

**GLADSTONE URBAN RENEWAL AGENCY**

**FINANCIAL STATEMENTS**

For the Fiscal Year Ended  
June 30, 2011

with

Independent Auditor's  
Report

**MERINA**  
& COMPANY, LLP

**CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**

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## **INTRODUCTORY SECTION**



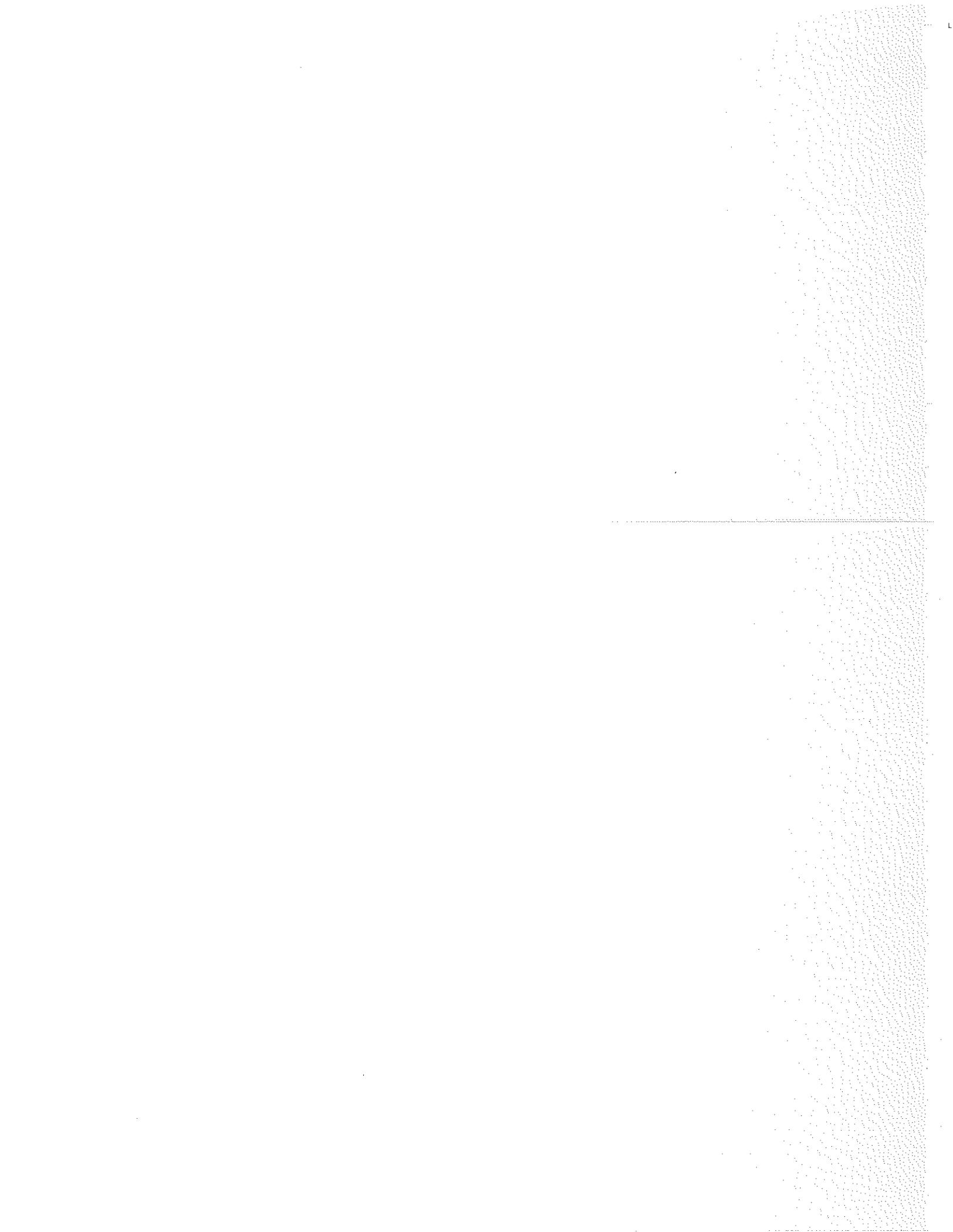
**GLADSTONE URBAN RENEWAL AGENCY  
LIST OF PRINCIPAL OFFICIALS  
June 30, 2011**

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<u>Officials</u>	<u>Term Expires</u>
Wade Byers, Mayor Gladstone, Oregon 97027	December 31, 2014
Tom Pagh, President Gladstone, Oregon 97027	December 31, 2012
Ray Jaren Gladstone, Oregon 97027	December 31, 2014
Kari Martinez Gladstone, Oregon 97027	December 31, 2014
Judith Ervin Gladstone, Oregon 97027	December 31, 2012
Len Nelson Gladstone, Oregon 97027	December 31, 2012
Hal Busch Gladstone, Oregon 97027	December 31, 2014
<u>Administrator</u> Peter Boyce Gladstone, Oregon 97027	
<u>Assistant Administrator</u> Jolene Morishita Gladstone, Oregon 97027	

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**FINANCIAL SECTION**



**INDEPENDENT AUDITOR'S REPORT**

City Council  
Gladstone Urban Renewal Agency  
Gladstone, Oregon

We have audited the accompanying financial statements of the governmental activities and each major fund, of the Gladstone Urban Renewal Agency as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Gladstone Urban Renewal Agency'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 and each major fund of the Gladstone Urban Renewal Agency, as of June 30, 2011, and the respective changes in financial position 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 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

A handwritten signature in cursive script that reads "Merina & Company".

Merina & Company, LLP  
West Linn, Oregon  
December 5, 2011

## **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, 2011.

### **Financial Highlights**

The assets of the Gladstone Urban Renewal Agency exceeded its liabilities at the close of the most recent fiscal year by \$1,324,531 (net assets). This amount may be used to meet the Agency's ongoing obligations to citizens and creditors.

The Gladstone Urban Renewal Agency's total net assets increased by \$100,329 from the fiscal year ending in 2010 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 \$1,281,453. The difference between \$1,324,531 unrestricted net assets and the ending fund balance of \$1,281,453 is due to uncollected property tax.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Gladstone Urban Renewal Agency's basic financial statements. Included are Government-wide financial statements and notes to the financial statements.

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

A statement of net assets presents information on all of the Agency'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 Agency is improving or deteriorating. The financial position of the Agency is best indicated by changes in cash flow and cash reserve as shown the Agency's most recent budget.

A statement of activities in this discussion and analysis presents information showing how the Agency'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). Governmental activity of the Urban Renewal Agency includes community development. There are no affiliated business type activities.

**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 Gladstone Urban Renewal Agency, like other state and local governments, uses fund accounting to ensure and

demonstrate compliance with finance-related legal requirements. The fund of the Gladstone Urban Renewal Agency is in the governmental funds category.

**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 Agency’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 Gladstone Urban Renewal Agency maintains one individual governmental fund. 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 Urban Renewal Fund. The Agency adopts an annual appropriate budget for the governmental fund. A budgetary comparison has been provided to demonstrate compliance with the adopted budget.

**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.

**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 \$1,324,531 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 Assets for fiscal years 2010-2011 and 2009-2010.

	<u>2011</u>	<u>2010</u>	<u>Total Change</u>
Cash and investments	\$ 1,272,182	\$ 1,168,317	\$ 103,865
Due from other governments	4,870	5,710	(840)
Property taxes receivable	47,478	50,175	(2,697)
Total assets	<u>\$ 1,324,531</u>	<u>\$ 1,224,202</u>	<u>\$ 100,329</u>
Net assets:			
Restricted	<u>\$ 1,324,531</u>	<u>\$ 1,224,202</u>	<u>\$ 100,329</u>
Total net assets	<u>\$ 1,324,531</u>	<u>\$ 1,224,202</u>	<u>\$ 100,329</u>

The following table summarizes revenues and expenses for fiscal years 2010-2011 and 2009-2010.

**Table 2**  
**Governmental Activities**

<b>REVENUES</b>	<u>2011</u>	<u>2010</u>	<u>Total Change</u>
General Revenues:			
Property taxes	\$ 809,109	\$ 778,062	\$ 31,047
Transfer In (Out)	(700,000)	-	(700,000)
Interest	6,782	4,908	1,874
Total revenues	<u>\$ 115,891</u>	<u>\$ 782,970</u>	<u>\$ (667,079)</u>
 <b>EXPENSES</b>			
Community development	<u>\$ 15,562</u>	<u>\$ 5,498</u>	<u>\$ 10,064</u>
 Increase (Decrease)in net assets	 100,329	 777,472	 (677,143)
Beginning net assets	<u>1,224,202</u>	<u>446,730</u>	<u>777,472</u>
Ending net assets	<u>\$ 1,324,531</u>	<u>\$ 1,224,202</u>	<u>\$ 100,329</u>

**Governmental Activities.** Governmental activities increased the Gladstone Urban Renewal Agency's net assets by \$100,329.

**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, unreserved fund balance may serve as useful measure of a government's net resources available for spending at the end of the fiscal year. The \$1,324,531 ending net assets represents spendable income.

**Budgetary Highlights.** The Gladstone Urban Renewal Agency did not have expenditures for any community projects for the fiscal year ended 2010-2011. The Urban Renewal Agency transferred \$700,000 to the City of Gladstone's Library Capital Fund to aid in the design of a new library.

**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.

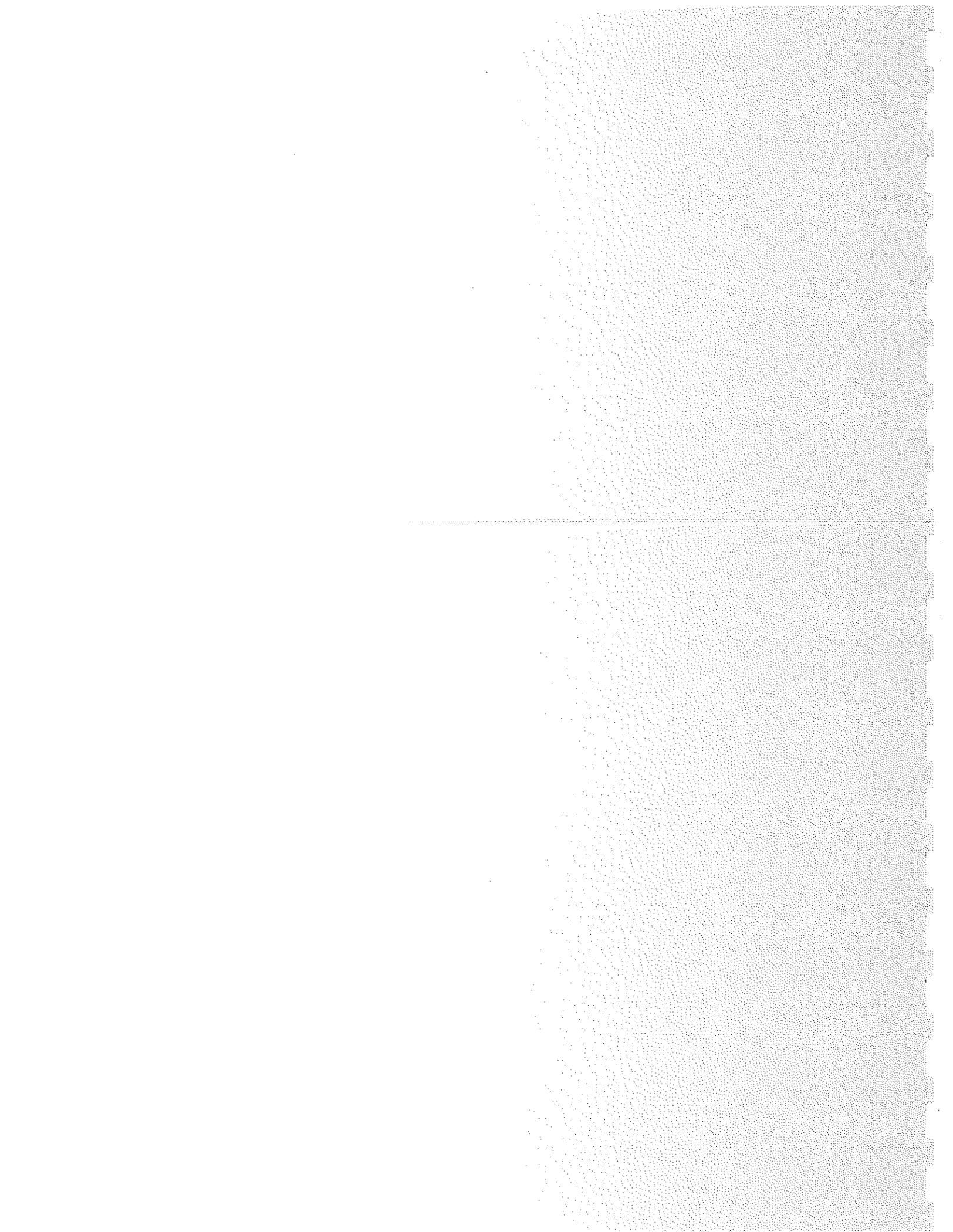
**Long-term Debt.** At the end of the fiscal year, the Gladstone Urban Renewal Agency had no long-term debt outstanding. In response to 1997 state legislation, the Gladstone City Council, acting as officials of the Gladstone Urban Renewal Agency, at its April 1998 meeting, authorized \$23,000,000 in 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. Also, with formation of a library district, approved by voters in November, 2008, the Agency may continue to use urban renewal monies to fund the cost of a new library building.

**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 and Company.

**BASIC FINANCIAL STATEMENTS**



**GLADSTONE URBAN RENEWAL AGENCY**  
**STATEMENT OF NET ASSETS**  
**June 30, 2011**

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	<u>Governmental Activities</u>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 1,272,182
Due from other governments	4,871
Property taxes receivable	<u>47,478</u>
Total assets	<u><u>\$ 1,324,531</u></u>
<b>NET ASSETS:</b>	
Restricted:	
Urban Renewal Development	<u>1,324,531</u>
Total net assets	<u>1,324,531</u>
Total liabilities and net assets	<u><u>\$ 1,324,531</u></u>

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, 2011**

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	<u>Expenses</u>	<u>Net Revenue (Expenses) and Changes in Net Assets</u>
<b>EXPENSES:</b>		
Governmental activities:		
Community development	<u>\$ 15,562</u>	<u>\$ (15,562)</u>
Total program expenses		<u>(15,562)</u>
Net program expense		<u>(15,562)</u>
<b>GENERAL REVENUES:</b>		
Property taxes		809,109
Interest		6,782
Transfers in (out)		<u>(700,000)</u>
Total general revenues		<u>115,891</u>
Change in net assets		100,329
<b>NET ASSETS, BEGINNING</b>		<u>1,224,202</u>
<b>NET ASSETS, ENDING</b>		<u><u>\$ 1,324,531</u></u>

The accompanying notes are an integral part of these financial statements

**GLADSTONE URBAN RENEWAL AGENCY**  
**BALANCE SHEET - GOVERNMENTAL FUND**  
**June 30, 2011**

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**ASSETS:**

Cash and cash equivalents	\$ 1,272,182
Due from other governments	4,871
Property taxes receivable	<u>47,478</u>
Total assets	<u><u>\$ 1,324,531</u></u>

**LIABILITIES:**

Deferred revenue	<u>\$ 43,078</u>
Total liabilities	<u>43,078</u>

**FUND BALANCE:**

Restricted	-
Urban Renewal Development	<u>1,281,453</u>
Total fund balance	<u>1,281,453</u>
Total liabilities and fund balance	<u><u>\$ 1,324,531</u></u>

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

Total fund balance	\$ 1,281,453
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the fund	<u>43,078</u>
Net assets of governmental activities	<u><u>\$ 1,324,531</u></u>

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, 2011**

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**REVENUES:**

Property taxes	\$ 811,771
Interest on investments	<u>6,782</u>
Total revenues	<u>818,553</u>

**EXPENDITURES:**

Materials and services	15,562
Capital outlay	<u>-</u>
Total expenditures	<u>15,562</u>
Revenues over (under) expenditures	<u>802,991</u>

**OTHER FINANCING SOURCES (USES):**

Issuance of debt	-
Transfers in (out)	<u>(700,000)</u>
Total other financing sources (uses)	<u>(700,000)</u>
Net change in fund balance	102,991

<b>FUND BALANCE, BEGINNING</b>	<u>1,178,462</u>
<b>FUND BALANCE, ENDING</b>	<u><u>\$ 1,281,453</u></u>

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, 2011**

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

Net change in fund balance - total governmental fund	\$ 102,991
Some revenue reported in the statement of activities do not provide current financial resources in the government fund	<u>(2,662)</u>
Changes in net assets of governmental activity	<u>\$ 100,329</u>

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, 2011**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 761,150	\$ 761,150	\$ 811,771	\$ 50,621
Interest on investments	4,000	4,000	6,782	2,782
Total revenues	765,150	765,150	818,553	53,403
<b>EXPENDITURES:</b>				
Materials and services	60,000	60,000	15,562	44,438
Capital outlay	1,275,801	1,275,801	-	1,275,801
Debt service:				-
Principal	230,000	230,000	-	230,000
Interest	300,000	300,000	-	300,000
Total expenditures	1,865,801	1,865,801	15,562	1,850,239
Revenues over (under) expenditures	(1,100,651)	(1,100,651)	802,991	1,903,642
<b>OTHER FINANCING SOURCES (USES):</b>				
Issuance of debt	6,500,000	6,500,000	-	(6,500,000)
Transfers in (out)	(6,500,000)	(6,500,000)	(700,000)	5,800,000
Total other financing sources (uses)	-	-	(700,000)	(700,000)
Net change in fund balances	(1,100,651)	(1,100,651)	102,991	1,203,642
<b>FUND BALANCES, BEGINNING</b>	1,100,651	1,100,651	1,178,462	77,811
<b>FUND BALANCES, ENDING</b>	\$ -	\$ -	\$ 1,281,453	\$ 1,281,453

The accompanying notes are an integral part of these financial statements

**GLADSTONE URBAN RENEWAL AGENCY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2011**

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**(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 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, 2011.

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 assets 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.

**GLADSTONE URBAN RENEWAL AGENCY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2011**

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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, liabilities, reserves, fund equity, revenues and expenditures/expenses.

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. 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.

**GLADSTONE URBAN RENEWAL AGENCY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2011**

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**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 revenue 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. 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 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 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 Agency. 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.

**H. 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.

**GLADSTONE URBAN RENEWAL AGENCY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2011**

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**I. 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 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 Agency Council. Management may not amend the budget without seeking the approval of the Council. Appropriations lapse as of year-end.

**(3) Cash and Cash Equivalents**

At June 30, 2011 investments included in cash and cash equivalents of the Gladstone Urban Renewal Agency consist of the following:

	<u>Weighted Average Maturity (Years)</u>	<u>Fair Value</u>
Investments in the State Treasurer’s Local Government Investment Pool	<u>0.00</u>	<u>\$ 1,262,006</u>

**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.

**GLADSTONE URBAN RENEWAL AGENCY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2011**

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**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**

This 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 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, 2011, none of the Agency's bank balances were exposed to credit risk.

**GLADSTONE URBAN RENEWAL AGENCY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2011**

**(4) Property Taxes**

Property tax transactions for the year ended June 30, 2011, were as follows:

Tax Year	Taxes	2010-2011 Levy	Collections	Adjustments and Discounts	Taxes
	Receivable July 1, 2010				Receivable June 30, 2011
2010-2011		836,186	(782,478)	(26,852)	26,856
2009-2010	29,628		(16,104)	(1,877)	11,647
2008-2009	12,791		(6,223)	(551)	6,017
2007-2008	4,913		(2,972)	(202)	1,739
2006-2007	1,563		(983)	(100)	480
2005-2006	342		(83)	(40)	219
2004-2005	238		(47)	(41)	150
2003-2004	183		(7)	(59)	117
2002-2003	210		(10)	(115)	85
2001-2002	185		(4)	(79)	102
Prior	122		(5)	(51)	66
	<u>50,175</u>	<u>836,186</u>	<u>(808,916)</u>	<u>(29,967)</u>	<u>47,478</u>

**(5) Deferred Revenue**

Deferred revenue as of June 30, 2011 consists of uncollected property taxes not deemed available to finance operations of the current period.

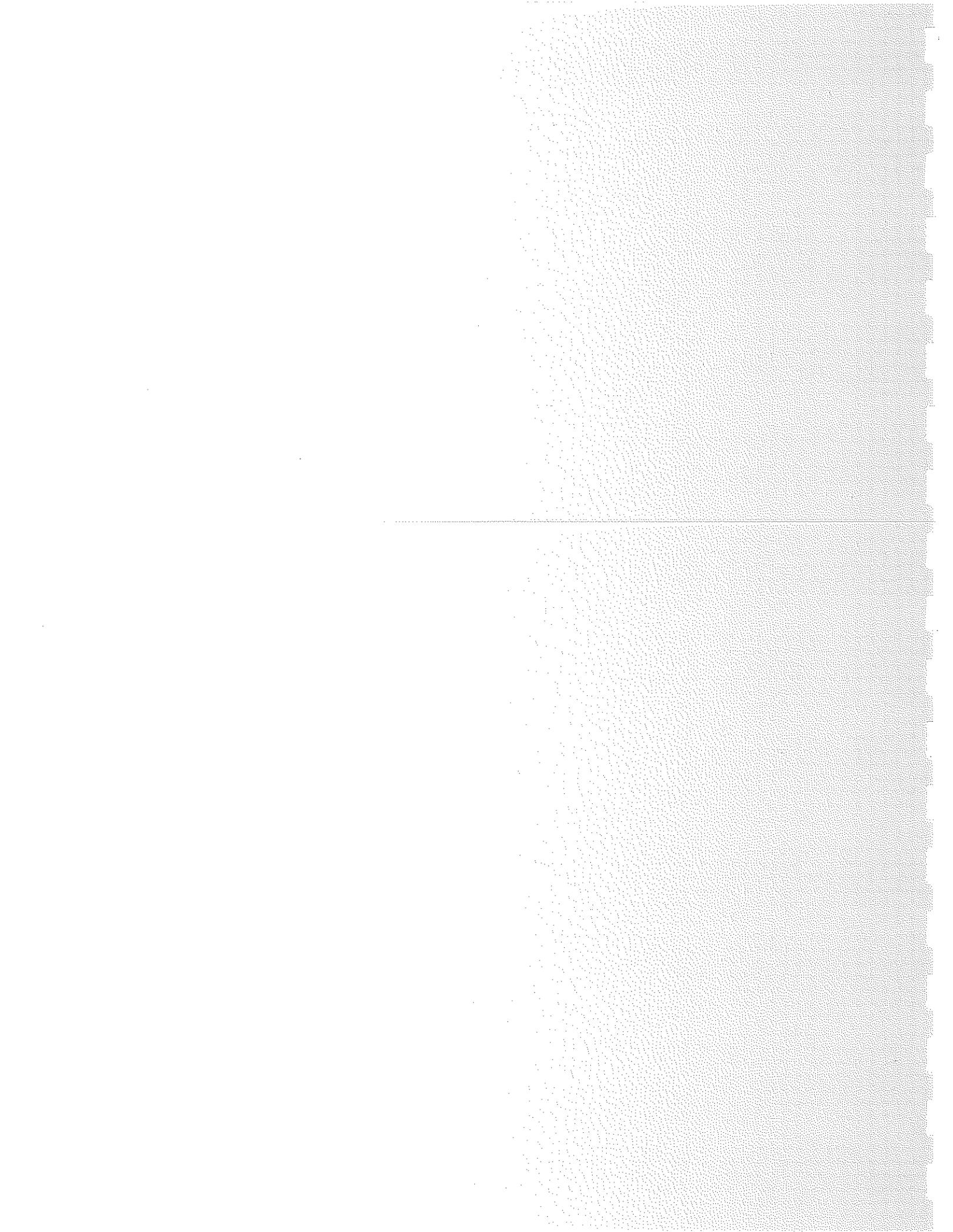
**(6) Risk Management**

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 2010 to 2011.

**(7) New Accounting Pronouncement- GASB 54**

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. It establishes the fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The Agency implemented GASB 54 in the year ending June 30, 2011.

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



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

City Council  
Gladstone Urban Renewal Agency  
Gladstone, Oregon

We have audited the basic financial statements of the Gladstone Urban Renewal Agency as of and for the year ended June 30, 2011, and have issued our report thereon dated December 5, 2011. We have 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 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 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:

- **Deposit 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, 279C).**

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 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 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 of the effectiveness of the Gladstone Urban Renewal Agency'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 parties.



Merina & Company, LLP  
West Linn, Oregon  
December 5, 2011