Schedule of Contributions - Pension.....65

Schedule of Proportionate Share of the Net OPEB Liability(Asset)66

Schedule of Contributions – Retirement Health Insurance.....67

Schedule of Contributions – Implicit Rate Subsidy.....68

Schedule of the City’s Changes in the Total OPEB Liability and Related Ratios69

Notes to the Required Supplementary Information70

Other Supplementary Information73

Agency Fund Schedule of Changes in Assets and Liabilities74

Budgetary Comparison Schedules:75

CITY OF GLADSTONE, OREGON
TABLE OF CONTENTS

	<u>Page</u>
Schedule of Expenditures – Budget and Actual – General Fund	76
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual:	
Capital Project Funds – Non-major Governmental Funds:	
Library Capital Fund	77
Capital Project Funds – Major Governmental Funds:	
Civic Buildings Capital Fund	78
Enterprise Funds:.....	79
Water Fund	80
Sewer Fund.....	81
Storm Water Fund	82
<u>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 Regulations</u>	83

INTRODUCTORY SECTION

CITY OF GLADSTONE, OREGON

CITY OFFICIALS

June 30, 2018

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

THIS PAGE INTENTIONALLY LEFT BLANK

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Council Members
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, 2018, 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 21 percent and 26 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 14 to the financial statements, the City of Gladstone adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 supplementary 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, the schedule of proportionate share of the net pension liability, schedule of contributions - pension, schedule of proportionate share of the net OPEB liability(asset), schedule of contributions – retirement health insurance, schedule of contributions – implicit rate subsidy, and schedule of the City's changes in the total OPEB liability and related ratios, 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.

Supplementary and 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 January 30, 2019, 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
Tualatin, Oregon
January 30, 2019

June 30, 2018
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, 2018.

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 \$34,531,011 (net position). Of this amount, \$19,034,532 is the City's net investment in capital assets, \$9,671,367 is restricted for specific purposes, and \$5,825,112 (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 increased by \$1,575,868 from the prior year.

The City's governmental activities reported total net position of \$24,193,690. Of this amount \$1,218,751 is unrestricted and thus available for spending at the City's discretion.

The City's business-type activities reported total net position of \$10,337,321. Of this amount \$4,606,361 is unrestricted and thus available for spending at the City's discretion.

The City's governmental funds reported combined ending fund balances of \$13,103,946, an increase of \$1,424,786 compared to the prior year. The increase is primarily due to capital reserves for use in future years.

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, sewer and storm water 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 six 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, Road and Street Fund, Police and Communications Special Levy Fund, Fire and Emergency Services Special Levy Fund, Urban Renewal Agency Fund, and Civic Buildings Capital Fund. All of these funds are considered to be major funds. The Library Capital Fund, included in the previous year's statements, was closed and only appears in the other supplementary information section for budgetary comparison.

Proprietary Funds. Proprietary funds represent three segments of operations, water, sewer, and storm water, 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 special revenue funds is presented immediately following the notes to the basic financial statements.

Other Supplementary Information. The schedules for the other 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 \$34,531,011 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	
	2018	2017	2018	2017	2018	2017
Cash and investments	\$ 12,963,310	\$ 11,286,796	\$ 2,472,561	\$ 2,488,256	\$ 15,435,871	\$ 13,775,052
Restricted cash and investments	376,601	587,067	758,474	617,308	1,135,075	1,204,375
Other assets	637,488	513,851	3,292,134	3,340,281	3,929,622	3,854,132
Capital assets	14,062,046	13,689,115	6,295,486	5,868,881	20,357,532	19,557,996
Total assets	<u>28,039,445</u>	<u>26,076,829</u>	<u>12,818,655</u>	<u>12,314,726</u>	<u>40,858,100</u>	<u>38,391,555</u>
Deferred outflows	1,574,720	2,767,191	174,985	327,102	1,749,705	3,094,293
Total assets and deferred outflows of resources	<u>\$ 29,614,165</u>	<u>\$ 28,844,020</u>	<u>\$ 12,993,640</u>	<u>\$ 12,641,828</u>	<u>\$ 42,607,805</u>	<u>\$ 41,485,848</u>
Current liabilities	\$ 778,889	\$ 633,660	\$ 970,531	\$ 640,308	\$ 1,749,420	\$ 1,273,968
Long-term liabilities	4,123,566	5,228,732	1,628,225	1,939,837	5,751,791	7,168,569
Total liabilities	<u>4,902,455</u>	<u>5,862,392</u>	<u>2,598,756</u>	<u>2,580,145</u>	<u>7,501,211</u>	<u>8,442,537</u>
Deferred inflows	518,020	78,847	57,563	9,321	575,583	88,168
Net position						
Net investment in capital assets	14,062,046	13,689,115	4,972,486	4,395,881	19,034,532	18,084,996
Restricted	8,912,893	7,804,062	758,474	617,308	9,671,367	8,421,370
Unrestricted	<u>1,218,751</u>	<u>1,409,604</u>	<u>4,606,361</u>	<u>5,039,173</u>	<u>5,825,112</u>	<u>6,448,777</u>
Total net position	<u>24,193,690</u>	<u>22,902,781</u>	<u>10,337,321</u>	<u>10,052,362</u>	<u>34,531,011</u>	<u>32,955,143</u>
Total assets and deferred inflows of resources and net position	<u>\$ 29,614,165</u>	<u>\$ 28,844,020</u>	<u>\$ 12,993,640</u>	<u>\$ 12,641,828</u>	<u>\$ 42,607,805</u>	<u>\$ 41,485,848</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 \$5,825,112 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 2018 and 2017:

	Governmental and Proprietary Activities					
	<u>Governmental Activities</u>		<u>Business type Activities</u>		<u>Totals</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Receipts						
Program Receipts						
Charges for services	\$ 1,423,471	\$ 1,311,933	\$ 4,251,163	\$ 3,274,253	\$ 5,674,634	\$ 4,586,186
Operating grants and contributions	21,096	15,986	-	-	21,096	15,986
General receipts						
Property tax	5,781,299	5,505,396	-	-	5,781,299	5,505,396
Franchise fees and public service tax	2,197,496	1,678,501	-	-	2,197,496	1,678,501
Interest	291,896	179,576	-	-	291,896	179,576
Other	492,164	363,229	2,800	19,146	494,964	382,375
Total receipts	<u>\$ 10,207,422</u>	<u>\$ 9,054,621</u>	<u>\$ 4,253,963</u>	<u>\$ 3,293,399</u>	<u>\$ 14,461,385</u>	<u>\$ 12,348,020</u>
Expenses						
Governmental activities						
General government	\$ 1,664,515	\$ 2,499,999	\$ -	\$ -	\$ 1,664,515	\$ 2,499,999
Public safety	4,917,841	4,296,584	-	-	4,917,841	4,296,584
Highways and streets	649,629	755,293	-	-	649,629	755,293
Culture and recreation	1,556,141	1,549,966	-	-	1,556,141	1,549,966
Urban renewal	6,159	13,325	-	-	6,159	13,325
Business type activities						
Water	-	-	1,336,675	1,018,492	1,336,675	1,018,492
Sewer	-	-	2,012,248	2,376,924	2,012,248	2,376,924
Storm water	-	-	291,167	-	291,167	-
Total expenses	<u>\$ 8,794,285</u>	<u>\$ 9,115,167</u>	<u>\$ 3,640,090</u>	<u>\$ 3,395,416</u>	<u>\$ 12,434,375</u>	<u>\$ 12,510,583</u>
Change in net position before transfers	<u>1,413,137</u>	<u>(60,546)</u>	<u>613,873</u>	<u>(102,017)</u>	<u>2,027,010</u>	<u>(162,563)</u>
Transfers	\$ 257,810	\$ 129,683	\$ (257,810)	\$ (129,683)	\$ -	\$ -
Equity income (loss) in joint venture	-	-	(50,807)	(15,674)	(50,807)	(15,674)
Changes in net position	1,670,947	69,137	305,256	(247,374)	1,976,203	(178,237)
Beginning net position	22,902,781	22,833,644	10,052,362	10,299,736	32,955,143	33,133,380
Restatement	(380,038)	-	(20,297)	-	(400,335)	-
Beginning net position - restated	<u>22,522,743</u>	<u>22,833,644</u>	<u>10,032,065</u>	<u>10,299,736</u>	<u>32,554,808</u>	<u>33,133,380</u>
Ending net position	<u>\$ 24,193,690</u>	<u>\$ 22,902,781</u>	<u>\$ 10,337,321</u>	<u>\$ 10,052,362</u>	<u>\$ 34,531,011</u>	<u>\$ 32,955,143</u>

Governmental Activities. Governmental activities increased the City of Gladstone's net position by \$1,290,909.

Business-type Activities. Business-type activities increased the City of Gladstone's net position by \$284,959.

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 \$13,103,946.

	General Fund	Road and Street Fund	Police and Communications Special Levy Fund	Fire and Emergency Services Special Levy Fund	Urban Renewal Agency Fund	Civic Buildings Capital Fund	Total Governmental
Beginning Fund Balance	\$ 3,151,924	\$ 1,241,281	\$ 301,872	\$ 421,348	\$ 6,562,781	\$ (46)	\$ 11,679,160
Restatements (Note 9.C.11)*	(49,366)	(60,194)	(553)	(697)	-	-	(110,810)
Beginning Fund Balance-restated	3,102,558	1,181,087	301,319	420,651	6,562,781	(46)	11,568,350
Increase (decrease) - current year	476,074	344,664	(156,093)	4,932	828,361	37,658	1,535,596
Ending Fund Balance as of June 30, 2018	\$ 3,578,632	\$ 1,525,751	\$ 145,226	\$ 425,583	\$ 7,391,142	\$ 37,612	\$ 13,103,946

*restatement on the modified accrual basis

- General Fund increased 15.3 percent over the restated fund balance partially due to strong revenues in both property and public service taxes.
- Road and Street Fund increased due to reduced capital expenditure within the current year.
- Urban Renewal Fund increased 12.6 percent due to reserve of property taxes for capital use in future years for construction of the civic buildings.

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.

	Water Fund	Sewer Fund	Storm Water Fund	Total Business Type
Beginning Fund Balance	\$ 6,598,376	\$ 3,453,986	\$ -	\$ 10,052,362
Restatements (Note 9.C.11)*	(11,019)	(9,278)	-	(20,297)
Beginning Fund Balance-restated	6,587,357	3,444,708	-	10,032,065
Increase (decrease) - current year	110,670	122,927	71,659	305,256
Ending Fund Balance as of June 30, 2018	\$ 6,698,027	\$ 3,567,635	\$ 71,659	\$ 10,337,321

*restatements on the GAAP basis

- All business type funds had modest gains due to rate increases in user fees.

Budgetary Highlights

Changes to the city budget included appropriation from an object classification format to an organizational category, as permitted through a supplemental budget transfer process as outlined in ORS 294.456(3). Furthermore, a supplemental budget adjustment was completed for the General Fund and Police & Communication Special Levy Fund to recognize additional grant revenues received and associated appropriations.

Capital Assets and Debt Administration

The following tables compare capital assets and changes in capital assets as of June 30, 2018 and June 30, 2017:

	Capital Assets at Year End (Net of Depreciation)					
	Governmental Activities		Business type Activities		Total Government	
	2018	2017	2018	2017	2018	2017
Land	\$ 6,498,106	\$ 6,498,106	\$ 640,964	\$ 640,964	\$ 7,139,070	\$ 7,139,070
Buildings	3,158,635	3,096,296	9,280	9,942	3,167,915	3,106,238
Vehicles and Equipment	1,112,560	971,520	542,830	40,676	1,655,390	1,012,196
Intangible Assets	193,370	11,066	18,820	-	212,190	11,066
Infrastructure	3,099,375	3,112,127	5,083,592	5,177,299	8,182,967	8,289,426
Total	\$ 14,062,046	\$ 13,689,115	\$ 6,295,486	\$ 5,868,881	\$ 20,357,532	\$ 19,557,996

	Changes in Capital Assets					
	Governmental Activities		Business type Activities		Total Government	
	2018	2017	2018	2017	2018	2017
Beginning Balance	\$ 13,689,115	\$ 12,663,818	\$ 5,868,881	\$ 6,068,515	\$ 19,557,996	\$ 18,732,333
Additions	859,541	1,440,385	662,221	40,411	1,521,762	1,480,796
Depreciation	(484,203)	(415,088)	(235,616)	(240,045)	(719,819)	(655,133)
Deletions	(2,407)	-	-	-	(2,407)	-
Ending Balance	\$ 14,062,046	\$ 13,689,115	\$ 6,295,486	\$ 5,868,881	\$ 20,357,532	\$ 19,557,996

Long-term Debt. At June 30, 2018, the City had bonded debt outstanding of \$1,323,000 compared to \$1,464,000 at June 30, 2017. 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 \$45 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. However, infill development is occurring, along with the start of a formalized downtown revitalization.

Gladstone voters approved a new Civic Center Buildings ballot measure in November of 2015. This ballot measure allowed 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 facilities is \$13.3 million. Funding sources include urban renewal funds of \$6.5 million combined with long term debt of \$6.8 million. Design began in June, 2018 with an

estimated completion of construction in mid-2020.

The City will be entering the final year of the first biennium budget cycle (July 1, 2017 through June 30, 2019) to be utilized in Gladstone. The final fiscal year revenues are anticipated to exceed expenditures.

Requests for Information. The City's financial statements are designed to present to City taxpayers, customers, investors and creditors with a general overview of the finances and accountability of Gladstone. If you have any questions about the report, or need additional information, please contact Cathy Brucker, Interim Finance Director, at 525 Portland Ave., Gladstone, OR 97027; (503) 479-6860; or finance@ci.gladstone.or.us.

BASIC FINANCIAL STATEMENTS

BASIC FINANCIAL STATEMENTS

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

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

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

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF GLADSTONE, OREGON
STATEMENT OF NET POSITION
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Current assets:			
Cash and investments	\$ 12,945,598	\$ 2,472,561	\$ 15,418,159
Cash with county treasurer	17,712	-	17,712
Accounts receivable	234,070	560,587	794,657
Property tax receivable	363,201	-	363,201
Interest receivable	4,270	815	5,085
Prepaid expenses	35,947	-	35,947
Total current assets	<u>13,600,798</u>	<u>3,033,963</u>	<u>16,634,761</u>
Noncurrent assets:			
Restricted cash and investments	376,601	758,474	1,135,075
Assessments receivable	-	2,547	2,547
Investment in joint venture	-	2,728,185	2,728,185
Capital assets:			
Non depreciable	6,640,448	640,964	7,281,412
Depreciable, net	7,421,598	5,654,522	13,076,120
Total noncurrent assets	<u>14,438,647</u>	<u>9,784,692</u>	<u>24,223,339</u>
Total assets	<u>28,039,445</u>	<u>12,818,655</u>	<u>40,858,100</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflow related to pension	1,574,240	174,932	1,749,172
Deferred outflow related to opeb	480	53	533
Total deferred outflows of resources	<u>1,574,720</u>	<u>174,985</u>	<u>1,749,705</u>
Total assets and deferred outflows of resources	<u>\$ 29,614,165</u>	<u>\$ 12,993,640</u>	<u>\$ 42,607,805</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	\$ 441,883	\$ 727,048	\$ 1,168,931
Interest payable	-	13,098	13,098
Accrued compensated absences	251,268	35,844	287,112
Bonds payable - current maturity	-	153,000	153,000
Other current liabilities	85,738	41,541	127,279
Total current liabilities	<u>778,889</u>	<u>970,531</u>	<u>1,749,420</u>
Noncurrent liabilities:			
Net pension liability	3,623,550	402,652	4,026,202
OPEB liability	500,016	55,573	555,589
Noncurrent portion of long-term obligations	-	1,170,000	1,170,000
Total noncurrent liabilities	<u>4,123,566</u>	<u>1,628,225</u>	<u>5,751,791</u>
Total liabilities	<u>4,902,455</u>	<u>2,598,756</u>	<u>7,501,211</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflow related to pension	512,737	56,977	569,714
Deferred inflow related to opeb	5,283	586	5,869
Total deferred inflows of resources	<u>518,020</u>	<u>57,563</u>	<u>575,583</u>
NET POSITION:			
Net investment in capital assets	14,062,046	4,972,486	19,034,532
Restricted for:			
Street operations	1,521,751	-	1,521,751
System development	-	758,474	758,474
Urban Renewal development	7,391,142	-	7,391,142
Unrestricted	1,218,751	4,606,361	5,825,112
Total net position	<u>24,193,690</u>	<u>10,337,321</u>	<u>34,531,011</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 29,614,165</u>	<u>\$ 12,993,640</u>	<u>\$ 42,607,805</u>

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, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental activities:			
General government	\$ 1,664,515	\$ 1,014,856	\$ 21,096
Public safety	4,917,841	408,615	-
Highways and streets	649,629	-	-
Urban and renewal	6,159	-	-
Culture and recreation	1,556,141	-	-
Total governmental activities	<u>8,794,285</u>	<u>1,423,471</u>	<u>21,096</u>
Business-type activities:			
Water Fund	1,336,675	1,582,357	-
Sewer Fund	2,012,248	2,267,980	-
Storm Water Fund	291,167	400,826	-
Total business type activities	<u>3,640,090</u>	<u>4,251,163</u>	<u>-</u>
Total government	<u>\$ 12,434,375</u>	<u>\$ 5,674,634</u>	<u>\$ 21,096</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

 Cumulative effect of restatement

Net position - beginning as restated

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
\$ (628,563)	\$ -	\$ (628,563)
(4,509,226)	-	(4,509,226)
(649,629)	-	(649,629)
(6,159)	-	(6,159)
(1,556,141)	-	(1,556,141)
<u>(7,349,718)</u>	<u>-</u>	<u>(7,349,718)</u>
-	245,682	245,682
-	255,732	255,732
<u>-</u>	<u>109,659</u>	<u>109,659</u>
<u>-</u>	<u>611,073</u>	<u>611,073</u>
<u>(7,349,718)</u>	<u>611,073</u>	<u>(6,738,645)</u>
5,781,299	-	5,781,299
1,160,600	-	1,160,600
1,036,896	-	1,036,896
382,659	-	382,659
291,896	-	291,896
-	(50,807)	(50,807)
109,505	2,800	112,305
257,810	(257,810)	-
<u>9,020,665</u>	<u>(305,817)</u>	<u>8,714,848</u>
1,670,947	305,256	1,976,203
22,902,781	10,052,362	32,955,143
<u>(380,038)</u>	<u>(20,297)</u>	<u>(400,335)</u>
22,522,743	10,032,065	32,554,808
<u>\$ 24,193,690</u>	<u>\$ 10,337,321</u>	<u>\$ 34,531,011</u>

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.

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.

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.

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.

Civic Center Capital Project Fund

The Civic Center Capital Project Fund accounts for the construction of the City's new police station and city hall administration offices. The primary source of funding are dedicated debt proceeds and Urban Renewal funds.

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF GLADSTONE, OREGON
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2018

	General Fund	Road and Street Fund	Police and Communications Special Levy Fund
ASSETS:			
Cash and investments	\$ 3,555,080	\$ 1,338,656	\$ 141,502
Restricted cash and investments	-	376,601	-
Cash with county treasurer	12,421	-	1,753
Accounts receivable	176,700	-	-
Property taxes receivable	253,186	-	35,744
Interest Receivable	2,990	-	422
Due from other governments	57,370	-	-
Prepaid Expenses	35,947	-	-
Total assets	\$ 4,093,694	\$ 1,715,257	\$ 179,421
LIABILITIES:			
Accounts payable	\$ 190,221	\$ 188,911	\$ -
Other current liabilities	83,999	595	194
Total liabilities	274,220	189,506	194
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenues - property taxes	240,842	-	34,001
Total deferred inflows of resources	240,842	-	34,001
FUND BALANCES:			
Non-Spendable:			
Prepays	35,947	-	-
Restricted:			
Street operations	-	1,525,751	-
Civic Center Capital Project	-	-	-
Urban Renewal development	-	-	-
Assigned:			
Police services	-	-	145,226
Fire and emergency services	-	-	-
Unassigned	3,542,685	-	-
Total fund balance	3,578,632	1,525,751	145,226
Total liabilities, deferred inflows of resources and fund balance	\$ 4,093,694	\$ 1,715,257	\$ 179,421

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

OPEB 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.

Fire and Emergency Services Special Levy Fund	Urban Renewal Agency Fund	Civic Buildings Capital Fund	Total Governmental
\$ 425,120	\$ 7,385,250	\$ 99,990	\$ 12,945,598
-	-	-	376,601
800	2,738	-	17,712
-	-	-	176,700
16,301	57,970	-	363,201
191	665	-	4,268
-	-	-	57,370
-	-	-	35,947
<u>\$ 442,412</u>	<u>\$ 7,446,623</u>	<u>\$ 99,990</u>	<u>\$ 13,977,397</u>
\$ 373	\$ -	\$ 62,378	\$ 441,883
950	-	-	85,738
<u>1,323</u>	<u>-</u>	<u>62,378</u>	<u>527,621</u>
<u>15,506</u>	<u>55,481</u>	<u>-</u>	<u>345,830</u>
<u>15,506</u>	<u>55,481</u>	<u>-</u>	<u>345,830</u>
-	-	-	35,947
-	-	-	1,525,751
-	-	37,612	37,612
-	7,391,142	-	7,391,142
-	-	-	145,226
425,583	-	-	425,583
-	-	-	3,542,685
<u>425,583</u>	<u>7,391,142</u>	<u>37,612</u>	<u>13,103,946</u>
<u>\$ 442,412</u>	<u>\$ 7,446,623</u>	<u>\$ 99,990</u>	
			14,062,046
			(2,562,047)
			(504,819)
			345,832
			(251,268)
			<u>\$ 24,193,690</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, 2018

	General Fund	Road and Street Fund	Police and Communications Special Levy Fund
REVENUES:			
Property taxes	\$ 4,035,720	\$ -	\$ 569,721
Public service taxes	414,645	745,955	-
Franchise taxes	1,036,896	-	-
Grants	382,659	-	-
Charges for services	70,936	-	-
Licenses and permits	138,401	-	-
Fines and forfeitures	408,615	-	-
Special assessments	774,089	31,430	-
Contributions and donations	21,096	-	-
Interest	150,014	-	5,845
Miscellaneous	97,166	14,744	-
	<u>7,530,237</u>	<u>792,129</u>	<u>575,566</u>
Total revenues			
EXPENDITURES:			
Current:			
General government	1,570,977	-	-
Public safety	3,627,511	-	708,108
Highways and streets	-	427,308	-
Urban and renewal	-	-	-
Culture and recreation	1,418,479	-	-
Capital outlay	318,951	371,872	54,006
	<u>6,935,918</u>	<u>799,180</u>	<u>762,114</u>
Total expenditures			
Revenues over (under) expenditures	594,319	(7,051)	(186,548)
OTHER FINANCING SOURCES (USES):			
Transfers in	147,930	415,895	45,000
Transfers out	(266,175)	(64,180)	(14,545)
	<u>(118,245)</u>	<u>351,715</u>	<u>30,455</u>
Total other financing sources (uses)			
Net changes in fund balances	476,074	344,664	(156,093)
FUND BALANCES, BEGINNING	<u>3,102,558</u>	<u>1,181,087</u>	<u>301,319</u>
FUND BALANCES, ENDING	<u>\$ 3,578,632</u>	<u>\$ 1,525,751</u>	<u>\$ 145,226</u>

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

Fire and Emergency Services Special Levy Fund	Urban Renewal Agency Fund	Civic Buildings Capital Fund	Total Governmental
\$ 259,802	\$ 886,788	\$ -	\$ 5,752,031
-	-	-	1,160,600
-	-	-	1,036,896
-	-	-	382,659
-	-	-	70,936
-	-	-	138,401
-	-	-	408,615
-	-	-	805,519
-	-	-	21,096
8,305	127,732	-	291,896
-	-	-	111,910
<u>268,107</u>	<u>1,014,520</u>	<u>-</u>	<u>10,180,559</u>
-	-	-	1,570,977
221,463	-	-	4,557,082
-	-	-	427,308
-	6,159	-	6,159
-	-	-	1,418,479
<u>35,597</u>	<u>-</u>	<u>142,342</u>	<u>922,768</u>
<u>257,060</u>	<u>6,159</u>	<u>142,342</u>	<u>8,902,773</u>
11,047	1,008,361	(142,342)	1,277,786
-	-	180,000	788,825
<u>(6,115)</u>	<u>(180,000)</u>	<u>-</u>	<u>(531,015)</u>
<u>(6,115)</u>	<u>(180,000)</u>	<u>180,000</u>	<u>257,810</u>
4,932	828,361	37,658	1,535,596
<u>420,651</u>	<u>6,562,781</u>	<u>(46)</u>	<u>11,568,350</u>
<u>\$ 425,583</u>	<u>\$ 7,391,142</u>	<u>\$ 37,612</u>	<u>\$ 13,103,946</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, 2018

Amounts reported in the statement of activities are different because:

Net change in fund balances	\$ 1,535,596
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.	(239,983)
The statements of activities reports changes in OPEB liability as an expense, whereas these amounts are not reported in the fund statements.	(17,267)
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.	372,933
Some revenue reported in the statement of activities do not provide current financial resources in the governmental funds.	29,268
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(9,600)</u>
Change in net position of governmental activities	<u><u>\$ 1,670,947</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, 2018**

	Business-Type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Storm Water Fund	Total
ASSETS:				
Current assets:				
Cash and investments	\$ 1,560,780	\$ 777,004	\$ 134,777	\$ 2,472,561
Trade accounts receivable	169,792	360,459	30,336	560,587
Interest receivable	-	815	-	815
Total current assets	1,730,572	1,138,278	165,113	3,033,963
Noncurrent assets:				
Assessments receivable	-	2,547	-	2,547
Restricted cash	474,188	264,161	20,125	758,474
Investment in joint venture	2,728,185	-	-	2,728,185
Capital assets:				
Non-depreciable	129,414	511,550	-	640,964
Depreciable	3,336,069	2,179,585	138,868	5,654,522
Total noncurrent assets	6,667,856	2,957,843	158,993	9,784,692
Total assets	8,398,428	4,096,121	324,106	12,818,655
DEFERRED OUTFLOWS OF RESOURCES				
Pension	73,759	68,961	32,212	174,932
Other post employment	22	21	10	53
Total deferred outflows of resources	73,781	68,982	32,222	174,985
Total assets & deferred outflows of resources	\$ 8,472,209	\$ 4,165,103	\$ 356,328	\$ 12,993,640
LIABILITIES:				
Current liabilities:				
Accounts payable	\$ 209,975	\$ 328,269	\$ 188,804	\$ 727,048
Interest payable	13,098	-	-	13,098
Accrued payroll payable	765	1,954	-	2,719
Accrued compensated absences	1,978	32,832	1,034	35,844
Bonds payable - current maturity	153,000	-	-	153,000
Due to other agency (SDC pass-through)	-	30,992	-	30,992
Other	7,830	-	-	7,830
Total current liabilities	386,646	394,047	189,838	970,531
Noncurrent liabilities:				
OPEB liability	23,490	21,999	10,084	55,573
Bonds payable	1,170,000	-	-	1,170,000
Net pension liability	169,776	158,732	74,144	402,652
Total noncurrent liabilities	1,363,266	180,731	84,228	1,628,225
Total liabilities	1,749,912	574,778	274,066	2,598,756
DEFERRED INFLOWS OF RESOURCES				
Pension	24,024	22,461	10,492	56,977
Other post employment	246	229	111	586
Total deferred inflows of resources	24,270	22,690	10,603	57,563
NET POSITION:				
Net investment in capital assets	2,142,483	2,691,135	138,868	4,972,486
Restricted for:				
System development	474,188	264,161	20,125	758,474
Unrestricted	4,081,356	612,339	(87,334)	4,606,361
Total net position	6,698,027	3,567,635	71,659	10,337,321
Total liabilities, deferred inflows & net position	\$ 8,472,209	\$ 4,165,103	\$ 356,328	\$ 12,993,640

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, 2018

	Business-Type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Storm Water Fund	Total
OPERATING REVENUES:				
Service charges	\$ 1,464,303	\$ 2,161,781	\$ 344,322	\$ 3,970,406
Connection and installation fees	7,035	9,375	-	16,410
System development charge	111,019	96,824	56,504	264,347
Miscellaneous	100	2,700	-	2,800
	<u>1,582,457</u>	<u>2,270,680</u>	<u>400,826</u>	<u>4,253,963</u>
Total operating revenues				
OPERATING EXPENSES:				
Purchases	552,337	1,661,855	-	2,214,192
Salaries and fringe benefits	355,727	166,468	211,201	733,396
Contract charges	89,072	24,729	41,510	155,311
Connection turnovers	-	9,375	-	9,375
Maintenance and repairs	130,806	45,805	28,365	204,976
Utilities	17,163	1,639	724	19,526
Depreciation	144,570	90,574	472	235,616
Supplies	14,226	11,092	8,621	33,939
Miscellaneous	6,579	711	274	7,564
	<u>1,310,480</u>	<u>2,012,248</u>	<u>291,167</u>	<u>3,613,895</u>
Total operating expenses				
Operating income (loss)	271,977	258,432	109,659	640,068
NON-OPERATING REVENUES (EXPENSES):				
Interest expense	(26,195)	-	-	(26,195)
Gain (loss) in joint venture	(50,807)	-	-	(50,807)
	<u>(77,002)</u>	<u>-</u>	<u>-</u>	<u>(77,002)</u>
Total non-operating revenues (expenses)				
Income before transfers	194,975	258,432	109,659	563,066
TRANSFERS:				
Transfers in (out)	(84,305)	(135,505)	(38,000)	(257,810)
	<u>110,670</u>	<u>122,927</u>	<u>71,659</u>	<u>305,256</u>
Change in net position				
NET POSITION, BEGINNING	6,598,376	3,453,986	-	10,052,362
Restatement	(11,019)	(9,278)	-	(20,297)
NET POSITION, BEGINNING AS RESTATED	<u>6,587,357</u>	<u>3,444,708</u>	<u>-</u>	<u>10,032,065</u>
NET POSITION, ENDING	<u>\$ 6,698,027</u>	<u>\$ 3,567,635</u>	<u>\$ 71,659</u>	<u>\$ 10,337,321</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, 2018

	Business-Type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Storm Water Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 1,569,261	\$ 2,316,465	\$ 370,490	\$ 4,256,216
Cash paid to employees for salaries and benefits	(297,953)	(239,053)	(147,558)	(684,564)
Cash paid to suppliers and others	(675,087)	(1,770,226)	109,310	(2,336,003)
Net cash provided by operating activities	596,221	307,186	332,242	1,235,649
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Transfers in (out)	(84,305)	(135,505)	(38,000)	(257,810)
Net cash provided (used) by non-capital financing activities	(76,475)	(135,505)	(38,000)	(249,980)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchase of capital assets	(166,778)	(356,103)	(139,340)	(662,221)
Principal paid on capital debt	(150,000)	-	-	(150,000)
Interest paid on capital debt	(27,680)	-	-	(27,680)
Net cash used by capital and related financing activities	(344,458)	(356,103)	(139,340)	(839,901)
Net increase in cash and cash equivalents	175,288	(184,422)	154,902	145,768
CASH AND CASH EQUIVALENTS, BEGINNING	1,859,680	1,225,587	-	3,085,267
CASH AND CASH EQUIVALENTS, ENDING	\$ 2,034,968	\$ 1,041,165	\$ 154,902	\$ 3,231,035
COMPRISED AS FOLLOWS:				
Unrestricted	\$ 1,560,780	\$ 777,004	\$ 134,777	\$ 2,472,561
Restricted	474,188	264,161	20,125	758,474
Total cash and cash equivalents	\$ 2,034,968	\$ 1,041,165	\$ 154,902	\$ 3,231,035
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income (loss)	\$ 271,977	\$ 258,432	\$ 109,659	\$ 640,068
Adjustments:				
Depreciation	144,570	90,574	472	235,616
Decrease (increase) in:				
Accounts receivable	12,883	14,793	(30,336)	(2,660)
Deferred outflows related to pension	13,140	171,199	(32,222)	152,117
Increase (decrease) in:				
Accounts payable and accrued expenses	135,095	(15,020)	188,804	308,879
Other liabilities	(26,078)	30,992		4,914
Accrued compensated absences	(919)	6,970	1,034	7,085
Deferred inflows related to pension	21,793	15,846	10,603	48,242
Pension liability	12,392	(276,151)	74,144	(189,615)
OPEB obligation	11,368	9,551	10,084	31,003
Net cash provided by operating activities	\$ 596,221	\$ 307,186	\$ 332,242	\$ 1,235,649
NON-CASH CAPITAL FINANCING ACTIVITIES				
NON-CASH INFORMATION:				
Increase (decrease) in joint venture	\$ (50,807)	\$ -	\$ -	\$ (50,807)

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, 2018

	<u>Agency Funds</u>
ASSETS:	
Cash and investments	<u>\$ 50,924</u>
LIABILITIES:	
Other current liabilities	<u>\$ 50,924</u>
NET POSITION:	
Unassigned	<u> -</u>
Total liabilities and net position	<u>\$ 50,924</u>

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

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, 2018

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 all governmental funds as major 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 *Road and Street Fund* accounts for revenues from state gasoline taxes apportioned from the State of Oregon.

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

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

The *Fire and Emergency Services 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 fire personnel and equipment purchases.

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 three 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*
- *Storm Water 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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

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, Sewer and Storm Water Funds are charges to customers for sales and services. The Water, Sewer and Storm Water 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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

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.”

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

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 estimated fair market value at the time received.

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

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest costs were capitalized during the year ended June 30, 2018.

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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

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, Sewer Fund and Storm Water 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 two items that qualify for reporting in this category, the deferred amounts relating to pensions and other post-employment benefits. These amounts are deferred and recognized as an outflow of resources in the period when the City's recognizes these expenses/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 three 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 and other post-employment benefits. These amounts are deferred and recognized as an inflow of resources in the period when the City's recognizes pension and other post-employment benefits 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. Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's two separate plans, the Implicit Rate Subsidy and Oregon Public Employees Retirement

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Systems (OPERS), and additions to/deductions from Implicit Rate Subsidy and OPERS's fiduciary net position have been determined on the same basis as they are reported by Implicit Rate Subsidy and OPERS. For this purpose, Implicit Rate Subsidy and OPERS recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

R. 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 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.

S. 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, 2018 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	\$ 15,932,518
Municipal bond	9.80	38,819
		<u>\$ 15,971,337</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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

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 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, 2018, the book value of the City's deposits was \$581,352 and the bank balance was \$690,325. 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, 2018, the City had no investments exposed to custodial credit risk.

F. Restricted Deposits

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

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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

4. Interfund Transfers

Transfers between funds during the year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds		
General Fund	\$ 147,930	\$ 266,175
Road & Street Fund	415,895	64,180
Police / Communications Fund	45,000	14,545
Fire / Emergency Services Fund	-	6,115
Urban Renewal Fund	-	180,000
Civic Buildings	180,000	-
Total Governmental Funds	<u>788,825</u>	<u>531,015</u>
Proprietary Funds		
Sewer Fund	-	135,505
Water Fund	-	84,305
Storm Water Fund	-	38,000
Total Proprietary Funds	<u>-</u>	<u>257,810</u>
Total All Funds	<u>\$ 788,825</u>	<u>\$ 788,825</u>

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

5. Capital Assets

Capital asset activity for the year ended June 30, 2018 is as follows:

Primary Government	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, non-depreciable:				
Land	\$ 6,498,106	\$ -	\$ -	\$ 6,498,106
Construction in progress	-	142,342	-	142,342
Total capital assets, non-depreciable	6,498,106	142,342	-	6,640,448
Capital assets, depreciable:				
Intangible assets	70,436	212,947	-	283,383
Buildings, structures and improve	4,906,354	7,433	-	4,913,787
Equipment	1,366,951	57,513	(17,562)	1,406,902
Vehicles	3,717,803	348,740	(483,365)	3,583,178
Infrastructure	4,060,334	90,566	-	4,150,900
Total capital assets, depreciable	14,121,878	717,199	(500,927)	14,338,150
Total assets	20,619,984	859,541	(500,927)	20,978,598
Less accumulated depreciation for:				
Intangible assets	(59,370)	(30,643)	-	(90,013)
Buildings, structures and improve	(1,810,058)	(87,436)	-	(1,897,494)
Equipment	(1,292,573)	(45,296)	17,562	(1,320,307)
Vehicles	(2,820,661)	(217,510)	480,958	(2,557,213)
Infrastructure	(948,207)	(103,318)	-	(1,051,525)
Total accumulated depreciation	(6,930,869)	(484,203)	498,520	(6,916,552)
Net depreciable capital assets	7,191,009	232,996	(2,407)	7,421,598
Net capital assets	\$ 13,689,115	\$ 375,338	\$ (2,407)	\$ 14,062,046

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

Governmental activities:	
General government	\$ 51,492
Public safety	192,630
Roads and highways	146,423
Culture and recreation	93,658
Total depreciation expense	<u>\$ 484,203</u>

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

<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:				
Intangible assets	-	21,658	-	21,658
Buildings	299,113	-	-	299,113
Equipment	161,117	15,513	(5,994)	170,636
Vehicles	130,785	506,330	-	637,115
Infrastructure	10,894,770	118,720	-	11,013,490
Total capital assets, depreciable	<u>11,485,785</u>	<u>662,221</u>	<u>(5,994)</u>	<u>12,142,012</u>
Total	12,126,749	662,221	(5,994)	12,782,976
Less accumulated depreciation for:				
Intangible assets	-	(2,838)	-	(2,838)
Buildings	(289,171)	(662)	-	(289,833)
Equipment	(155,650)	(1,655)	5,994	(151,311)
Vehicles	(95,576)	(18,034)	-	(113,610)
Infrastructure	(5,717,471)	(212,427)	-	(5,929,898)
Total accumulated depreciation	<u>(6,257,868)</u>	<u>(235,616)</u>	<u>5,994</u>	<u>(6,487,490)</u>
Net depreciable capital assets	<u>5,227,917</u>	<u>426,605</u>	<u>-</u>	<u>5,654,522</u>
Net capital assets	<u>\$ 5,868,881</u>	<u>\$ 426,605</u>	<u>\$ -</u>	<u>\$ 6,295,486</u>

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Business-type activities:	
Water	\$144,570
Sewer	90,574
Storm Water	472
Total depreciation expense - Business Activities	<u>\$235,616</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 (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, 2018 was \$2,728,185. The current year operation of the Commission resulted in a net loss on investment to the City of \$50,807. The City had water purchases from the Commission of \$533,899 for the year ended June 30, 2018.

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

7. Deferred Inflows of Resources

Deferred inflows of resources related to unavailable revenue presented on the Governmental Funds Balance Sheet as of June 30, 2018 consist of the following:

	General Fund	Urban Renewal Fund	Police & Communications Special Levy Fund	Fire & Emergency Services Special Levy Fund	Total
Property Taxes	\$ 240,842	\$ 55,481	\$ 34,001	\$ 15,506	\$ 345,830

8. Long Term Debt

A. Changes in General Long-Term Liabilities

During the year ended June 30, 2018, long-term liability activity was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Compensated Absences	\$ 241,668	\$ 251,268	\$ (241,668)	\$ 251,268	\$ 251,268
Business-type Activities					
Bonds	\$ 1,473,000	\$ -	\$ 150,000	\$ 1,323,000	\$ 153,000
Compensated Absences	31,478	35,844	(31,478)	35,844	35,844
Total Business-type Activities	\$ 1,504,478	\$ 35,844	\$ 118,522	\$ 1,358,844	\$ 188,844

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	1/1/2018	13,098	6/30/2018	180	13,098

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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

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 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, 2018 \$ 1,323,000

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

Fiscal Year	Series 2015 Full Faith & Credit Obligation	
	Principal	Interest
2019	\$ 153,000	\$ 24,681
2020	155,000	21,632
2021	162,000	18,493
2022	165,000	15,256
2023	166,000	11,979
2024-26	522,000	15,543
	\$ 1,323,000	\$ 107,584

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, 2015 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, 2017. Employer contributions for the year ended June 30, 2018 were \$542,067, excluding amounts to fund employer specific liabilities. The rates in effect for the fiscal year ended June 30, 2018 were 19.19 percent for Tier One/Tier Two General Service Member, 19.19 percent for Tier One/Tier Two Police and Fire, 10.00 percent for OPSRP Pension Program General Service Members, 14.77 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, 2018

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

At June 30, 2018, the City reported a liability of \$4,026,202 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 rolled forward to June 30, 2017. 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, 2017, the City's proportion was 0.0299 percent, which was decreased from its proportion of 0.0373 measured as of June 30, 2016.

For the year ended June 30, 2018, the City's recognized pension expense (income) of \$500,388. At June 30, 2018, 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	\$ 194,709	\$ -
Changes of assumptions	733,905	-
Net difference between projected and actual earnings on investments	41,479	-
Changes in proportion	192,261	504,764
Differences between employer contributions and proportionate share of contributions	44,750	64,950
Total (prior to post-MD contributions)	<u>1,207,104</u>	<u>569,714</u>
Contributions subsequent to the MD	<u>542,068</u>	-
Total	<u>\$ 1,749,172</u>	<u>\$ 569,714</u>

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

<u>Deferred Outflows</u>		<u>Deferred Inflows</u>	
Amortization Period		Amortization Period	
FY2019	\$ 248,019	FY2019	\$ 137,937
FY2020	574,612	FY2020	137,839
FY2021	413,752	FY2021	130,191
FY2022	(50,101)	FY2022	117,858
FY2023	20,822	FY2023	45,889
Total	<u>\$ 1,207,104</u>	Total	<u>\$ 569,714</u>

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

E. Actuarial Assumptions

The employer contribution rates effective July 1, 2017, through June 30, 2019 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, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	December 31, 2015
Measurement Date	June 30, 2017
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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

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.

Asset Class/Strategy	Assumed Asset Allocation		
	Low Range	High Range	Target
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	14.0%	21.0%	17.5%
Real Estate	9.5%	15.5%	12.5%
Alternative Equity	0.0%	12.5%	12.5%
Opportunity Portfolio	0.0%	3.0%	0.0%
Total			<u>100.0%</u>

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

<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%
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.
- 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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

- 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)	\$ 6,861,383	\$ 4,026,202	\$ 1,655,465

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.

L. Changes in Plan Provisions Subsequent to Measurement Date

On July 28, 2017, the OPERS Board lowered the assumed rate from 7.50 percent to 7.20 percent. The new rate will take effect January 1, 2018, and will increase the net pension liability in future periods.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

10. Post Employment Benefits Other than Pensions

The other postemployment benefits (OPEB) for the City combines two separate plans. The City provides an implicit rate subsidy for retiree health insurance premiums, and a contribution to the State of Oregon’s PERS cost-sharing multiple-employer defined health insurance benefit plan.

A. Financial Statement Presentation

The City’s two OPEB plans are presented in the aggregate on the Statement of Net Position. The amounts on the financial statements relate to the plans as follows:

	<u>Implicit Rate Subsidy Plan</u>	<u>PERS RHIA Plan</u>	<u>Total OPEB on Financials</u>
Total OPEB asset*	\$ -	\$ 12,675	\$ 12,675
Deferred outflows of resources			
Change in proportionate share	-	533	533
Net OPEB liability*	(568,264)	-	(568,264)
Deferred inflows of resources			
Difference in earnings	-	(5,869)	(5,869)
OPEB Expense (Income)*	34,040	14,854	48,894
*presented on net basis on Statement of Activities			

B. Implicit Rate Subsidy

1. Plan Description

The City’s single-employer defined benefit postemployment healthcare plan is administered by CityCounty Insurance Services (CIS). Benefit provisions are established through negotiations between the City and representatives of collective bargaining units or through resolutions passed by City Council. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

The City’s postemployment healthcare plan administrator issues a publicly available financial report that includes financial statements and required supplementary information for CIS. This report may be obtained through their website at: <https://www.cisoregon.org/About/TrustDocs>.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

2. Benefits Provided

The plan provides eligible retirees and their dependents under age 65 the same health care coverage at the same premium rates as offered to active employees. The retiree is responsible for the premiums. As of the valuation date of July 1, 2017, the following employees were covered by the benefit terms:

Active employees	102
Inactive employees or beneficiaries receiving benefits	<u>4</u>
	<u><u>106</u></u>

3. Total OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The City’s total OPEB liability of \$568,264 was measured as of June 30, 2018, and was determined by an actuarial valuation as of July 1, 2017.

For the fiscal year ended June 30, 2018, the City recognized OPEB expense from this plan of \$34,040. At June 30, 2018, the City reported no deferred outflows of resources and deferred inflows of resources related to this OPEB plan.

4. Actuarial Assumptions and Other Inputs

The total OPEB liability in the July 1, 2018 valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method	Entry age normal
General inflation	2.5 percent per year
Salary scale	3.5 percent per year
Mortality rates	RP2014-employee/healthy annuitant, sex distinct, generational. Blended 50% white collar/50% blue collar, males set back 12 months.
Discount rate	3.5 percent based on all years discounted at municipal bond rate.
Healthcare cost trend rate	Medical: 4.25 percent per year, decreasing to 3.25 percent per year.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

5. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance as of June 30, 2017	\$ 534,224
Changes for the year:	
Service cost	37,095
Interest on total OPEB liability	18,962
Benefit payments	(22,017)
Balance as of June 30, 2018	<u>\$ 568,264</u>

6. Sensitivity of the Total OPEB Liability

The following presents the City's OPEB liability, as well as what the liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.5 percent) or 1-percentage-point higher (4.5 percent) than the current discount rate. A similar sensitivity analysis is then presented for changes in the healthcare trend assumption.

Discount Rate:	<u>1% Decrease (2.5%)</u>	Current Discount Rate <u>(3.5%)</u>	<u>1% Increase (4.5%)</u>
Total OPEB liability	\$ 611,631	\$ 568,264	\$ 527,975

Healthcare cost trend:	<u>1% Decrease (5.4% down to 4.0%)</u>	Current Trend Rate <u>(6.4% down to 5.0%)</u>	<u>1% Increase (7.4% down to 6.0%)</u>
Total OPEB liability	\$ 509,617	\$ 568,264	\$ 636,757

C. PERS Retirement Health Insurance Account

1. Plan Description

The City contributes to the PERS Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing multiple-employer defined benefit other postemployment benefit plan administered by PERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums for eligible retirees. ORS 238.420 established this trust fund. Authority to establish and amend the benefit provisions of RHIA reside with the Oregon Legislature. The plan is closed to new entrants hired after August 29, 2003. PERS issues publicly available 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, or online at http://Oregon.gov/PERS/section/financial_reports/financials.shtml.

2. Benefits Provided

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

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 from the RHIA established by the employer, and any monthly cost in excess of \$60 shall be paid by the eligible retired member in the manner provided in ORS 238.410. To be eligible to receive this monthly payment toward the premium cost, the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in a PERS-sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

3. Contributions

PERS funding policy provides for employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. Employer contribution rates for the period were based on the December 31, 2015 actuarial valuation. The rates based on a percentage of payroll, first became effective July 1, 2017. The City's contribution rates for the period were 0.50% for Tier One/Tier Two members, and 0.43% for OPSRP members. The City's total for the year ended June 30, 2018 contributions was \$16,415.

4. OPEB Assets, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the City reported an asset of \$12,675 for its proportionate share of the OPERS net OPEB asset. The net OPEB asset was measured as of June 30, 2017, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2015 rolled forward to June 30, 2017. The City's proportion of the net OPEB asset was based on the City's contributions to the RHIA program during the measurement period relative to contributions from all participating employers. At June 30, 2018, the City's proportionate share was 0.03037%, which is an increase from its proportion of 0.02768% as of June 30, 2017.

For the year ended June 30, 2018, the City recognized OPEB expense from this plan of \$14,854. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to this OPEB plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Net difference between projected and actual earning on investments	\$ -	\$ 5,869
Changes in proportionate share	533	-
	<u> </u>	<u> </u>
Total	<u>\$ 533</u>	<u>\$ 5,869</u>

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

The amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended June 30:</u>	
2019	\$ (1,267)
2020	(1,270)
2021	(1,331)
2022	(1,468)
2023	-
	<u>\$ (5,336)</u>

5. Actuarial Methods and Assumptions

The total OPEB asset in the December 31, 2015 actuarial valuation was determined using the actuarial methods and assumptions are the same as listed above in note 9 – Pension Plan.

Valuation Date	December 31, 2015
Measurement Date	June 30, 2017
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

Actuarial Assumptions and an additional assumption for healthcare cost trend rate ranging from 6.3% in 2016 to 4.4% in 2094.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

6. Long-Term Expected Rate of Return

Are the same as listed above in Note 9 – Pension Plan Long-term Expected Rate of Return.

7. Discount Rate

The discount rate used to measure the total OPEB liability was 7.50% for the RHIA Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the RHIA 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 RHIA Plan was applied to all periods of projected benefit payments to determine the total OPEB liability.

8. Sensitivity of the City’s proportionate share of the net OPEB liability (asset) to changes in the discount rate

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

Discount Rate:	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Total OPEB liability (asset)	\$ 1,767	\$ (12,675)	\$ (24,958)

9. OPEB Plan Fiduciary Net Position

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

10. Changes in Plan Provisions Subsequent to Measurement Date

The PERS Board lowered the Assumed Rate of Return from 7.50% to 7.20% on July 28, 2017. This change is effective January 1, 2018, and will decrease the net OPEB asset or increase the net OPEB liability in future periods. The effect on the City has not been determined.

11. Change in Accounting Principle

In implementing GASB Statement No. 75, the City has restated beginning net position in order to recognize the correct Total OPEB Liability for the City’s Implicit Rate Subsidy plan and to recognize the City’s proportionate share of the Net OPEB Asset of the Oregon Public Employees Retirement Systems (OPERS). The City had previously reported a Net OPEB Obligation in accordance with GASB Statement No. 45 related to the Implicit Rate Subsidy plan, which has been replaced with the Total OPEB Liability. Other restatements were necessary to properly record accrued payroll payable and remove uncleared receivable balances resulting from the system conversion during the previous fiscal year.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

	Governmental Activities	Business Type Activities	Total
Net Position - beginning (as originally reported)	\$ 22,902,781	\$ 10,052,362	\$ 32,955,143
Change due to implementation of GASB No. 75	(269,228)	(19,778)	(289,006)
Change due to restatement for accrued wages payable	(21,536)	(519)	(22,055)
Change due to uncleared receivable balances from system conversion	(89,274)	-	(89,274)
Net Position - beginning (as restated)	<u>\$ 22,522,743</u>	<u>\$ 10,032,065</u>	<u>\$ 32,554,808</u>

10. 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 \$1,661,854 were made to the service districts during fiscal year 2018 under these agreements.

11. Risk Management

The City is exposed to various risks of loss related to torts; theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. Except for unemployment compensation, the City purchases commercial insurance to minimize its exposure to these risks. There has been no reduction in commercial insurance coverage from fiscal year 2017 to 2018. 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.

12. 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.

13. Subsequent events

On July 13, 2018 the City entered into two agreements to finance the design and construction of a new City Hall and Police Facility. The total amount of financing was \$6,800,000, with \$3,000,000 provided by a full faith and credit agreement guaranteed by the City, and \$3,800,000 provided by a note with the Urban Renewal District. Funds will be combined with existing Urban Renewal Agency cash for a total budget of \$13,300,000. Design began in June 2018 with an estimated completion date of Summer, 2020.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

On July 19, 2018 the City received payment on the sale of surplus land for the amount of \$149,090. The sale will be reflected as a reduction of land within the Water Fund in the year ending June 30, 2019.

14. Accounting Pronouncements

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was issued June 2015. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This statement is currently effective.

THIS PAGE INTENTIONALLY LEFT BLANK

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
 - Road and Street Fund
 - Police and Communications Special Levy Fund
 - Fire and Emergency Services Special Levy Fund
 - Urban Renewal Agency Fund

- Schedule of the Proportionate Share of the Net Pension Liability

- Schedule of Retirement Plan Contributions

- Schedule of the Proportionate Share of the Net OPEB Liability (Asset)

- Schedule of OPEB Plan 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, 2018

	Budget for the 2018-2019 Biennium		Actual	Variance with
	Original	Final	1st Year FY 2017-18	Final Budget
REVENUES:				
Property taxes	\$ 7,855,791	\$ 7,855,791	\$ 4,035,720	\$ (3,820,071)
Public service taxes	434,000	434,000	414,645	(19,355)
Right of way fees	1,747,500	1,747,500	1,036,896	(710,604)
Grants	66,800	518,135	382,659	(135,476)
Charges for services	187,200	187,200	70,936	(116,264)
Licenses and permits	258,400	258,400	138,401	(119,999)
Fines and forfeitures	635,400	635,400	408,615	(226,785)
Special assessments	1,461,370	1,461,370	774,089	(687,281)
Contributions and donations	10,665	10,665	21,096	10,431
Interest	135,000	135,000	150,014	15,014
Miscellaneous	323,000	323,000	97,166	(225,834)
Total revenues	13,115,126	13,566,461	7,530,237	(6,036,224)
EXPENDITURES:				
General government	3,572,055	3,664,555	1,570,977	2,093,578
Public safety	8,099,153	8,205,821	3,627,511	4,578,310
Cultural and recreation	3,087,490	3,087,490	1,418,479	1,669,011
Capital outlay	1,398,959	1,698,626	318,951	1,379,675
Contingency	800,000	800,000	-	800,000
Total expenditures	16,957,657	17,456,492	6,935,918	10,520,574
Revenues over (under) expenditures	(3,842,531)	(3,890,031)	594,319	4,484,350
OTHER FINANCING SOURCES (USES):				
Transfers in	350,320	350,320	147,930	(202,390)
Transfers out	(442,350)	(487,350)	(266,175)	221,175
Total other financing sources (uses)	(92,030)	(137,030)	(118,245)	18,785
Net changes in fund balances	(3,934,561)	(4,027,061)	476,074	4,503,135
FUND BALANCES, BEGINNING	7,600,000	7,600,000	3,102,558	(4,497,442)
FUND BALANCES, ENDING	\$ 3,665,439	\$ 3,572,939	\$ 3,578,632	\$ 5,693

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, 2018

	Budget for the 2018-2019 Biennium		Actual	Variance with
	Original	Final	1st Year FY 2017-18	Final Budget
REVENUES:				
Public service taxes	\$ 1,350,000	\$ 1,350,000	\$ 745,955	\$ (604,045)
Special assessments	20,000	20,000	31,430	11,430
Miscellaneous	55,000	55,000	14,744	(40,256)
Total revenues	1,425,000	1,425,000	792,129	(632,871)
EXPENDITURES:				
Personnel service	570,010	570,010	264,308	305,702
Materials and service	1,061,500	1,061,500	163,000	898,500
Capital outlay	1,938,550	1,938,550	371,872	1,566,678
Contingency	350,000	350,000	-	350,000
Total expenditures	3,920,060	3,920,060	799,180	3,120,880
Revenues over (under) expenditures	(2,495,060)	(2,495,060)	(7,051)	2,488,009
OTHER FINANCING SOURCES (USES):				
Transfers in	860,345	860,345	415,895	(444,450)
Transfers out	(130,285)	(130,285)	(64,180)	66,105
Total other financing sources (uses)	730,060	730,060	351,715	(378,345)
Net changes in fund balances	(1,765,000)	(1,765,000)	344,664	2,109,664
FUND BALANCES, BEGINNING	1,765,000	1,765,000	1,181,087	(583,913)
FUND BALANCES, ENDING	\$ -	\$ -	\$ 1,525,751	\$ 1,525,751

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, 2018

	Budget for the 2018-2019 Biennium		Actual	Variance with
	Original	Final	1st Year FY 2017-18	Final Budget
REVENUES:				
Property taxes	\$ 1,264,250	\$ 1,264,250	\$ 569,721	\$ (694,529)
Interest	7,500	7,500	5,845	(1,655)
Total revenues	1,271,750	1,271,750	575,566	(696,184)
EXPENDITURES:				
Personnel service	1,230,275	1,230,275	554,831	675,444
Materials and service	291,000	291,000	153,277	137,723
Capital outlay	10,000	55,000	54,006	994
Contingency	724,555	724,555	-	724,555
Total expenditures	2,255,830	2,300,830	762,114	1,538,716
Revenues over (under) expenditures	(984,080)	(1,029,080)	(186,548)	842,532
OTHER FINANCING SOURCES (USES):				
Transfers in	-	45,000	45,000	-
Transfers out	(29,535)	(29,535)	(14,545)	14,990
Total other financing sources (uses)	(29,535)	15,465	30,455	14,990
Net changes in fund balances	(1,013,615)	(1,013,615)	(156,093)	857,522
FUND BALANCES, BEGINNING	1,013,615	1,013,615	301,319	(712,296)
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145,226</u>	<u>\$ 145,226</u>

CITY OF GLADSTONE, OREGON
FIRE AND EMERGENCY SERVICES SPECIAL LEVY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2018

	Budget for the 2018-2019 Biennium		Actual	Variance with
	Original	Final	1st Year FY 2017-18	Final Budget
REVENUES:				
Property taxes	\$ 555,046	\$ 555,046	\$ 259,802	\$ (295,244)
Interest	8,500	8,500	8,305	(195)
Total revenues	563,546	563,546	268,107	(295,439)
EXPENDITURES:				
Personnel service	389,825	389,825	170,335	219,490
Materials and service	90,000	90,000	51,128	38,872
Capital outlay	455,000	455,000	35,597	419,403
Contingency	34,306	34,306	-	34,306
Total expenditures	969,131	969,131	257,060	712,071
Revenues over (under) expenditures	(405,585)	(405,585)	11,047	416,632
OTHER FINANCING SOURCES (USES):				
Transfers out	(12,415)	(12,415)	(6,115)	6,300
Total other financing sources (uses)	(12,415)	(12,415)	(6,115)	6,300
Net changes in fund balances	(418,000)	(418,000)	4,932	422,932
FUND BALANCES, BEGINNING	418,000	418,000	420,651	2,651
FUND BALANCES, ENDING	\$ -	\$ -	\$ 425,583	\$ 425,583

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, 2018

	Budget for the 2018-2019 Biennium		Actual	Variance with
	Original	Final	1st Year FY 2017-18	Final Budget
REVENUES:				
Property taxes	\$ 1,638,500	\$ 1,638,500	\$ 886,788	\$ (751,712)
Interest	120,000	120,000	127,732	7,732
Total revenues	1,758,500	1,758,500	1,014,520	(743,980)
EXPENDITURES:				
District operations	-	525,000	6,159	518,841
Materials and service	225,000	-	-	-
Capital outlay	300,000	-	-	-
Contingency	3,842,700	3,842,700	-	3,842,700
Total expenditures	4,367,700	4,367,700	6,159	4,361,541
Revenues over (under) expenditures	(2,609,200)	(2,609,200)	1,008,361	3,617,561
OTHER FINANCING SOURCES (USES):				
Transfers out	(5,000,000)	(5,000,000)	(180,000)	4,820,000
Total other financing sources (uses)	(5,000,000)	(5,000,000)	(180,000)	4,820,000
Net changes in fund balances	(7,609,200)	(7,609,200)	828,361	8,437,561
FUND BALANCES, BEGINNING	7,609,200	7,609,200	6,562,781	(1,046,419)
FUND BALANCES, ENDING	\$ -	\$ -	\$ 7,391,142	\$ 7,391,142

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

Measurement Date 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	0.02986788%	\$ 4,026,202	\$ 3,530,528	114.04%	83.10%
2016	0.03732051%	5,602,675	3,028,865	184.98%	80.53%
2015	0.03322664%	1,907,695	3,142,527	60.71%	91.90%
2014	0.03075728%	(697,180)	3,152,443	-22.12%	103.60%
2013	0.03075728%	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 - PENSIONS
For the Last Five 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
2018	\$ 542,067	\$ 542,067	\$ -	\$ 3,992,008	13.58%
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, OREGON
SCHEDULE OF THE PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY (ASSET)
June 30, 2018

Oregon Public Employees Retirement System, Retirement Health Insurance Account

Measurement Date	(a) City's proportion of the net OPEB liability(asset)	(b) City's proportionate share of the net OPEB liability(asset)	(c) City's covered payroll	(b/c) City's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total OPEB liability
June 30, 2017	\$ -	\$ (12,675)	\$ 3,530,528	-0.36%	108.88%
June 30, 2016	-	7,516	3,028,865	0.25%	94.15%

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 - RETIREMENT HEALTH INSURANCE ACCOUNT
June 30, 2018

Oregon Public Employees Retirement System, Retirement Health Insurance Account

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
2018	\$ 16,415	\$ 16,415	-	\$ 3,992,008	0.41%

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 - IMPLICIT RATE SUBSIDY
June 30, 2018

Implicit Rate Subsidy Plan

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	\$ 22,017	\$ 22,017	-	\$ 3,530,328	0.62%
2018	23,363	23,363	-	3,992,008	0.59%

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 THE CITY'S CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
June 30, 2018

Implicit Rate Subsidy Plan

	2018
Total OPEB Liability - beginning	\$ 534,224
Service Cost	37,095
Interest	18,962
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions or other input	-
Benefit payments	(22,017)
Net Changes in OPEB Liability	34,040
Total OPEB Liability - end of year	\$ 568,264
 Estimated covered payroll	\$ 3,992,008
 Total OPEB Liability as a percentage of covered payroll	14.24%

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, 2018

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 division operations, operating 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, 2018. Appropriations lapse as of year-end.

No expenditures exceeded appropriation levels in the year ended June 30, 2018.

B. Deficit Fund Balance

At June 30, 2018, the Storm Water Fund had a deficit budgetary basis fund balance of (\$3,566).

C. Changes in Benefit Terms - Pension

The 2013 Oregon Legislature made a series of changes to PERS that lowered projected future benefit payments from the System. These changes included reductions to future Cost of Living Adjustments (COLA) made through Senate Bills 822 and 861. Senate Bill 822 also required the contribution rates scheduled to be in effect from July 2013 to June 2015 to be reduced. The Oregon Supreme Court decision in *Moro v. State of Oregon*, issued on April 30, 2015, reversed a significant portion of the reductions the 2013 Oregon Legislature made to future System Cost of Living Adjustments (COLA) through Senate Bills 822 and 861. This reversal increased the total pension liability as of June 30, 2015 compared to June 30, 2014 total pension liability.

D. Changes of Assumptions - Pension

The PERS Board adopted assumption changes that were used to measure the June 30, 2016 total pension liability. The changes include the lowering of the long-term expected rate of return to 7.50 percent and lowering of the assumed inflation to 2.50 percent. In addition, the healthy mortality assumption was changed to reflect an updated mortality improvement scale for all groups, and assumptions were updated for merit increases, unused sick leave, and vacation pay were updated.

CITY OF GLADSTONE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

E. Changes in Benefit Terms – OPEB (Oregon Public Employees Retirement System, Retirement Health Insurance Account)

There were no changes of benefit terms used to measure the June 30, 2018 net OPEB asset. The actuarial assumptions and methods used to set the actuarially determined contributions are as follows:

Actuarial valuation:	December 31, 2013
Effective:	July 2015 - June 2017
Actuarial cost method:	Entry Age Normal
Amortization method:	Level percentage of payroll
Asset valuation method:	Market value
Remaining amortization periods:	20 years
Actuarial assumptions	
Inflation rate	2.75 percent
Projected salary increases	3.75 percent
Investment rate of return	7.75 percent

F. Changes of Assumptions – OPEB (Oregon Public Employees Retirement System, Retirement Health Insurance Account)

The PERS Board reviews the discount rate in odd numbered years as part of the Boards adoption of actuarial methods and assumptions. That rate is then adopted in an administrative rule at the time the Board sets the new rate. On July 28, 2017, the PERS Board adopted a 7.2% assumed rate.

The PERS Board adopted assumption changes that were used to measure the June 30, 2016 total pension liability. The changes include the lowering of the long-term expected rate of return to 7.50 percent and lowering of the assumed inflation to 2.50 percent. In addition, the healthy mortality assumption was changed to reflect an updated mortality improvement scale for all groups, and assumptions were updated for merit increases, unused sick leave, and vacation pay were updated.

G. Changes of Benefit Terms – OPEB (Implicit Rate Subsidy Plan)

There were no changes of benefit terms used to measure the June 30, 2018 net OPEB liability.

CITY OF GLADSTONE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

H. Changes of Assumptions – OPEB (Implicit Rate Subsidy Plan)

The actuarial assumptions and methods used to set the actuarially determined contributions are as follows:

Actuarial valuation:	July 1, 2016
Effective:	July 2016 - June 2018
Actuarial cost method:	Entry Age Normal
Amortization method:	Level percentage of payroll, closed
Amortization period:	8.9 years
Asset valuation method:	Market value
Remaining amortization periods:	20 years
Actuarial assumptions	
Inflation rate	2.50 percent
Projected salary increases	3.50 percent
Investment rate of return	7.85 percent

THIS PAGE INTENTIONALLY LEFT BLANK

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:

Agency Funds

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

Municipal Court 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, 2018

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018
Municipal Court Trust Fund				
Assets				
Cash	\$ -	\$ 543,461	\$ 492,537	\$ 50,924
Liabilities				
Other current liabilities	\$ -	\$ 543,461	\$ 492,537	\$ 50,924

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
- Library Capital Fund
- Civic Center Capital Fund

**CITY OF GLADSTONE, OREGON
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2018**

	Budget for the 2018-2019 Biennium		Actual	Variance with
	Original	Final	1st Year FY 2017-18	Final Budget
General Administration:				
Personnel services	\$ 1,432,780	\$ 1,403,781	\$ 575,917	\$ 827,864
Materials and services	1,830,250	1,859,249	810,616	1,048,633
Subtotal	3,263,030	3,263,030	1,386,533	1,876,497
Facilities:				
Personnel services	91,025	91,025	35,133	55,892
Materials and services	218,000	310,500	149,311	161,189
Capital outlay	-	-	22,674	(22,674) *
Subtotal	309,025	401,525	207,118	194,407
Municipal Court:				
Personnel services	279,925	279,925	136,153	143,772
Materials and services	289,100	289,100	136,565	152,535
Subtotal	569,025	569,025	272,718	296,307
Police:				
Personnel services	4,296,545	4,296,545	1,861,975	2,434,570
Materials and services	793,600	713,600	313,044	400,556
Capital outlay	245,000	325,000	152,272	172,728
Subtotal	5,335,145	5,335,145	2,327,291	3,007,854
Fire:				
Personnel services	1,598,733	1,785,401	864,807	920,594
Materials and services	841,250	841,250	314,967	526,283
Capital outlay	714,000	900,667	67,570	833,097
Subtotal	3,153,983	3,527,318	1,247,344	2,279,974
Parks:				
Personnel services	452,600	452,600	249,478	203,122
Materials and services	357,500	357,500	172,087	185,413
Capital outlay	290,000	290,000	42,435	247,565
Subtotal	1,100,100	1,100,100	464,000	636,100
Recreation:				
Personnel services	60,000	60,000	34,525	25,475
Materials and services	57,350	57,350	24,375	32,975
Subtotal	117,350	117,350	58,900	58,450
Senior Center:				
Personnel services	509,275	509,275	232,809	276,466
Materials and services	83,900	83,900	37,062	46,838
Capital outlay	149,959	182,959	34,000	148,959
Subtotal	743,134	776,134	303,871	472,263
Library:				
Personnel services	1,255,500	1,255,500	539,739	715,761
Materials and services	311,365	311,365	128,404	182,961
Subtotal	1,566,865	1,566,865	668,143	898,722
Total expenditures	\$ 16,157,657	\$ 16,656,492	\$ 6,935,918	\$ 9,720,574

* Appropriations are adopted at the departmental level for the General Fund

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, 2018

	Budget		Actual	Variance
	Original	Final	1st Year FY 2017-18	with Final Budget
REVENUES:				
Contributions and donations	\$ 2,600,000	\$ 2,600,000	\$ -	\$ (2,600,000)
Total revenues	2,600,000	2,600,000	-	(2,600,000)
EXPENDITURES:				
Capital outlay	4,050,000	4,050,000	-	4,050,000
Contingency	1,250,000	1,250,000	-	1,250,000
Total expenditures	5,300,000	5,300,000	-	5,300,000
Revenues over (under) expenditures	(2,700,000)	(2,700,000)	-	2,700,000
OTHER FINANCING SOURCES (USES):				
Issuance of debt	2,700,000	2,700,000	-	(2,700,000)
Total other financing sources (uses)	2,700,000	2,700,000	-	(2,700,000)
Net changes in fund balances	-	-	-	-
FUND BALANCES, BEGINNING	-	-	-	-
FUND BALANCES, ENDING	\$ -	\$ -	\$ -	\$ -

**CITY OF GLADSTONE, OREGON
CIVIC BUILDING CAPITAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2018**

	Budget		Actual	Variance
	Original	Final	1st Year FY 2017-18	with Final Budget
EXPENDITURES:				
Capital outlay	\$ 10,200,000	\$ 10,200,000	\$ 142,342	\$ 10,057,658
Total expenditures	10,200,000	10,200,000	142,342	10,057,658
OTHER FINANCING SOURCES (USES):				
Issuance of debt	5,200,000	5,200,000	-	(5,200,000)
Transfers in	5,000,000	5,000,000	180,000	(4,820,000)
Total other financing sources (uses)	10,200,000	10,200,000	180,000	(10,020,000)
Net changes in fund balances	-	-	37,658	37,658
FUND BALANCES, BEGINNING	-	-	(46)	(46)
FUND BALANCES, ENDING	\$ -	\$ -	\$ 37,612	\$ 37,612

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
- Storm Water 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, 2018

	Budget		Actual 1st Year FY 2017-18	Variance with Final Budget
	Original	Final		
REVENUES:				
Service charges	\$ 2,681,000	\$ 2,681,000	\$ 1,464,303	\$ (1,216,697)
Connection and installation fees	24,000	24,000	7,035	(16,965)
System development charges	40,000	40,000	111,019	71,019
Miscellaneous	72,500	72,500	100	(72,400)
Total revenues	2,817,500	2,817,500	1,582,457	(1,235,043)
EXPENDITURES:				
Personnel service	785,630	785,630	309,498	476,132
Materials and service	1,724,500	1,724,500	850,140	874,360
Capital outlay	1,579,553	1,579,553	126,822	1,452,731
Debt service:				
Principal	303,000	303,000	150,000	153,000
Interest	52,362	52,362	26,195	26,167
Contingency	700,000	700,000	-	700,000
Total expenditures	5,145,045	5,145,045	1,462,655	3,682,390
Revenues over (under) expenditures	(2,327,545)	(2,327,545)	119,802	2,447,347
OTHER FINANCING SOURCES (USES):				
Transfers out	(172,455)	(172,455)	(84,305)	88,150
Total other financing sources (uses)	(172,455)	(172,455)	(84,305)	88,150
Net changes in fund balances	(2,500,000)	(2,500,000)	35,497	2,535,497
FUND BALANCE, BEGINNING- BUDGETARY BASIS	2,500,000	2,500,000	2,016,105	(483,895)
FUND BALANCES, ENDING - BUDGETARY BASIS	\$ -	\$ -	\$ 2,051,602	\$ 2,051,602
			Revenues	Expenditures/ Expenses
Total revenue and expenditures above			\$ 1,582,457	\$ 1,462,655
Operating transfers in/out			-	84,305
Expenditures capitalized			-	(166,779)
Compensated absences			-	(1,684)
Debt service principal payments			-	(150,000)
Depreciation expense			-	144,570
Net pension activity			-	47,101
Net OPEB obligation			-	812
Equity in net income/loss of joint venture			(50,807)	-
Total revenues and expenses - generally accepted accounting principles			\$ 1,531,650	1,420,980
Change in net position				\$ 110,670

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, 2018

	Budget		Actual 1st Year FY 2017-18	Variance with Final Budget
	Original	Final		
REVENUES:				
Service charge	\$ 4,359,375	\$ 4,359,375	\$ 2,161,781	\$ (2,197,594)
Connection and installation fees	45,000	45,000	9,375	(35,625)
System development charge	8,000	8,000	96,824	88,824
Contributions and donations	15,000	15,000	2,700	(12,300)
Total revenues	4,427,375	4,427,375	2,270,680	(2,156,695)
EXPENDITURES:				
Personnel service	558,910	558,910	250,003	308,907
Materials and service	3,714,500	3,714,500	1,755,206	1,959,294
Capital outlay	1,660,190	1,660,190	356,101	1,304,089
Contingency	700,000	700,000	-	700,000
Total expenditures	6,633,600	6,633,600	2,361,310	4,272,290
Revenues over (under) expenditures	(2,206,225)	(2,206,225)	(90,630)	2,115,595
OTHER FINANCING SOURCES (USES):				
Transfers out	(277,775)	(277,775)	(135,505)	142,270
Total other financing sources (uses)	(277,775)	(277,775)	(135,505)	142,270
Net changes in fund balances	(2,484,000)	(2,484,000)	(226,135)	2,257,865
FUND BALANCE, BEGINNING- BUDGETARY BASIS	2,484,000	2,484,000	1,186,877	(1,297,123)
FUND BALANCES, ENDING - BUDGETARY BASIS	\$ -	\$ -	\$ 960,742	\$ 960,742
			Revenues	Expenditures/ Expenses
Total revenue and expenditures above			\$ 2,270,680	\$ 2,361,310
Operating transfers in/out			-	135,505
Expenditures capitalized			-	(356,101)
Compensated absences			-	5,016
Depreciation expense			-	90,574
Net pension activity			-	(89,314)
Net OPEB obligation			-	763
Total revenues and expenses - generally accepted accounting principles			\$ 2,270,680	2,147,753
Change in net position				\$ 122,927

CITY OF GLADSTONE, OREGON
STORM WATER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2018

	Budget		Actual 1st Year FY 2017-18	Variance with Final Budget
	Original	Final		
REVENUES:				
Service charge	\$ 1,050,000	\$ 1,050,000	\$ 344,322	\$ (705,678)
System development charge	-	-	56,504	56,504
Contributions and donations	3,000	3,000	-	(3,000)
Total revenues	1,053,000	1,053,000	400,826	(652,174)
EXPENDITURES:				
Personnel service	431,110	431,110	147,558	283,552
Materials and service	219,500	219,500	77,437	142,063
Capital outlay	264,000	264,000	141,397	122,603
Contingency	22,930	22,930	-	22,930
Total expenditures	937,540	937,540	366,392	571,148
Revenues over (under) expenditures	115,460	115,460	34,434	(81,026)
OTHER FINANCING SOURCES (USES):				
Transfers out	(145,850)	(145,850)	(38,000)	107,850
Total other financing sources (uses)	(145,850)	(145,850)	(38,000)	107,850
Net changes in fund balances	(30,390)	(30,390)	(3,566)	26,824
FUND BALANCE, BEGINNING- BUDGETARY BASIS	30,390	30,390	-	(30,390)
FUND BALANCES, ENDING - BUDGETARY BASIS	\$ -	\$ -	\$ (3,566)	\$ (3,566)
			<u>Revenues</u>	<u>Expenditures/ Expenses</u>
Total revenue and expenditures above			\$ 400,826	\$ 366,392
Operating transfers in/out			-	38,000
Expenditures capitalized			-	(139,340)
Compensated absences			-	1,034
Depreciation expense			-	472
Net pension activity			-	62,264
Net OPEB obligation			-	345
Total revenues and expenses - generally accepted accounting principles			\$ 400,826	329,167
Change in net position				\$ 71,659

**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, 2018 and have issued our report thereon dated January 30, 2019. 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 grant agreements, 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.

At June 30, 2018, the following fund had a deficit budgetary basis fund balance:

<u>Fund</u>	<u>Amount</u>
Storm Water Fund	\$ (3,566)

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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
Tualatin, Oregon
January 30, 2019