

CITY OF GLADSTONE, OREGON

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

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

CITY OF GLADSTONE, OREGON
CITY OFFICIALS
June 30, 2011

City Officials

Wade Byers, Mayor
Gladstone, Oregon 97027

Term Expires
December 31, 2014

Council Members

Tom Pagh, President
Gladstone, Oregon 97027

December 31, 2012

Hal Busch
Gladstone, Oregon 97027

December 31, 2014

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

City Administrator

Peter Boyce
Gladstone, Oregon 97027

Assistant City Administrator

Jolene Morishita
Gladstone, Oregon 97027

Municipal Judge

Phil Ringle, Jr.
Gladstone, Oregon 97027

CITY OF GLADSTONE, OREGON
CITY OFFICIALS
June 30, 2011

Chief of Police

Jim Pryde
Gladstone, Oregon 97027

Fire Chief

Stan Monte
Gladstone, Oregon 97027

City Attorney

Linda Beloof
Portland, Oregon 97201

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, Oregon as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Gladstone, Oregon's management. Our responsibility is to express opinions on these financial statements based on our audit.

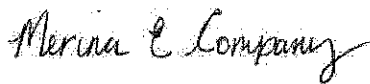
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration 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, 2011, 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken 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 were 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
December 5, 2011

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, 2011.

Financial Highlights

The assets of the City of Gladstone exceeded its liabilities at the close of the most recent fiscal year by \$30,291,296 (net assets). Of this amount, \$17,369,282 is invested in capital assets, net of related debt, \$4,519,660 is restricted for specific purposes, and \$8,402,354 (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 \$4,588,590 from prior year.

The City's governmental activities reported total net assets of \$21,039,395. Of this amount \$3,934,620 is unrestricted and thus available for spending at the City's discretion.

The City's business-type activities reported total net assets of \$9,251,901. Of this amount \$4,467,763 is unrestricted and thus available for spending at the City's discretion.

The City's governmental funds reported combined ending fund balances of \$8,285,292, an increase of \$2,863,226 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 \$30,291,296 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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Cash and investments	\$ 7,742,621	\$ 4,562,678	\$ 1,407,430	\$ 1,183,666	\$ 9,150,051	\$ 5,746,344
Restricted cash and investments	240,059	430,761	253,610	251,651	493,669	682,412
Other assets	928,588	900,013	3,310,667	3,396,983	4,239,255	4,296,996
Capital assets	12,838,725	11,249,712	6,680,557	6,749,439	19,519,282	17,999,151
Total assets	\$ 21,749,993	\$17,143,164	\$ 11,652,264	\$ 11,581,739	\$ 33,402,257	\$ 28,724,903
Current liabilities	\$ 614,071	\$ 433,492	\$ 339,919	\$ 382,697	\$ 953,990	\$ 816,189
Long-term liabilities	96,527	50,430	2,060,444	2,155,579	2,156,971	2,206,009
Total liabilities	\$ 710,598	\$ 483,922	\$ 2,400,363	\$ 2,538,276	\$ 3,110,961	\$ 3,022,198
Net assets						
Invested in capital assets, net of debt	\$ 12,838,725	\$ 11,249,712	\$ 4,530,557	\$ 4,494,439	\$ 17,369,282	\$ 15,744,151
Restricted for other purposes	4,266,050	430,761	253,610	251,651	4,519,660	682,412
Unrestricted (deficit)	3,934,620	4,978,769	4,467,734	4,297,373	8,402,354	9,276,142
Total Net Assets	\$ 21,039,395	\$ 16,659,242	\$ 9,251,901	\$ 9,043,463	\$ 30,291,296	\$ 25,702,705

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 \$8,402,354 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 2010-2011 and 2009-2010.

TABLE 2
Governmental and Proprietary Activities

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
REVENUES						
Program revenues:						
Charges for services	\$ 356,824	\$ 311,845	\$ 2,452,225	\$ 2,354,657	\$ 2,809,049	\$ 2,666,502
Operating grants and contributions	190,783	141,482	-	-	190,783	141,482
Capital grants and Contributions	3,408,078	-	-	-	3,408,078	-
General revenues:						
Property taxes	4,653,887	4,591,427	-	-	4,653,887	4,591,427
Franchise fees and public services taxes	1,936,218	1,768,913	-	-	1,936,218	1,768,913
Grants and contributions not restricted	-	198,228	-	-	-	198,228
Interest	35,416	37,542	-	-	35,416	37,542
Other	-	64,060	1,250	32,855	1,250	96,915
Total Revenues	\$ 10,581,206	\$ 7,113,497	\$ 2,453,475	\$ 2,387,512	\$ 13,034,681	\$ 9,501,009
EXPENSES						
Governmental activities:						
General government	\$ 933,572	\$ 900,907	-	-	\$ 933,572	\$ 900,907
Public safety	3,551,900	3,430,780	-	-	3,551,900	3,430,780
Highways and streets	529,939	515,263	-	-	529,939	515,263
Culture and recreation	1,193,176	1,190,728	-	-	1,193,176	1,190,728
Urban renewal	15,702	5,574	-	-	15,702	5,574
Business type activities:						
Water	-	-	830,774	841,201	830,774	841,201
Sewer	-	-	1,302,304	1,237,655	1,302,304	1,237,655
Total Expenses	\$ 6,224,289	\$ 6,043,252	\$ 2,133,078	\$ 2,078,856	\$ 8,357,367	\$ 8,122,108
Increase in net assets before transfers and internal balances	\$ 4,356,917	\$ 1,070,245	\$ 320,397	\$ 308,656	\$ 4,677,314	\$ 1,378,901
Transfers	23,235	23,200	(23,235)	(23,200)	-	-
Equity income (loss) in joint venture	-	-	(88,724)	(99,517)	(88,724)	(99,517)
Changes in net assets	4,380,152	1,093,445	208,438	185,939	4,588,590	1,279,384
Beginning net assets	16,659,243	15,565,797	9,043,463	8,698,803	25,702,706	24,264,600
Prior period adjustment	-	-	-	158,721	-	158,721
Ending net assets	\$ 21,039,395	\$ 16,659,242	\$ 9,251,901	\$ 9,043,463	\$ 30,291,296	\$ 25,702,705

Governmental activities. Governmental activities increased the City of Gladstone's net assets by \$4,380,152.

Business-type activities. Business-type activities increased the City of Gladstone's net assets by \$208,438.

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 \$8,285,292.

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.

General Fund Budgetary Highlights

The budgeted expenditures in the final amended General Fund budget increased \$210,000 from the original budget.

Capital Assets and Debt Administration

The following tables compare capital assets and changes in capital assets as of June 30, 2011 and June 30, 2010.

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 5,519,830	\$ 5,519,830	\$ 640,964	\$ 640,964	\$ 6,160,794	\$ 6,160,794
Construction in Progress	764,671	200,187	-	-	764,671	200,187
Buildings	2,256,387	1,849,197	21,681	23,897	2,278,068	1,873,094
Motor vehicles and equipment	903,736	993,949	75,064	48,210	978,800	1,042,159
Investment in joint venture	-	-	3,213,083	3,301,807	3,213,083	3,301,807
Infrastructure	3,394,101	2,686,549	5,942,848	6,036,368	9,336,949	8,722,917
Total	\$12,838,725	\$11,249,712	\$9,893,640	\$10,051,246	22,732,365	\$21,300,958

Table 4
Changes in Capital Assets

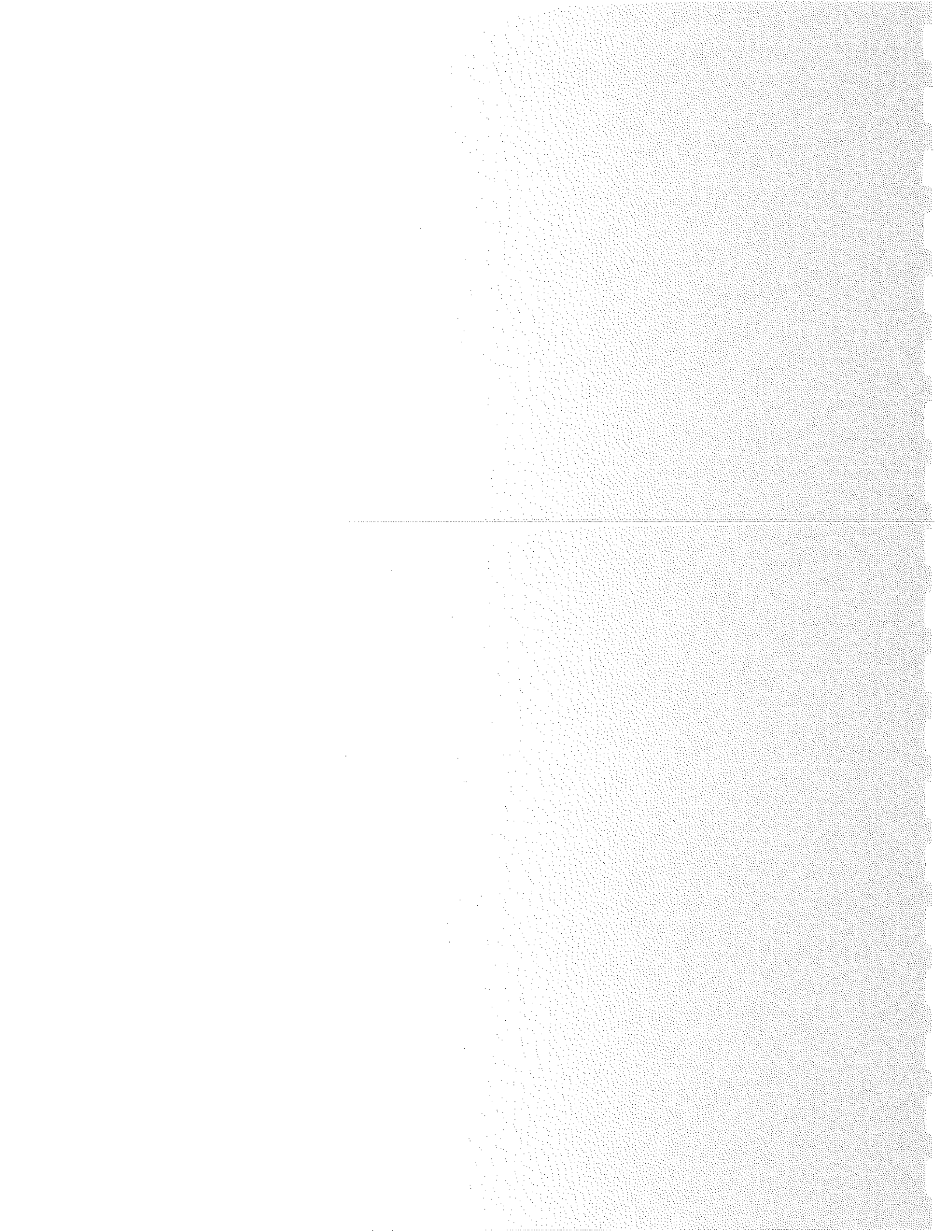
	<u>Governmental Activities</u>		<u>Business-type activities</u>		<u>Total Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Beginning balance	\$11,249,712	\$10,571,024	\$10,051,246	\$10,173,496	\$ 21,300,958	\$ 20,744,520
Additions	2,187,204	1,078,613	150,579	32,412	2,337,783	1,111,025
Depreciation	(440,791)	(399,925)	(219,461)	(213,866)	(660,252)	(613,791)
Deletions	(157,400)	-	(88,724)	(99,517)	(246,124)	(99,517)
Prior period adjustment	-	-	-	158,721	-	158,721
Ending Balance	<u>\$12,838,725</u>	<u>\$11,249,712</u>	<u>\$9,893,640</u>	<u>\$10,051,246</u>	<u>\$ 22,732,365</u>	<u>\$ 21,300,958</u>

Long-term debt. At June 30, 2011, the City had bonded debt outstanding of \$2,150,000 compared to \$2,255,000 at June 30, 2010. 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 \$27,823,284.

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 and 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, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 7,742,621	\$ 1,407,430	\$ 9,150,051
Cash with county treasurer	28,338	-	28,338
Accounts receivable	15,000	394,345	409,345
Property taxes receivable	277,766	-	277,766
Prepays	-	144,716	144,716
Due from other governments	54,443	-	54,443
Miscellaneous	56,057	-	56,057
Total current assets	8,174,225	1,946,491	10,120,716
Noncurrent assets:			
Internal balances	496,984	(496,984)	-
Restricted cash and investments	240,059	253,610	493,669
Assessments receivable	-	6,062	6,062
Bond issue cost	-	46,881	46,881
Interest receivable	-	2,564	2,564
Investment in joint venture	-	3,213,083	3,213,083
Capital assets:			
Non depreciable	6,284,501	640,964	6,925,465
Depreciable, net	6,554,224	6,039,593	12,593,817
Total noncurrent assets	13,575,768	9,705,773	23,281,541
Total assets	21,749,993	11,652,264	33,402,257
LIABILITIES			
Current liabilities:			
Accounts payable	373,886	187,887	561,773
Interest payable	-	42,127	42,127
Accrued compensated absences	240,185	9,905	250,090
Bonds payable - current maturity	-	100,000	100,000
Total current liabilities	614,071	339,919	953,990
Noncurrent liabilities:			
Bonds payable	-	2,050,000	2,050,000
OPEB liability	96,527	10,444	106,971
Total noncurrent liabilities	96,527	2,060,444	2,156,971
Total liabilities	710,598	2,400,363	3,110,961
NET ASSETS			
Invested in capital assets, net of related debt	12,838,725	4,530,557	17,369,282
Restricted for:			
911 system	26,014	-	26,014
Street operations	308,281	-	308,281
Senior center	163,622	-	163,622
Library capital projects	2,486,680	-	2,486,680
System development	-	253,610	253,610
Urban Renewal development	1,281,453	-	1,281,453
Unrestricted	3,934,620	4,467,734	8,402,354
Total net assets	21,039,395	9,251,901	30,291,296
Total liabilities and net assets	\$ 21,749,993	\$ 11,652,264	\$ 33,402,257

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, 2011

<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	\$ 933,572	\$ 47,439	\$ -	\$ -
Public safety	3,551,900	249,418	52,766	-
Highways and streets	529,939	1,162	-	709,011
Urban and renewal	15,702	-	-	-
Culture and recreation	1,193,176	58,805	138,017	2,699,067
Total governmental activities	<u>6,224,289</u>	<u>356,824</u>	<u>190,783</u>	<u>3,408,078</u>
Business-type activities:				
Water Fund	830,774	1,069,608	-	-
Sewer Fund	1,302,304	1,382,617	-	-
Total business type activities	<u>2,133,078</u>	<u>2,452,225</u>	<u>-</u>	<u>-</u>
Total government	<u>\$ 8,357,367</u>	<u>\$ 2,809,049</u>	<u>\$ 190,783</u>	<u>\$ 3,408,078</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

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
\$ (886,133)	\$ -	\$ (886,133)
(3,249,716)	-	(3,249,716)
180,234	-	180,234
(15,702)	-	(15,702)
1,702,713	-	1,702,713
(2,268,604)	-	(2,268,604)
-	238,834	238,834
-	80,313	80,313
-	319,147	319,147
(2,268,604)	319,147	(1,949,457)
4,653,887	-	4,653,887
1,443,042	-	1,443,042
493,176	-	493,176
35,416	-	35,416
-	(88,724)	(88,724)
-	1,250	1,250
23,235	(23,235)	-
6,648,756	(110,709)	6,538,047
4,380,152	208,438	4,588,590
16,659,243	9,043,463	25,702,706
<u>\$ 21,039,395</u>	<u>\$ 9,251,901</u>	<u>\$ 30,291,296</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, 2011

	General Fund	State Revenue Sharing Fund	Road and Street Fund
ASSETS			
Cash and investments	\$ 2,093,613	\$ 523,681	\$ 183,670
Restricted cash and investments	163,622	-	76,437
Cash with county treasurer	19,243	-	-
Accounts receivable	-	-	-
Property taxes receivable	188,735	-	-
Due from other funds	-	496,984	-
Due from other governments	-	-	54,443
Miscellaneous	56,057	-	-
Total assets	\$ 2,521,270	\$ 1,020,665	\$ 314,550
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 198,201	\$ -	\$ 6,269
Deferred revenue	171,289	-	-
Total liabilities	369,490	-	6,269
FUND BALANCES:			
Restricted			
911 system	-	-	-
Street operations	-	-	308,281
Senior center	163,622	-	-
Library capital projects	-	-	-
Urban Renewal development	-	-	-
Assigned:			
Capital projects	-	1,020,665	-
Police services	-	-	-
Fire and emergency services	-	-	-
Unassigned	1,988,158	-	-
Total fund balance	2,151,780	1,020,665	308,281
Total liabilities and fund balance	\$ 2,521,270	\$ 1,020,665	\$ 314,550

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.

<u>Urban Renewal Agency Fund</u>	<u>Library Capital Fund</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 1,272,182	\$ 2,656,096	\$ 1,013,379	\$ 7,742,621
-	-	-	240,059
4,871	-	4,224	28,338
-	-	15,000	15,000
47,478	-	41,553	277,766
-	-	-	496,984
-	-	-	54,443
-	-	-	56,057
<u>\$ 1,324,531</u>	<u>\$ 2,656,096</u>	<u>\$ 1,074,156</u>	<u>\$ 8,911,268</u>
\$ -	\$ 169,416	\$ -	\$ 373,886
43,078	-	37,723	252,090
<u>43,078</u>	<u>169,416</u>	<u>37,723</u>	<u>625,976</u>
-	-	26,014	26,014
-	-	-	308,281
-	-	-	163,622
1,281,453	2,486,680	-	2,486,680
-	-	-	1,281,453
-	-	-	1,020,665
-	-	571,098	571,098
-	-	439,321	439,321
-	-	-	1,988,158
<u>1,281,453</u>	<u>2,486,680</u>	<u>1,036,433</u>	<u>8,285,292</u>
<u>\$ 1,324,531</u>	<u>\$ 2,656,096</u>	<u>\$ 1,074,156</u>	
			12,838,725
			252,090
			(336,712)
			<u>\$ 21,039,395</u>

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

CITY OF GLADSTONE, OREGON
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2011

	<u>General Fund</u>	<u>State Revenue Sharing Fund</u>	<u>Road and Street Fund</u>
REVENUES:			
Property taxes	\$ 3,167,378	\$ -	\$ -
Public service taxes	702,350	91,919	587,777
Franchise taxes	493,176	-	-
Grants	351,773	-	-
Charges for services	106,244	-	1,162
Licenses and permits	20,478	-	-
Fines and forfeitures	228,940	-	-
Contributions and donations	35,577	-	-
Interest	18,187	2,331	-
Miscellaneous	73,446	-	458
	<u>5,197,549</u>	<u>94,250</u>	<u>589,397</u>
EXPENDITURES:			
Current:			
General government	905,975	-	-
Public safety	2,710,226	-	-
Highways and streets	-	-	412,131
Urban and renewal	-	-	-
Culture and recreation	1,112,291	-	-
Capital outlay	582,678	-	54,411
	<u>5,311,170</u>	<u>-</u>	<u>466,542</u>
Total expenditures	<u>5,311,170</u>	<u>-</u>	<u>466,542</u>
Revenues over (under) expenditures	(113,621)	94,250	122,855
OTHER FINANCING SOURCES (USES):			
Transfers in	94,006	-	-
Transfers out	-	-	(53,615)
	<u>94,006</u>	<u>-</u>	<u>(53,615)</u>
Total other financing sources (uses)	<u>94,006</u>	<u>-</u>	<u>(53,615)</u>
Net changes in fund balances	(19,615)	94,250	69,240
FUND BALANCES, BEGINNING	<u>2,171,395</u>	<u>926,415</u>	<u>239,041</u>
FUND BALANCES, ENDING	<u>\$ 2,151,780</u>	<u>\$ 1,020,665</u>	<u>\$ 308,281</u>

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

Urban Renewal Agency Fund	Library Capital Fund	Other Governmental	Total Governmental
\$ 811,771	\$ -	\$ 695,446	\$ 4,674,595
-	-	60,996	1,443,042
-	-	-	493,176
-	-	-	351,773
-	-	-	107,406
-	-	-	20,478
-	-	-	228,940
-	2,502,500	-	2,538,077
6,782	3,384	4,732	35,416
-	-	-	73,904
<u>818,553</u>	<u>2,505,884</u>	<u>761,174</u>	<u>9,966,807</u>
-	-	-	905,975
-	-	562,751	3,272,977
-	-	-	412,131
15,562	-	-	15,562
-	-	-	1,112,291
-	719,204	51,587	1,407,880
<u>15,562</u>	<u>719,204</u>	<u>614,338</u>	<u>7,126,816</u>
802,991	1,786,680	146,836	2,839,991
-	700,000	-	794,006
(700,000)	-	(17,156)	(770,771)
<u>(700,000)</u>	<u>700,000</u>	<u>(17,156)</u>	<u>23,235</u>
102,991	2,486,680	129,680	2,863,226
<u>1,178,462</u>	<u>-</u>	<u>906,753</u>	<u>5,422,066</u>
<u>\$ 1,281,453</u>	<u>\$ 2,486,680</u>	<u>\$ 1,036,433</u>	<u>\$ 8,285,292</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, 2011

Amounts reported in the statement of activities are different because:

Net change in fund balances	\$ 2,863,226
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.	1,589,013
Some revenue reported in the statement of activities do not provide current financial resources in the governmental funds.	(20,708)
Accrued compensated absences and OPEB obligations are not due and payable in the current period and therefore are not reported in the funds.	<u>(51,379)</u>
Change in net assets of governmental activities	<u>\$ 4,380,152</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, 2011

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Cash and investments	\$ 530,161	\$ 877,269	\$ 1,407,430
Trade accounts receivable	169,568	224,777	394,345
Prepays	144,716	-	144,716
Total current assets	844,445	1,102,046	1,946,491
Noncurrent assets:			
Assessments receivable	-	6,062	6,062
Interest receivable	-	2,564	2,564
Restricted cash	112,048	141,562	253,610
Due from other funds	-	150,000	150,000
Bond issue cost	46,881	-	46,881
Investment in joint venture	3,213,083	-	3,213,083
Capital assets:			
Non-depreciable	129,414	511,550	640,964
Depreciable	3,966,756	2,072,837	6,039,593
Total noncurrent assets	7,468,182	2,884,575	10,352,757
Total assets	\$ 8,312,627	\$ 3,986,621	\$ 12,299,248
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts payable	\$ 23,633	\$ 164,254	\$ 187,887
Interest payable	42,127	-	42,127
Accrued compensated absences	4,591	5,314	9,905
Bonds payable - current maturity	100,000	-	100,000
Bonds payable	2,050,000	-	2,050,000
Due to other funds	646,984	-	646,984
OPEB liability	5,420	5,024	10,444
Total liabilities	2,872,755	174,592	3,047,347
NET ASSETS:			
Invested in capital assets, net of related debt	1,946,170	2,584,387	4,530,557
Restricted for:			
System development	112,048	141,562	253,610
Unrestricted	3,381,654	1,086,080	4,467,734
Total net assets	5,439,872	3,812,029	9,251,901
Total liabilities and net assets	\$ 8,312,627	\$ 3,986,621	\$ 12,299,248

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, 2011

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
OPERATING REVENUES:			
Service charges	\$ 1,065,179	\$ 1,376,967	\$ 2,442,146
Connection and installation fees	2,920	5,200	8,120
System development charge	1,509	450	1,959
Miscellaneous	600	650	1,250
	<u>1,070,208</u>	<u>1,383,267</u>	<u>2,453,475</u>
OPERATING EXPENSES:			
Purchases	225,691	902,211	1,127,902
Salaries and fringe benefits	225,198	203,360	428,558
Contract charges	11,546	-	11,546
Maintenance and repairs	99,440	114,798	214,238
Utilities	13,260	617	13,877
Depreciation and amortization	143,807	78,989	222,796
Net OPEB obligation	2,536	2,329	4,865
Supplies	10,969	-	10,969
Miscellaneous	16,041	-	16,041
	<u>748,488</u>	<u>1,302,304</u>	<u>2,050,792</u>
Operating income (loss)	321,720	80,963	402,683
NON-OPERATING INCOME (EXPENSE):			
Interest expense	(82,286)	-	(82,286)
Gain (loss) in joint venture	(88,724)	-	(88,724)
	<u>(171,010)</u>	<u>-</u>	<u>(171,010)</u>
Total non-operating income (expenses)	(171,010)	-	(171,010)
Net income (loss) before operating transfers	150,710	80,963	231,673
TRANSFERS:			
Transfers in (out)	-	(23,235)	(23,235)
Change in net assets	150,710	57,728	208,438
NET ASSETS, BEGINNING	<u>5,289,162</u>	<u>3,754,301</u>	<u>9,043,463</u>
NET ASSETS, ENDING	<u>\$ 5,439,872</u>	<u>\$ 3,812,029</u>	<u>\$ 9,251,901</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, 2011

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 1,046,661	\$ 1,396,699	\$ 2,443,360
Cash paid to employees and others for salaries and benefits	(221,989)	(203,923)	(425,912)
Cash paid to suppliers and others	(418,284)	(1,010,373)	(1,428,657)
Net cash provided (used) by operating activities	406,388	182,403	588,791
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Transfers in (out)	-	(23,235)	(23,235)
Net cash provided (used) by non-capital financing activities	-	(23,235)	(23,235)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of capital assets	(122,610)	(27,969)	(150,579)
Principal paid on capital debt	(105,000)	-	(105,000)
Interest paid on capital debt	(84,254)	-	(84,254)
Net cash provided (used) by capital and related financing activities	(311,864)	(27,969)	(339,833)
Net increase in cash and cash equivalents	94,524	131,199	225,723
CASH AND CASH EQUIVALENTS, BEGINNING	547,685	887,632	1,435,317
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 642,209</u>	<u>\$ 1,018,831</u>	<u>\$ 1,661,040</u>
COMPRISED AS FOLLOWS:			
Unrestricted	\$ 530,161	\$ 877,269	\$ 1,407,430
Restricted	112,048	141,562	253,610
Total	<u>\$ 642,209</u>	<u>\$ 1,018,831</u>	<u>\$ 1,661,040</u>

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	\$ 321,720	\$ 80,963	\$ 402,683
Adjustments			
Depreciation and amortization	143,807	78,989	222,796
Decrease (increase) in:			
Accounts receivable	(23,547)	13,432	(10,115)
Prepays	4,372	-	4,372
Increase (decrease) in:			
Accounts payable and accrued expenses	(43,173)	9,582	(33,591)
Accrued compensated absences	673	(2,892)	(2,219)
OPEB obligation	2,536	2,329	4,865
Net cash provided (used) by operating activities:	<u>\$ 406,388</u>	<u>\$ 182,403</u>	<u>\$ 588,791</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.

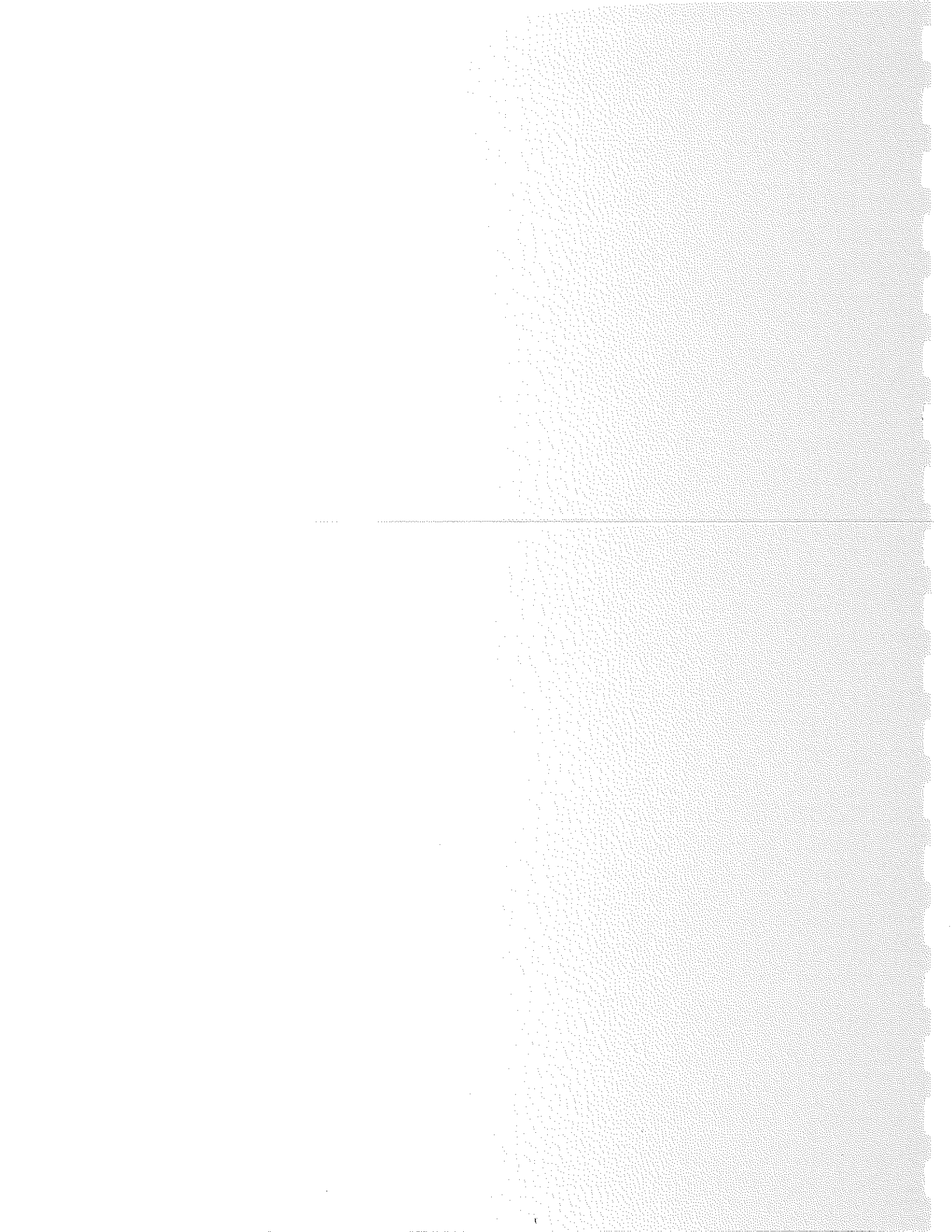
CITY OF GLADSTONE, OREGON
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2011

	<u>Agency Funds</u>
<u>ASSETS:</u>	
Cash and investments	\$ 28,819
Total assets	<u>\$ 28,819</u>
<u>LIABILITIES:</u>	
Other current liabilities	\$ 28,819
Total liabilities	<u>\$ 28,819</u>
<u>NET ASSETS:</u>	
Total liabilities and net assets	<u>\$ 28,819</u>

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS



CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

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 Foundation (a non-profit organization) 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, 2011

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, 2011

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

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.

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,

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1989, unless those pronouncements conflict with or contradict GASB pronouncements. No FASB statements and interpretations issued after November 30, 1989 have been applied.

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.

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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
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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, 2011.

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
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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, 2011 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	\$ 9,272,292
Municipal bond	16.81	27,781
Portfolio weighted average maturity	0.05	\$ 9,300,073

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

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

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, 2011, 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, 2011, 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:

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

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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	\$ 94,006	\$ -
Library Capital Fund	700,000	-
Urban Renewal Fund	-	700,000
Road & Street Fund	-	53,615
Total Major Governmental Funds	<u>794,006</u>	<u>753,615</u>
Non-major Governmental Funds		
Police / Comm. Levy Fund	-	12,148
Fire / Emergency Services Fund	-	5,008
Total Non-major Governmental Funds	<u>-</u>	<u>17,156</u>
Proprietary Funds		
Sewer Fund	-	23,235
Total Proprietary Funds	<u>-</u>	<u>23,235</u>
Total All Funds	<u>\$ 794,006</u>	<u>\$ 794,006</u>

The Police and Communications Special Levy Fund, Fire and Emergency Services Special Levy Fund, Sewer Fund, and the Road and Street Fund transferred \$94,006 to the General Fund to cover general operating and administrative expenses. The Urban Renewal Agency Fund transferred \$700,000 to the Library Capital Fund to contribute to the library design and construction project.

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5. Capital Assets

Capital asset activity for the year ended June 30, 2011 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	200,187	718,390	(153,906)	764,671
Total capital assets, non-depreciable	<u>5,720,017</u>	<u>718,390</u>	<u>(153,906)</u>	<u>6,284,501</u>
Capital assets, depreciable:				
Buildings, structures and improvements	3,045,809	494,856	-	3,540,665
Equipment	1,129,886	77,880	(12,127)	1,195,639
Vehicles	2,457,110	97,883	(89,213)	2,465,780
Infrastructure	2,952,266	798,195	-	3,750,461
Total capital assets, depreciable	<u>9,585,071</u>	<u>1,468,814</u>	<u>(101,340)</u>	<u>10,952,545</u>
Total assets	15,305,088	2,187,204	(255,246)	17,237,046
Less accum depreciation for:				
Buildings, structures and improvements	(1,196,612)	(87,666)	-	(1,284,278)
Equipment	(1,008,827)	(51,395)	12,127	(1,048,095)
Vehicles	(1,584,220)	(211,087)	85,719	(1,709,588)
Infrastructure	(265,717)	(90,643)	-	(356,360)
Total accumulated depreciation	<u>(4,055,376)</u>	<u>(440,791)</u>	<u>97,846</u>	<u>(4,398,321)</u>
Net depreciable capital assets	<u>5,529,695</u>	<u>1,028,023</u>	<u>(3,494)</u>	<u>6,554,224</u>
Net capital assets	<u>\$ 11,249,712</u>	<u>\$ 1,746,413</u>	<u>\$ (157,400)</u>	<u>\$ 12,838,725</u>

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

Governmental activities:

General government	18,140
Public safety	242,927
Roads and Highways	112,787
Culture and recreations	66,937
Total depreciation expense - gov't activities	<u>\$440,791</u>

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Business-type activities Totals	Balance	Additions	Deletions	Adjustment	Balance
Capital Assets, non-depreciable:					
Land	\$ 640,964	\$ -	\$ -	\$ -	\$ 640,964
Investment in Joint Venture	3,301,807	-	(88,724)	-	3,213,083
Total capital assets, non-depreciable	<u>3,942,771</u>	<u>-</u>	<u>(88,724)</u>	<u>-</u>	<u>3,854,047</u>
Capital assets, depreciable:					
Buildings	299,113	-	-	-	299,113
Equipment	133,214	22,436	-	-	155,650
Vehicles	102,817	23,174	-	-	125,991
Infrastructure	10,188,495	104,969	-	-	10,293,464
Total capital assets, depreciable	<u>10,723,639</u>	<u>150,579</u>	<u>-</u>	<u>-</u>	<u>10,874,218</u>
Total	14,666,410	150,579	(88,724)	-	14,728,265
Less accumulated depreciation for:					
Buildings	(275,216)	(2,216)	-	-	(277,432)
Equipment	(85,004)	(15,583)	-	-	(100,587)
Vehicles	(102,817)	(3,173)	-	-	(105,990)
Infrastructure	(4,152,127)	(198,489)	-	-	(4,350,616)
Total accumulated depreciation	<u>(4,615,164)</u>	<u>(219,461)</u>	<u>-</u>	<u>-</u>	<u>(4,834,625)</u>
Net depreciable capital assets	<u>6,108,475</u>	<u>(68,882)</u>	<u>-</u>	<u>-</u>	<u>6,039,593</u>
Net capital assets	<u>\$ 10,051,246</u>	<u>\$ (68,882)</u>	<u>\$ (88,724)</u>	<u>\$ -</u>	<u>\$ 9,893,640</u>
Business-type activities:					
Water			\$ (140,472)		
Sewer			(78,989)		
Total depreciation expense - governmental activities			<u>\$ (219,461)</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 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

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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, 2011 was \$3,213,083. 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, 2011 consists of the following:

	General Fund	Fire & Emergency Services Special Levy Fund	Police & Communications Special Levy Fund	Urban Renewal Fund	Total
Property taxes	\$ 171,289	\$ 12,005	\$ 25,718	\$ 43,078	\$ 252,090

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8. Long Term Debt

A. Changes in General Long-Term Liabilities

During the year ended June 30, 2011, long-term liability activity was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities					
Compensated absences:	\$ 234,904	\$ 5,281	\$ -	\$ 240,185	\$ 240,185
Governmental activities					
Long-term liabilities	<u>\$ 234,904</u>	<u>\$ 5,281</u>	<u>\$ -</u>	<u>\$ 240,185</u>	<u>\$ 240,185</u>
Business-type Activities					
Bonds	\$ 2,255,000	\$ -	\$ (105,000)	\$ 2,150,000	\$ 100,000
Compensated absences:	12,124	673	(2,892)	9,905	9,905
Business-type activities					
Long-term liabilities	<u>\$ 2,267,124</u>	<u>\$ 673</u>	<u>\$ (107,892)</u>	<u>\$ 2,159,905</u>	<u>\$ 109,905</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.	<u>\$ 2,150,000</u>
Total bonds payable	<u>\$ 2,150,000</u>

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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
2012	3.750 %	\$ 100,000	\$ 82,378	\$ 182,378
2013	3.750 %	115,000	78,347	193,347
2014	3.750 %	120,000	73,941	193,941
2015	4.000 %	120,000	69,291	189,291
2016	3.700 %	125,000	64,579	189,579
2017-2021	3.700 - 4.000 %	705,000	248,593	953,593
2022-2026	4.125 - 4.000 %	865,000	89,509	954,509
Total		<u>\$ 2,150,000</u>	<u>\$ 706,635</u>	<u>\$ 2,856,635</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

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OPERF rate for the year ended June 30, 2011 was 8.68% and the annual pension cost was \$341,456. The OPSRP rates in effect for the year ended June 30, 2011 was 4.63% for general employees and 7.34% 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, 2011, 2010 and 2009 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/09	332,197	100%	-
6/30/10	314,449	100%	-
6/30/11	341,456	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, 2011 is:

	<u>Healthnet</u>	<u>Kaiser</u>
Employee	\$ 825	\$ 512
Employee + child	1,561	1,041
Employee + spouse	1,872	-
Employee + family	2,475	1,469

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, 2011 and 2010 is as follows:

	2011	2010
Annual Required Contribution (ARC)	\$ 79,446	\$ 76,759
Interest on Net OPEB Obligation	2,240	-
Adjustment to ARC	(2,064)	-
Annual OPEB cost	79,622	76,759
Contributions made	(28,660)	(20,750)
Increase in Net OPEB Obligation	50,962	56,009
Net OPEB Obligation – beginning of year	56,009	-
Net OPEB Obligation – end of year	<u>\$ 106,971</u>	<u>\$ 56,009</u>

The annual OPEB cost, percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2011 and 2010, is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contribution	Net OPEB Obligation
6/30/2011	\$ 79,622	35%	\$ 106,971
6/30/2010	\$ 76,759	27%	\$ 56,009

D. Funding Status

The funded status of the plan at June 30, 2011, 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%	\$2,882,311	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, 2011

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 0.29% 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, 2011 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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

Payments of \$902,211 were made to the service districts during fiscal year 2011 under these agreements.

12. Risk Management

The City is exposed to various risks of loss related to torts; theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. Except for unemployment compensation, the City purchases commercial insurance to minimize its exposure to these risks. There has been no reduction in commercial insurance coverage from fiscal year 2010 to 2011. 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

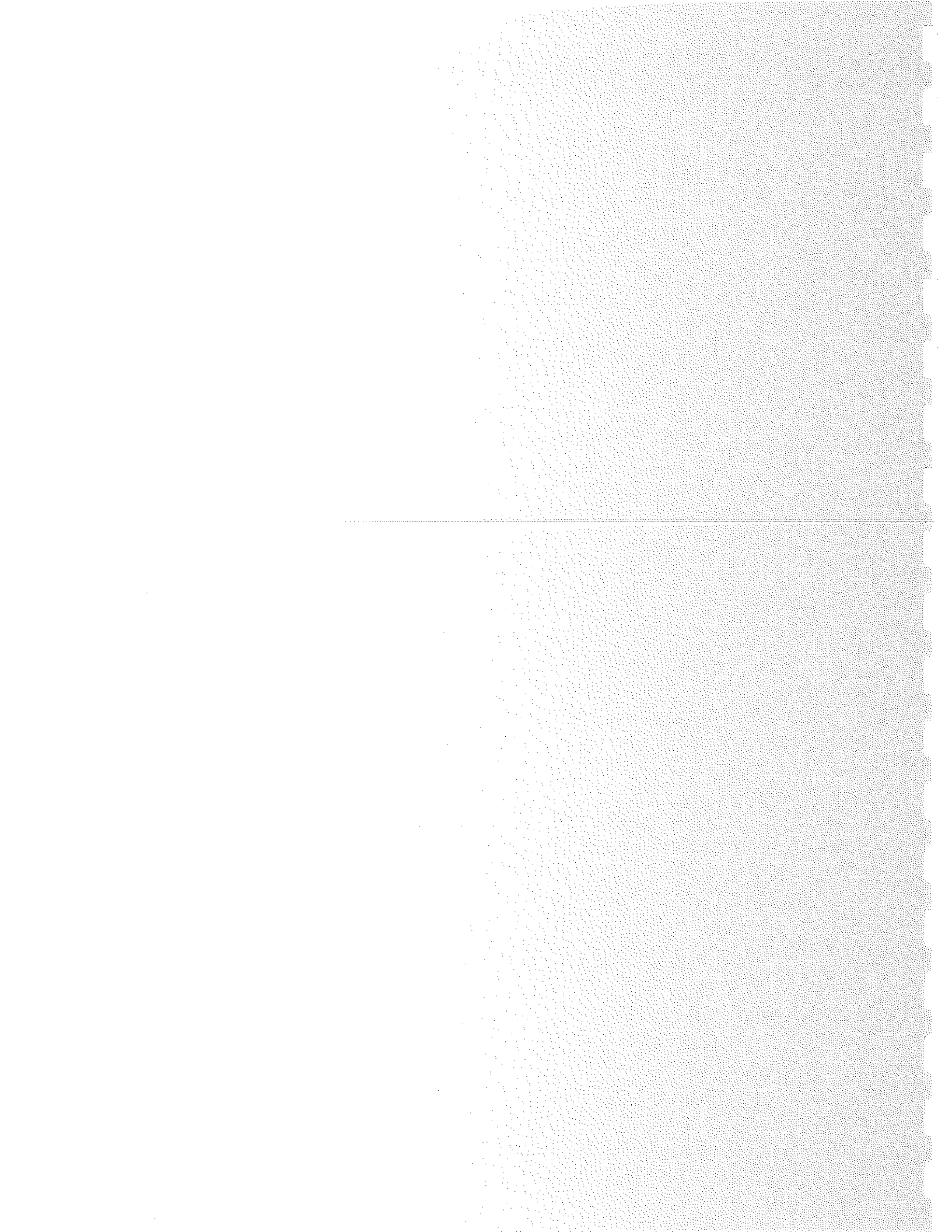
Management of the City believes that total amount of liability, if any, which may arise from claims and lawsuits pending against the City beyond which is covered by insurance, would not have a material effect on the City's financial condition.

14. New Accounting Pronouncement- GASB Statement No. 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 City implemented GASB 54 in the year ending June 30, 2011.

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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, 2011

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 2,979,356	\$ 2,979,356	\$ 3,167,378	\$ 188,022
Public service taxes	711,000	711,000	702,350	(8,650)
Franchise taxes	494,360	494,360	493,176	(1,184)
Grants	510,540	510,540	351,773	(158,767)
Charges for services	66,800	66,800	106,244	39,444
Licenses and permits	19,500	19,500	20,478	978
Fines and forfeitures	210,000	210,000	228,940	18,940
Contributions and donations	32,984	32,984	35,577	2,593
Interest	24,691	24,691	18,187	(6,504)
Miscellaneous	81,500	81,500	73,446	(8,054)
Total revenues	<u>5,130,731</u>	<u>5,130,731</u>	<u>5,197,549</u>	<u>66,818</u>
EXPENDITURES:				
General government	1,040,416	1,070,416	905,975	164,441
Public safety	3,112,378	3,292,378	2,710,226	582,152
Cultural and recreation	1,216,131	1,216,131	1,112,291	103,840
Capital outlay	1,326,971	1,326,971	582,678	744,293
Contingency	353,727	143,727	-	143,727
Total expenditures	<u>7,049,623</u>	<u>7,049,623</u>	<u>5,311,170</u>	<u>1,738,453</u>
Revenues over (under) expenditures	(1,918,892)	(1,918,892)	(113,621)	1,805,271
OTHER FINANCING SOURCES (USES):				
Transfers in	94,006	94,006	94,006	-
Transfers out	(160,000)	(160,000)		160,000
Total other financing sources (uses)	<u>(65,994)</u>	<u>(65,994)</u>	<u>94,006</u>	<u>160,000</u>
Net changes in fund balances	(1,984,886)	(1,984,886)	(19,615)	1,965,271
FUND BALANCE, BEGINNING	<u>1,984,886</u>	<u>1,984,886</u>	<u>2,171,395</u>	<u>186,509</u>
FUND BALANCE, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,151,780</u>	<u>\$ 2,151,780</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, 2011**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Grants	\$ 70,000	\$ 70,000	\$ 91,919	\$ 21,919
Interest	1,500	1,500	2,331	831
Total revenues	<u>71,500</u>	<u>71,500</u>	<u>94,250</u>	<u>22,750</u>
EXPENDITURES:				
Capital outlay	<u>478,787</u>	<u>478,787</u>	<u>-</u>	<u>478,787</u>
Total expenditures	<u>478,787</u>	<u>478,787</u>	<u>-</u>	<u>478,787</u>
Revenues over (under) expenditures	(407,287)	(407,287)	94,250	501,537
FUND BALANCE, BEGINNING BUDGETARY BASIS	<u>407,287</u>	<u>407,287</u>	<u>429,431</u>	<u>22,144</u>
FUND BALANCE, ENDING BUDGETARY BASIS	<u>\$ -</u>	<u>\$ -</u>	<u>523,681</u>	<u>\$ 523,681</u>
Interfund loan and interest receivable			<u>496,984</u>	
FUND BALANCES, ENDING			<u>\$ 1,020,665</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, 2011

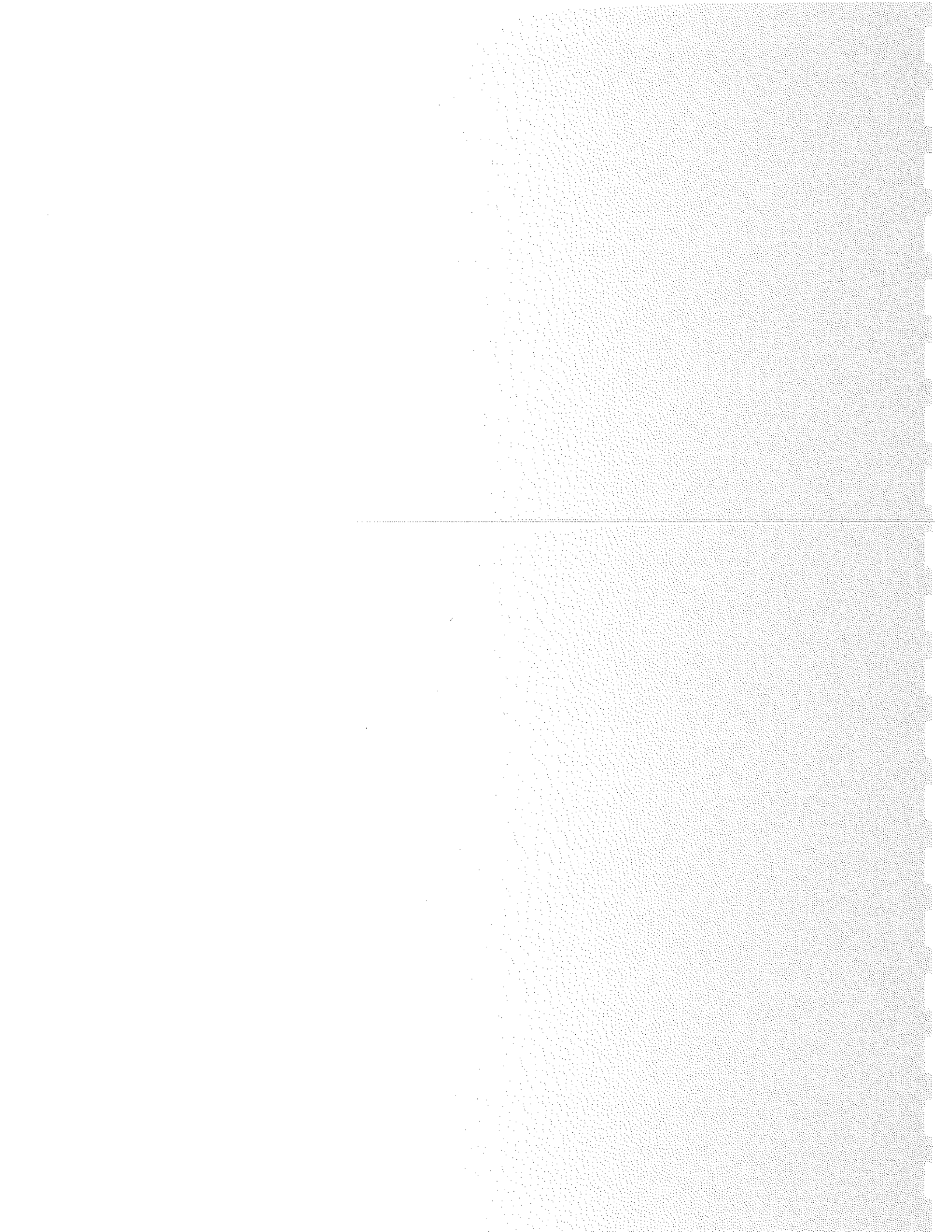
	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Public service taxes	\$ 524,736	\$ 524,736	\$ 587,777	\$ 63,041
Grants	10,000	10,000	-	(10,000)
Charges for services	10,000	10,000	1,162	(8,838)
Miscellaneous	1,000	1,000	458	(542)
Total revenues	545,736	545,736	589,397	43,661
EXPENDITURES:				
Personal service	159,853	189,853	168,207	21,646
Materials and service	260,830	340,830	243,924	96,906
Capital outlay	693,790	583,790	54,411	529,379
Total expenditures	1,114,473	1,114,473	466,542	647,931
Revenues over (under) expenditures	(568,737)	(568,737)	122,855	691,592
OTHER FINANCING SOURCES (USES):				
Transfers out	(53,615)	(53,615)	(53,615)	-
Total other financing sources (uses)	(53,615)	(53,615)	(53,615)	-
Net changes in fund balances	(622,352)	(622,352)	69,240	691,592
FUND BALANCES, BEGINNING	622,352	622,352	239,041	(383,311)
FUND BALANCES, ENDING	\$ -	\$ -	\$ 308,281	\$ 308,281

**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, 2011**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 761,150	\$ 761,150	\$ 811,771	\$ 50,621
Interest	4,000	4,000	6,782	2,782
Total revenues	765,150	765,150	818,553	53,403
EXPENDITURES:				
Materials and service	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
OTHER FINANCING SOURCES (USES):				
Issuance of debt	6,500,000	6,500,000	-	(6,500,000)
Transfers out	(6,500,000)	(6,500,000)	(700,000)	5,800,000
Total other financing sources (uses)	-	-	(700,000)	(700,000)
Net changes in fund balances	(1,100,651)	(1,100,651)	102,991	1,203,642
FUND BALANCES, BEGINNING	1,100,651	1,100,651	1,178,462	77,811
FUND BALANCES, ENDING	\$ -	\$ -	\$ 1,281,453	\$ 1,281,453

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NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION



CITY OF GLADSTONE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2011

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.

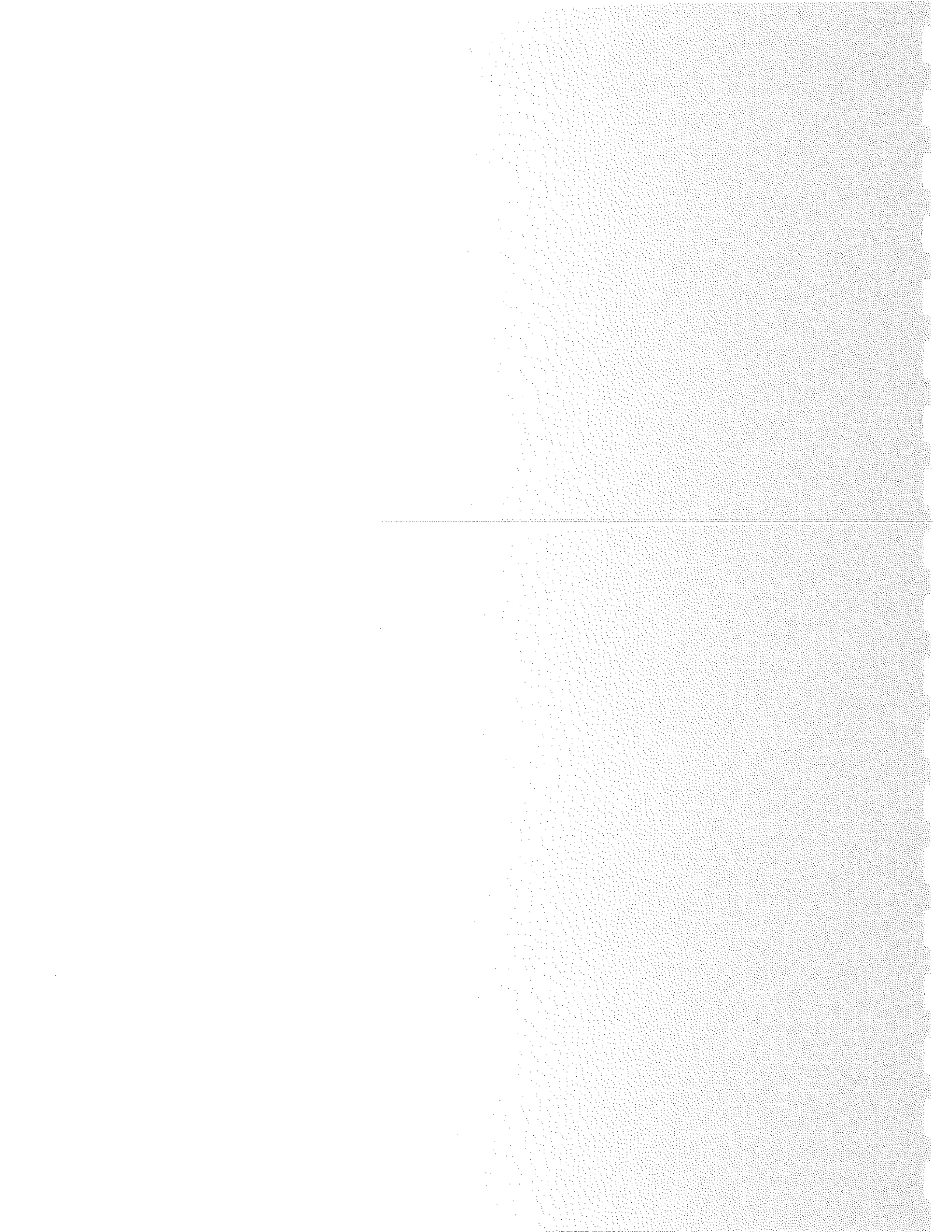
The resolution authorizing appropriations for each fund sets the legal level of control by which expenditures cannot legally exceed appropriations. Total expenditures by department as established by the resolution are the legal level of control for the General Fund. Expenditure categories of personal 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, 2011. Appropriations lapse as of year-end.

A. Excess of expenditures over appropriations

For the year ended June 30, 2011, expenditures exceed appropriations in the 911 Excise Tax Resource fund by \$30,050.

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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, 2011

	911 Excise Tax Resource Fund	Police and Communications Special Levy Fund	Fire and Emergency Services Special Levy Fund	Total
ASSETS				
Cash and investments	\$ 11,014	\$ 565,729	\$ 436,636	\$ 1,013,379
Cash with county treasurer	-	2,816	1,408	4,224
Accounts receivable	15,000	-	-	15,000
Property taxes receivable	-	28,271	13,282	41,553
Total assets	<u>\$ 26,014</u>	<u>\$ 596,816</u>	<u>\$ 451,326</u>	<u>\$ 1,074,156</u>
LIABILITIES AND FUND EQUITY				
LIABILITIES:				
Deferred revenue	<u>\$ -</u>	<u>\$ 25,718</u>	<u>\$ 12,005</u>	<u>\$ 37,723</u>
Total liabilities	<u>-</u>	<u>25,718</u>	<u>12,005</u>	<u>37,723</u>
FUND BALANCES:				
Restricted				
911 system	26,014	-	-	26,014
Assigned:				
Police services	-	571,098		571,098
Fire and emergency services	-	-	439,321	439,321
Total fund equity	<u>26,014</u>	<u>571,098</u>	<u>439,321</u>	<u>1,036,433</u>
Total liabilities and fund equity	<u>\$ 26,014</u>	<u>\$ 596,816</u>	<u>\$ 451,326</u>	<u>\$ 1,074,156</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, 2011

	911 Excise Tax Resource Fund	Police and Communications Special Levy Fund	Fire and Emergency Services Special Levy Fund	Total
REVENUES:				
Property taxes	\$ -	\$ 472,802	\$ 222,644	\$ 695,446
Public service taxes	60,996	-	-	60,996
Interest	120	2,736	1,876	4,732
Total revenues	61,116	475,538	224,520	761,174
EXPENDITURES:				
Public safety	90,379	339,910	132,462	562,751
Capital outlay	-	34,087	17,500	51,587
Total expenditures	90,379	373,997	149,962	614,338
Revenues over (under) expenditures	(29,263)	101,541	74,558	146,836
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(12,148)	(5,008)	(17,156)
Total other financing sources (uses)	-	(12,148)	(5,008)	(17,156)
Net changes in fund balances	(29,263)	89,393	69,550	129,680
FUND BALANCES, BEGINNING	55,277	481,705	369,771	906,753
FUND BALANCES, ENDING	\$ 26,014	\$ 571,098	\$ 439,321	\$ 1,036,433

CITY OF GLADSTONE, OREGON
AGENCY FUNDS
COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
For the Fiscal Year Ended June 30, 2011

	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
Municipal Court Fund				
Assets				
Cash	\$ 3,275	\$ 3,730	\$ -	\$ 7,005
Liabilities				
Other current liabilities	\$ 3,275	\$ 3,730	\$ -	\$ 7,005
Library Board Trust Fund				
Assets				
Cash	\$ 21,705	\$ 109	\$ -	\$ 21,814
Liabilities				
Other current liabilities	\$ 21,705	\$ 109	\$ -	\$ 21,814
Totals - All Agency Funds				
Assets				
Cash	\$ 24,980	\$ 3,839	\$ -	\$ 28,819
Liabilities				
Other current liabilities	\$ 24,980	\$ 3,839	\$ -	\$ 28,819

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, 2011

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
General Administration:				
Personal services	\$ 506,676	\$ 506,676	\$ 439,402	\$ 67,274
Materials and services	533,740	563,740	466,573	97,167
Capital outlay	60,000	60,000	-	60,000
Subtotal	1,100,416	1,130,416	905,975	224,441
Municipal Court:				
Personal services	167,996	167,996	164,215	3,781
Materials and services	99,000	99,000	88,102	10,898
Subtotal	266,996	266,996	252,317	14,679
Police:				
Personal services	1,857,006	1,857,006	1,572,876	284,130
Materials and services	293,600	423,600	330,763	92,837
Capital outlay	50,000	50,000	18,095	31,905
Subtotal	2,200,606	2,330,606	1,921,734	408,872
Fire:				
Personal services	441,176	441,176	325,344	115,832
Materials and services	253,600	303,600	228,926	74,674
Capital outlay	516,000	516,000	325,756	190,244
Subtotal	1,210,776	1,260,776	880,026	380,750
Parks:				
Personal services	157,373	157,373	146,060	11,313
Materials and services	108,300	108,300	112,501	(4,201)
Capital outlay	336,050	336,050	100,627	235,423
Subtotal	601,723	601,723	359,188	242,535
Recreation:				
Personal services	26,000	26,000	15,746	10,254
Materials and services	53,700	53,700	32,426	21,274
Subtotal	79,700	79,700	48,172	31,528

CITY OF GLADSTONE, OREGON
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
Senior Center:				
Personal services	205,159	205,159	174,681	30,478
Materials and services	42,850	42,850	40,947	1,903
Capital outlay	261,921	261,921	56,515	205,406
Subtotal	509,930	509,930	272,143	237,787
Library:				
Personal services	558,465	558,465	527,399	31,066
Materials and services	64,284	64,284	62,531	1,753
Capital outlay	103,000	103,000	81,685	21,315
Subtotal	725,749	725,749	671,615	54,134
Total expenditures	<u>\$ 6,695,896</u>	<u>\$ 6,905,896</u>	<u>\$ 5,311,170</u>	<u>\$ 1,594,726</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, 2011**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Contributions and donations	\$ 2,500,000	\$ 2,500,000	\$ 2,502,500	\$ 2,500
Interest	-	-	3,384	3,384
Miscellaneous	1,000,000	1,000,000	-	(1,000,000)
Total revenues	3,500,000	3,500,000	2,505,884	(994,116)
EXPENDITURES:				
Capital outlay	10,000,000	10,000,000	719,204	9,280,796
Total expenditures	10,000,000	10,000,000	719,204	9,280,796
Revenues over (under) expenditures	(6,500,000)	(6,500,000)	1,786,680	8,286,680
OTHER FINANCING SOURCES (USES):				
Transfers in	6,500,000	6,500,000	700,000	(5,800,000)
Total other financing sources (uses)	6,500,000	6,500,000	700,000	(5,800,000)
Net changes in fund balances	-	-	2,486,680	2,486,680
FUND BALANCES, BEGINNING	-	-	-	-
FUND BALANCES, ENDING	\$ -	\$ -	\$ 2,486,680	\$ 2,486,680

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, 2011

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Public service taxes	\$ 62,785	\$ 62,785	\$ 60,996	\$ (1,789)
Interest	700	700	120	(580)
Total revenues	63,485	63,485	61,116	(2,369)
EXPENDITURES:				
Materials and service	60,329	60,329	90,379	(30,050)
Contingency	32,000	32,000	-	32,000
Total expenditures	92,329	92,329	90,379	1,950
Revenues over (under) expenditures	(28,844)	(28,844)	(29,263)	(419)
Net changes in fund balances	(28,844)	(28,844)	(29,263)	(419)
FUND BALANCES, BEGINNING	28,844	28,844	55,277	26,433
FUND BALANCES, ENDING	\$ -	\$ -	\$ 26,014	\$ 26,014

**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, 2011**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 458,645	\$ 458,645	\$ 472,802	\$ 14,157
Interest	3,000	3,000	2,736	(264)
Total revenues	<u>461,645</u>	<u>461,645</u>	<u>475,538</u>	<u>13,893</u>
EXPENDITURES:				
Personal service	412,477	412,477	338,567	73,910
Materials and service	7,000	7,000	1,343	5,657
Capital outlay	486,950	486,950	34,087	452,863
Total expenditures	<u>906,427</u>	<u>906,427</u>	<u>373,997</u>	<u>532,430</u>
Revenues over (under) expenditures	(444,782)	(444,782)	101,541	546,323
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(12,148)</u>	<u>(12,148)</u>	<u>(12,148)</u>	<u>-</u>
Total other financing sources (uses)	<u>(12,148)</u>	<u>(12,148)</u>	<u>(12,148)</u>	<u>-</u>
Net changes in fund balances	(456,930)	(456,930)	89,393	546,323
FUND BALANCE, BEGINNING	<u>456,930</u>	<u>456,930</u>	<u>481,705</u>	<u>24,775</u>
FUND BALANCE, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 571,098</u>	<u>\$ 571,098</u>

**CITY OF GLADSTONE, OREGON
 FIRE AND EMERGENCY SERVICES SPECIAL LEVY FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2011**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 213,181	\$ 213,181	\$ 222,644	\$ 9,463
Interest	2,000	2,000	1,876	(124)
Total revenues	215,181	215,181	224,520	9,339
EXPENDITURES:				
Personal service	127,905	127,905	119,120	8,785
Materials and service	17,500	17,500	13,342	4,158
Capital outlay	450,704	450,704	17,500	433,204
Total expenditures	596,109	596,109	149,962	446,147
Revenues over (under) expenditures	(380,928)	(380,928)	74,558	455,486
OTHER FINANCING SOURCES (USES):				
Transfers out	(5,122)	(5,122)	(5,008)	114
Total other financing sources (uses)	(5,122)	(5,122)	(5,008)	114
Net changes in fund balances	(386,050)	(386,050)	69,550	455,600
FUND BALANCES, BEGINNING	386,050	386,050	369,771	(16,279)
FUND BALANCES, ENDING	\$ -	\$ -	\$ 439,321	\$ 439,321

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, 2011

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Service charges	\$ 988,800	\$ 988,800	1,065,179	\$ 76,379
Connection and installation fees	6,000	6,000	2,920	(3,080)
System development charge	3,000	3,000	1,509	(1,491)
Miscellaneous	2,000	2,000	600	(1,400)
Total revenues	999,800	999,800	1,070,208	70,408
EXPENDITURES:				
Personal service	242,953	242,953	225,198	17,755
Materials and service	522,127	522,127	373,711	148,416
Capital outlay	236,007	236,007	125,846	110,161
Debt service:				
Principal	115,000	115,000	105,000	10,000
Interest	88,466	88,466	84,254	4,212
Total expenditures	1,204,553	1,204,553	914,009	290,544
Revenues over (under) expenditures	(204,753)	(204,753)	156,199	360,952
FUND BALANCE, BEGINNING BUDGETARY BASIS	204,753	204,753	586,842	382,089
FUND BALANCE, ENDING BUDGETARY BASIS	\$ -	\$ -	\$ 743,041	\$ 743,041
			<u>Revenues</u>	<u>Expenditures</u>
Total revenue and expenditures above			\$1,070,208	\$ 914,009
Expenditures capitalized				(122,610)
Debt service principal payments				(105,000)
Depreciation expense				140,472
Accrued interest payable				(1,968)
Bond amortization expense				3,335
Net OPEB obligation				2,536
Equity in net income/loss of joint venture			(88,724)	-
Total revenues and expenses - generally accepted accounting principles			<u>\$ 981,484</u>	<u>830,774</u>
Change in net assets				<u>\$ 150,710</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, 2011

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Service charge	\$ 1,315,000	\$ 1,315,000	\$ 1,376,967	\$ 61,967
Connection and installation fees	10,000	10,000	5,200	(4,800)
System development charge	1,500	1,500	450	(1,050)
Miscellaneous	1,000	1,000	650	(350)
Total revenues	<u>1,327,500</u>	<u>1,327,500</u>	<u>1,383,267</u>	<u>55,767</u>
EXPENDITURES:				
Personal service	221,754	221,754	203,360	18,394
Materials and service	1,193,265	1,193,265	1,018,184	175,081
Capital outlay	437,257	437,257	27,411	409,846
Contingency	36,180	36,180	-	36,180
Total expenditures	<u>1,888,456</u>	<u>1,888,456</u>	<u>1,248,955</u>	<u>639,501</u>
Revenues over (under) expenditures	(560,956)	(560,956)	134,312	695,268
OTHER FINANCING SOURCES (USES):				
Transfers out	(23,235)	(23,235)	(23,235)	-
Total other financing sources (uses)	<u>(23,235)</u>	<u>(23,235)</u>	<u>(23,235)</u>	<u>-</u>
Net changes in fund balances	(584,191)	(584,191)	111,077	695,268
FUND BALANCE, BEGINNING BUDGETARY BASIS	<u>584,191</u>	<u>584,191</u>	<u>747,365</u>	<u>163,174</u>
FUND BALANCE, ENDING BUDGETARY BASIS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 858,442</u>	<u>\$ 858,442</u>
			<u>Revenues</u>	<u>Expenditures</u>
Total revenue and expenditures above			\$ 1,383,267	\$ 1,248,955
Operating transfers in/out			-	23,235
Expenditures capitalized			-	(27,969)
Depreciation and amortization expense			-	78,989
Net OPEB obligation			-	2,329
Total revenues and expenses - generally accepted accounting principles			<u>\$ 1,383,267</u>	<u>1,325,539</u>
Change in net assets				<u>\$ 57,728</u>

OTHER FINANCIAL SCHEDULES

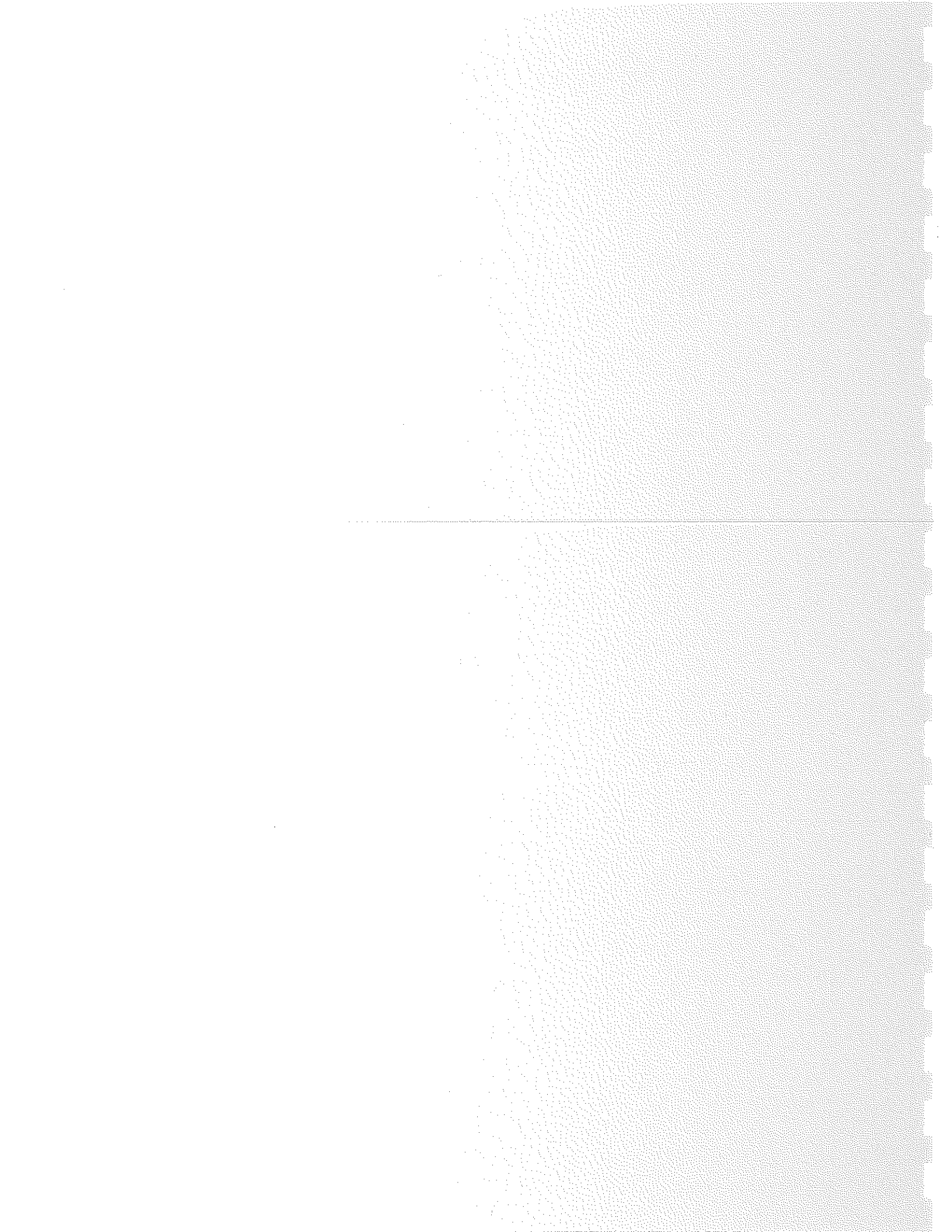
CITY OF GLADSTONE, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS AND OUTSTANDING BALANCES
For the Fiscal Year Ended June 30, 2011

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2010</u>	<u>2010-2011 Levy</u>	<u>Adjustments/ Discount</u>	<u>Collections</u>	<u>Uncollected Balance June 30, 2011</u>
2010-2011	\$ -	\$ 4,809,650	\$ (154,447)	\$ (4,500,728)	\$ 154,475
2009-2010	174,831	-	(11,069)	(95,033)	68,729
2008-2009	76,718	-	(3,309)	(37,327)	36,082
2007-2008	29,597	-	(1,217)	(17,901)	10,479
2006-2007	9,527	-	(612)	(5,996)	2,919
2005-2006	2,099	-	(245)	(513)	1,341
2004-2005	1,480	-	(256)	(292)	932
2003-2004	1,123	-	(369)	(42)	712
Prior years	3,870	-	(1,644)	(129)	2,097
Totals	\$ 299,245	\$ 4,809,650	\$ (173,168)	\$ (4,657,961)	\$ 277,766

Taxes receivable classified by fund:

General Fund	\$ 188,735
Police Fund	28,271
Fire Fund	13,282
Urban Renewal Agency Debt Service Fund	47,478
	<u>\$ 277,766</u>

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



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

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

We have audited the basic financial statements of the City of Gladstone, Oregon 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 City of Gladstone's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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).**
- **Indebtedness limitations, restrictions and repayment.**
- **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, 279C).**

In connection with our testing nothing came to our attention that caused us to believe the City of Gladstone 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, except as follows:

1. Expenditures in the following fund exceeded budget appropriations:

Fund	Budget Category	Amount of over- expenditure
911 Excise Tax Resource Fund	Materials and Services	\$30,050

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the City of Gladstone’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 of Gladstone’s internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the City of Gladstone’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 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. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We identified certain deficiencies in internal control that we consider to be material weaknesses and have communicated them in a separately issued letter dated December 7, 2011.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all such deficiencies have been identified.

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

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

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