

CITY OF GLADSTONE, OREGON

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

For the Fiscal Year Ended
June 30, 2021

with

Independent Auditor's Report

CITY OF GLADSTONE, OREGON
TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
City Officials.....	i
FINANCIAL SECTION	
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis	4
<u>Basic Financial Statements</u>	12
Government-Wide Financial Statements:	
Statement of Net Position.....	13
Statement of Activities	14
Fund Financial Statements:.....	16
Governmental Funds:	
Balance Sheet.....	17
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Proprietary Funds:	22
Statement of Net Position.....	23
Statement of Revenues, Expenses, and Changes in Net Position	24
Statement of Cash Flows	25
Fiduciary Funds:.....	26
Statement of Fiduciary Net Position	27
Statement of Changes in Fiduciary Net Position.....	28
<u>Notes to the Basic Financial Statements</u>	29
<u>Required Supplementary Information</u>	61
Budgetary Comparison Schedules:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual:	
General Fund	62
Road and Street Fund	63
Police and Communications Special Levy Fund.....	64
Fire and Emergency Services Special Levy Fund.....	65
Urban Renewal Agency Fund	66
Schedule of the Proportionate Share of the Net Pension Liability	67
Schedule of Contributions – Pension.....	68
Schedule of the Proportionate Share of OPEB – RHIA	69
Schedule of Contributions to OPEB – RHIA	70
Schedule of Changes in Total OPEB Liability and Related Ratios – Implicit Rate Subsidy	71
Schedule of Contributions to OPEB – Implicit Rate Subsidy	72
<u>Notes to the Required Supplementary Information</u>	73

**CITY OF GLADSTONE, OREGON
TABLE OF CONTENTS**

	<u>Page</u>
<u>Other Supplementary Information</u>	74
Budgetary Comparison Schedules:	
Schedule of Expenditures - Budget and Actual - General Fund	75
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual:	
Capital Project Funds:	
Civic Building Capital Fund.....	76
Enterprise Funds:.....	77
Water Fund	78
Sewer Fund.....	79
Storm Water Fund.....	80
 AUDIT COMMENTS AND DISCLOSURES	
Independent Auditor’s Report on Compliance and on Internal Control Over Financial Reporting on an Audit of Financial Statements Performed in Accordance with <i>Oregon State Regulation</i>	81

INTRODUCTORY SECTION

CITY OF GLADSTONE, OREGON

CITY OFFICIALS

June 30, 2021

City Officials

Tamara Stempel, Mayor
Gladstone, Oregon 97027

Term Expires

December 31, 2022

Council Members

Matt Tracy, President
Gladstone, Oregon 97027

December 31, 2022

Greg Alexander
Gladstone, Oregon 97027

December 31, 2024

Randy Ripley
Gladstone, Oregon 97027

December 31, 2022

Tracy Todd
Gladstone, Oregon 97027

December 31, 2022

Mindy Garlington
Gladstone, Oregon 97027

December 31, 2024

Annessa Hartman
Gladstone, Oregon 97027

December 31, 2024

City Administrator

Jacque Betz
Gladstone, Oregon 97027

Finance Consultant

Cathy Brucker
Gladstone, Oregon 97027

THIS PAGE INTENTIONALLY LEFT BLANK

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor, City Council, and Audit Committee
City of Gladstone, Oregon

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gladstone, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Gladstone's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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 the City of Gladstone, as of June 30, 2021, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Gladstone, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As discussed in Note 14 to the financial statements, the City of Gladstone adopted new accounting guidance, GASB Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The City of Gladstone'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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Gladstone's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. We did not audit the financial statements of North Clackamas County Water Commission, a joint venture of the City of Gladstone, which represents 17 percent and 20 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.

In performing an audit in accordance with GAAS, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Gladstone's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Gladstone's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis, schedule of the proportionate share of pension liability, schedule of contributions – pension, schedule of the proportionate share of OPEB – RHIA, schedule of contributions to OPEB – RHIA, schedule of changes in total OPEB liability and related ratios – implicit rate subsidy and schedule of contributions to OPEB – implicit rate subsidy, as listed in the table of contents under required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide

any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The schedule of revenues, expenditures and changes in fund balance – budget and actual, as listed in the table of contents under required supplementary information, are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladstone’s basic financial statements. The accompanying other supplementary information, as listed in the table of contents including the budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information, as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditor’s report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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 7, 2022, on our consideration of the City of Gladstone’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+Co
Tualatin, Oregon
January 7, 2022

June 30, 2021
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, 2021.

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 \$43,321,890 (net position). Of this amount, \$27,437,308 is the City's net investment in capital assets, \$6,713,734 is restricted for specific purposes, and \$9,170,848 (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 \$2,665,651 from the prior year.

The City's governmental activities reported total net position of \$28,039,788. Of this amount \$451,693 is unrestricted and thus available for spending at the City's discretion.

The City's business-type activities reported total net position of \$15,282,102. Of this amount \$8,719,155 is unrestricted and thus available for spending at the City's discretion.

The City's governmental funds reported combined ending fund balances of \$11,256,508, an increase of \$785,592 compared to the prior year. The increase is primarily due to consistent revenue, along with some new sources in the Road and Street Fund and Urban Renewal property taxes.

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.

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 \$43,321,890 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	
	2021	2020	2021	2020	2021	2020
Cash and investments	\$ 9,696,981	\$ 8,671,733	\$ 6,159,131	\$ 3,807,557	\$15,856,112	\$12,479,290
Restricted cash and investments	1,467,427	1,314,193	1,245,173	1,098,815	2,712,600	2,413,008
Other assets	756,627	1,129,135	3,966,186	3,854,181	4,722,813	4,983,316
Capital assets	27,730,709	28,033,506	6,162,834	6,151,506	33,893,543	34,185,012
Total assets	<u>39,651,744</u>	<u>39,148,567</u>	<u>17,533,324</u>	<u>14,912,059</u>	<u>57,185,068</u>	<u>54,060,626</u>
Deferred outflows	2,980,325	2,909,832	448,350	428,205	3,428,675	3,338,037
Total assets and deferred outflow of resources	<u>\$42,632,069</u>	<u>\$42,058,399</u>	<u>\$17,981,674</u>	<u>\$15,340,264</u>	<u>\$60,613,743</u>	<u>\$57,398,663</u>
Current liabilities	\$ 1,480,010	\$ 1,444,874	\$ 787,809	\$ 575,018	\$ 2,267,819	\$ 2,019,892
Long-term liabilities	12,276,597	12,236,393	1,786,046	1,829,122	14,062,643	14,065,515
Total liabilities	<u>13,756,607</u>	<u>13,681,267</u>	<u>2,573,855</u>	<u>2,404,140</u>	<u>16,330,462</u>	<u>16,085,407</u>
Deferred inflows	835,674	572,733	125,717	84,284	961,391	657,017
Net position						
Net investment in capital assets	22,127,474	21,822,788	5,309,834	5,136,506	27,437,308	26,959,294
Restricted	5,460,621	5,004,387	1,253,113	1,098,815	6,713,734	6,103,202
Unrestricted	451,693	977,224	8,719,155	6,616,519	9,170,848	7,593,743
Total net position	<u>28,039,788</u>	<u>27,804,399</u>	<u>15,282,102</u>	<u>12,851,840</u>	<u>43,321,890</u>	<u>40,656,239</u>
Total liabilities and deferred inflows of resources and net position	<u>\$42,632,069</u>	<u>\$42,058,399</u>	<u>\$17,981,674</u>	<u>\$15,340,264</u>	<u>\$60,613,743</u>	<u>\$57,398,663</u>

A large 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 restricted net position is attributable to assets that are legally restricted for specific purposes, such as Urban Renewal Agency, system development charges and the street and road revenues. The remaining balance of \$9,170,848 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 2021 and 2020:

	Governmental and Proprietary Activities					
	Governmental Activities		Business type Activities		Totals	
	2021	2020	2021	2020	2021	2020
Receipts						
Program Receipts						
Charges for services	\$ 738,181	\$ 1,133,925	\$ 6,786,373	\$ 5,417,447	\$ 7,524,554	\$ 6,551,372
Operating grants and contributions	452,121	111,495	-	-	452,121	111,495
Capital grants and contributions	161,719	347,289	-	-	161,719	347,289
General receipts						
Property tax	6,524,953	6,297,833	-	-	6,524,953	6,297,833
Franchise fees and public service tax	2,644,721	2,419,020	-	-	2,644,721	2,419,020
Interest	139,858	467,415	-	-	139,858	467,415
Other	221,582	391,818	5,721	34,527	227,303	426,345
Total receipts	<u>\$10,883,135</u>	<u>\$11,168,795</u>	<u>\$ 6,792,094</u>	<u>\$ 5,451,974</u>	<u>\$17,675,229</u>	<u>\$16,620,769</u>
Expenses						
Governmental activities						
General government	\$ 2,421,760	\$ 2,022,432	\$ -	\$ -	\$ 2,421,760	\$ 2,022,432
Public safety	6,326,422	5,775,090	-	-	6,326,422	5,775,090
Highways and streets	996,932	984,072	-	-	996,932	984,072
Culture and recreation	1,060,240	1,331,666	-	-	1,060,240	1,331,666
Urban renewal	1,673	133,063	-	-	1,673	133,063
Business type activities						
Water	-	-	1,391,186	1,493,425	1,391,186	1,493,425
Sewer	-	-	2,462,285	2,329,768	2,462,285	2,329,768
Storm	-	-	398,731	340,759	398,731	340,759
Total expenses	<u>\$10,807,027</u>	<u>\$10,246,323</u>	<u>\$ 4,252,202</u>	<u>\$ 4,163,952</u>	<u>\$15,059,229</u>	<u>\$14,410,275</u>
Change in net position before transfers	76,108	922,472	2,539,892	1,288,022	2,616,000	2,210,494
Transfers	\$ 159,281	\$ 160,077	\$ (159,281)	\$ (160,077)	\$ -	\$ -
Equity income (loss) in joint venture	-	-	49,651	2,324	2,324	2,324
Changes in net position	235,389	1,082,549	2,430,262	1,130,269	2,618,324	2,212,818
Beginning net position	27,804,399	26,721,850	12,851,840	11,721,571	38,443,421	38,443,421
Ending net position	<u>\$28,039,788</u>	<u>\$27,804,399</u>	<u>\$15,282,102</u>	<u>\$12,851,840</u>	<u>\$43,321,890</u>	<u>\$40,656,239</u>

Governmental Activities. Governmental activities increased the City of Gladstone's net position by \$235,389.

Business-type Activities. Business-type activities increased the City of Gladstone's net position by \$2,430,262

Financial Analysis of the City's Funds

Governmental Funds. The focus of the City of Gladstone's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such

information is useful in assessing the City of Gladstone’s financial requirements. In particular, unassigned fund balance may serve as useful measure of a government’s net resources available for spending at the end of the fiscal year as they have not been limited to use for a particular purpose.

At the end of the fiscal year, the City of Gladstone’s governmental funds reported combined ending fund balances of \$11,256,508.

	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	\$ 5,169,045	\$ 2,534,911	\$ 133,133	\$ 245,501	\$ 2,236,657	\$ 151,669	\$ 10,470,916
Increase (decrease) current year	(177,882)	761,821	(10,240)	9,944	353,618	(151,669)	785,592
Ending Fund Balance as of June 30, 2021	\$ 4,991,163	\$ 3,296,732	\$ 122,893	\$ 255,445	\$ 2,590,275	\$ -	\$ 11,256,508

- General Fund decreased by 3.44 percent over the previous year fund balance. Revenues were down significantly in some categories due the COVID-19 pandemic reduction of services, while increases in expenditures utilized existing fund balance.
- Road and Street Fund increased 30.0 percent over the previous year from a new source of County generated revenue, relatively stable highway user taxes, and reduced expenditures for the year.
- The Police and Communications Special Levy Fund experienced a decrease of 7.69 percent in fund balance due to staff shortages offset by overtime needs.
- The Fire and Emergency Services Special Levy Fund increased by 4.05 percent from stable property taxes and reduced capital expenditures over the previous year.
- The Urban Renewal Agency Fund increased by 15.8 percent from annual tax revenues. These revenues will be more than sufficient to finance the debt retirement from the Civic Buildings debt service.
- Final completion and transfer of excess balance to the Urban Renewal Agency Fund enabled the closing of the Civic Buildings Capital Fund.

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	\$ 8,041,424	\$ 3,981,227	\$ 829,189	\$ 12,851,840
Increase (decrease) - current year	991,016	991,366	447,880	2,430,262
Ending Fund Balance as of June 30, 2020	\$ 9,032,440	\$ 4,972,593	\$ 1,277,069	\$ 15,282,102

- All business type funds had significant gains due to rate increases in user fees. This was

the final year of higher increases and will now approximate the cost of living index for the near future. Storm water realized the largest impact of 54.0 percent, with Sewer at 24.9 percent and Water at 11.7 percent. These funds have allowed capital planning for much needed system improvements throughout the City infrastructure.

Budgetary Highlights

The City had appropriation transfers, approved through budget transfer resolutions, during the year ended June 30, 2021. The City Council approved on June 8, 2021 adjustments to the General Fund, for grant funding received from Federal CARES funding for COVID-19 relief impacts, along with an Oregon Department of Fish & Wildlife grant for the Meldrum Bar Dredging project.

Capital Assets and Debt Administration

The following tables compare capital assets and changes in capital assets as of June 30, 2021 and June 30, 2020:

Capital Assets at Year End (Net of Depreciation)						
	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total Government</u>	
	2021	2020	2021	2020	2021	2020
Land	\$ 6,498,106	\$ 6,498,106	\$ 640,964	\$ 640,964	\$ 7,139,070	\$ 7,139,070
Work in Progress	124,686	693,863	266,146	-	390,832	693,863
Buildings	16,157,015	16,474,584	7,294	7,956	16,164,309	16,482,540
Vehicles & Equipment	1,477,743	935,294	395,857	430,851	1,873,600	1,366,145
Intangible Assets	85,494	118,645	12,632	15,726	98,126	134,371
Infrastructure	3,387,665	3,313,014	4,839,941	5,056,009	8,227,606	8,369,023
Total	<u>\$27,730,709</u>	<u>\$28,033,506</u>	<u>\$ 6,162,834</u>	<u>\$ 6,151,506</u>	<u>\$33,893,543</u>	<u>\$34,185,012</u>

Changes in Capital Assets						
	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total Government</u>	
	2021	2020	2021	2020	2021	2020
Beginning Balance	\$28,033,506	\$16,692,563	\$ 6,151,506	\$ 6,034,406	\$34,185,012	\$22,726,969
Additions	1,118,773	15,051,735	327,822	416,145	1,446,595	15,467,880
Depreciation	(745,263)	131,258	(316,494)	(299,045)	(1,061,757)	(167,787)
Deletions	(676,307)	(3,842,050)	-	-	(676,307)	(3,842,050)
Ending Balance	<u>\$27,730,709</u>	<u>\$28,033,506</u>	<u>\$ 6,162,834</u>	<u>\$ 6,151,506</u>	<u>\$33,893,543</u>	<u>\$34,185,012</u>

Due to the COVID-19 pandemic, capital improvements were kept to a minimum this fiscal year. The balance of the fire truck was paid for increasing Vehicles and Equipment, along with the start of the Infiltration and Inflow project with the Sewer Fund.

Long-term Debt. At June 30, 2021, the City had business-type bonded debt outstanding of \$853,000 compared to \$1,015,000 at June 30, 2020. 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 \$48.4 million.

At June 30, 2021, the City had governmental activities debt outstanding of notes payable in the amount of \$5,603,235. This debt was assumed as of July 2018 and combined with additional funds available within the Urban Renewal Agency to construct the new Civic Center. The City Hall/Police Station complex was completed and occupied in April 2020. More information on the debt is available in Note 8, Long Term Debt within the notes to the financial statements.

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. The City completed and implemented a new logo and branding program as identified in the City's strategic plan.

Another significant rate increase of approximately 30.0 percent was adopted by the City Council, effective January 1, 2021, with the intent of building reserves for work on some badly needed renovations of the water, sewer and storm system within city limits. As of January 1, 2022 increases will reduce to 4.0 percent, and are anticipated to stay equal to the annual cost of living increases in the area.

As of December 1, 2019 the Gladstone Public Library was formally transferred to Clackamas County for full operations out of the current location. The new library will be built on the site of the old City Hall, with demolition planned in Fall, 2022. The City will participate financially in the demolition of the old City Hall building, lease the site to the County for \$1 per year, and contribute \$200,000 (plus 3% growth rate) per year to the operating costs of the new library. Construction of the new Gladstone Library is estimated for completion by Fall, 2023.

Furthermore, on November 2, 2021 the Gladstone voters approved up to \$5,000,000 for the financing and construction of a new Public Works Facility to be located on the existing property. The new Civic Center buildings are located beside this facility, creating a cohesive and attractive municipal complex for the City. Construction of this progressive design-build project is anticipated in Spring, 2023.

The current biennium budget had started off strong, however, starting in early 2020, the rapidly growing COVID 19 pandemic significantly impacted the first, and now the second year of the biennium. As impacts to the federal, state and local governments became known, management aggressively pursued any funding sources available to help offset revenue losses and pandemic related costs. The City was able to secure grants from all levels of government in fiscal year 2020/21, and will be implementing a \$2.7 million American Rescue Plan grant in fiscal year 2021/22. Overall, the City has been able to mitigate the pandemic impacts by closely monitoring and adjusting when necessary through conscientious planning and execution. While disruption will likely continue in some respect, economic impacts should diminish over time. The City continues to monitor the financial situation and actively search for any funding mechanisms available.

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, Finance Consultant, at 18505 Portland Ave., Gladstone, OR 97027; (503) 479-6860; or finance@ci.gladstone.or.us.

THIS PAGE INTENTIONALLY LEFT BLANK

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, 2021

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Current assets:			
Cash and investments	\$ 9,673,661	\$ 6,159,131	\$ 15,832,792
Cash with county treasurer	23,320	-	23,320
Accounts receivable	430,011	705,103	1,135,114
Property tax receivable	184,885	-	184,885
Interest receivable	3,234	-	3,234
Prepaid expenses	85,719	173,445	259,164
Total current assets	<u>10,400,830</u>	<u>7,037,679</u>	<u>17,438,509</u>
Noncurrent assets:			
Restricted cash and investments	1,467,427	1,245,173	2,712,600
Net OPEB asset	52,778	7,940	60,718
Investment in joint venture	-	3,079,698	3,079,698
Capital assets:			
Non depreciable	6,622,792	907,110	7,529,902
Depreciable, net	<u>21,107,917</u>	<u>5,255,724</u>	<u>26,363,641</u>
Total noncurrent assets	<u>29,250,914</u>	<u>10,495,645</u>	<u>39,746,559</u>
Total assets	<u>39,651,744</u>	<u>17,533,324</u>	<u>57,185,068</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflow related to pension	2,917,511	438,902	3,356,413
Deferred outflow related to OPEB	<u>62,814</u>	<u>9,448</u>	<u>72,262</u>
Total deferred outflows of resources	<u>2,980,325</u>	<u>448,350</u>	<u>3,428,675</u>
Total assets and deferred outflows of resources	<u>\$ 42,632,069</u>	<u>\$ 17,981,674</u>	<u>\$ 60,613,743</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	\$ 303,052	\$ 555,316	\$ 858,368
Interest payable	69,449	8,445	77,894
Accrued compensated absences	347,492	44,979	392,471
Bonds payable - current maturity	625,663	165,000	790,663
Other current liabilities	<u>134,354</u>	<u>14,069</u>	<u>148,423</u>
Total current liabilities	<u>1,480,010</u>	<u>787,809</u>	<u>2,267,819</u>
Noncurrent liabilities:			
Net pension liability	6,881,236	1,035,195	7,916,431
OPEB liability	417,789	62,851	480,640
Noncurrent portion of long-term obligations	<u>4,977,572</u>	<u>688,000</u>	<u>5,665,572</u>
Total noncurrent liabilities	<u>12,276,597</u>	<u>1,786,046</u>	<u>14,062,643</u>
Total liabilities	<u>13,756,607</u>	<u>2,573,855</u>	<u>16,330,462</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflow related to pension	821,068	123,519	944,587
Deferred inflow related to OPEB	<u>14,606</u>	<u>2,198</u>	<u>16,804</u>
Total deferred inflows of resources	<u>835,674</u>	<u>125,717</u>	<u>961,391</u>
NET POSITION:			
Net investment in capital assets	22,127,474	5,309,834	27,437,308
Restricted for:			
OPEB benefits	52,778	7,940	60,718
Street operations	2,534,911	-	2,534,911
System development	282,657	1,245,173	1,527,830
Urban Renewal development	2,590,275	-	2,590,275
Unrestricted	<u>451,693</u>	<u>8,719,155</u>	<u>9,170,848</u>
Total net position	<u>28,039,788</u>	<u>15,282,102</u>	<u>43,321,890</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 42,632,069</u>	<u>\$ 17,981,674</u>	<u>\$ 60,613,743</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, 2021

<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	\$ 2,253,108	\$ 378,841	\$ 36,701
Public safety	6,326,422	359,340	315,087
Highways and streets	996,932	-	-
Urban and renewal	1,673	-	-
Culture and recreation	1,060,240	-	100,333
Interest on long-term debt	168,652	-	-
Total governmental activities	<u>10,807,027</u>	<u>738,181</u>	<u>452,121</u>
Business-type activities:			
Water Fund	1,391,186	2,384,192	-
Sewer Fund	2,462,285	3,535,755	-
Storm Water Fund	398,731	866,426	-
Total business type activities	<u>4,252,202</u>	<u>6,786,373</u>	<u>-</u>
Total government	<u>\$ 15,059,229</u>	<u>\$ 7,524,554</u>	<u>\$ 452,121</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

Gain on sale of capital assets

Transfers in (out)

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

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

Net Expense Revenue and Change in Net Position			
Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
\$ -	\$ (1,837,566)	\$ -	\$ (1,837,566)
-	(5,651,995)	-	(5,651,995)
-	(996,932)	-	(996,932)
-	(1,673)	-	(1,673)
161,719	(798,188)	-	(798,188)
-	(168,652)	-	(168,652)
<u>161,719</u>	<u>(9,455,006)</u>	<u>-</u>	<u>(9,455,006)</u>
-	-	993,006	993,006
-	-	1,073,470	1,073,470
-	-	467,695	467,695
<u>-</u>	<u>-</u>	<u>2,534,171</u>	<u>2,534,171</u>
<u>\$ 161,719</u>	<u>(9,455,006)</u>	<u>2,534,171</u>	<u>(6,920,835)</u>
	6,524,953	-	6,524,953
	1,548,280	-	1,548,280
	1,096,441	-	1,096,441
	12,511	-	12,511
	139,858	-	139,858
	-	49,651	49,651
	73,855	5,721	79,576
	135,216	-	135,216
	159,281	(159,281)	-
	<u>9,690,395</u>	<u>(103,909)</u>	<u>9,586,486</u>
	235,389	2,430,262	2,665,651
	<u>27,804,399</u>	<u>12,851,840</u>	<u>40,656,239</u>
	<u>\$ 28,039,788</u>	<u>\$ 15,282,102</u>	<u>\$ 43,321,890</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, 2021

	<u>General Fund</u>	<u>Road and Street Fund</u>
ASSETS:		
Cash and investments	\$ 3,867,879	\$ 2,590,649
Restricted cash and investments	871,288	596,139
Cash with county treasurer	16,134	-
Accounts receivable	156,713	136,496
Property taxes receivable	127,791	-
Interest Receivable	2,235	-
Due from other funds	245,597	-
Due from other governments	136,802	-
Prepaid Expenses	85,719	-
	<u> </u>	<u> </u>
Total assets	<u>\$ 5,510,158</u>	<u>\$ 3,323,284</u>
LIABILITIES:		
Accounts payable	\$ 267,869	\$ 25,772
Due to other funds	-	-
Other current liabilities	130,627	780
	<u> </u>	<u> </u>
Total liabilities	<u>398,496</u>	<u>26,552</u>
DEFERRED INFLOWS OF RESOURCES:		
Unavailable revenues - property taxes	120,499	-
	<u> </u>	<u> </u>
Total deferred inflows of resources	<u>120,499</u>	<u>-</u>
FUND BALANCES:		
Non-Spendable:		
Prepays	85,719	-
Restricted:		
Street operations	-	3,296,732
System development	282,657	-
Urban renewal development	-	-
Committed:		
Business development and promotion	391,834	-
Tourism promotion and activities	196,797	-
Assigned:		
Police services	-	-
Fire and emergency services	-	-
Library board	17,380	-
Unassigned	4,016,776	-
	<u> </u>	<u> </u>
Total fund balance	<u>4,991,163</u>	<u>3,296,732</u>
	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 5,510,158</u>	<u>\$ 3,323,284</u>

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

Police and Communications Special Levy Func	Fire and Emergency Services Special Levy Fund	Urban Renewal Agency Func	Total Governmental
\$ 122,562	\$ 262,444	\$ 2,830,127	\$ 9,673,661
-	-	-	1,467,427
2,459	1,119	3,608	23,320
-	-	-	293,209
19,468	8,869	28,757	184,885
340	155	504	3,234
-	-	-	245,597
-	-	-	136,802
-	-	-	85,719
<u>\$ 144,829</u>	<u>\$ 272,587</u>	<u>\$ 2,862,996</u>	<u>\$ 12,113,854</u>
\$ 846	\$ 8,565	\$ -	\$ 303,052
-	-	245,597	245,597
<u>2,733</u>	<u>214</u>	<u>-</u>	<u>134,354</u>
<u>3,579</u>	<u>8,779</u>	<u>245,597</u>	<u>683,003</u>
<u>18,357</u>	<u>8,363</u>	<u>27,124</u>	<u>174,343</u>
<u>18,357</u>	<u>8,363</u>	<u>27,124</u>	<u>174,343</u>
-	-	-	85,719
-	-	-	3,296,732
-	-	-	282,657
-	-	2,590,275	2,590,275
-	-	-	391,834
-	-	-	196,797
122,893	-	-	122,893
-	255,445	-	255,445
-	-	-	17,380
-	-	-	4,016,776
<u>122,893</u>	<u>255,445</u>	<u>2,590,275</u>	<u>11,256,508</u>
<u>\$ 144,829</u>	<u>\$ 272,587</u>	<u>\$ 2,862,996</u>	

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 27,730,709

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

Deferred outflows of resources-pension	2,917,511
Net OPEB benefit resource	52,778
Deferred outflow of resources - OPEB	62,814

Liabilities and deferred inflows of resources, including accrued liabilities and bonds payable are not due and payable in the current period and, therefore, are not reported in funds:

Unavailable revenue - property taxes	174,343
Accrued compensated absences	(347,492)
Accrued interest payable	(69,449)
Net pension liability	(6,881,236)
Net OPEB liability	(417,789)
Deferred inflows of resources - pension	(821,068)
Deferred inflows of resources - OPEB	(14,606)
Long-term debt obligations	<u>(5,603,235)</u>
Net position of governmental activities	<u>\$ 28,039,788</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, 2021

	General Fund	Road and Street Fund	Police and Communications Special Levy Fund
REVENUES:			
Property taxes	\$ 4,435,063	\$ -	\$ 742,338
Public service taxes	474,162	1,074,118	-
Franchise and right of way fees	775,472	320,969	-
Grants	613,840	-	-
Charges for services	61,227	-	-
Licenses and permits	111,342	-	-
Fines and forfeitures	359,340	-	-
Special assessments	159,410	46,862	-
Contributions and donations	12,511	-	-
Interest	116,424	-	2,452
Miscellaneous	33,976	39,879	-
	<u>7,152,767</u>	<u>1,481,828</u>	<u>744,790</u>
Total revenues			
EXPENDITURES:			
Current:			
General government	1,831,296	-	-
Public safety	4,538,489	-	742,872
Highways and streets	-	697,497	-
Urban and renewal	-	-	-
Culture and recreation	897,550	-	-
Capital outlay	344,992	50,051	-
Debt service:			
Principal	162,690	-	-
Interest	82,774	-	-
	<u>7,857,791</u>	<u>747,548</u>	<u>742,872</u>
Total expenditures			
Revenues over (under) expenditures	(705,024)	734,280	1,918
OTHER FINANCING SOURCES (USES):			
Sale of capital assets	135,216	-	-
Transfers in	391,926	232,127	-
Transfers out	-	(204,586)	(12,158)
	<u>527,142</u>	<u>27,541</u>	<u>(12,158)</u>
Total other financing sources (uses)			
Net changes in fund balances	(177,882)	761,821	(10,240)
FUND BALANCES, BEGINNING	<u>5,169,045</u>	<u>2,534,911</u>	<u>133,133</u>
FUND BALANCES, ENDING	<u>\$ 4,991,163</u>	<u>\$ 3,296,732</u>	<u>\$ 122,893</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
\$ 337,574	\$ 1,010,598	\$ -	\$ 6,525,573
-	-	-	1,548,280
-	-	-	1,096,441
-	-	-	613,840
-	-	-	61,227
-	-	-	111,342
-	-	-	359,340
-	-	-	206,272
-	-	-	12,511
2,712	18,270	-	139,858
-	-	-	73,855
<u>340,286</u>	<u>1,028,868</u>	<u>-</u>	<u>10,748,539</u>
-	-	-	1,831,296
226,746	-	-	5,508,107
-	-	-	697,497
-	1,673	-	1,673
-	-	-	897,550
101,165	-	40,937	537,145
-	444,793	-	607,483
-	93,919	-	176,693
<u>327,911</u>	<u>540,385</u>	<u>40,937</u>	<u>10,257,444</u>
12,375	488,483	(40,937)	491,095
-	-	-	135,216
-	316,056	205,324	1,145,433
<u>(2,431)</u>	<u>(450,921)</u>	<u>(316,056)</u>	<u>(986,152)</u>
<u>(2,431)</u>	<u>(134,865)</u>	<u>(110,732)</u>	<u>294,497</u>
9,944	353,618	(151,669)	785,592
<u>245,501</u>	<u>2,236,657</u>	<u>151,669</u>	<u>10,470,916</u>
<u>\$ 255,445</u>	<u>\$ 2,590,275</u>	<u>\$ -</u>	<u>\$ 11,256,508</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, 2021

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	\$ 785,592
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.	(302,797)
Some revenue reported in the statement of activities do not provide current financial resources in the governmental funds.	(620)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Accrued compensated absences	(2,299)
Accrued interest payable	8,041
Net OPEB obligations	(7,971)
Net pension liability	(852,040)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds but does not have any effect on net position.	<u>607,483</u>
Change in net position of governmental activities	<u><u>\$ 235,389</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.

Storm Water Fund

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

CITY OF GLADSTONE, OREGON
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
June 30, 2021

	Business-Type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Storm Water Fund	Total
ASSETS:				
Current assets:				
Cash and investments	\$ 3,038,177	\$ 2,099,803	\$ 1,021,151	\$ 6,159,131
Trade accounts receivable	251,577	366,710	86,816	705,103
Prepays	173,445	-	-	173,445
Total current assets	3,463,199	2,466,513	1,107,967	7,037,679
Noncurrent assets:				
Restricted cash	657,771	463,066	124,336	1,245,173
Net OPEB asset	3,420	2,779	1,741	7,940
Investment in joint venture	3,079,698	-	-	3,079,698
Capital assets:				
Non-depreciable	129,819	766,178	11,113	907,110
Depreciable	3,070,251	1,970,135	215,338	5,255,724
Total noncurrent assets	6,940,959	3,202,158	352,528	10,495,645
Total assets	10,404,158	5,668,671	1,460,495	17,533,324
DEFERRED OUTFLOWS OF RESOURCES				
Pension	189,059	153,622	96,221	438,902
Other post employment benefits	4,070	3,307	2,071	9,448
Total deferred outflows of resources	193,129	156,929	98,292	448,350
Total assets & deferred outflows of resources	\$ 10,597,287	\$ 5,825,600	\$ 1,558,787	\$ 17,981,674
LIABILITIES:				
Current liabilities:				
Accounts payable	\$ 159,104	\$ 385,330	\$ 10,882	\$ 555,316
Interest payable	8,445	-	-	8,445
Accrued payroll payable	1,720	1,192	819	3,731
Accrued compensated absences	5,099	38,150	1,730	44,979
Bonds payable - current maturity	165,000	-	-	165,000
Other	10,338	-	-	10,338
Total current liabilities	349,706	424,672	13,431	787,809
Noncurrent liabilities:				
OPEB liability	27,073	21,999	13,779	62,851
Bonds payable	688,000	-	-	688,000
Net pension liability	445,915	362,333	226,947	1,035,195
Total noncurrent liabilities	1,160,988	384,332	240,726	1,786,046
Total liabilities	1,510,694	809,004	254,157	2,573,855
DEFERRED INFLOWS OF RESOURCES				
Pension	53,206	43,234	27,079	123,519
Other post employment benefits	947	769	482	2,198
Total deferred inflows of resources	54,153	44,003	27,561	125,717
NET POSITION:				
Net investment in capital assets	2,347,070	2,736,313	226,451	5,309,834
Restricted for:				
OPEB benefits	3,420	2,779	1,741	7,940
System development	657,771	463,066	124,336	1,245,173
Unrestricted	6,024,179	1,770,435	924,541	8,719,155
Total net position	9,032,440	4,972,593	1,277,069	15,282,102
Total liabilities, deferred inflows & net position	\$ 10,597,287	\$ 5,825,600	\$ 1,558,787	\$ 17,981,674

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, 2021

	Business-Type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Storm Water Fund	Total
OPERATING REVENUES:				
Service charges	\$ 2,326,614	\$ 3,463,992	\$ 835,418	\$ 6,626,024
Connection and installation fees	7,410	19	-	7,429
System development charge	50,168	71,744	31,008	152,920
Miscellaneous	3,716	2,005	-	5,721
Total operating revenues	<u>2,387,908</u>	<u>3,537,760</u>	<u>866,426</u>	<u>6,792,094</u>
OPERATING EXPENSES:				
Purchases	518,403	1,835,926	-	2,354,329
Salaries and fringe benefits	412,479	359,626	278,548	1,050,653
Contract charges	118,490	35,245	37,982	191,717
Maintenance and repairs	117,540	51,680	24,886	194,106
Utilities	21,378	2,409	1,171	24,958
Depreciation	151,834	142,844	21,816	316,494
Supplies	34,229	34,555	34,328	103,112
Total operating expenses	<u>1,374,353</u>	<u>2,462,285</u>	<u>398,731</u>	<u>4,235,369</u>
Operating income (loss)	1,013,555	1,075,475	467,695	2,556,725
NON-OPERATING REVENUES (EXPENSES):				
Interest expense	(16,833)	-	-	(16,833)
Gain (loss) in joint venture	49,651	-	-	49,651
Total non-operating revenues (expenses)	<u>32,818</u>	<u>-</u>	<u>-</u>	<u>32,818</u>
Income before transfers	1,046,373	1,075,475	467,695	2,589,543
TRANSFERS:				
Transfers in (out)	<u>(55,357)</u>	<u>(84,109)</u>	<u>(19,815)</u>	<u>(159,281)</u>
Change in net position	991,016	991,366	447,880	2,430,262
NET POSITION, BEGINNING	<u>8,041,424</u>	<u>3,981,227</u>	<u>829,189</u>	<u>12,851,840</u>
NET POSITION, ENDING	<u>\$ 9,032,440</u>	<u>\$ 4,972,593</u>	<u>\$ 1,277,069</u>	<u>\$ 15,282,102</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, 2021

	Business-Type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Storm Water Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 2,372,749	\$ 3,498,278	\$ 857,487	\$ 6,728,514
Cash paid to employees for salaries and benefits	(404,608)	(308,742)	(226,086)	(939,436)
Cash paid to suppliers and others	(731,775)	(1,786,946)	(107,359)	(2,626,080)
Net cash provided by operating activities	1,236,366	1,402,590	524,042	3,162,998
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Transfers in (out)	(55,357)	(84,109)	(19,815)	(159,281)
Net cash provided (used) by non-capital financing activities	(55,374)	(84,109)	(19,815)	(159,298)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchase of capital assets	(20,964)	(275,186)	(31,672)	(327,822)
Principal paid on capital debt	(162,000)	-	-	(162,000)
Interest paid on capital debt	(18,493)	-	-	(18,493)
Net cash used by capital and related financing activities	(201,457)	(272,639)	(31,672)	(505,768)
Net increase in cash and cash equivalents	979,535	1,045,842	472,555	2,497,932
CASH AND CASH EQUIVALENTS, BEGINNING	2,716,413	1,517,027	672,932	4,906,372
CASH AND CASH EQUIVALENTS, ENDING	\$ 3,695,948	\$ 2,562,869	\$ 1,145,487	\$ 7,404,304
COMPRISED AS FOLLOWS:				
Unrestricted	\$ 3,038,177	\$ 2,099,803	\$ 1,021,151	\$ 6,159,131
Restricted	657,771	463,066	124,336	1,245,173
Total cash and cash equivalents	\$ 3,695,948	\$ 2,562,869	\$ 1,145,487	\$ 7,404,304
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income (loss)	\$ 1,013,555	\$ 1,075,475	\$ 467,695	\$ 2,556,725
Adjustments:				
Depreciation	151,834	142,844	21,816	316,494
Decrease (increase) in:				
Accounts receivable	(15,158)	(39,482)	(8,939)	(63,579)
Prepays	(1,397)	-	-	(1,397)
Deferred outflows related to pension	2,061	(3,558)	(18,648)	(20,145)
Increase (decrease) in:				
Accounts payable and accrued expenses	79,661	172,869	(8,992)	243,538
Accrued compensated absences	(38,196)	5,821	305	(32,070)
Deferred inflows related to pension	15,733	13,816	11,884	41,433
Pension liability	27,200	33,327	56,095	116,622
OPEB obligation	1,073	1,478	2,826	5,377
Net cash provided by operating activities	\$ 1,236,366	\$ 1,402,590	\$ 524,042	\$ 3,162,998
NON-CASH INFORMATION:				
Increase (decrease) in joint venture	\$ 49,651	\$ -	\$ -	\$ 49,651

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.

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 FUND
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2021

	Municipal Court Trust Fund
ASSETS:	
Cash and investments	\$ 47,237
Accounts receivable	1,276
	<hr/>
Total assets	48,513
	<hr/>
NET POSITION:	
Restricted:	
Individuals and organizations	48,513
	<hr/>
Total net position held in trust	\$ 48,513
	<hr/> <hr/>

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

CITY OF GLADSTONE, OREGON
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
June 30, 2021

	Municipal Court Trust Fund
ADDITIONS:	
City of Gladstone fines and fees	\$ 342,977
Clackamas County fines and fees	12,700
State of Oregon fines and fees	47,102
Bond	16,295
Other court fees	788
	<hr/>
Total additions	419,862
	<hr/>
DEDUCTIONS:	
City of Gladstone fines and fees	351,187
Clackamas County fines and fees	12,413
State of Oregon fines and fees	45,446
Other court fees	827
	<hr/>
Total deductions	409,873
	<hr/>
Change in net position	9,989
	<hr/>
Restatement per GASB 84 implementation (See Note IV.E)	38,524
	<hr/>
NET POSITION, BEGINNING - RESTATED	38,524
	<hr/>
NET POSITION, ENDING	<u><u>\$ 48,513</u></u>

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

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, 2021

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, 2021

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 and 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 (and other employee benefits) trust funds, investment trust funds, private-purpose trust funds, and custodial 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 the *Municipal Court Trust Fund* which is reported as a custodial 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, 2021

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 finance 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 expected 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. The City holds one 24 month certificate of deposit at OnPoint Community Credit Union, for the benefit of the Gladstone Public

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

Library. The certificate had a balance of \$17,380 as of June 30, 2021, a fixed interest rate of 2.13% and a maturity date of July 26, 2021.

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, 2021

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 and in the proprietary fund 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, 2021.

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, 2021

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 reports 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 reports 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 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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

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, 2021 investments of the City consist of the following:

	Weighted Average <u>Maturity (Years)</u>	Fair <u>Value</u>
Investments in the State Treasurer’s Local Government Investment Pool	0.00	\$ 18,099,440
Certificate of deposit	.10	17,380
Municipal bond	6.80	<u>39,269</u>
		<u>\$ 18,156,089</u>

A. Interest rate risk

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

B. Credit risk

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

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, 2021, the book value of the City’s deposits was \$388,853 and the bank balance was \$476,613. 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, 2021, 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. Also included are committed funds generated for business development and tourism promotion by business license and transient lodging tax revenue.

3. Accounts Receivable

Accounts receivable represent the uncollected amounts due and payable as of June 30, 2021 from specific sources. At June 30, 2021 the uncollected amounts due were:

Transient lodging fees	\$	30,671
Franchise fees		119,694
Miscellaneous		6,348
Right of way fees		136,496
Total Governmental Funds	\$	<u>293,209</u>

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

4. Interfund Transfers

Transfers between funds during the year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds		
General Fund	\$ 391,926	\$ -
Road & Street Fund	232,127	204,586
Police/Communications Fund	-	12,158
Fire/Emergency Services Fund	-	2,431
Urban Renewal Fund	316,056	450,921
Civic Buildings	205,324	316,056
Total Governmental Funds	<u>1,145,433</u>	<u>986,152</u>
Proprietary Funds		
Water Fund	55,515	110,872
Sewer Fund	55,515	139,624
Storm Water Fund	<u>55,515</u>	<u>75,330</u>
Total Proprietary Funds	<u>166,545</u>	<u>325,826</u>
Total All Funds	<u>\$1,311,978</u>	<u>\$ 1,311,978</u>

Transfers for services between funds are utilized to provide support for various city programs in accordance with budgetary authorizations. These transfers are utilized to cover administrative services, provide for additional funding for reserve purposes, contribute towards the cost of capital projects, and to provide for other operational resources. For the fiscal year ended June 30, 2021, all City transfers are classified under operating transfers in/out for financial reporting purposes.

5. Capital Assets

Capital asset activity for the year ended June 30, 2021 is as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, non-depreciable:				
Land	\$ 6,498,106	\$ -	\$ -	\$ 6,498,106
Construction in progress	693,863	66,703	(635,880)	124,686
Total capital assets, non-depreciable	<u>7,191,969</u>	<u>66,703</u>	<u>(635,880)</u>	<u>6,622,792</u>
Capital assets, depreciable:				
Intangible assets	347,400	-	-	347,400
Buildings, structures and improve	18,582,329	40,938	-	18,623,267
Equipment	1,603,313	171,071	(11,374)	1,763,010
Vehicles	2,861,192	648,726	(29,053)	3,480,865
Infrastructure	4,575,869	191,335	-	4,767,204
Total capital assets, depreciable	<u>27,970,103</u>	<u>1,052,070</u>	<u>(40,427)</u>	<u>28,981,746</u>
Total assets	35,162,072	1,118,773	(676,307)	35,604,538

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

Primary Government	Beginning Balance	Additions	Deletions	Ending Balance
Less accumulated depreciation for:				
Intangible assets	(228,755)	(33,151)	-	(261,906)
Buildings, structures and improve	(2,107,745)	(358,507)	-	(2,466,252)
Equipment	(1,346,455)	(78,587)	11,374	(1,413,668)
Vehicles	(2,182,756)	(198,761)	29,053	(2,352,464)
Infrastructure	(1,262,855)	(116,684)	-	(1,379,539)
Total accumulated depreciation	<u>(7,128,566)</u>	<u>(785,690)</u>	<u>40,427</u>	<u>(7,873,829)</u>
Net depreciable capital assets	<u>20,841,537</u>	<u>266,380</u>	<u>-</u>	<u>21,107,917</u>
Net capital assets	<u>\$ 28,033,506</u>	<u>\$ 333,083</u>	<u>\$ (635,880)</u>	<u>\$ 27,730,709</u>

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

Governmental activities:

General government	\$ 304,613
Public safety	207,353
Roads and highways	166,388
Culture and recreation	107,336
Total depreciation expense	<u>\$ 785,690</u>

Business-type activities	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, non-depreciable:				
Land	\$ 640,964	\$ -	\$ -	\$ 640,964
Construction in progress	-	266,146	-	266,146
Total capital assets, non-depreciable	<u>640,964</u>	<u>266,146</u>	<u>-</u>	<u>907,110</u>
Capital assets, depreciable:				
Intangible assets	21,658	-	-	21,658
Buildings	106,113	-	-	106,113
Equipment	205,682	-	-	205,682
Vehicles	658,068	61,676	-	719,744
Infrastructure	11,400,182	-	-	11,400,182
Total capital assets, depreciable	<u>12,391,703</u>	<u>61,676</u>	<u>-</u>	<u>12,453,379</u>
Total	13,032,667	327,822	-	13,360,489

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

Business-type activities	Beginning Balance	Additions	Deletions	Ending Balance
Less accumulated depreciation for:				
Intangible assets	(5,932)	(3,094)	-	(9,026)
Buildings	(98,157)	(662)	-	(98,819)
Equipment	(172,088)	(10,512)	-	(182,600)
Vehicles	(260,811)	(86,158)	-	(346,969)
Infrastructure	(6,344,173)	(216,068)	-	(6,560,241)
Total accumulated depreciation	<u>(6,881,161)</u>	<u>(316,494)</u>	<u>-</u>	<u>(7,197,655)</u>
Net depreciable capital assets	<u>5,510,542</u>	<u>(254,818)</u>	<u>-</u>	<u>5,255,724</u>
Net capital assets	<u>\$ 6,151,506</u>	<u>\$ 11,328</u>	<u>\$ -</u>	<u>\$ 6,162,834</u>

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

Business-type activities:	
Water	\$151,834
Sewer	142,844
Storm Water	<u>21,816</u>
Total depreciation expense - Business Activities	<u>\$316,494</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 and maintain 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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

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, 2021 was \$3,079,698, with a net gain of \$49,651. The City had water purchases from the Commission of \$518,403 for the year ended June 30, 2021, which is an increase of \$37,931 over the previous year. The Commission has not completed a true-up for the last two years

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

7. Deferred Inflows of Resources

Deferred inflows of resources related to unavailable revenue presented on the Governmental Funds Balance Sheet as of June 30, 2021 consist of the following:

	General Fund	Urban Renewal Fund	Police & Communications Special Levy Fund	Fire & Emergency Services Special Levy Fund	Total
Property Taxes	<u>\$ 120,499</u>	<u>\$ 27,124</u>	<u>\$ 18,357</u>	<u>\$ 8,363</u>	<u>\$ 174,343</u>

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

8. Long Term Debt

A. Changes in General Long-Term Liabilities

During the year ended June 30, 2021, long-term liability activity was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Note payable - FF&C	\$ 2,842,291	\$ -	\$ 162,690	\$ 2,679,601	\$ 167,571
Note payable - URA	3,368,427	-	444,793	2,923,634	458,092
Total Notes	6,210,718	-	607,483	5,603,235	625,663
Compensated absences	345,193	347,492	345,193	347,492	347,492
Total Governmental Activities	<u>\$ 6,555,911</u>	<u>\$ 347,492</u>	<u>\$ 952,676</u>	<u>\$ 5,950,727</u>	<u>\$ 973,155</u>

Accrued Interest

	<u>Previous Int Pmt Date</u>	<u>Amt of Next Int Payment</u>	<u>Date through which accrued</u>	<u>Days to Accrue</u>	<u>Accrued Interest</u>
2018 FF&C Note payable	2/1/2021	\$ 40,194	6/30/2021	149	33,270
2018 URA Note payable	2/1/2021	43,708	6/30/2021	149	36,180
		<u>\$ 83,902</u>			<u>\$ 69,449</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-type Activities					
Bonds	\$ 1,015,000	\$ -	\$ 162,000	\$ 853,000	\$ 165,000
Compensated absences	79,993	44,979	79,993	44,979	44,979
Total Business-type Activities	<u>\$ 1,094,993</u>	<u>\$ 44,979</u>	<u>\$ 241,993</u>	<u>\$ 897,979</u>	<u>\$ 209,979</u>

Accrued Interest

	<u>Previous Int Pmt Date</u>	<u>Amt of Next Int Payment</u>	<u>Date through which accrued</u>	<u>Days to Accrue</u>	<u>Accrued Interest</u>
2015 FF&C Obligations	1/1/2021	<u>\$ 8,445</u>	6/30/2021	180	<u>\$ 8,445</u>

B. Direct Borrowings

Governmental Activities

On July 31, 2018, the City directly borrowed, in two separate transactions, a total of \$6,800,000 for construction of a new City Hall and Police Station within the Governmental Activities. Each transaction is described separately below:

- a. \$3,000,000 – General Fund Full Faith & Credit Note Payable – secured by the City’s full faith and credit and taxing power, but shall not entitle the lender to any lien on, or pledge of, specific properties or revenue of the City. The borrowing carries an interest rate of

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

3.00%. Interest is payable semi-annually on February 1 and August 1 of each year, and principal is payable annually on August 1 through 2029.

- b. \$3,800,000 – Urban Renewal Agency Note Payable – secured by the Master Borrowing Declaration for the Gladstone Urban Renewal Agency. Funds will be collected annually by the “Divide the Taxes” revenue as will be assessed through the Urban Renewal Agency. The borrowing carries an interest rate of 2.99%. Interest is payable semi-annually on February 1 and August 1 of each year, and principal is payable annually on August 1 through 2026.

The City may prepay all or any portion of each note, with prepayment applied first to accrued interest and then to principal. Both of the borrowings contain an event of default clause that allows the lender to increase the interest rate by 5.00%, if not cured within five days, while the event of default continues. However, the amounts due from the City shall not be subject to acceleration.

Annual debt service requirements to maturity for direct borrowings are as follows:

Fiscal Year	Series 2018 Full Faith & Credit Note Payable- General Fund		Series 2018 Note Payable Urban Renewal Agency		Total Governmental Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 167,571	\$ 77,875	\$ 458,092	\$ 80,568	\$ 625,663	\$ 158,443
2023	172,598	72,772	471,789	66,666	644,387	139,438
2024	177,775	67,516	485,896	52,349	663,671	119,865
2025	183,109	62,103	500,424	37,603	683,533	99,706
2026	188,602	56,527	515,387	22,417	703,989	78,944
2027-2030	1,789,946	103,927	492,046	7,356	2,281,992	111,283
	<u>\$ 2,679,601</u>	<u>\$ 440,720</u>	<u>\$ 2,923,634</u>	<u>\$ 266,959</u>	<u>\$ 5,603,235</u>	<u>\$ 707,679</u>

C. Advanced Refunding

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

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

D. 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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

Business-Type Activities

During 2015-2016, the City issued \$1,614,000 in full faith and credit obligations 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.

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

Fiscal Year	Series 2015 Full Faith & Credit Obligation	
	Principal	Interest
2022	\$ 165,000	\$ 15,256
2023	166,000	11,979
2024	173,000	8,623
2025	174,000	5,188
2026	175,000	1,732
	<u>\$ 853,000</u>	<u>\$ 42,778</u>

9. Pension Plan

A. Plan Description

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

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. Monthly payments must be a minimum of \$200 per month or the member will receive a lump-sum payment of the actuarial equivalent of benefits to which he or she is entitled.

Under Senate Bill 1049, passed during the 2019 legislative session, the salary included in the determination of Final Average Salary will be limited for all members beginning in 2020. The limit will be equal to \$195,000 in 2020 and will be indexed with inflation in later years.

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

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/Defined Benefit 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.

Under Senate Bill 1049, passed during the 2019 legislative session, the salary included in the determination of final average salary will be limited for all members beginning in 2020. The limit will be equal to \$195,000 in 2020 and will be indexed with inflation in later years.

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 \$750 plus 0.15 percent on annual benefits above \$60,000.

OPSRP Individual Account Program (OPSRP IAP)

Pension Benefits

The Individual Account Program (IAP) is a defined contribution pension plan. 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

1. Employer 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, 2018 actuarial valuation. The rates based on a percentage of payroll, first became effective July 1, 2019. Effective January 1, 2020, Senate Bill 1049 required employers to pay contributions on re-employed PERS retirees' salary as if they were an active member, excluding IAP (6 percent) contributions. Employer contributions for the year ended June 30, 2021 were \$844,458, excluding amounts to fund employer specific

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

liabilities. The rates in effect for the fiscal year ended June 30, 2021 were 25.38 percent for Tier One/Tier Two General Service Member, 25.38 percent for Tier One/Tier Two Police and Fire, 15.92 percent for OPSRP Pension Program General Service Members, 20.55 percent for OPSRP Pension Program Police and Fire Members.

2. Employee Contributions

Beginning January 1, 2004, all employee contributions were placed in the OPSRP Individual Account Program (IAP), a defined contribution pension plan established by the Oregon Legislature. Prior to that date, all member contributions were credited to the Defined Benefit Pension Plan. Member contributions are set by statute at 6.0 or 7.0 percent of salary and are remitted by participating employers. The contributions are either deducted from member salaries or paid by the employers on the member behalf. The IAP member accounts represent member contributions made on or after January 1, 2004, plus earnings allocations less disbursements for refunds, death benefits, and retirements. As permitted, the City has opted to pick-up the contributions on behalf of employees; contributions were \$243,723 for the year ended June 30, 2021.

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

At June 30, 2021, the City reported a liability of \$7,916,431 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018 rolled forward to June 30, 2020. 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, 2020, the City's proportion was 0.0363 percent, which was increased from its proportion of 0.0414 measured as of June 30, 2019.

For the year ended June 30, 2021, the City's recognized pension expense (income) of \$1,817,069. At June 30, 2021, 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	\$ 348,419	\$ -
Changes of assumptions	424,850	14,886
Net difference between projected and actual earnings on investments	930,869	-
Changes in proportion	760,033	754,625
Differences between employer contributions and proportionate share of contributions	47,784	175,076
Total (prior to post-MD contributions)	<u>2,511,955</u>	<u>944,587</u>
Contributions subsequent to the MD	<u>844,458</u>	<u>-</u>
Total	<u>\$ 3,356,413</u>	<u>\$ 944,587</u>

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

The \$844,458 reported as deferred outflows of resources related to pensions resulting from the City’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2022	\$ 324,726
2023	533,282
2024	479,578
2025	245,345
2026	<u>(15,563)</u>
Total	<u>\$ 1,567,368</u>

E. Actuarial Assumptions

The employer contribution rates effective July 1, 2019, through June 30, 2021 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, 2018 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	December 31, 2018
Measurement Date	June 30, 2020
Experience Study Report	2018, published July 24, 2019
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Inflation Rate	2.50 percent
Long-Term Expected Rate of Return	7.20 percent
Discount Rate	7.20 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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

Mortality	<p>Health retirees and beneficiaries: Pub-2010 Healthy Retiree, sex distinct, generational with Unisex, Social Security Data Scale, with job category adjustments and set-backs as described in the valuation.</p> <p>Active Members: Pub-2010 Employee, sex distinct, generational with Unisex, Social Security Data Scale, with job category adjustments and set-backs as described in the valuation.</p> <p>Disabled retirees: Pub-2010 Disable Retiree, sex distinct, generational with Unisex, Social Security Data Scale, with job category adjustments and set-backs as described in the valuation.</p>
-----------	---

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 2018 Experience Study which reviewed experience for the four-year period ending on December 31, 2018.

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 May 2019 the PERS Board reviewed long-term assumptions developed by both Milliman’s capital market assumptions team and the Oregon Investment Council’s (OIC) investment advisors. The table below shows Milliman’s assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC’s description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

<u>Asset Class/Strategy</u>	<u>Assumed Asset Allocation</u>		
	<u>Low Range</u>	<u>High Range</u>	<u>Target</u>
Debt Securities	15.0%	25.0%	20.0%
Public Equity	27.5%	37.5%	32.5%
Real Estate	9.5%	15.5%	12.5%
Private Equity	14.0%	21.0%	17.5%
Alternative Equity	7.5%	17.5%	15.0%
Opportunity Portfolio	0.0%	3.0%	0.0%
Risk Parity	0.0%	2.5%	2.5%
Total			<u>100.0%</u>

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Compounded Annual Return (Geometric)</u>
Core Fixed Income	9.60%	4.07%
Short-Term Bonds	9.60%	3.68%
Bank/Leveraged Loans	3.60%	5.19%
High Yield Bonds	1.20%	5.74%
Large/Mid Cap US Equities	16.17%	6.30%
Small Cap US Equities	1.35%	6.68%
Micro Cap US Equities	1.35%	6.79%
Developed Foreign Equities	13.48%	6.91%
Emerging Foreign Equities	4.24%	7.69%
Non-US Small Cap Equities	1.93%	7.25%
Private Equities	17.50%	8.33%
Real Estate (Property)	10.00%	5.55%
Real Estate (REITS)	2.50%	6.69%
Hedge Fund of Funds - Diversified	1.50%	4.06%
Hedge Fund - Event-Driven	0.38%	5.59%
Timber	1.12%	5.61%
Farmland	1.12%	6.12%
Infrastructure	2.24%	6.67%
Commodities	1.12%	3.79%
	<hr/>	
Total	100.00%	
	<hr/>	
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, 2021

- 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 7.20 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 7.20 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 (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

	<u>1% Decrease (6.20%)</u>	<u>Discount Rate (7.20%)</u>	<u>1% Increase (8.20%)</u>
City's proportionate share of the net pension liability (asset)	\$ 11,755,246	\$ 7,916,431	\$ 4,697,406

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

A legislative change that occurred during the measurement period affected the plan provisions reflected for financial reporting purposes. Senate Bill 1049, signed into law in June 2019, introduced a limit on the amount of annual salary included for the calculation of benefits. Beginning in 2020, annual salary in excess of \$195,000 (as indexed in future years) will be excluded when determining member benefits. As a result, future Tier 1/Tier 2 and OPSRP benefits for certain active members are now projected to be lower than prior to the legislation. Senate Bill 1049 was reflected in the June 30, 2019 Total Pension Liability as a reduction in liability.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

L. Changes in Plan Provisions Subsequent to Measurement Date

There were no changes subsequent to the June 30, 2020 measurement period that require disclosure.

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</u>	<u>PERS RHIA Plan</u>	<u>Total OPEB on Financials</u>
Net OPEB Asset	\$ -	\$ 60,718	\$ 60,718
Deferred Outflows of Resources			
Difference in Expected and Actual Experience	24,622	-	24,622
Change in Assumptions	8,259	-	8,259
Difference in Earnings	-	6,752	6,752
Change in Proportionate Share	-	3,039	3,039
Contributions After MD	28,844	746	29,590
Net OPEB Liability	(480,640)	-	(480,640)
Deferred Inflows of Resources			
Difference in Expected and Actual Experience	-	(6,207)	(6,207)
Difference in Earnings	-	-	-
Change in Assumptions	(7,299)	(3,227)	(10,526)
Change in Proportionate Share	-	(71)	(71)
OPEB Expense/(Income)*	47,642	(8,098)	39,544

*Included in program expenses 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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

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>.

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, 2020, the following employees were covered by the benefit terms:

Active employees	50
Eligible retirees	4
Spouses of ineligible retirees	<u>0</u>
Total participants	<u><u>54</u></u>

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

The City’s net OPEB liability of \$480,640 was measured as of June 30, 2020 and was determined by an actuarial valuation as of July 1, 2020.

For the fiscal year ended June 30, 2021, the City recognized OPEB expense from this plan of \$47,642, and the City reported deferred outflows of resources and deferred inflows of resources related to this OPEB plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 24,622	\$ -
Changes of assumptions	<u>8,259</u>	<u>7,299</u>
Total (prior to post-MD contributions)	32,881	7,299
Contributions subsequent to the MD	<u>28,844</u>	<u>-</u>
Total	<u><u>\$ 61,725</u></u>	<u><u>\$ 7,299</u></u>

Deferred outflows of resources related to OPEB of \$28,844 resulting from the City’s contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2022. The amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

<u>Year ended June 30:</u>	
2022	\$ 3,278
2023	3,278
2024	3,278
2025	3,278
2026	3,278
Thereafter	9,192
Total	<u>\$ 25,582</u>

4. Actuarial Assumptions and Other Inputs

The net OPEB liability in the July 1, 2020 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
Actuarial Assumptions:	
Inflation Rate	2.50 percent
Discount Rate	2.21 percent
Projected Salary Increases	3.50 percent overall payroll growth
Retiree Healthcare Participation	40% of eligible employees 60% of male members and 35% of female members will elect spouse coverage.
Mortality	Health retirees and beneficiaries: Pub-2010 General and Safety Employee and Healthy Retiree tables, sex distinct for members and dependents, with a one-year setback for male general service employees and female safety employees.
	Healthcare cost trend rate: Medical and vision: 3.75 percent per year increasing to 5.75 percent.
	Dental: 4.00 percent per year

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

5. Changes in the Net OPEB Liability

	Net OPEB Liability
Balance as of June 30, 2020	\$ 448,632
Changes for the year:	
Service cost	28,330
Interest on total OPEB liability	16,034
Effect of changes to benefit terms	-
Effect of economic demographic gains or losses	27,862
Effect of assumptions changes or inputs	(2,208)
Benefit payments	(38,010)
Balance as of June 30, 2021	<u>\$ 480,640</u>

Changes in assumptions is the result of the change in the discount rate from 3.5% to 2.21%.

6. Sensitivity of the Net 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 (1.21 percent) or 1-percentage-point higher (3.21 percent) than the current discount rate. A similar sensitivity analysis is then presented for changes in the healthcare trend assumption.

<u>Discount Rate:</u>	<u>1% Decrease (1.21%)</u>	<u>Current Discount Rate (2.21%)</u>	<u>1% Increase (3.21%)</u>
Net OPEB Liability	\$ 512,766	\$ 480,640	\$ 450,277
		Current Health Care Trend Rates	
<u>Healthcare Cost Trend:</u>	<u>1% Decrease</u>	<u>Current Health Care Trend Rates</u>	<u>1% Increase</u>
Net OPEB Liability	\$ 438,019	\$ 480,640	\$ 529,758

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

Employees Retirement System, PO Box 23700, Tigard, OR 97281-3700, or online at <http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx>.

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 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, 2018 actuarial valuation. The City contributed 0.06% of PERS-covered salaries for Tier One/Tier Two members to fund the normal cost portion of RHIA benefits and 0.00% of all PERS-covered salaries to amortize the unfunded actuarial accrued liability over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years. The City's total for the year ended June 30, 2021 contributions was \$6,846.

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

At June 30, 2021, the City reported an asset of \$60,718 for its proportionate share of the OPERS net OPEB asset. The net OPEB asset was measured as of June 30, 2020, and the net OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2018 rolled forward to June 30, 2020. 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, 2020, the City's proportionate share was 0.0298%, which is a decrease from its proportion of 0.0323% as of June 30, 2019.

For the year ended June 30, 2021, the City recognized OPEB income from this plan of \$8,098. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to this OPEB plan from the following sources:

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 6,207
Changes of assumptions	-	3,227
Net difference between projected and actual earnings on investments	6,752	-
Changes in proportionate share	3,039	71
Differences between employer contributions and proportionate share of contributions	-	-
Total (prior to post-MD contributions)	<u>9,791</u>	<u>9,505</u>
Contributions subsequent to the MD	<u>746</u>	<u>-</u>
Total	<u>\$ 10,537</u>	<u>\$ 9,505</u>

Deferred outflows of resources related to OPEB of \$746 resulting from the City's contributions subsequent to the measurement date will be recognized as an increase in the net OPEB asset in the year ended June 30, 2022. Other 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>	
2022	\$ (4,354)
2023	14
2024	2,496
2025	<u>2,130</u>
Total	<u>\$ 286</u>

5. Actuarial Methods and Assumptions

The net OPEB asset in the December 31, 2018 actuarial valuation was determined using the actuarial methods and assumptions are the same as listed above in Note 9 – Pension Plan Actuarial Assumptions.

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 net OPEB liability was 7.20% 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 net OPEB liability.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

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 7.20%, 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 (6.20%) or 1-percentage-point higher (8.20%) than the current rate:

<u>Discount Rate:</u>	<u>1% Decrease (6.20%)</u>	<u>Current Discount Rate (7.20%)</u>	<u>1% Increase (8.20%)</u>
Net OPEB Asset	\$ (49,019)	\$ (60,718)	\$ (70,720)

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

There were no changes during the June 30, 2020 measurement period that require disclosure.

11. Changes in Plan Provisions Subsequent to Measurement Date

There were no changes subsequent to the June 30, 2020 measurement period that require disclosure.

11. 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 \$1,835,926 were made to the service districts during fiscal year 2021 under these agreements.

12. 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 2020 to 2021. Workers compensation

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021

claims are insured through incurred loss retrospective policies. Settled claims have not exceeded this commercial coverage for any of the past three years.

13. 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.

14. Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

15. Subsequent Events

Through the Local Fiscal Recovery Funds program, the American Rescue Plan Act (ARPA) provides a second major infusion of federal relief dollars directly to the City, allowing an opportunity to deliver needed stabilization and care to our community. The City was awarded \$2.7 million of ARPA funds, with the first distribution of \$1.37 million received in August 2021. The second distribution is expected in the August 2022.

On November 2, 2021, Gladstone voters approved up to \$5,000,000 for the financing and construction, of a new Public Works Facility located on the existing property. The City will once again utilize a progressive design-build approach with construction estimated to start sometime in 2023.

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 Asset
- Schedule of OPEB Plan Contributions - Net OPEB Asset
- Schedule of changes in total OPEB Liability and Related Ratios
- Schedule of OPEB Plan Contributions - Implicit Rate Subsidy
- 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, 2021

	Budget for the 2019-2021 Biennium		Actual	Actual	Total	Variance with Final Budget
	Original	Final	1st Year FY 2019-20	2nd Year FY 2020-21		
REVENUES:						
Property taxes	\$ 8,909,105	\$ 8,909,105	\$ 4,398,545	\$ 4,435,063	\$ 8,833,608	\$ (75,497)
Public service taxes	883,458	883,458	431,367	474,162	905,529	22,071
Franchise and right of way fees	1,750,000	1,750,000	766,707	775,472	1,542,179	(207,821)
Grants	142,950	846,416	385,946	613,840	999,786	153,370
Charges for services	187,500	187,500	70,423	61,227	131,650	(55,850)
Licenses and permits	194,000	194,000	99,382	111,342	210,724	16,724
Fines and forfeitures	775,000	775,000	270,078	359,340	629,418	(145,582)
Special assessments	1,048,142	1,048,142	611,005	159,410	770,415	(277,727)
Contributions and donations	55,000	100,000	77,709	12,511	90,220	(9,780)
Interest	250,000	250,000	256,067	116,424	372,491	122,491
Miscellaneous	120,000	120,000	48,106	33,976	82,082	(37,918)
Total revenues	14,315,155	15,063,621	7,415,335	7,152,767	14,568,102	(495,519)
EXPENDITURES:						
General government	4,149,343	4,149,343	1,701,876	1,831,296	3,533,172	616,171
Public safety	9,012,582	9,395,896	4,063,629	4,538,489	8,602,118	793,778
Cultural and recreation	2,774,843	2,774,843	1,140,519	897,550	2,038,069	736,774
Capital outlay	1,262,172	1,627,324	713,514	344,992	1,058,506	568,818
Debt service:						
Principal	320,399	320,399	157,709	162,690	320,399	-
Interest	170,462	170,462	87,556	82,774	170,330	132
Contingency	1,144,729	1,144,729	-	-	-	1,144,729
Total expenditures	18,834,530	19,582,996	7,864,803	7,857,791	15,722,594	3,860,402
Revenues over (under) expenditures	(4,519,375)	(4,519,375)	(449,468)	(705,024)	(1,154,492)	3,364,883
OTHER FINANCING SOURCES (USES):						
Sale of capital assets	-	-	350,000	135,216	485,216	485,216
Transfers in	789,375	789,375	392,521	391,926	784,447	(4,928)
Total other financing sources (uses)	789,375	789,375	742,521	527,142	1,269,663	480,288
Net changes in fund balances	(3,730,000)	(3,730,000)	293,053	(177,882)	115,171	3,845,171
FUND BALANCES, BEGINNING	3,730,000	3,730,000	4,875,992	5,169,045	4,875,992	1,145,992
FUND BALANCES, ENDING	\$ -	\$ -	\$ 5,169,045	\$ 4,991,163	\$ 4,991,163	\$ 4,991,163

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, 2021

	Budget for the 2019-2021 Biennium		Actual	Actual	Total	Variance with Final Budget
	Original	Final	1st Year FY 2019-20	2nd Year FY 2020-21		
REVENUES:						
Public service taxes	\$ 1,837,123	\$ 1,837,123	\$ 896,485	\$ 1,074,118	\$ 1,970,603	\$ 133,480
Franchise and right of way fees	892,000	892,000	324,461	320,969	645,430	(246,570)
Special assessments	20,000	20,000	83,037	46,862	129,899	109,899
Miscellaneous	60,000	60,000	41,144	39,879	81,023	21,023
Total revenues	2,809,123	2,809,123	1,345,127	1,481,828	2,826,955	17,832
EXPENDITURES:						
Personnel service	800,585	800,585	369,025	354,631	723,656	76,929
Materials and service	990,560	990,560	368,521	342,866	711,387	279,173
Capital outlay	2,270,194	2,270,194	313,306	50,051	363,357	1,906,837
Contingency	400,000	400,000	-	-	-	400,000
Total expenditures	4,461,339	4,461,339	1,050,852	747,548	1,798,400	2,662,939
Revenues over (under) expenditures	(1,652,216)	(1,652,216)	294,275	734,280	1,028,555	2,680,771
OTHER FINANCING SOURCES (USES):						
Transfers in	492,831	492,831	260,704	232,127	492,831	-
Transfers out	(590,615)	(590,615)	(233,293)	(204,586)	(437,879)	152,736
Total other financing sources (uses)	(97,784)	(97,784)	27,411	27,541	54,952	152,736
Net changes in fund balances	(1,750,000)	(1,750,000)	321,686	761,821	1,083,507	2,833,507
FUND BALANCES, BEGINNING	1,750,000	1,750,000	2,213,225	2,534,911	2,213,225	463,225
FUND BALANCES, ENDING	\$ -	\$ -	\$ 2,534,911	\$ 3,296,732	\$ 3,296,732	\$ 3,296,732

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, 2021

	Budget for the		Actual	Actual	Total	Variance with Final Budget
	2019-2021 Biennium					
	Original	Final	FY 2019-20	FY 2020-21		
REVENUES:						
Property taxes	\$ 1,359,323	\$ 1,359,323	\$ 620,940	\$ 742,338	\$ 1,363,278	\$ 3,955
Interest	7,800	7,800	5,868	2,452	8,320	520
Total revenues	1,367,123	1,367,123	626,808	744,790	1,371,598	4,475
EXPENDITURES:						
Personnel service	1,153,291	1,153,291	527,250	586,868	1,114,118	39,173
Materials and service	341,200	341,200	145,123	156,004	301,127	40,073
Contingency	13,316	13,316	-	-	-	13,316
Total expenditures	1,507,807	1,507,807	672,373	742,872	1,415,245	92,562
Revenues over (under) expenditures	(140,684)	(140,684)	(45,565)	1,918	(43,647)	97,037
OTHER FINANCING SOURCES (USES):						
Transfers out	(24,316)	(24,316)	(12,158)	(12,158)	(24,316)	-
Total other financing sources (uses)	(24,316)	(24,316)	(12,158)	(12,158)	(24,316)	-
Net changes in fund balances	(165,000)	(165,000)	(57,723)	(10,240)	(67,963)	97,037
FUND BALANCES, BEGINNING	165,000	165,000	190,856	133,133	190,856	25,856
FUND BALANCES, ENDING	\$ -	\$ -	\$ 133,133	\$ 122,893	\$ 122,893	\$ 122,893

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, 2021

	Budget for the		Actual	Actual	Total	Variance with
	2019-2021 Biennium					
	Original	Final	FY 2019-20	FY 2020-21		
REVENUES:						
Property taxes	\$ 615,722	\$ 615,722	\$ 283,161	\$ 337,574	\$ 620,735	\$ 5,013
Interest	12,000	12,000	9,704	2,712	12,416	416
Total revenues	627,722	627,722	292,865	340,286	633,151	5,429
EXPENDITURES:						
Personnel service	351,003	351,003	181,803	203,032	384,835	(33,832) *
Materials and service	90,000	90,000	14,198	23,714	37,912	52,088 *
Capital outlay	532,000	532,000	344,495	101,165	445,660	86,340 *
Contingency	100,856	100,856	-	-	-	100,856
Total expenditures	1,073,859	1,073,859	540,496	327,911	868,407	205,452
Revenues over (under) expenditures	(446,137)	(446,137)	(247,631)	12,375	(235,256)	210,881
OTHER FINANCING SOURCES (USES):						
Transfers out	(4,863)	(4,863)	(2,432)	(2,431)	(4,863)	-
Total other financing sources (uses)	(4,863)	(4,863)	(2,432)	(2,431)	(4,863)	-
Net changes in fund balances	(451,000)	(451,000)	(250,063)	9,944	(240,119)	210,881
FUND BALANCES, BEGINNING	451,000	451,000	495,564	245,501	495,564	44,564
FUND BALANCES, ENDING	\$ -	\$ -	\$ 245,501	\$ 255,445	\$ 255,445	\$ 255,445

* Expenditures are appropriated together as Fire/EMS Operations.

**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, 2021**

	Budget for the 2019-2021 Biennium		Actual	Actual	Total	Variance with Final Budget
	Original	Final	1st Year FY 2019-20	2nd Year FY 2020-21		
REVENUES:						
Property taxes	\$ 1,890,000	\$ 1,890,000	\$ 983,240	\$ 1,010,598	1,993,838	\$ 103,838
Grants	-	-	72,838	-	72,838	72,838
Interest	20,000	20,000	195,776	18,270	214,046	194,046
Total revenues	1,910,000	1,910,000	1,251,854	1,028,868	2,280,722	370,722
EXPENDITURES:						
Materials and service	49,000	49,000	31,171	1,673	32,844	16,156
Debt service:						
Principal	876,366	876,366	431,573	444,793	876,366	-
Interest	201,234	201,234	106,953	93,919	200,872	362
Contingency	2,282,539	2,282,539	-	-	-	2,282,539
Total expenditures	3,409,139	3,409,139	569,697	540,385	1,110,082	2,299,057
Revenues over (under) expenditures	(1,499,139)	(1,499,139)	682,157	488,483	1,170,640	2,669,779
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	316,056	316,056	316,056
Transfers out	(13,256,861)	(13,256,861)	(11,096,148)	(450,921)	(11,547,069)	1,709,792
Total other financing sources (uses)	(13,256,861)	(13,256,861)	(11,096,148)	(134,865)	(11,231,013)	2,025,848
Net changes in fund balances	(14,756,000)	(14,756,000)	(10,413,991)	353,618	(10,060,373)	4,695,627
FUND BALANCES, BEGINNING	14,756,000	14,756,000	12,650,648	2,236,657	12,650,648	(2,105,352)
FUND BALANCES, ENDING	\$ -	\$ -	\$ 2,236,657	\$ 2,590,275	\$ 2,590,275	\$ 2,590,275

CITY OF GLADSTONE, OREGON

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

For the Last Ten Fiscal Years¹

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
2020	0.03627490%	\$ 7,916,431	\$ 4,249,906	186.27%	75.80%
2019	0.04139676%	7,160,648	4,132,382	173.28%	80.20%
2018	0.03299445%	4,998,225	3,992,008	125.21%	82.10%
2017	0.02986788%	4,026,202	3,530,528	114.04%	83.10%
2016	0.31341150%	4,705,034	3,028,865	155.34%	80.53%
2015	0.02869354%	1,647,429	3,142,527	52.42%	91.90%
2014	0.02677427%	(606,896)	3,152,443	-19.25%	103.60%
2013	0.02869354%	673,613	2,233,312	30.16%	91.97%

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

¹This 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.

NOTES TO SCHEDULE

Changes in Benefit Terms:

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.

A legislative change that occurred after the December 31, 2017 valuation date affected the plan provisions reflected for financial reporting purposes. Senate Bill 1049, signed into law in June 2019, introduced a limit on the amount of annual salary included for the calculation of benefits. Beginning in 2020, annual salary in excess of \$195,000 (as indexed in future years) will be excluded when determining member benefits. As a result, future Tier 1/Tier 2 and OPSRP benefits for certain active members are now projected to be lower than prior to the legislation. Senate Bill 1049 was reflected in the June 30, 2019 Total Pension Liability as a reduction in liability.

Changes of Assumptions:

The PERS Board adopted assumption changes that were used to measure the June 30, 2016 total pension liability and June 30, 2018 total pension liability. For June 30, 2016, the changes included the lowering of the long-term expected rate of return to 7.50 percent and lowering of the assumed inflation to 2.50 percent. For June 30, 2018, the long-term expected rate of return was lowered to 7.20 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, OREGON
SCHEDULE OF CONTRIBUTIONS - PENSION
For the Last Ten Fiscal Years¹

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
2021	\$ 844,458	\$ 844,458	\$ -	\$ 4,380,604	19.28%
2020	780,267	780,267	-	4,249,906	18.36%
2019	524,556	524,556	-	4,132,382	12.69%
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 actuarial determined at December 31 and rolled forward to the measurement date.

¹This 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.

NOTES TO SCHEDULE

Actuarial Assumptions and Methods Used to Set the Actuarially Determined Contributions

	December 31, 2017	December 31, 2015	December 31, 2013	December 31, 2011
Actuarial valuation Effective	July 2019 - June 2021	July 2017 - June 2019	July 2015 - June 2017	July 2013 - June 2015
Actuarial cost method	Entry Age Normal			Projected Unit Credit
Amortization method	Level percentage of payroll			
Asset valuation method	Market Value			
Remaining amortization periods	20 years			N/A
Actuarial assumptions:	2.50 percent		2.75 percent	
Inflation rate	3.50 percent			
Projected salary increases	7.20 percent	7.50 percent	7.75 percent	8.00 percent
Investment rate of return				

CITY OF GLADSTONE, OREGON
SCHEDULE OF THE PROPORTIONATE SHARE OF OPEB - RHIA
For the Last Ten Fiscal Years¹

Measurement Date June 30,	(a) City's proportion of the net OPEB liability (asset)	(b) City's proportionate share of the net OPEB liability (asset)	(c) 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
2020	0.02979869%	\$ (60,718)	\$ 4,249,906	-1.43%	150.10%
2019	0.03233891%	(62,490)	4,132,382	-1.51%	144.40%
2018	0.03390207%	(37,844)	3,992,008	-0.95%	124.00%
2017	0.03037003%	(12,675)	3,530,528	-0.36%	108.90%
2016	0.02767864%	7,516	3,028,865	0.25%	94.15%

NOTES TO SCHEDULE

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

¹This 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.

Changes of Assumptions:

The PERS Board adopted assumption changes that were used to measure the June 30, 2018 total OPEB liability. The changes include lowering of the long-term expected rate of return to 7.20 percent. In addition, healthy retiree participation and healthy mortality assumptions were changes to reflect an updated trends and mortality improvement scale for all groups.

CITY OF GLADSTONE, OREGON
SCHEDULE OF CONTRIBUTIONS TO OPEB - RHIA
For the Last Ten Fiscal Years¹

Year Ended June 30,	(a) Contractually determined contribution	(b) Contributions in relation to the actuarially required contribution	(a-b) Contribution deficiency (excess)	(c) Covered payroll	(b/c) Contributions as a percent of covered payroll
2021	\$ 6,846	\$ 6,846	\$ -	\$ 4,380,604	0.16%
2020	2,128	2,128	-	4,249,906	0.05%
2019	16,028	16,028	-	4,132,382	0.39%
2018	16,415	16,415	-	3,992,008	0.41%

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

¹This 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.

NOTES TO SCHEDULE

Actuarial Assumptions and Methods Used to Set the Actuarially Determined Contributions

Actuarial valuation:	December 31, 2017	December 31, 2015	December 31, 2013	December 31, 2011
Effective:	July 2019 - June 2021	July 2017 - June 2019	July 2015 - June 2017	December 31, 2011
Actuarial cost method:	Entry Age Normal			Projected Unit Credit
Amortization method:	Level percentage of payroll, closed			
Amortization period:	10 years			
Asset valuation method:	Market value			
Remaining amortization periods:	10 years	20 years		N/A
Actuarial assumptions	2.50 percent		2.75 percent	
Inflation rate	3.50 percent		3.75 percent	
Projected salary increases	7.20 percent	7.50 percent	7.75 percent	8.00 percent
Investment rate of return	None. Statute stipulates \$60 monthly payment for healthcare insurance			
Healthcare cost trend rates				

CITY OF GLADSTONE, OREGON
SCHEDULE OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS - IMPLICIT RATE SUBSIDY
For the Last Ten Fiscal Years¹

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability				
Service Interest	\$ 28,330	\$ 25,425	\$ 37,095	\$ 37,095
Interest	16,034	16,899	20,130	18,962
Changes of benefit terms	-	-	-	-
Differences between economic/demographic gains or losses	27,862	-	-	-
Changes of assumptions	(2,207)	10,725	-	-
Benefit payment	(38,010)	(206,544)	(23,363)	(22,017)
Net change in total OPEB liability	<u>32,009</u>	<u>(153,495)</u>	<u>33,862</u>	<u>34,040</u>
Total OPEB liability - beginning	<u>448,631</u>	<u>602,126</u>	<u>568,264</u>	<u>534,224</u>
Total OPEB liability - ending (a)	<u><u>\$ 480,640</u></u>	<u><u>\$ 448,631</u></u>	<u><u>\$ 602,126</u></u>	<u><u>\$ 568,264</u></u>
Covered-employee payroll	\$ 4,380,604	\$ 4,249,906	\$ 4,132,382	\$ 3,992,008
Total OPEB liability as a percentage of covered-employee payroll	10.97%	10.56%	14.57%	14.24%

NOTES TO SCHEDULE

The amounts presented for each fiscal year were actuarial determined at July 1 and rolled forward to the measurement date.

¹This 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 TO OPEB - IMPLICIT RATE SUBSIDY
For the Last Ten Fiscal Years¹

Year Ended June 30,	(a) Actuarially determined contribution	(b) Contributions in relation to the actuarially required contribution	(a-b) Contribution deficiency (excess)	(c) Covered employee payroll	(b/c) Contributions as a percent of covered payroll
2021	\$ 8,259	\$ 8,259	\$ -	\$ 4,380,604	0.19%
2020	38,710	38,710	-	4,249,906	0.91%
2019	23,363	23,363	-	4,132,382	0.57%
2018	22,017	22,017	-	3,992,008	0.55%
2017	23,634	23,634	-	3,530,528	0.67%

NOTES TO SCHEDULE

The amounts presented for each fiscal year were actuarial determined at July 1 and rolled forward to the measurement date.

¹This 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.

Actuarial Assumptions and Methods Used to Set the Actuarially Determined Contributions

Actuarial valuation:	July 1, 2020	July 1, 2018	July 1, 2016
Effective:	June 30, 2020 and 2021	June 30, 2018 and 2019	June 30, 2016 and 2017
Actuarial cost method:	Entry Age Normal		
Amortization method:	Level percentage of payroll, closed		
Amortization period:	5.8 years	6.8 years	7.7 years
Asset valuation method:	Market value		
Remaining amortization periods:	20 years		
Actuarial assumptions:			
Inflation rate	2.50 percent		
Projected salary increases	3.50 percent		

CITY OF GLADSTONE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2021

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, with some exceptions. 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, approved through budget transfer resolutions, during the year ended June 30, 2021. The City Council approved on June 8, 2021 adjustments to the General Fund for Federal CARES grant funding received for COVID-19 related costs and impacts, along with Oregon Department of Fish & Wildlife funding for the Meldrum Bar dredging project. Appropriations lapse as of year-end.

No expenditures exceeded appropriation levels in the year ended June 30, 2021. The Civics Building Capital Fund closed at the end of the fiscal year, with Council approval through Resolution No. 1197 due to defunding of future appropriations. Funds were transferred back to the Urban Renewal District through Operating transfers out but is classified as an exception of Local Budget Law under ORS 294.353.

THIS PAGE INTENTIONALLY LEFT BLANK

OTHER SUPPLEMENTARY INFORMATION

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
- Civic Center Capital Fund

CITY OF GLADSTONE, OREGON
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2021

	Budget for the 2019-2021 Biennium		Actual	Actual	Total	Variance with Final Budget
	Original	Final	1st Year FY 2019-20	2nd Year FY 2020-21		
General Administration:						
Personnel services	\$ 1,699,684	\$ 1,324,684	\$ 610,796	\$ 616,657	\$ 1,227,453	\$ 97,231
Materials and services	1,574,460	1,949,460	703,386	743,779	1,447,165	502,295
Subtotal	3,274,144	3,274,144	1,314,182	1,360,436	2,674,618	599,526
Information Technology:						
Personnel services	278,009	278,009	121,277	151,815	273,092	4,917 *
Materials and services	112,504	112,504	70,970	50,966	121,936	(9,432) *
Capital outlay	27,500	27,500	1,921	-	1,921	25,579 *
Subtotal	418,013	418,013	194,168	202,781	396,949	21,064
Facilities:						
Personnel services	123,986	123,986	61,709	68,111	129,820	(5,834) *
Materials and services	360,700	360,700	133,738	199,968	333,706	26,994 *
Capital outlay	297,000	342,000	110,923	61,884	172,807	169,193 *
Subtotal	781,686	826,686	306,370	329,963	636,333	190,353
Municipal Court:						
Personnel services	434,926	434,926	210,414	212,362	422,776	12,150
Materials and services	276,100	276,100	113,562	113,897	227,459	48,641
Subtotal	711,026	711,026	323,976	326,259	650,235	60,791
Police:						
Personnel services	4,612,408	4,612,408	2,089,261	2,281,340	4,370,601	241,807
Materials and services	682,748	682,748	265,694	253,868	519,562	163,186
Capital outlay	225,000	225,000	109,823	16,542	126,365	98,635
Subtotal	5,520,156	5,520,156	2,464,778	2,551,750	5,016,528	503,628
Fire:						
Personnel services	2,214,070	2,214,070	1,066,104	1,199,358	2,265,462	(51,392) *
Materials and services	792,330	1,175,644	318,594	477,664	796,258	379,386 *
Capital outlay	511,061	702,681	450,925	2,141	453,066	249,615 *
Subtotal	3,517,461	4,092,395	1,835,623	1,679,163	3,514,786	577,609
Parks:						
Personnel services	656,978	656,978	311,183	308,806	619,989	36,989
Materials and services	406,860	406,860	133,252	190,590	323,842	83,018
Capital outlay	188,611	317,143	39,922	264,425	304,347	12,796
Subtotal	1,252,449	1,380,981	484,357	763,821	1,248,178	132,803
Recreation:						
Personnel services	66,000	66,000	18,707	-	18,707	47,293
Materials and services	10,200	10,200	1,934	251	2,185	8,015
Subtotal	76,200	76,200	20,641	251	20,892	55,308
Senior Center:						
Personnel services	562,487	562,487	262,049	181,029	443,078	119,409
Materials and services	95,768	95,768	38,419	16,869	55,288	40,480
Capital outlay	13,000	13,000	-	-	-	13,000
Subtotal	671,255	671,255	300,468	197,898	498,366	172,889
Library:						
Personnel services	555,000	555,000	192,752	-	192,752	362,248
Materials and services	421,550	421,550	182,223	200,005	382,228	39,322
Subtotal	976,550	976,550	374,975	200,005	574,980	401,570
Total expenditures	\$ 17,198,940	\$ 17,947,406	\$ 7,619,538	\$ 7,612,327	\$ 15,231,865	\$ 2,715,541

* Expenditures are appropriated together by Governmental Function.

**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, 2021**

	Budget for the 2019-2021 Biennium		Actual	Actual	Total	Variance with Final Budget
	Original	Final	1st Year FY 2019-20	2nd Year FY 2020-21		
EXPENDITURES:						
Capital outlay	\$ 12,766,000	\$ 12,766,000	\$ 10,699,980	\$ 40,937	\$ 10,740,917	\$ 2,025,083
Total expenditures	12,766,000	12,766,000	10,699,980	40,937	10,740,917	2,025,083
OTHER FINANCING SOURCES (USES):						
Transfers in	12,766,000	12,766,000	10,850,883	205,324	11,056,207	(1,709,793)
Transfers out	-	-	-	(316,056)	(316,056)	(316,056) *
Total other financing sources (uses)	12,766,000	12,766,000	10,850,883	(110,732)	10,740,151	(2,025,849)
Net changes in fund balances	-	-	150,903	(151,669)	(766)	(766)
FUND BALANCES, BEGINNING	-	-	766	151,669	766	766
FUND BALANCES, ENDING	\$ -	\$ -	\$ 151,669	\$ -	\$ -	\$ -

* Exception to Oregon Budget Law requirements

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, 2021

	Budget for the		Actual		Total	Variance with Final Budget
	2019-2021 Biennium		1st Year	2nd Year		
	Original	Final	FY 2019-20	FY 2020-21		
REVENUES:						
Service charges	\$ 3,419,750	\$ 3,419,750	\$ 1,871,349	\$ 2,326,614	\$ 4,197,963	\$ 778,213
Connection and installation fees	10,000	10,000	8,485	7,410	15,895	5,895
System development charges	10,000	10,000	64,660	50,168	114,828	104,828
Miscellaneous	20,000	20,000	10,289	3,716	14,005	(5,995)
Total revenues	3,459,750	3,459,750	1,954,783	2,387,908	4,342,691	882,941
EXPENDITURES:						
Personnel service	859,873	859,873	389,768	406,327	796,095	63,778
Materials and service	2,006,160	2,006,160	797,923	809,996	1,607,919	398,241
Capital outlay	1,777,762	1,777,762	155,224	21,009	176,233	1,601,529
Debt service:						
Principal	317,000	317,000	155,000	162,000	317,000	-
Interest	40,124	40,124	20,154	16,833	36,987	3,137
Contingency	400,000	400,000	-	-	-	400,000
Total expenditures	5,400,919	5,400,919	1,518,069	1,416,165	2,934,234	2,466,685
Revenues over (under) expenditures	(1,941,169)	(1,941,169)	436,714	971,743	1,408,457	3,349,626
OTHER FINANCING SOURCES (USES):						
Transfers in	169,560	169,560	64,775	55,515	120,290	(49,270)
Transfers out	(237,391)	(237,391)	(126,519)	(110,872)	(237,391)	-
Total other financing sources (uses)	(67,831)	(67,831)	(61,744)	(55,357)	(117,101)	(49,270)
Net changes in fund balances	(2,009,000)	(2,009,000)	374,970	916,386	1,291,356	3,300,356
FUND BALANCE, BEGINNING- BUDGETARY BASIS	2,009,000	2,009,000	2,728,517	3,103,487	2,728,517	719,517
FUND BALANCES, ENDING - BUDGETARY BASIS	\$ -	\$ -	\$ 3,103,487	\$ 4,019,873	\$ 4,019,873	\$ 4,019,873

	Revenues	Expenditures/ Expenses
Total revenue and expenditures above	\$ 2,387,908	\$ 1,416,165
Operating transfers in/out	55,515	110,872
Expenditures capitalized	-	(20,964)
Compensated absences	-	(39,916)
Debt service principal payments	-	(162,000)
Depreciation expense	-	151,834
Net pension activity	-	46,255
Net OPEB asset	-	234
Net OPEB obligation	-	(422)
Equity in net income/loss of joint venture	49,651	-
Total revenues and expenses - generally accepted accounting principles	\$ 2,493,074	1,502,058
Change in net position		\$ 991,016

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, 2021

	Budget for the 2019-2021 Biennium		Actual	Actual	Total	Variance with Final Budget
	Original	Final	1st Year FY 2019-20	2nd Year FY 2020-21		
REVENUES:						
Service charge	\$ 4,823,331	\$ 4,823,331	\$ 2,648,334	\$ 3,463,992	\$ 6,112,326	\$ 1,288,995
Connection and installation fees	10,000	10,000	38	19	57	(9,943)
System development charge	15,000	15,000	74,933	71,744	146,677	131,677
Miscellaneous	2,000	2,000	13,949	2,005	15,954	13,954
Total revenues	4,850,331	4,850,331	2,737,254	3,537,760	6,275,014	1,424,683
EXPENDITURES:						
Personnel service	676,057	676,057	290,963	309,934	600,897	75,160
Materials and service	3,993,373	3,993,373	1,838,220	1,959,752	3,797,972	195,401
Capital outlay	949,046	949,046	160,913	275,249	436,162	512,884
Contingency	35,000	35,000	-	-	-	35,000
Total expenditures	5,653,476	5,653,476	2,290,096	2,544,935	4,835,031	818,445
Revenues over (under) expenditures	(803,145)	(803,145)	447,158	992,825	1,439,983	2,243,128
OTHER FINANCING SOURCES (USES):						
Transfers in	169,560	169,560	64,775	55,515	120,290	(49,270)
Transfers out	(302,415)	(302,415)	(162,791)	(139,624)	(302,415)	-
Total other financing sources (uses)	(132,855)	(132,855)	(98,016)	(84,109)	(182,125)	(49,270)
Net changes in fund balances	(936,000)	(936,000)	349,142	908,716	1,257,858	2,193,858
FUND BALANCE, BEGINNING- BUDGETARY BASIS	936,000	936,000	1,202,166	1,551,308	1,202,166	266,166
FUND BALANCES, ENDING - BUDGETARY BASIS	\$ -	\$ -	\$ 1,551,308	\$ 2,460,024	\$ 2,460,024	\$ 2,460,024
					Revenues	Expenditures/ Expenses
Total revenue and expenditures above					\$ 3,537,760	\$ 2,544,935
Operating transfers in/out					55,515	139,624
Expenditures capitalized					-	(275,186)
Compensated absences					-	4,629
Depreciation expense					-	142,844
Net pension activity					-	44,659
Net OPEB asset					-	92
Net OPEB obligation					-	312
Total revenues and expenses - generally accepted accounting principles					\$ 3,593,275	2,601,909
Change in net position						\$ 991,366

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, 2021

	Budget for the		Actual	Actual	Total	Variance with Final Budget
	2019-2021 Biennium					
	Original	Final	FY 2019-20	FY 2020-21		
REVENUES:						
Service charge	\$ 1,593,530	\$ 1,593,530	\$ 694,398	\$ 835,418	\$ 1,529,816	\$ (63,714)
System development charge	10,000	10,000	55,250	31,008	86,258	76,258
Miscellaneous	-	-	10,289	-	10,289	10,289
Total revenues	1,603,530	1,603,530	759,937	866,426	1,626,363	22,833
EXPENDITURES:						
Personnel service	562,789	562,789	205,495	226,118	431,613	131,176
Materials and service	238,960	238,960	93,408	98,329	191,737	47,223
Capital outlay	995,917	995,917	109,456	31,710	141,166	854,751
Contingency	100,000	100,000	-	-	-	100,000
Total expenditures	1,897,666	1,897,666	408,359	356,157	764,516	1,133,150
Revenues over (under) expenditures	(294,136)	(294,136)	351,578	510,269	861,847	1,155,983
OTHER FINANCING SOURCES (USES):						
Transfers in	169,560	169,560	64,775	55,515	120,290	(49,270)
Transfers out	(140,424)	(140,424)	(65,092)	(75,330)	(140,422)	2
Total other financing sources (uses)	29,136	29,136	(317)	(19,815)	(20,132)	(49,268)
Net changes in fund balances	(265,000)	(265,000)	351,261	490,454	841,715	1,106,715
FUND BALANCE, BEGINNING- BUDGETARY BASIS	265,000	265,000	378,889	730,150	378,889	113,889
FUND BALANCES, ENDING - BUDGETARY BASIS	\$ -	\$ -	\$ 730,150	\$ 1,220,604	\$ 1,220,604	\$ 1,220,604
					Revenues	Expenditures/ Expenses
Total revenue and expenditures above					\$ 866,426	\$ 356,157
Operating transfers in/out					55,515	75,330
Expenditures capitalized					-	(31,672)
Compensated absences					-	273
Depreciation expense					-	21,816
Net pension liability					-	50,161
Net OPEB Asset					-	(251)
Net OPEB liability					-	2,247
Total revenues and expenses - generally accepted accounting principles					\$ 921,941	474,061
Change in net position						\$ 447,880

THIS PAGE INTENTIONALLY LEFT BLANK

AUDIT COMMENTS AND DISCLOSURES

**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**

The Honorable Mayor, City Council, Audit Committee
City of Gladstone, Oregon

We have audited the basic financial statements of the City of Gladstone, as of and for the year ended June 30, 2021 and have issued our report thereon dated January 7, 2022. 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. Our report includes a reference to other auditors who audited the financial statements of the North Clackamas County Water Commission, a joint venture of the Gladstone Urban Renewal Agency, as described in our report on the City of Gladstone, Oregon's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Compliance

As part of obtaining reasonable assurance about whether the City of Gladstone'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 162-10-0000 through 162-10-0330 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, as set forth below, noncompliance with which could have a direct and material effect on the financial statements:

- 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. The results of our tests and those of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Minimum Standards for Audits of Oregon Municipal Corporations*.

Internal Control Over OAR 162-10-0230

In planning and performing our audit of the financial statements, we considered the City of Gladstone's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Gladstone's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Gladstone'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 a 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 and the other auditors 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+Co
Tualatin, Oregon
January 7, 2022