

CITY OF GLADSTONE, OREGON

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

For the Fiscal Year Ended

June 30, 2012

with

Independent Auditor's Report

MERINA
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INTRODUCTORY SECTION

CITY OF GLADSTONE, OREGON
CITY OFFICIALS
June 30, 2012

City Officials

Wade Byers, Mayor
Gladstone, Oregon 97027

Term Expires
December 31, 2014

Council Members

Hal Busch
Gladstone, Oregon 97027

December 31, 2014

Ray Jaren
Gladstone, Oregon 97027

December 31, 2014

Kari Martinez
Gladstone, Oregon 97027

December 31, 2014

Walt Fitch
Gladstone, Oregon 97027

December 31, 2012

Len Nelson
Gladstone, Oregon 97027

December 31, 2012

Thomas Mersereau
Gladstone, Oregon 97027

December 31, 2012

City Administrator

Peter Boyce
Gladstone, Oregon 97027

Assistant City Administrator

Jolene Morishita
Gladstone, Oregon 97027

Municipal Judge

Linda Beloof
Gladstone, Oregon 97027

CITY OF GLADSTONE, OREGON

CITY OFFICIALS

June 30, 2012

Chief of Police

Jim Pryde

Gladstone, Oregon 97027

Fire Chief

Stan Monte

Gladstone, Oregon 97027

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gladstone (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gladstone, Oregon, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis 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 required supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladstone, Oregon's financial statements as a whole. The introductory section, and other supplementary information, are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



Merina & Company, LLP
West Linn, Oregon
January 29, 2012

JUNE 30, 2012
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, 2012.

Financial Highlights

The assets of the City of Gladstone exceeded its liabilities at the close of the most recent fiscal year by \$31,498,109 (net assets). Of this amount, \$17,699,204 is invested in capital assets, net of related debt, \$4,902,526 is restricted for specific purposes, and \$8,896,379 (unrestricted net assets) may be used to meet the government's obligations to creditors and to meet service expectations by its citizens. The City's total net assets increased by \$1,206,813 from prior year.

The City's governmental activities reported total net assets of \$22,018,550. Of this amount \$4,310,464 is unrestricted and thus available for spending at the City's discretion.

The City's business-type activities reported total net assets of \$9,479,559. Of this amount \$4,585,915 is unrestricted and thus available for spending at the City's discretion.

The City's governmental funds reported combined ending fund balances of \$9,010,157, an increase of \$724,865 compared to the prior year. The increase is primarily due to the addition of the Library Capital fund.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Gladstone's basic financial statements. The statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements. Government-wide financial statements are designed to provide readers with a broad overview of the City of Gladstone's finances in a manner similar to a private-sector business.

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

A statement of activities in this discussion and analysis presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related

cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave). Governmental activities of the City of Gladstone include general government, public safety, highways and streets, culture and recreation and urban renewal. Urban renewal is considered a component of the City of Gladstone even though it has separate financial statements and management discussion and analysis. Business type activities consist of water and sewer.

Fund Financial Statements. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Gladstone, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Gladstone can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

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

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

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

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$31,498,109 at the close of the most recent fiscal year. The following table reflects a Summary of Net Assets for these fiscal years.

TABLE 1
Summary of Net Assets as of June 30,

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Cash and investments	\$ 8,165,139	\$ 7,742,621	\$ 1,658,170	\$ 1,407,430	\$ 9,823,309	\$ 9,150,051
Restricted cash and investments	278,606	240,059	272,733	253,610	551,339	493,669
Other assets	962,361	928,588	3,188,087	3,310,667	4,150,448	4,239,255
Capital assets	13,078,293	12,838,725	6,670,911	6,680,557	19,749,204	19,519,282
Total assets	\$ 22,484,399	\$ 21,749,993	\$ 11,789,901	\$ 11,652,264	\$ 34,274,300	\$ 33,402,257
Current liabilities	331,918	614,071	359,901	339,919	691,819	953,990
Long-term debt	133,931	96,527	1,950,441	2,060,444	2,084,372	2,156,971
Total liabilities	465,849	710,598	2,310,342	2,400,363	2,776,191	3,110,961
Net assets						
Investment in capital assets, net of debt	\$ 13,078,293	\$ 12,838,725	\$ 4,620,911	\$ 4,530,557	\$ 17,699,204	\$ 17,369,282
Restricted	4,629,793	4,266,050	272,733	253,610	4,902,526	4,519,660
Unrestricted	4,310,464	3,934,620	4,585,915	4,467,734	8,896,379	8,402,354
Total net assets	\$ 22,018,550	\$ 21,039,395	\$ 9,479,559	\$ 9,251,901	\$ 31,498,109	\$ 30,291,296

By far the largest portion of the City of Gladstone's net assets reflect its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets do not have financial liquidity easily available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to pay these liabilities. The remaining balance of \$8,896,379 is unrestricted net assets 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 2012 and 2011.

TABLE 2
Governmental and Proprietary Activities

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Receipts						
Program receipts						
Charges for services	\$ 409,395	\$ 356,824	\$ 2,551,173	\$ 2,452,225	\$ 2,960,568	\$ 2,809,049
Operating grants and contributions	44,603	190,783	-	-	44,603	190,783
Capital grants and contributions	143,068	3,408,078	-	-	143,068	3,408,078
General receipts						
Property tax	4,835,387	4,653,887	-	-	4,835,387	4,653,887
Franchise fees and public service	1,961,921	1,936,218	-	-	1,961,921	1,936,218
Grants and contributions not rest	-	-	-	-	-	-
Interest	51,499	35,416	-	-	51,499	35,416
Other	57,754	-	4,917	1,250	62,671	1,250
Total receipts	7,503,627	10,581,206	2,556,090	2,453,475	10,059,717	13,034,681
Expenses						
Governmental activities						
General government	920,437	933,572	-	-	920,437	933,572
Public safety	3,592,482	3,551,900	-	-	3,592,482	3,551,900
Highways and streets	623,193	529,939	-	-	623,193	529,939
Culture and recreation	1,404,812	1,193,176	-	-	1,404,812	1,193,176
Urban renewal	28,361	15,702	-	-	28,361	15,702
Business type activities						
Water	-	-	742,615	830,774	742,615	830,774
Sewer	-	-	1,407,357	1,302,304	1,407,357	1,302,304
Total expenses	6,569,285	6,224,289	2,149,972	2,133,078	8,719,257	8,357,367
Change in net assets before transfers	934,342	4,356,917	406,118	320,397	1,340,460	4,677,314
Transfers	23,270	23,235	(23,270)	(23,235)	-	-
Equity income (loss) in joint venture			(155,190)	(88,724)	(155,190)	(88,724)
Changes in net assets	957,612	4,380,152	227,658	208,438	1,185,270	4,588,590
Beginning net assets	21,039,395	16,659,243	9,251,901	9,043,463	30,291,296	25,702,706
Prior period adjustments	21,543				21,543	
Ending net assets	\$ 22,018,550	\$ 21,039,395	\$ 9,479,559	\$ 9,251,901	\$ 31,498,109	\$ 30,291,296

Governmental activities. Governmental activities increased the City of Gladstone's net assets by \$957,612.

Business-type activities. Business-type activities increased the City of Gladstone's net assets by \$227,658.

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, unreserved fund balance may serve as useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the fiscal year, the City of Gladstone's governmental funds reported combined ending fund balances of \$9,010,157.

Proprietary funds. The City's proprietary funds are the same as the enterprise 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.

Budgetary Highlights

Changes to the General Fund budget included an appropriation transfer from Contingency of \$100,000 to cover operations in the Parks Department, Recreation Department, and Senior Center.

Capital Assets and Debt Administration

The following tables compare capital assets and changes in capital assets as of June 30, 2012 and June 30, 2011.

Table 3
Capital Assets at Year-end
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 5,519,830	\$ 5,519,830	\$ 640,964	\$ 640,964	\$ 6,160,794	\$ 6,160,794
Construction in Progress	1,223,341	764,671	-	-	1,223,341	764,671
Buildings	2,207,650	2,256,387	19,465	21,681	2,227,115	2,278,068
Motor vehicles and equipment	820,748	903,736	53,466	75,064	891,252	978,800
Intangible Assets	17,475	-	-	-	17,475	-
Investment in joint venture	-	-	3,057,893	3,213,083	3,057,893	3,213,083
Infrastructure	3,289,686	3,394,101	5,957,016	5,942,848	9,246,702	9,336,949
Total	\$13,078,293	\$12,838,725	\$ 9,728,804	\$ 9,893,640	\$22,807,097	\$22,732,365

Table 4
Changes in Capital Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Beginning balance	\$ 12,838,725	\$ 11,249,712	\$ 9,893,640	\$ 10,051,246	\$ 22,732,365	\$ 21,300,958
Additions	715,716	2,187,204	216,679	150,579	932,395	2,337,783
Depreciation	(467,349)	(440,791)	(226,325)	(219,461)	(693,674)	(660,252)
Deletions	(8,799)	(157,400)	(155,190)	(88,724)	(163,989)	(246,124)
Ending Balance	<u>\$ 13,078,293</u>	<u>\$ 12,838,725</u>	<u>\$ 9,728,804</u>	<u>\$ 9,893,640</u>	<u>\$ 22,807,097</u>	<u>\$ 22,732,365</u>

Long-term debt. At June 30, 2012, the City had bonded debt outstanding of \$2,050,000 compared to \$2,150,000 at June 30, 2011. 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 \$24,324,831.

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

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

BASIC FINANCIAL STATEMENTS

BASIC FINANCIAL STATEMENTS

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

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

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

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CITY OF GLADSTONE, OREGON
STATEMENT OF NET ASSETS
June 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 8,165,139	\$ 1,658,170	\$ 9,823,309
Cash with county treasurer	21,939	-	21,939
Accounts receivable	38,025	419,431	457,456
Property taxes receivable	322,414	-	322,414
Prepays	-	155,575	155,575
Due from other governments	54,392	-	54,392
Miscellaneous	28,607	-	28,607
Total current assets	8,630,516	2,233,176	10,863,692
Noncurrent assets:			
Internal balances	496,984	(496,984)	-
Restricted cash and investments	278,606	272,733	551,339
Assessments receivable	-	6,062	6,062
Bond issue cost	-	43,546	43,546
Interest receivable	-	2,564	2,564
Investment in joint venture	-	3,057,893	3,057,893
Capital assets:			
Non depreciable	6,743,171	640,964	7,384,135
Depreciable, net	6,335,122	6,029,947	12,365,069
Total noncurrent assets	13,853,883	9,556,725	23,410,608
Total assets	22,484,399	11,789,901	34,274,300
LIABILITIES			
Current liabilities:			
Accounts payable	97,420	192,958	290,378
Interest payable	-	40,252	40,252
Accrued compensated absences	234,498	11,691	246,189
Bonds payable - current maturity	-	115,000	115,000
Total current liabilities	331,918	359,901	691,819
Noncurrent liabilities:			
Bonds payable	-	1,935,000	1,935,000
OPEB liability	133,931	15,441	149,372
Total noncurrent liabilities	133,931	1,950,441	2,084,372
Total liabilities	465,849	2,310,342	2,776,191
NET ASSETS			
Invested in capital assets, net of related debt	13,078,293	4,620,911	17,699,204
Restricted for:			
911 system	27,518	-	27,518
Street operations	431,374	-	431,374
Senior center	166,015	-	166,015
Library capital projects	2,029,338	-	2,029,338
System development	-	272,733	272,733
Urban Renewal development	1,975,548	-	1,975,548
Unrestricted	4,310,464	4,585,915	8,896,379
Total net assets	22,018,550	9,479,559	31,498,109
Total liabilities and net assets	\$ 22,484,399	\$ 11,789,901	\$ 34,274,300

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, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 920,437	\$ -	\$ -	\$ -
Public safety	3,592,482	249,955	6,967	10,115
Highways and streets	623,193	36,154	-	11,325
Urban and renewal	28,361	-	-	-
Culture and recreation	1,404,812	123,286	37,636	121,628
Total governmental activities	<u>6,569,285</u>	<u>409,395</u>	<u>44,603</u>	<u>143,068</u>
Business-type activities:				
Water Fund	742,615	1,071,450	-	-
Sewer Fund	1,407,357	1,479,723	-	-
Total business type activities	<u>2,149,972</u>	<u>2,551,173</u>	<u>-</u>	<u>-</u>
Total government	<u>\$ 8,719,257</u>	<u>\$ 2,960,568</u>	<u>\$ 44,603</u>	<u>\$ 143,068</u>

General revenues:

Taxes:

 Property taxes

 Public service taxes

Franchise fees

Interest and investment earnings

Gain (loss) in joint venture

Miscellaneous

Transfers in (out)

Total general revenues and transfers

Change in net assets

Net assets - beginning

Prior period adjustment

Net assets - ending

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

Net Expense Revenue and Change in Net Asset		
Governmental Activities	Business Type Activities	Total
\$ (920,437)	\$ -	\$ (920,437)
(3,325,445)	-	(3,325,445)
(575,714)	-	(575,714)
(28,361)	-	(28,361)
(1,122,262)	-	(1,122,262)
<u>(5,972,219)</u>	<u>-</u>	<u>(5,972,219)</u>
-	328,835	328,835
-	72,366	72,366
-	401,201	401,201
<u>(5,972,219)</u>	<u>401,201</u>	<u>(5,571,018)</u>
4,835,387	-	4,835,387
1,447,227	-	1,447,227
514,694	-	514,694
51,499	-	51,499
-	(155,190)	(155,190)
57,754	4,917	62,671
23,270	(23,270)	-
<u>6,929,831</u>	<u>(173,543)</u>	<u>6,756,288</u>
957,612	227,658	1,185,270
21,039,395	9,251,901	30,291,296
<u>21,543</u>	<u>-</u>	<u>21,543</u>
<u>\$ 22,018,550</u>	<u>\$ 9,479,559</u>	<u>\$ 31,498,109</u>

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

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FUND FINANCIAL STATEMENTS
Major Governmental Funds

General Fund

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

State Revenue Sharing Fund

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

Road and Street Fund

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

Urban Renewal Agency Fund

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

Library Capital Fund

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

CITY OF GLADSTONE, OREGON
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012

	General Fund	State Revenue Sharing Fund	Road and Street Fund
ASSETS			
Cash and investments	\$ 2,421,822	\$ 618,728	\$ 268,420
Restricted cash and investments	166,015	-	112,591
Cash with county treasurer	14,916	-	-
Accounts receivable	-	23,910	-
Property taxes receivable	219,038	-	-
Due from other funds	-	496,984	-
Due from other governments	-	-	54,392
Miscellaneous	28,607	-	-
	<u>2,850,398</u>	<u>1,139,622</u>	<u>435,403</u>
Total assets	<u>\$ 2,850,398</u>	<u>\$ 1,139,622</u>	<u>\$ 435,403</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 93,182	\$ -	\$ 4,029
Deferred revenue	202,795	-	-
	<u>295,977</u>	<u>-</u>	<u>4,029</u>
Total liabilities	<u>295,977</u>	<u>-</u>	<u>4,029</u>
FUND BALANCES:			
Restricted			
911 system	-	-	-
Street operations	-	-	431,374
Senior center	166,015	-	-
Library capital projects	-	-	-
Urban Renewal development	-	-	-
Assigned:			
Capital projects	-	1,139,622	-
Police services	-	-	-
Fire and emergency services	-	-	-
Unassigned	2,388,406	-	-
	<u>2,554,421</u>	<u>1,139,622</u>	<u>431,374</u>
Total fund balance	<u>2,554,421</u>	<u>1,139,622</u>	<u>431,374</u>
Total liabilities and fund balance	<u>\$ 2,850,398</u>	<u>\$ 1,139,622</u>	<u>\$ 435,403</u>

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

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

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

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

Net assets of governmental activities

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

Urban Renewal Agency Fund	Library Capital Fund	Other Governmental	Total Governmental
\$ 1,967,723	\$ 2,029,338	\$ 859,108	\$ 8,165,139
-	-	-	278,606
3,749	-	3,274	21,939
-	-	14,115	38,025
55,170	-	48,206	322,414
-	-	-	496,984
-	-	-	54,392
-	-	-	28,607
<u>\$ 2,026,642</u>	<u>\$ 2,029,338</u>	<u>\$ 924,703</u>	<u>\$ 9,406,106</u>

\$ -	\$ -	\$ 209	\$ 97,420
51,094	-	44,640	298,529
<u>51,094</u>	<u>-</u>	<u>44,849</u>	<u>395,949</u>

-	-	27,518	27,518
-	-	-	431,374
-	-	-	166,015
1,975,548	2,029,338	-	2,029,338
-	-	-	1,975,548
-	-	-	1,139,622
-	-	405,215	405,215
-	-	447,121	447,121
-	-	-	2,388,406
<u>1,975,548</u>	<u>2,029,338</u>	<u>879,854</u>	<u>9,010,157</u>
<u>\$ 2,026,642</u>	<u>\$ 2,029,338</u>	<u>\$ 924,703</u>	

13,078,293

298,529

(368,429)

\$ 22,018,550

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, 2012

	General Fund	State Revenue Sharing Fund	Road and Street Fund
REVENUES:			
Property taxes	\$ 3,253,232	\$ -	\$ -
Public service taxes	668,667	96,742	626,123
Franchise taxes	514,694	-	-
Grants	140,260	-	11,325
Charges for services	123,286	-	36,154
Licenses and permits	22,683	-	-
Fines and forfeitures	227,272	-	-
Contributions and donations	34,336	-	-
Interest	23,046	2,885	-
Miscellaneous	55,086	-	2,668
	<u>5,062,562</u>	<u>99,627</u>	<u>676,270</u>
EXPENDITURES:			
Current:			
General government	897,406	-	-
Public safety	2,484,062	-	-
Highways and streets	-	-	404,451
Urban and renewal	-	-	-
Culture and recreation	1,189,424	-	-
Capital outlay	183,275	2,213	95,030
	<u>4,754,167</u>	<u>2,213</u>	<u>499,481</u>
Total expenditures	<u>4,754,167</u>	<u>2,213</u>	<u>499,481</u>
Revenues over (under) expenditur	308,395	97,414	176,789
OTHER FINANCING SOURCES (USES):			
Transfers in	94,246	-	-
Transfers out	-	-	(53,696)
	<u>94,246</u>	<u>-</u>	<u>(53,696)</u>
Total other financing sources (use)	<u>94,246</u>	<u>-</u>	<u>(53,696)</u>
Net changes in fund balances	402,641	97,414	123,093
FUND BALANCES, BEGINNING	2,151,780	1,020,665	308,281
Prior Period Adjustment	-	21,543	-
FUND BALANCES, ENDING	<u>\$ 2,554,421</u>	<u>\$ 1,139,622</u>	<u>\$ 431,374</u>

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

Urban Renewal Agency Fund	Library Capital Fund	Other Governmental	Total Governmental
\$ 821,591	\$ -	\$ 714,125	\$ 4,788,948
-	-	55,695	1,447,227
-	-	-	514,694
-	-	-	151,585
-	-	-	159,440
-	-	-	22,683
-	-	-	227,272
-	550	1,200	36,086
8,482	12,183	4,903	51,499
-	-	-	57,754
<u>830,073</u>	<u>12,733</u>	<u>775,923</u>	<u>7,457,188</u>
-	-	-	897,406
-	-	616,045	3,100,107
-	-	-	404,451
28,202	-	-	28,202
-	-	-	1,189,424
<u>107,776</u>	<u>470,075</u>	<u>299,177</u>	<u>1,157,546</u>
<u>135,978</u>	<u>470,075</u>	<u>915,222</u>	<u>6,777,136</u>
694,095	(457,342)	(139,299)	680,052
-	-	-	94,246
-	-	(17,280)	(70,976)
-	-	(17,280)	23,270
694,095	(457,342)	(156,579)	703,322
1,281,453	2,486,680	1,036,433	8,285,292
-	-	-	21,543
<u>\$ 1,975,548</u>	<u>\$ 2,029,338</u>	<u>\$ 879,854</u>	<u>\$ 9,010,157</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, 2012

Amounts reported in the statement of activities are different because:

Net change in fund balances	\$ 703,322
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.	239,568
Some revenue reported in the statement of activities do not provide current financial resources in the governmental funds.	46,439
Accrued compensated absences and OPEB obligations are not due and payable in the current period and therefore are not reported in the funds.	<u>(31,717)</u>
Change in net assets of governmental activities	<u><u>\$ 957,612</u></u>

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

FUND FINANCIAL STATEMENTS

Proprietary Funds

Enterprise Funds

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

Water Fund

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

Sewer Fund

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

CITY OF GLADSTONE, OREGON
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2012

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Cash and investments	\$ 717,915	\$ 940,255	\$ 1,658,170
Trade accounts receivable	180,355	239,076	419,431
Prepays	155,575	-	155,575
Total current assets	1,053,845	1,179,331	2,233,176
Noncurrent assets:			
Assessments receivable	-	6,062	6,062
Interest receivable	-	2,564	2,564
Restricted cash	128,875	143,858	272,733
Due from other funds	-	150,000	150,000
Bond issue cost	43,546	-	43,546
Investment in joint venture	3,057,893	-	3,057,893
Capital assets:			
Non-depreciable	129,414	511,550	640,964
Depreciable	3,981,646	2,048,301	6,029,947
Total noncurrent assets	7,341,374	2,862,335	10,203,709
Total assets	\$ 8,395,219	\$ 4,041,666	\$ 12,436,885
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts payable	\$ 29,206	\$ 163,752	\$ 192,958
Interest payable	40,252	-	40,252
Accrued compensated absences	5,309	6,382	11,691
Bonds payable - current maturity	115,000	-	115,000
Bonds payable	1,935,000	-	1,935,000
Due to other funds	646,984	-	646,984
OPEB liability	7,454	7,987	15,441
Total liabilities	2,779,205	178,121	2,957,326
NET ASSETS:			
Invested in capital assets, net of related debt	2,061,060	2,559,851	4,620,911
Restricted for:			
System development	128,875	143,858	272,733
Unrestricted	3,426,079	1,159,836	4,585,915
Total net assets	5,616,014	3,863,545	9,479,559
Total liabilities and net assets	\$ 8,395,219	\$ 4,041,666	\$ 12,436,885

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 FUND NET ASSETS
For the Fiscal Year Ended June 30, 2012

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
OPERATING REVENUES:			
Service charges	\$ 1,049,279	\$ 1,466,225	\$ 2,515,504
Connection and installation fees	5,344	11,202	16,546
System development charge	16,827	2,296	19,123
Miscellaneous	2,497	2,420	4,917
	<u>1,073,947</u>	<u>1,482,143</u>	<u>2,556,090</u>
OPERATING EXPENSES:			
Purchases	226,204	959,599	1,185,803
Salaries and fringe benefits	240,224	224,211	464,435
Maintenance and repairs	18,254	138,226	156,480
Utilities	8,414	414	8,828
Depreciation and amortization	147,716	81,944	229,660
Net OPEB obligation	2,034	2,963	4,997
Miscellaneous	17,304	-	17,304
	<u>660,150</u>	<u>1,407,357</u>	<u>2,067,507</u>
Total operating expenses	<u>660,150</u>	<u>1,407,357</u>	<u>2,067,507</u>
Operating income (loss)	413,797	74,786	488,583
NON-OPERATING INCOME (EXPENSE):			
Interest expense	(82,465)	-	(82,465)
Gain (loss) in joint venture	(155,190)	-	(155,190)
	<u>(237,655)</u>	<u>-</u>	<u>(237,655)</u>
Total non-operating income (expenses)	<u>(237,655)</u>	<u>-</u>	<u>(237,655)</u>
Net income (loss) before operating transfers	176,142	74,786	250,928
TRANSFERS:			
Transfers in (out)	-	(23,270)	(23,270)
	<u>-</u>	<u>(23,270)</u>	<u>(23,270)</u>
Change in net assets	176,142	51,516	227,658
NET ASSETS, BEGINNING	<u>5,439,872</u>	<u>3,812,029</u>	<u>9,251,901</u>
NET ASSETS, ENDING	<u>\$ 5,616,014</u>	<u>\$ 3,863,545</u>	<u>\$ 9,479,559</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, 2012

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 1,063,160	\$ 1,467,844	\$ 2,531,004
Cash paid to employees and others for salaries and benefits	(237,472)	(220,180)	(457,652)
Cash paid to suppliers and others	(277,496)	(1,101,704)	(1,379,200)
Net cash provided (used) by operating activities	548,192	145,960	694,152
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Transfers in (out)	-	(23,270)	(23,270)
Net cash provided (used) by non-capital financing activities	-	(23,270)	(23,270)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of capital assets	(159,271)	(57,408)	(216,679)
Principal paid on capital debt	(100,000)	-	(100,000)
Interest paid on capital debt	(84,340)	-	(84,340)
Net cash provided (used) by capital and related financing activities	(343,611)	(57,408)	(401,019)
Net increase in cash and cash equivalents	204,581	65,282	269,863
CASH AND CASH EQUIVALENTS, BEGINNING	642,209	1,018,831	1,661,040
CASH AND CASH EQUIVALENTS, ENDING	\$ 846,790	\$ 1,084,113	\$ 1,930,903
COMPRISED AS FOLLOWS:			
Unrestricted	\$ 717,915	\$ 940,255	\$ 1,658,170
Restricted	128,875	143,858	272,733
Total	\$ 846,790	\$ 1,084,113	\$ 1,930,903

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

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income	\$ 413,797	\$ 74,786	\$ 488,583
Adjustments			
Depreciation and amortization	147,716	81,944	229,660
Decrease (increase) in:			
Accounts receivable	(10,787)	(14,299)	(25,086)
Prepays	(10,859)	-	(10,859)
Increase (decrease) in:			
Accounts payable and accrued expenses	5,573	(502)	5,071
Accrued compensated absences	718	1,068	1,786
OPEB obligation	2,034	2,963	4,997
Net cash provided (used) by operating activities:	<u>\$ 548,192</u>	<u>\$ 145,960</u>	<u>\$ 694,152</u>

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

FUND FINANCIAL STATEMENTS

Fiduciary Funds

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

Agency Funds

Municipal Court Fund

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

Library Board Trust Fund

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

CITY OF GLADSTONE, OREGON
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2012

	<u>Agency Funds</u>
<u>ASSETS:</u>	
Cash and investments	\$ 25,276
Total assets	<u>\$ 25,276</u>
<u>LIABILITIES:</u>	
Other current liabilities	\$ 25,276
Total liabilities	<u>\$ 25,276</u>
<u>NET ASSETS:</u>	
Total liabilities and net assets	<u>\$ 25,276</u>

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

1. Summary of Significant Accounting Policies

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

A. Description of Reporting Entity

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

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

Gladstone Urban Renewal Agency

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

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

The Gladstone Senior Center Advisory Board and Gladstone Library Board (an unorganized group supporting the library) have been excluded as not material in relation to the City of Gladstone and accordingly, have not been included in the City of Gladstone financial report. Only those revenues and expenditures directly processed by the City of Gladstone finance department are included in the financial statements.

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

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, 2012

Government-wide statements

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

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

Fund financial statements

These statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, and fiduciary, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column in the financial section of the basic financial statements and are detailed in the supplemental information.

C. Basis of Presentation

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

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

The City reports the following major governmental funds:

- *General Fund*
- *State Revenue Sharing Fund*
- *Road and Street Fund*
- *Urban Renewal Agency Fund*
- *Library Capital Fund*

Additionally, the City reports the following non-major governmental funds within the governmental fund type:

- *Special Revenue Funds*

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

These funds account for revenues derived from specific taxes or other earmarked revenue sources, including state gas tax and state revenue sharing entitlements, which are legally restricted to expenditures for specified purposes.

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

- *Water Fund*
- *Sewer Fund*

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

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

D. Measurement Focus and Basis of Accounting

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

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

Governmental fund financial statements are reported using the current financial resources measurement *focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, long-term compensated absences are recorded only when payment is due.

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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

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

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

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

The proprietary financial statements have incorporated all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. No FASB statements and interpretations issued after November 30, 1989 have been applied.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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E. Cash and Cash Equivalents

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

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

F. Investments

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

G. Restricted Cash and Investments

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

H. Fund Equity

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 items not immediately converted to cash, such as prepaid items and inventory.

Restricted – Includes items that are restricted by external creditors, grantors or contributors, or restricted by legal constitutional provisions.

Committed – Includes items committed by the City Council, by formal council action. Commitments of fund balance must be made prior to the end of the fiscal year.

Assigned – Includes items assigned for specific uses, authorized by the City. Assignments of fund balance can be done at any time, including after the fiscal year end date. In accordance with the City's adopted fund policy, amounts may be assigned by the City Administrator.

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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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 revenues and, accordingly, have not been recorded as revenue. Property taxes become a lien against the property as of July 1 each year and are payable in three installments on November 15, February 15 and May 15 following the lien date. All property taxes receivable are due from property owners within the City.

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

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

K. Capital Assets and Depreciation

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

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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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, 2012.

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

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

L. Investments Accounted For By The Equity Method

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

M. Compensated Absences

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

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

N. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. 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 treated as period costs in the year of issue and are shown as other financial uses.

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

O. Deferred Revenue

Deferred revenues represent uncollected property taxes and other revenues not deemed available to finance operations of the current period.

P. Net Assets

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

Q. Accounting Estimates

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

2. Cash and Investments

At June 30, 2012 investments of the City and its component unit consist of the following:

	Weighted Average Maturity (Years)	Fair Value
Investments in the State Treasurer's Local Government Investment Pool	0.00	\$ 10,207,162
Municipal bond	15.80	30,174
Portfolio weighted average maturity	0.05	\$ 10,237,336

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

CITY OF GLADSTONE
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Pool is the same as the fair value of Pool shares. Investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). The Pool is not registered with the SEC as an investment company and is unrated. The City also invests in U.S. government obligations and agency obligation and commercial paper with a Standard & Poor's rating of A or better.

C. Concentration of credit risk

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

D. Custodial credit risk – deposits

This is the risk that in the event of a bank failure, the City's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the City's deposits with financial institutions up to \$250,000 each for the combined total of all savings deposits and unlimited coverage for non-interest bearing transaction accounts. Deposits in excess of FDIC coverage with institutions participating in the Oregon Public Funds Collateralization Program are considered fully collateralized. As of June 30, 2012, none of the City's bank balances were exposed to credit risk.

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, 2012, the City had no investments exposed to custodial credit risk.

F. Restricted Deposits

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

3. Assessment Liens Receivable

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

4. Interfund Loans Receivable, Payable, and Transfers

Interfund loans made to the Water Fund relate to water improvement projects. These loans are not expected to be paid in the subsequent year. Loans receivable/payable to other funds include:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sewer Fund	Water Fund	\$ 150,000
State Revenue Sharing Fund	Water Fund	496,984
Total		<u>\$ 646,984</u>

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Transfers between funds during the year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds		
General Fund	\$ 94,246	\$ -
Road & Street Fund	-	53,696
Total Major Governmental Funds	<u>94,246</u>	<u>53,696</u>
Non-major Governmental Funds		
Police / Comm. Levy Fund	-	12,166
Fire / Emergency Services Fund	-	5,114
Total Non-major Governmental Funds	<u>-</u>	<u>17,280</u>
Proprietary Funds		
Sewer Fund	-	23,270
Total Proprietary Funds	<u>-</u>	<u>23,270</u>
Total All Funds	<u>\$ 94,246</u>	<u>\$ 94,246</u>

The Police and Communications Special Levy Fund, Fire and Emergency Services Special Levy Fund, Sewer Fund, and the Road and Street Fund transferred \$94,246 to the General Fund to cover general operating and administrative expenses.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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5. Capital Assets

Capital asset activity for the year ended June 30, 2012 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	\$ 5,519,830	\$ -	\$ -	\$ 5,519,830
Construction in Progress	764,671	458,670	-	1,223,341
Total capital assets, non-deprec	<u>6,284,501</u>	<u>458,670</u>	<u>-</u>	<u>6,743,171</u>
Capital assets, depreciable:				
Intangible Assets	-	17,475	-	17,475
Buildings, structures and improve	3,540,665	37,127	-	3,577,792
Equipment	1,195,639	42,377	-	1,238,016
Vehicles	2,465,780	160,067	(112,003)	2,513,844
Infrastructure	3,750,461	-	-	3,750,461
Total capital assets, depreciable	<u>10,952,545</u>	<u>257,046</u>	<u>(112,003)</u>	<u>11,097,588</u>
Total assets	17,237,046	715,716	(112,003)	17,840,759
Less accum depreciation for:				
Intangible Assets	-	(437)	-	(437)
Buildings, structures and improve	(1,284,278)	(85,864)	-	(1,370,142)
Equipment	(1,048,095)	(58,497)	-	(1,106,592)
Vehicles	(1,709,588)	(218,136)	103,204	(1,824,520)
Infrastructure	(356,360)	(104,415)	-	(460,775)
Total accumulated depreciation	<u>(4,398,321)</u>	<u>(467,349)</u>	<u>103,204</u>	<u>(4,762,466)</u>
Net depreciable capital assets	<u>6,554,224</u>	<u>(210,303)</u>	<u>(8,799)</u>	<u>6,335,122</u>
Net capital assets	<u>\$ 12,838,725</u>	<u>\$ 248,367</u>	<u>\$ (8,799)</u>	<u>\$ 13,078,293</u>

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

Governmental activities:	
General government	17,966
Public safety	249,563
Roads and Highways	126,333
Culture and recreations	73,487
Total depreciation expense - gov't activities	<u>467,349</u>

CITY OF GLADSTONE
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Business-type activities Totals	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, non-depreciable:				
Land	\$ 640,964	\$ -	\$ -	\$ 640,964
Investment in Joint Venture	3,213,083	-	(155,190)	3,057,893
Total capital assets, non-depreciable	3,854,047	-	(155,190)	3,698,857
Capital assets, depreciable:				
Buildings	299,113	-	-	299,113
Equipment	155,650	-	-	155,650
Vehicles	125,991	-	-	125,991
Infrastructure	10,293,464	216,679	-	10,510,143
Total capital assets, depreciable	10,874,218	216,679	-	11,090,897
Total	14,728,265	216,679	(155,190)	14,789,754
Less accumulated depreciation for:				
Buildings	(277,432)	(2,216)	-	(279,648)
Equipment	(100,587)	(18,287)	-	(118,874)
Vehicles	(105,990)	(3,311)	-	(109,301)
Infrastructure	(4,350,616)	(202,511)	-	(4,553,127)
Total accumulated depreciation	(4,834,625)	(226,325)	-	(5,060,950)
Net depreciable capital assets	6,039,593	(9,646)	-	6,029,947
Net capital assets	\$9,893,640	\$ (9,646)	\$ (155,190)	\$9,728,804
Business-type activities:				
Water			\$ (144,381)	
Sewer			(81,944)	
Total depreciation expense - business-type activities			<u>\$ (226,325)</u>	

6. Joint Venture

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

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

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

The Addendum to the second intergovernmental agreement reconstituted the Board of Commissioners for the North Clackamas County Water Commission. The Board of Commissioners consists of seven members: the Boards of Commissioners for Sunrise Water Authority and Oak Lodge Water District will select three commissioners each, and the Gladstone City Council will select 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 will 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 equity in the joint venture as of June 30, 2012 was \$3,057,893. This interest is reported in the Water Fund and in the business-type activities column of the government-wide Statement of Net Assets as investment in joint ventures. 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 Revenue

Deferred revenue as of June 30, 2012 consists of the following:

	General Fund	Fire & Emergency Services Special Levy Fund	Police & Communications Special Levy Fund	Urban Renewal Fund	Total
Property taxes	\$ 202,795	\$ 14,310	\$ 30,330	\$ 51,094	\$ 298,529

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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8. Long Term Debt

A. Changes in General Long-Term Liabilities

During the year ended June 30, 2012, long-term liability activity was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities					
Compensated absences:	\$ 240,185	\$ -	\$ (5,687)	\$ 234,498	\$ 234,498
Governmental activities Long-term liabilities	<u>\$ 240,185</u>	<u>\$ -</u>	<u>\$ (5,687)</u>	<u>\$ 234,498</u>	<u>\$ 234,498</u>
Business-type Activities					
Bonds	\$ 2,150,000	\$ -	\$ (100,000)	\$ 2,050,000	\$ 115,000
Compensated absences:	9,905	1,786	-	11,691	11,691
Business-type activities Long-term liabilities	<u>\$ 2,159,905</u>	<u>\$ 1,786</u>	<u>\$ (100,000)</u>	<u>\$ 2,061,691</u>	<u>\$ 126,691</u>

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

B. Bonds Payable

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

Business Activities

During 2005-2006, the City issued \$2,650,000 in general obligations bonds to finance the purchase of a portion of a water treatment plant and for capital improvements to the City's water system. The bonds carry interest rates varying from 3.00% to 4.00%. Interest is payable semiannually on January 1 and July 1 of each year. Bond principal is payable annually through July 2025.

Total bonds payable

\$ 2,050,000

\$ 2,050,000

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	Business-type Activities			
	Interest Rates	Principal	Interest	Total
2013	3.750 %	115,000	78,347	193,347
2014	4.000 %	120,000	73,941	193,941
2015	4.000 %	120,000	69,290	189,290
2016	3.700 %	125,000	64,579	189,579
2017	3.700 %	130,000	59,861	189,861
2018-2022	3.800 - 4.125 %	735,000	220,438	955,438
2023-2027	4.125 – 4.000 %	705,000	57,803	762,803
Total		<u>\$ 2,050,000</u>	<u>\$ 624,259</u>	<u>\$ 2,674,259</u>

9. Pension Plan

A. Plan Description

The City contributes to two pension plans administered by the Oregon Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the City's contribution for qualifying employees who were hired before August 29, 2003, and is a cost-sharing multiple-employer defined benefit pension plan. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to the OPERF and consists of two programs: The Pension Program, the defined benefit portion of the plan, applies to qualifying City employees hired after August 29, 2003, and to inactive employees who return to employment following a six-month or greater break in service. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service. Beginning January 1, 2004, all PERS member contributions go into the Individual Account Program (IAP), the defined contribution portion of the plan. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member's IAP, not the member's PERS account.

Both PERS plans provide retirement and disability benefits, post employment healthcare benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is administered under Oregon Revised Statute Chapter 238, which establishes the Public Employees Retirement Board as the governing body of PERS. PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to PERS, PO Box 23700, Tigard, OR, 97281-3700 or by calling 503-598-7377.

B. Funding Policy

Members of PERS are required to contribute 6.00% of their salary covered under the plan, which is invested in the OPSRP Individual Account Program; this is paid by the City. The City is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPERF plan, and a general service rate for the qualifying employees under the OPSRP plan. The OPERF rate for the year ended June 30, 2012 was 12.84% and the annual pension cost was \$419,507.

CITY OF GLADSTONE
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The OPSRP rates in effect for the year ended June 30, 2012 was 7.02% for general employees and 9.73% for police and fire employees. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

C. Annual Pension Cost

Contribution information for the years ended June 30, 2012, 2011 and 2010 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/10	314,449	100%	-
6/30/11	341,456	100%	-
6/30/12	419,507	100%	-

10. Post Employment Benefits Other than Pensions

A. Plan Description

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

B. Funding Policy

The City funds the plan only to the extent of current year insurance premium requirements on a pay-as-you-go basis. The current monthly health care premium for plan members at June 30, 2012 is:

	<u>Regence</u>	<u>Kaiser</u>
Employee	\$ 442	\$ 508
Employee + child	910	1,033
Employee + spouse	910	1,033
Employee + family	1,252	1,456

C. Annual OPEB Cost and Net OPEB Obligation

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

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The annual OPEB cost and net OPEB obligation at June 30, 2012 is as follows:

	<u>2012</u>
Annual Required Contribution (ARC)	\$ 82,227
Interest on Net OPEB Obligation	4,279
Adjustment to ARC	<u>(4,074)</u>
Annual OPEB cost	82,432
Contributions made	<u>(40,031)</u>
Increase in Net OPEB Obligation	42,401
Net OPEB Obligation – beginning of year	<u>106,971</u>
Net OPEB Obligation – end of year	<u><u>\$149,372</u></u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contribution	Net OPEB Obligation
6/30/2012	\$ 82,432	49%	\$ 149,372
6/30/2011	\$ 79,622	36%	\$ 106,971
6/30/2010	\$ 76,759	27%	\$ 56,009

D. Funding Status

The funded status of the plan at June 30, 2012, based on the July 1, 2009 actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
7/1/2009	\$ -	\$699,333	\$699,333	0.00%	\$2,937,298	24%

E. Actuarial Methods and Assumptions

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

In the July 1, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include an accrued liability discount rate of 4.0%, projected salary increases of 3.5%, and a healthcare cost trend rate of 10% for 2010, grading down over ten years to 5%. The Unfunded Actuarial Accrued Liability (UAAL) is being amortized over an open period of 30 years as a level percentage of payroll.

F. Retirement Health Insurance Account (RHIA)

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

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

Participating employers are contractually required to contribute to RHIA at a rate assessed each year by OPERS, currently 0.59% of annual coverall payroll. The OPERS Board of Trustees sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represent a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortized any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The City's contributions to RHIA for the years ended June 30, 2012 equaled the required contributions.

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 \$959,597 were made to the service districts during fiscal year 2012 under these agreements.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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 2011 to 2012. Workers compensation claims are insured through incurred loss retrospective policies. Settled claims have not exceeded this commercial coverage for any of the past three years.

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. Prior Period Adjustment

During the year, it was discovered that revenue in the State Revenue Sharing Fund was under-stated due to an error. A prior period adjustment of \$21,543 was recorded to correct this error and increase net assets.

15. Subsequent Event

In 2011, the City received a \$2.5 million capital contribution from Clackamas County for library planning and construction. On November 2012, the ballot measure to incur debt to build a new library was defeated and all library planning activities ceased. In December 2012, the County requested the City return the \$1.5 million of the contribution paid by the County. These funds are included in the Library Capital Fund and are reserved. The City has requested an extension of time for the return of the monies in order to determine if another option might exist. That option could allow the City to retain the \$1.5 million and provide library service as outlined in the intergovernmental agreement.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

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

- Budgetary Comparison Schedules
 - General Fund
 - State Revenue Sharing Fund
 - Road and Street Fund
 - Urban Renewal Agency Fund

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, 2012

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 2,984,356	\$ 2,984,356	\$ 3,253,232	\$ 268,876
Public service taxes	675,000	675,000	668,667	(6,333)
Franchise taxes	499,360	499,360	514,694	15,334
Grants	292,040	292,040	140,260	(151,780)
Charges for services	60,900	60,900	123,286	62,386
Licenses and permits	19,300	19,300	22,683	3,383
Fines and forfeitures	210,000	210,000	227,272	17,272
Contributions and donations	34,940	34,940	34,336	(604)
Interest	20,000	20,000	23,046	3,046
Miscellaneous	62,000	62,000	55,086	(6,914)
Total revenues	<u>4,857,896</u>	<u>4,857,896</u>	<u>5,062,562</u>	<u>204,666</u>
EXPENDITURES:				
General government	1,046,789	1,046,789	897,406	149,383
Public safety	2,934,724	2,934,724	2,484,062	450,662
Cultural and recreation	1,252,154	1,352,154	1,189,424	162,730
Capital outlay	1,132,841	1,132,841	183,275	949,566
Contingency	331,024	231,024	-	231,024
Total expenditures	<u>6,697,532</u>	<u>6,697,532</u>	<u>4,754,167</u>	<u>1,943,365</u>
Revenues over (under) expenditures	(1,839,636)	(1,839,636)	308,395	2,148,031
OTHER FINANCING SOURCES (USES):				
Transfers in	<u>109,246</u>	<u>109,246</u>	<u>94,246</u>	<u>(15,000)</u>
Total other financing sources (uses)	<u>109,246</u>	<u>109,246</u>	<u>94,246</u>	<u>(15,000)</u>
Net changes in fund balances	(1,730,390)	(1,730,390)	402,641	2,133,031
FUND BALANCE, BEGINNING	<u>2,130,390</u>	<u>2,130,390</u>	<u>2,151,780</u>	<u>21,390</u>
FUND BALANCE, ENDING	<u><u>\$ 400,000</u></u>	<u><u>\$ 400,000</u></u>	<u><u>\$ 2,554,421</u></u>	<u><u>\$ 2,154,421</u></u>

**CITY OF GLADSTONE, OREGON
STATE REVENUE SHARING FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Grants	\$ 93,436	\$ 93,436	\$ 96,742	\$ 3,306
Interest	1,500	1,500	2,885	1,385
Total revenues	94,936	94,936	99,627	4,691
EXPENDITURES:				
Capital outlay	601,979	601,979	2,213	599,766
Total expenditures	601,979	601,979	2,213	599,766
Revenues over (under) expenditures	(507,043)	(507,043)	97,414	604,457
FUND BALANCE, BEGINNING BUDGETARY BASIS	507,043	507,043	523,681	16,638
PRIOR PERIOD ADJUSTMENT	-	-	21,543	21,543
FUND BALANCE, ENDING BUDGETARY BASIS	\$ -	\$ -	642,638	\$ 642,638
Interfund loan and interest receivable			496,984	
FUND BALANCES, ENDING			<u>\$ 1,139,622</u>	

CITY OF GLADSTONE, OREGON
ROAD AND STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Public service taxes	\$ 530,200	\$ 530,200	\$ 626,123	\$ 95,923
Grants	-	-	11,325	11,325
Charges for services	5,000	5,000	36,154	31,154
Miscellaneous	500	500	2,668	2,168
Total revenues	535,700	535,700	676,270	140,570
EXPENDITURES:				
Personal service	164,329	189,329	174,616	14,713
Materials and service	207,575	277,575	229,835	47,740
Capital outlay	311,462	216,462	95,030	121,432
Total expenditures	683,366	683,366	499,481	183,885
Revenues over (under) expenditures	(147,666)	(147,666)	176,789	324,455
OTHER FINANCING SOURCES (USES):				
Transfers out	(53,696)	(53,696)	(53,696)	-
Total other financing sources (uses)	(53,696)	(53,696)	(53,696)	-
Net changes in fund balances	(201,362)	(201,362)	123,093	324,455
FUND BALANCES, BEGINNING	201,362	201,362	308,281	106,919
FUND BALANCES, ENDING	\$ -	\$ -	\$ 431,374	\$ 431,374

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, 2012

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 792,975	\$ 792,975	\$ 821,591	\$ 28,616
Interest	4,000	4,000	8,482	4,482
Total revenues	796,975	796,975	830,073	33,098
EXPENDITURES:				
Materials and service	60,000	60,000	28,202	31,798
Capital outlay	1,222,746	1,222,746	107,776	1,114,970
Debt service:				
Principal	350,000	350,000	-	350,000
Interest	400,000	400,000	-	400,000
Total expenditures	2,032,746	2,032,746	135,978	1,896,768
Revenues over (under) expenditures	(1,235,771)	(1,235,771)	694,095	1,929,866
OTHER FINANCING SOURCES (USES):				
Issuance of debt	7,500,000	7,500,000	-	(7,500,000)
Transfers out	(7,500,000)	(7,500,000)	-	7,500,000
Total other financing sources (uses)	-	-	-	-
Net changes in fund balances	(1,235,771)	(1,235,771)	694,095	1,929,866
FUND BALANCES, BEGINNING	1,235,771	1,235,771	1,281,453	45,682
FUND BALANCES, ENDING	\$ -	\$ -	\$ 1,975,548	\$ 1,975,548

CITY OF GLADSTONE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2012

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 personal services, materials and services, capital outlay, debt service transfers, and contingency are the legal level of control for all other funds. The detail budget document, however, is required to contain more specific information for the above mentioned expenditure categories. Unexpected additional resources may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers, and adoption by the City Council. Management may modify original and supplemental budgets by the use of appropriation transfers between the legal levels of control within a fund. Such transfers require approval by the City Council. The City had appropriation transfers during the year ended June 30, 2012. Appropriations lapse as of year-end.

OTHER SUPPLEMENTARY INFORMATION

OTHER SUPPLEMENTARY INFORMATION

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

Such statements and schedules include:

- Combining Statements – Nonmajor Governmental Funds
- Budgetary Comparison Schedules
 - General Fund
 - Capital Project Fund
 - Nonmajor Governmental Funds
 - Enterprise Funds
- Other Financial Schedules

COMBINING STATEMENTS

Nonmajor Governmental Funds

Special Revenue Funds

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

911 Excise Tax Resource Fund

The 911 Excise Tax Resource Fund accounts for revenue received from the State of Oregon from the “911” state emergency telephone system.

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.

Agency Funds

Municipal Court Fund

Library Board Trust Fund

CITY OF GLADSTONE, OREGON
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
June 30, 2012

	911 Excise Tax Resource Fund	Police and Communications Special Levy Fund	Fire and Emergency Services Special Levy Fund	Total
ASSETS				
Cash and investments	\$ 13,403	\$ 400,655	\$ 445,050	\$ 859,108
Cash with county treasurer	-	2,183	1,091	3,274
Accounts receivable	14,115	-	-	14,115
Property taxes receivable	-	32,707	15,499	48,206
	<u>-</u>	<u>32,707</u>	<u>15,499</u>	<u>48,206</u>
Total assets	<u>\$ 27,518</u>	<u>\$ 435,545</u>	<u>\$ 461,640</u>	<u>\$ 924,703</u>
LIABILITIES AND FUND EQUITY				
LIABILITIES:				
Accounts payable	\$ -	\$ -	\$ 209	\$ 209
Deferred revenue	-	30,330	14,310	44,640
	<u>-</u>	<u>30,330</u>	<u>14,310</u>	<u>44,640</u>
Total liabilities	<u>-</u>	<u>30,330</u>	<u>14,519</u>	<u>44,849</u>
FUND BALANCES:				
Restricted				
911 system	27,518	-	-	27,518
Assigned:				
Police services	-	405,215		405,215
Fire and emergency services	-	-	447,121	447,121
	<u>-</u>	<u>-</u>	<u>447,121</u>	<u>447,121</u>
Total fund equity	<u>27,518</u>	<u>405,215</u>	<u>447,121</u>	<u>879,854</u>
Total liabilities and fund equity	<u>\$ 27,518</u>	<u>\$ 435,545</u>	<u>\$ 461,640</u>	<u>\$ 924,703</u>

CITY OF GLADSTONE, OREGON
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2012

	911 Excise Tax Resource Fund	Police and Communications Special Levy Fund	Fire and Emergency Services Special Levy Fund	Total
REVENUES:				
Property taxes	\$ -	\$ 485,621	\$ 228,504	\$ 714,125
Public service taxes	55,695	-	-	55,695
Contributions and donations	-	1,200	-	1,200
Interest	141	2,468	2,294	4,903
Total revenues	<u>55,836</u>	<u>489,289</u>	<u>230,798</u>	<u>775,923</u>
EXPENDITURES:				
Public safety	54,332	440,728	120,985	616,045
Capital outlay	-	202,278	96,899	299,177
Total expenditures	<u>54,332</u>	<u>643,006</u>	<u>217,884</u>	<u>915,222</u>
Revenues over (under) expenditures	1,504	(153,717)	12,914	(139,299)
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(12,166)	(5,114)	(17,280)
Total other financing sources (uses)	<u>-</u>	<u>(12,166)</u>	<u>(5,114)</u>	<u>(17,280)</u>
Net changes in fund balances	1,504	(165,883)	7,800	(156,579)
FUND BALANCES, BEGINNING	<u>26,014</u>	<u>571,098</u>	<u>439,321</u>	<u>1,036,433</u>
FUND BALANCES, ENDING	<u>\$ 27,518</u>	<u>\$ 405,215</u>	<u>\$ 447,121</u>	<u>\$ 879,854</u>

CITY OF GLADSTONE, OREGON
AGENCY FUNDS
COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
For the Fiscal Year Ended June 30, 2012

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
Municipal Court Fund				
Assets				
Cash	\$ 7,005	\$ -	\$ 3,657	\$ 3,348
Liabilities				
Other current liabilities	\$ 7,005	\$ -	\$ 3,657	\$ 3,348
 Library Board Trust Fund				
Assets				
Cash	\$ 21,814	\$ 114	\$ -	\$ 21,928
Liabilities				
Other current liabilities	\$ 21,814	\$ 114	\$ -	\$ 21,928
 Totals - All Agency Funds				
Assets				
Cash	\$ 28,819	\$ 114	\$ 3,657	\$ 25,276
Liabilities				
Other current liabilities	\$ 28,819	\$ 114	\$ 3,657	\$ 25,276

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
- Capital Library Fund
- Special Revenue Funds - Nonmajor Governmental Funds
 - 911 Excise Tax Resource Fund
 - Police and Communications Special Levy Fund
 - Fire and Emergency Services Special Levy Fund

CITY OF GLADSTONE, OREGON
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
General Administration:				
Personal services	\$ 479,989	\$ 479,989	\$ 429,323	\$ 50,666
Materials and services	566,800	566,800	468,083	98,717
Subtotal	1,046,789	1,046,789	897,406	149,383
Municipal Court:				
Personal services	168,051	168,051	156,249	11,802
Materials and services	104,060	104,060	79,671	24,389
Subtotal	272,111	272,111	235,920	36,191
Police:				
Personal services	1,620,050	1,620,050	1,452,040	168,010
Materials and services	227,000	227,000	204,104	22,896
Subtotal	1,847,050	1,847,050	1,656,144	190,906
Fire:				
Personal services	572,898	572,898	371,598	201,300
Materials and services	242,665	242,665	220,400	22,265
Capital outlay	398,000	398,000	58,139	339,861
Subtotal	1,213,563	1,213,563	650,137	563,426
Parks:				
Personal services	145,827	145,827	115,552	30,275
Materials and services	108,050	178,050	151,532	26,518
Capital outlay	372,909	372,909	39,797	333,112
Subtotal	626,786	696,786	306,881	389,905
Recreation:				
Personal services	26,000	46,000	28,207	17,793
Materials and services	54,150	54,150	8,844	45,306
Subtotal	80,150	100,150	37,051	63,099

CITY OF GLADSTONE, OREGON
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
Senior Center:				
Personal services	194,388	194,388	189,113	5,275
Materials and services	44,350	54,350	43,431	10,919
Capital outlay	263,932	263,932	270	263,662
Subtotal	<u>502,670</u>	<u>512,670</u>	<u>232,814</u>	<u>279,856</u>
Library:				
Personal services	609,049	609,049	583,698	25,351
Materials and services	70,340	70,340	69,047	1,293
Capital outlay	98,000	98,000	85,069	12,931
Subtotal	<u>777,389</u>	<u>777,389</u>	<u>737,814</u>	<u>39,575</u>
Total expenditures	<u>\$ 6,366,508</u>	<u>\$ 6,466,508</u>	<u>\$ 4,754,167</u>	<u>\$ 1,712,341</u>

CITY OF GLADSTONE, OREGON
LIBRARY CAPITAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Contributions and donations	\$ -	\$ -	\$ 550	\$ 550
Interest	-	-	12,183	12,183
Miscellaneous	457,213	457,213	-	(457,213)
Total revenues	457,213	457,213	12,733	(444,480)
EXPENDITURES:				
Capital outlay	9,542,787	9,542,787	470,075	9,072,712
Total expenditures	9,542,787	9,542,787	470,075	9,072,712
Revenues over (under) expenditures	(9,085,574)	(9,085,574)	(457,342)	8,628,232
OTHER FINANCING SOURCES (USES):				
Transfers in	7,085,574	7,085,574	-	(7,085,574)
Total other financing sources (uses)	7,085,574	7,085,574	-	(7,085,574)
Net changes in fund balances	(2,000,000)	(2,000,000)	(457,342)	1,542,658
FUND BALANCES, BEGINNING	2,000,000	2,000,000	2,486,680	486,680
FUND BALANCES, ENDING	\$ -	\$ -	\$ 2,029,338	\$ 2,029,338

CITY OF GLADSTONE, OREGON
911 EXCISE TAX RESOURCE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Public service taxes	\$ 60,000	\$ 60,000	\$ 55,695	\$ (4,305)
Interest	-	-	141	141
Total revenues	<u>60,000</u>	<u>60,000</u>	<u>55,836</u>	<u>(4,164)</u>
EXPENDITURES:				
Materials and service	60,000	60,000	54,332	5,668
Contingency	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Total expenditures	<u>61,000</u>	<u>61,000</u>	<u>54,332</u>	<u>6,668</u>
Revenues over (under) expenditures	<u>(1,000)</u>	<u>(1,000)</u>	<u>1,504</u>	<u>2,504</u>
Net changes in fund balances	(1,000)	(1,000)	1,504	2,504
FUND BALANCES, BEGINNING	<u>1,000</u>	<u>1,000</u>	<u>26,014</u>	<u>25,014</u>
FUND BALANCES, ENDING	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 27,518</u></u>	<u><u>\$ 27,518</u></u>

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, 2012

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 472,105	\$ 472,105	\$ 485,621	\$ 13,516
Contributions and donations	-	-	1,200	1,200
Interest	2,000	2,000	2,468	468
Total revenues	474,105	474,105	489,289	15,184
EXPENDITURES:				
Personal service	536,507	536,507	423,732	112,775
Materials and service	93,032	93,032	16,996	76,036
Capital outlay	311,466	311,466	202,278	109,188
Total expenditures	941,005	941,005	643,006	297,999
Revenues over (under) expenditures	(466,900)	(466,900)	(153,717)	313,183
OTHER FINANCING SOURCES (USES):				
Transfers out	(12,166)	(12,166)	(12,166)	-
Total other financing sources (uses)	(12,166)	(12,166)	(12,166)	-
Net changes in fund balances	(479,066)	(479,066)	(165,883)	313,183
FUND BALANCE, BEGINNING	479,066	479,066	571,098	92,032
FUND BALANCE, ENDING	\$ -	\$ -	\$ 405,215	\$ 405,215

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, 2012

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 219,426	\$ 219,426	\$ 228,504	\$ 9,078
Interest	2,000	2,000	2,294	294
Total revenues	221,426	221,426	230,798	9,372
EXPENDITURES:				
Personal service	127,825	127,825	114,275	13,550
Materials and service	80,000	80,000	6,710	73,290
Capital outlay	397,611	397,611	96,899	300,712
Total expenditures	605,436	605,436	217,884	387,552
Revenues over (under) expenditures	(384,010)	(384,010)	12,914	396,924
OTHER FINANCING SOURCES (USES):				
Transfers out	(5,114)	(5,114)	(5,114)	-
Total other financing sources (uses)	(5,114)	(5,114)	(5,114)	-
Net changes in fund balances	(389,124)	(389,124)	7,800	396,924
FUND BALANCES, BEGINNING	389,124	389,124	439,321	50,197
FUND BALANCES, ENDING	\$ -	\$ -	\$ 447,121	\$ 447,121

BUDGETARY COMPARISON SCHEDULES
Enterprise Funds

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

Enterprise Budgetary Comparison schedules include the following:

- Water Fund
- Sewer Fund

CITY OF GLADSTONE, OREGON
WATER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Service charges	\$ 1,038,240	\$ 1,038,240	1,049,279	\$ 11,039
Connection and installation fees	3,000	3,000	5,344	2,344
System development charge	1,000	1,000	16,827	15,827
Miscellaneous	1,000	1,000	2,497	1,497
Total revenues	1,043,240	1,043,240	1,073,947	30,707
EXPENDITURES:				
Personal service	290,749	290,749	240,224	50,525
Materials and service	637,700	637,700	388,109	249,591
Capital outlay	404,446	399,446	41,338	358,108
Debt service:				
Principal	105,000	110,000	100,000	10,000
Interest	86,222	86,222	84,340	1,882
Total expenditures	1,524,117	1,524,117	854,011	670,106
Revenues over (under) expenditures	(480,877)	(480,877)	219,936	700,813
FUND BALANCE, BEGINNING BUDGETARY BASIS	<u>480,877</u>	<u>480,877</u>	<u>743,041</u>	<u>262,164</u>
FUND BALANCE, ENDING BUDGETARY BASIS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 962,977</u>	<u>\$ 962,977</u>
			<u>Revenues</u>	<u>Expenditures</u>
Total revenue and expenditures above			\$ 1,073,947	\$ 854,011
Expenditures capitalized				(159,271)
Debt service principal payments				(100,000)
Depreciation expense				144,381
Accrued interest payable				(1,875)
Bond amortization expense				3,335
Net OPEB obligation				2,034
Equity in net income/loss of joint venture			(155,190)	-
Total revenues and expenses - generally accepted accounting principles			<u>\$ 918,757</u>	<u>742,615</u>
Change in net assets				<u>\$ 176,142</u>

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, 2012

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Service charge	\$ 1,424,600	\$ 1,424,600	\$1,466,225	\$ 41,625
Connection and installation fees	500	500	11,202	10,702
System development charge	1,000	1,000	2,296	1,296
Miscellaneous	1,000	1,000	2,420	1,420
Total revenues	1,427,100	1,427,100	1,482,143	55,043
EXPENDITURES:				
Personal service	234,743	244,743	224,210	20,533
Materials and service	1,293,840	1,293,840	1,101,644	192,196
Capital outlay	608,209	598,209	54,004	544,205
Contingency	-	-	-	-
Total expenditures	2,136,792	2,136,792	1,379,858	756,934
Revenues over (under) expenditures	(709,692)	(709,692)	102,285	811,977
OTHER FINANCING SOURCES (USES):				
Transfers out	(23,270)	(23,270)	(23,270)	-
Total other financing sources (uses)	(23,270)	(23,270)	(23,270)	-
Net changes in fund balances	(732,962)	(732,962)	79,015	811,977
FUND BALANCE, BEGINNING BUDGETARY BASIS	<u>732,962</u>	<u>732,962</u>	<u>858,442</u>	<u>125,480</u>
FUND BALANCE, ENDING BUDGETARY BASIS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 937,457</u>	<u>\$ 937,457</u>
			<u>Revenues</u>	<u>Expenditures</u>
Total revenue and expenditures above			\$1,482,143	\$ 1,379,858
Operating transfers in/out			-	23,270
Expenditures capitalized			-	(57,408)
Depreciation and amortization expense			-	81,944
Net OPEB obligation			-	2,963
Total revenues and expenses - generally accepted accounting principles			<u>\$1,482,143</u>	<u>1,430,627</u>
Change in net assets				<u>\$ 51,516</u>

OTHER FINANCIAL SCHEDULES

CITY OF GLADSTONE, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS AND OUTSTANDING BALANCES
For the Fiscal Year Ended June 30, 2012

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2011</u>	<u>2011-2012 Levy</u>	<u>Adjustments/ Discount</u>	<u>Collections</u>	<u>Uncollected Balance June 30, 2012</u>
2011-2012	\$ -	\$ 4,945,841	\$ (137,426)	\$ (4,646,707)	\$ 161,708
2010-2011	154,475	-	11,288	(83,854)	81,909
2009-2010	68,729	-	(1,005)	(13,898)	53,826
2008-2009	36,082	-	(645)	(19,141)	16,296
2007-2008	10,479	-	(268)	(7,136)	3,075
2006-2007	2,919	-	(134)	(1,133)	1,652
Prior years	5,082	-	(230)	(904)	3,948
Totals	<u>\$ 277,766</u>	<u>\$ 4,945,841</u>	<u>\$ (128,420)</u>	<u>\$ (4,772,773)</u>	<u>\$ 322,414</u>

Taxes receivable classified by fund:

General Fund	\$ 219,038
Police Fund	32,707
Fire Fund	15,499
Urban Renewal Agency Debt Service Fund	55,170
	<u>\$ 322,414</u>

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

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

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

We have audited the basic financial statements of the City of Gladstone, Oregon (the City), as of and for the year ended June 30, 2012 and have issued our report thereon dated January 29, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in the Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- Deposits of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions, and repayments.
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Highway revenues used for public highways, roads, and streets.
- Authorized investment of surplus funds. (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, and 279C).

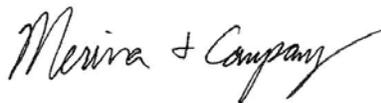
- Accountability for collecting or receiving money by elected officials. The City does not have any elected officials collecting or receiving money.

In connection with our testing, nothing came to our attention that caused us to believe the City was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in the Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

OAR 162-10-0230 Internal Control

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

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



Merina & Company, LLP
West Linn, Oregon
January 29, 2013