MERINA
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

GLADSTONE URBAN RENEWAL AGENCY

FINANCIAL STATEMENTS

For the Fiscal Year Ended
June 30, 2013

with

Independent Auditor's
Report

MERINA
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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GLADSTONE URBAN RENEWAL AGENCY
TABLE OF CONTENTS

Page

INTRODUCTORY SECTION

Principal Officials i

FINANCIAL SECTION

Independent Auditor's Report 1

Management Discussion and Analysis 4

Basic Financial Statements

Statement of Net Position 7

Statement of Activities 8

Balance Sheet – Governmental Fund 9

Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds 10

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities 11

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual 12

Notes to the Basic Financial Statements 13

Independent Auditor's Report Required by Oregon State Regulations 19

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INTRODUCTORY SECTION

GLADSTONE URBAN RENEWAL AGENCY
LIST OF PRINCIPAL OFFICIALS
June 30, 2013

Officials	Term Expires
Wade Byers, Mayor Gladstone, Oregon 97027	December 31, 2014
Ray Jaren, President Gladstone, Oregon 97027	December 31, 2014
Kari Martinez Gladstone, Oregon 97027	December 31, 2014
Neal Reisner Gladstone, Oregon 97027	December 31, 2016
Len Nelson Gladstone, Oregon 97027	December 31, 2016
Hal Busch Gladstone, Oregon 97027	December 31, 2014
Thomas Mersereau Gladstone, Oregon 97027	December 31, 2016

Administrator
Peter Boyce
Gladstone, Oregon 97027

Assistant Administrator
Jolene Morishita
Gladstone, Oregon 97027

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FINANCIAL SECTION

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

PARTNERS
KAMALA K. AUSTIN, CPA • TONYA M. MOFFITT, CPA

INDEPENDENT AUDITOR'S REPORT

Agency Officials
Gladstone Urban Renewal Agency
Gladstone, Oregon

We have audited the accompanying financial statements of the governmental activities and the major fund of Gladstone Urban Renewal Agency, a component unit of the City of Gladstone, Oregon, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Gladstone Urban Renewal Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of Gladstone Urban Renewal Agency, as of June 30, 2013, and the respective changes in financial position, and the respective budgetary comparison for the Agency Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 7 to the financial statements, the City adopted the new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Gladstone Urban Renewal Agency's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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.

Other Reporting Required by Oregon Revised Statutes

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated December 27, 2013, on our consideration of the Gladstone Urban Renewal Agency's internal control over financial reporting and on tests of its compliance with the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-320. 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.

Merina & Company

Merina & Company, LLP
West Linn, Oregon
December 27, 2013

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Gladstone Urban Renewal Agency
Management's Discussion and Analysis

Management staff of the Gladstone Urban Renewal Agency offers this executive summary of the financial activities of the Gladstone Urban Renewal Agency for the fiscal year ended June 30, 2013.

Financial Highlights

The assets of the Gladstone Urban Renewal Agency exceeded its liabilities at the close of the most recent fiscal year by $2,765,488 (net position). This amount may be used to meet the Agency's ongoing obligations to citizens and creditors.

The Gladstone Urban Renewal Agency's total net position increased by $738,846 from the fiscal year ending in 2012 due to the Agency initiating no capital projects and, instead, saving almost all of its assets for possible future construction of a new library or streetscape improvements on Portland Avenue.

As of the close of the current fiscal year, the Gladstone Urban Renewal Agency's governmental fund reported a total ending fund balance of $2,713,689. The difference between $2,765,488 unrestricted net position and the ending fund balance of $2,713,689 is due to uncollected property tax.

REPORT LAYOUT

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

Government-Wide Financial Statements

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

The Statement of Net Position presents information on the City's total assets and liabilities, with the resulting difference between the two presented as net position. Over time, increases or decreases to net position may serve as a useful indicator of whether the Agency's financial position is improving or deteriorating.

The Statement of Activities focuses on the change in net position over the last year. The costs of the Agency's programs are presented and show to what extent governmental activities are subsidized by taxes and other general revenues.

Fund Financial Statements

Following the government-wide statements is a section containing fund financial statements. The Agency's fund is presented in its own column. A "Budgetary Comparison Statement" is included as part of the "Basic Financial Statements."

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the financial data provided in the government-wide and fund financial statements. Completing the document is a report by the independent certified public accountant, as required by statute.

AGENCY AS A WHOLE

Government-Wide Financial Statements

Statement of Net Position at June 30, 2013:

As noted earlier, net position may serve over time as a useful indictor of a government's financial position. Assets exceeded liabilities by $2,765,488 at the close of the most recent fiscal year.

By far the largest portion of the Gladstone Urban Renewal Agency's assets is cash and investments which have financial liquidity easily available for future spending.

The following table reflects a Summary of Net Position for fiscal years 2012-2013 and 2011-2012.

	2013	2012	Total Change
Cash and investments	$ 2,705,622	$ 1,967,723	$ 737,899
Due from other governments	3,901	3,749	152
Property taxes receivable	55,965	55,170	795
Total assets	$ 2,765,488	$ 2,026,642	$ 738,846
Net assets:			
Unrestricted	$ 2,765,488	$ 2,026,642	$ 738,846
Total net position	$ 2,765,488	$ 2,026,642	$ 738,846

The following table summarizes revenues and expenses for fiscal years 2012-2013 and 2011-2012.

Table 2
Governmental Activities

	2013	2012	Total Change
REVENUES			
General Revenues:			
Property taxes	$ 840,254	$ 829,607	$ 10,647
Interest	13,553	8,482	5,071
Total revenues	853,807	838,089	15,718
EXPENSES			
Community development	114,961	135,978	(21,017)
Increase (Decrease)in net position	738,846	702,111	36,735
Beginning net position	2,026,642	1,324,531	702,111
Ending net position	$ 2,765,488	$ 2,026,642	$ 738,846

Governmental Activities. Governmental activities increased the Gladstone Urban Renewal Agency's net position by $738,846.

Financial Analysis of the Agency's funds

Governmental Fund. The focus of the Gladstone Urban Renewal Agency's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financial requirements. In particular, unrestricted net position may serve as useful measure of a government's net resources available for spending at the end of the fiscal year. The $2,765,488 ending net position is unrestricted for Urban Renewal Development.

Budgetary Highlights. The Gladstone Urban Renewal Agency did not have expenditures for any community projects for the fiscal year ended 2012-2013.

Capital Assets. The Gladstone Urban Renewal Agency has no capital assets. Upon completion of street improvements construction, the assets are transferred to the City of Gladstone.

Long-term Debt. At the end of the fiscal year, the Gladstone Urban Renewal Agency had no long-term debt outstanding. In response to 1997 state legislation, the Gladstone City Council, acting as officials of the Gladstone Urban Renewal Agency, at its April 1998 meeting, authorized $23,000,000 in maximum indebtedness (adjusted for future inflation) for projects that could be financed over the next 30 years.

Economic Factors and Next Year's Budget. The future finances of the Agency will largely be determined by pending decisions of its governing board regarding the inclusion of additional streets within the Agency's boundary and possible exclusion of land and increment value from existing renewal boundary. This could include inclusion of Portland Avenue from Gloucester Street to Clackamas Boulevard for possible streetscape improvements.

Requests for Information. This report was modeled after "Management's Discussion and Analysis" prepared by other cities, based on figures furnished by the Gladstone Urban Renewal Agency's auditors. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City staff at 525 Portland Avenue, Gladstone, 97027 or call 503-557-2767. Staff may consult with the City's auditor, Merina & Company.

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BASIC FINANCIAL STATEMENTS

GLADSTONE URBAN RENEWAL AGENCY
STATEMENT OF NET POSITION
June 30, 2013

	Governmental Activities
ASSETS:	
Cash and cash equivalents	$ 2,705,622
Due from other governments	3,901
Property taxes receivable	55,965
Total assets	$ 2,765,488
NET POSITION:	
Unrestricted:	
Urban Renewal Development	2,765,488
Total net position	$ 2,765,488

The accompanying notes are an integral part of these financial statements

GLADSTONE URBAN RENEWAL AGENCY
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013

	Expenses	Net Revenue (Expenses) and Changes in Net Position
EXPENSES:		
Governmental activities:		
Community development	$ 114,961	$ (114,961)
Total program expenses		(114,961)
GENERAL REVENUES:		
Property taxes		840,254
Interest		13,553
Total general revenues		853,807
Change in net position		738,846
NET POSITION, BEGINNING		2,026,642
NET POSITION, ENDING		$ 2,765,488

The accompanying notes are an integral part of these financial statements

GLADSTONE URBAN RENEWAL AGENCY
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2013

ASSETS:	
Cash and cash equivalents	$ 2,705,622
Due from other governments	3,901
Property taxes receivable	55,965
Total assets	$ 2,765,488
DEFERRED INFLOWS OF RESOURCES:	
Unavailable revenue - property taxes	$ 51,799
Total deferred inflows of resources	51,799
FUND BALANCE:	
Unrestricted:	
Urban Renewal Development	2,713,689
Total fund balance	2,713,689
Total deferred inflows of resources and fund balance	$ 2,765,488

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

Total fund balance	$ 2,713,689
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the fund	51,799
Net position of governmental activities	$ 2,765,488

The accompanying notes are an integral part of these financial statements

GLADSTONE URBAN RENEWAL AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
For the Fiscal Year Ended June 30, 2013

REVENUES:	
Property taxes	$ 839,549
Interest on investments	13,553
Total revenues	853,102
EXPENDITURES:	
Materials and services	46,906
Capital outlay	68,055
Total expenditures	114,961
Net change in fund balance	738,141
FUND BALANCE, BEGINNING	1,975,548
FUND BALANCE, ENDING	$ 2,713,689

The accompanying notes are an integral part of these financial statements

GLADSTONE URBAN RENEWAL AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013

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

Net change in fund balance - total governmental fund	$ 738,141
Some revenue reported in the statement of activities do not provide current financial resources in the government fund	705
Changes in net position of governmental activities	$ 738,846

The accompanying notes are an integral part of these financial statements

GLADSTONE URBAN RENEWAL AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2013

	Budget			Variance Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Property taxes	$ 826,633	$ 826,633	$ 839,549	$ 12,916
Interest on investments	4,000	4,000	13,553	9,553
Total revenues	830,633	830,633	853,102	22,469
EXPENDITURES:				
Materials and services	61,300	61,300	46,906	14,394
Capital outlay	2,175,754	2,175,754	68,055	2,107,699
Debt service:				
Principal	230,000	230,000	-	230,000
Interest	300,000	300,000	-	300,000
Total expenditures	2,767,054	2,767,054	114,961	2,652,093
Revenues over (under) expenditures	(1,936,421)	(1,936,421)	738,141	2,674,562
OTHER FINANCING SOURCES (USES):				
Issuance of debt	7,500,000	7,500,000	-	(7,500,000)
Transfers in (out)	(7,500,000)	(7,500,000)	-	7,500,000
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	(1,936,421)	(1,936,421)	738,141	2,674,562
FUND BALANCES, BEGINNING	1,936,421	1,936,421	1,975,548	39,127
FUND BALANCES, ENDING	$ -	$ -	$ 2,713,689	$ 2,713,689

The accompanying notes are an integral part of these financial statements

(1) Description of the Agency and Summary of Significant Accounting Policies

The financial statements of the Agency have been prepared in accordance with Generally Accepted Accounting Principles (GAAP). GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. Description of Reporting Entity

The Gladstone Urban Renewal Agency (the Agency) (a component unit of the City of Gladstone) was organized October 11, 1988 under the provisions of Oregon Revised Statutes, Chapter 457, to provide rehabilitation of blighted and deteriorated areas within the Agency's designated urban renewal area. The fiscal year ended June 30, 1998 was the first year property taxes were levied by the Agency. As provided by ORS 457, the City Council of the City of Gladstone is designated as the governing body and the Gladstone Urban Renewal Agency. Principle funding sources are property tax revenues and interest earnings. Fiscal and accounting functions are handled by personnel of the City of Gladstone.

The Agency is a legally separate entity governed by the City Council. The Agency Board of Directors is not financially accountable for any other governmental entity. Financial accountability is determined in accordance with criteria set forth in accounting principles generally accepted in the United States of America, primarily on the basis of authority to appoint voting majority of an organization's governing board, ability to impose its will on that organization, the potential for that organization to provide specific benefits or impose specific financial burdens and that organization's fiscal dependency. The Agency is a blended component unit of the City of Gladstone and, as such is included in the financial statements of the City of Gladstone for the year ended June 30, 2013.

The Agency has no component units.

B. Basic Financial Statements

The Agency's financial operations are presented at both the agency-wide and fund financial levels. All activities on the Agency are categorized as governmental.

Agency-wide financial statements

The statement of net position and the statement of activities display information about the Agency as a whole.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Agency'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. Currently the Agency has only governmental fund types.

C. Basis of Presentation

The financial transactions of the Agency are recorded in the General Fund. The fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues and expenditures.

The GASB 34 model sets forth minimum criteria (percentage of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues or expenditures of either fund category) for the determination of major funds. For purposes of presentation, the Agency's fund is presented as a major fund.

General Fund - The General Fund is used to record expenditures related to capital improvements projects. Major sources of revenue and other financing sources are specific taxes that are legally restricted to expenditures for specific purposes.

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 Agency-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*. 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 Agency 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.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the agency-wide statements, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the agency-wide presentation.

E. Cash and Investments

The Agency considers cash equivalents as all highly liquid investments with maturity of three months or less. Investments include in cash and cash equivalents are reported at fair value.

F. Receivables and Property Tax Calendar

Uncollected property taxes receivable, which have been collected within sixty days following year-end are considered measurable and available and are recognized as revenue. The remaining balance is recorded as deferred inflow of resources because it is not deemed available to finance operations of the current period. Real and personal property taxes are levied in July of each fiscal year. Property taxes attach as an enforceable lien on property as of July 1, and are payable in three installments on November 15, February 15, and May 15. All property taxes are billed and collected by Clackamas County and remitted to the Agency. Uncollected taxes, including delinquent amounts, are considered substantially collectible or recoverable through liens, and accordingly no allowance for uncollected taxes has been established. All property taxes receivable are due from property owners within the Agency's boundaries.

G. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Positon will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenditure) until then. The Agency does not have deferred outflows of resources.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Agency only has one type of item that qualifies for reporting in this category, which arises only under the modified accrual basis of accounting. Accordingly, the item "unavailable revenue," is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

H. Fund Balance

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the Agency 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 amounts that are restricted by external creditors, grantors or contributors, or restricted by enabling legislation.

Committed – Includes amounts that have been committed by resolution by the Agency's Board of Directors which is the Agency's "highest level of decision-making authority." Committed

amounts may not be used for any other purpose unless the Board of Directors removes the constraint by similar board 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 Agency. Assignments of fund balance can be done at any time, including after the fiscal year end date. In accordance with the Agency's adopted fund policy, amounts may be assigned by the Agency Administrator.

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

I. Use of Restricted Resources

When both restricted and unrestricted resources are available for use: it is the Agency's policy to use restricted resources first, then unrestricted resources, as they are needed. When unrestricted resources are available for use it is the Agency's policy to use committed resources first, then assigned, and then unassigned as needed.

J. Use of Estimates

In preparing the Agency's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Stewardship, Compliance, and Accountability

A. Budgetary Information

On or before June 30 of each year, the Agency 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 Agency Board of Directors and a like number of interested citizens. The budget committee presents the budget to the Agency Board of Directors for budget hearings prior to enactment of the resolution. The Agency budgets all funds as required by Oregon Local Budget Law.

The resolution authorizing appropriations for each fund sets the legal level of control by which expenditures cannot legally exceed appropriations. 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 Agency Board. 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 Agency Board. Management may not amend the budget without seeking the approval of the Board. Appropriations lapse as of year-end.

(3) Cash and Cash Equivalents

At June 30, 2013 investments included in cash and cash equivalents of the Gladstone Urban Renewal Agency consist of the following:

	Weighted Average Maturity (Years)	Fair Value
Investments in the State Treasurer's Local Government Investment Pool	0.00	$ 2,705,622

A. Interest rate risk

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

B. Credit risk

State statutes authorize the Gladstone Urban Renewal Agency 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 Agency has no investment policy that would further limit its investment choices.

C. Concentration of credit risk

The Gladstone Urban Renewal Agency does not currently have an investment policy for concentration of credit risk.

The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations, but is not regulated by other laws, organizations or regulations. The reported value of the Pool is the same as the fair value of Pool shares. Investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). The Pool is not registered with the SEC as an investment company and is not rated.

D. Custodial credit risk – deposits

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the Agency's deposits up to $250,000 for the combined total of all deposit accounts at each financial institution. Deposits in excess of FDIC coverage with institutions participating in the Oregon Public Funds Collateralization Program are considered fully collateralized. As of June 30, 2013, none of the Agency's bank balances were exposed to custodial credit risk.

(4) Property Taxes

Property tax transactions for the year ended June 30, 2013, were as follows:

Tax Year	Taxes Receivable July 1, 2012	2012-2013 Levy	Collections	Adjustments and Discounts	Taxes Receivable June 30, 2013
2012-2013	$ -	$ 863,197	$ (813,699)	$ (23,979)	$ 25,519
2011-2012	27,744	-	(12,419)	(1,040)	14,285
2010-2011	14,240	-	(4,322)	(732)	9,186
2009-2010	9,122	-	(3,965)	(109)	5,048
2008-2009	2,718	-	(1,786)	(51)	881
2007-2008	509	-	(132)	(38)	339
Prior	837	-	(93)	(37)	707
	$ 55,170	$ 863,197	$ (836,416)	$ (25,986)	$ 55,965

(5) Deferred Inflows of Resources

Deferred inflow of resources as of June 30, 2013 consisted of uncollected property taxes not deemed available to finance operations of the current period.

(6) Risk Management

The Agency 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 Agency purchases commercial insurance to minimize its exposure to these risks. There has been no reduction in commercial insurance coverage from fiscal year 2012 to 2013.

(7) New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Agency implemented GASB Statement No. 61, 63, and 65 in the year ending June 30, 2013.

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATION

MERINA
& COMPANY, LLP
Certified Public Accountants and Consultants

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

PARTNERS
KAMALA K. AUSTIN, CPA • TONYA M. MOFFITT, CPA

INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATION

We have audited the basic financial statements of the governmental activities and the major fund of Gladstone Urban Renewal Agency, a component unit of the City of Gladstone, Oregon, as of and for the year ended June 30, 2013 and have issued our report thereon dated December 27, 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 Gladstone Urban Renewal Agency'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).
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- 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 Agency 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 Gladstone Urban Renewal Agency 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.*

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OAR 162-10-0230 Internal Control

Management of Gladstone Urban Renewal Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Gladstone Urban Renewal Agency'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 Gladstone Urban Renewal Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Gladstone Urban Renewal Agency's internal control over financial reporting.

A *deficiency* in *internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

We have communicated suggestions for improvements of the Gladstone Urban Renewal Agency's processes in a separate letter to management dated December 27, 2013.

This report is intended solely for the information and use of the Board of Directors, 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

Merina & Company, LLP
West Linn, Oregon
December 27, 2013