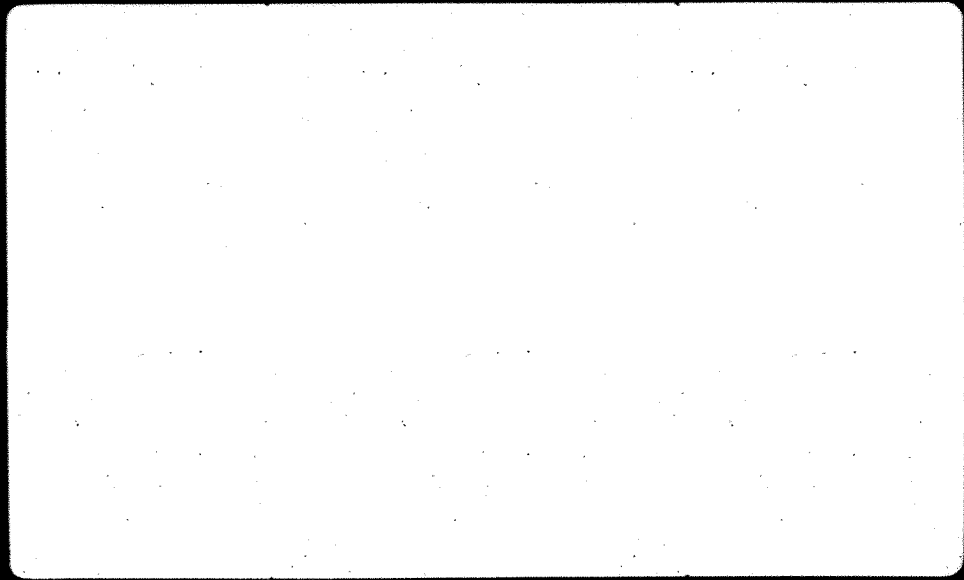


MERINA  
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

MEMBERSHIP FIRM OF THE CERTIFIED PUBLIC ACCOUNTANTS OF THE STATE OF CALIFORNIA



**CITY OF GLADSTONE, OREGON**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

For the Fiscal Year Ended  
June 30, 2014  
with  
Independent Auditor's Report

**MERINA  
& COMPANY, LLP**

**CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**

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**CITY OF GLADSTONE, OREGON**  
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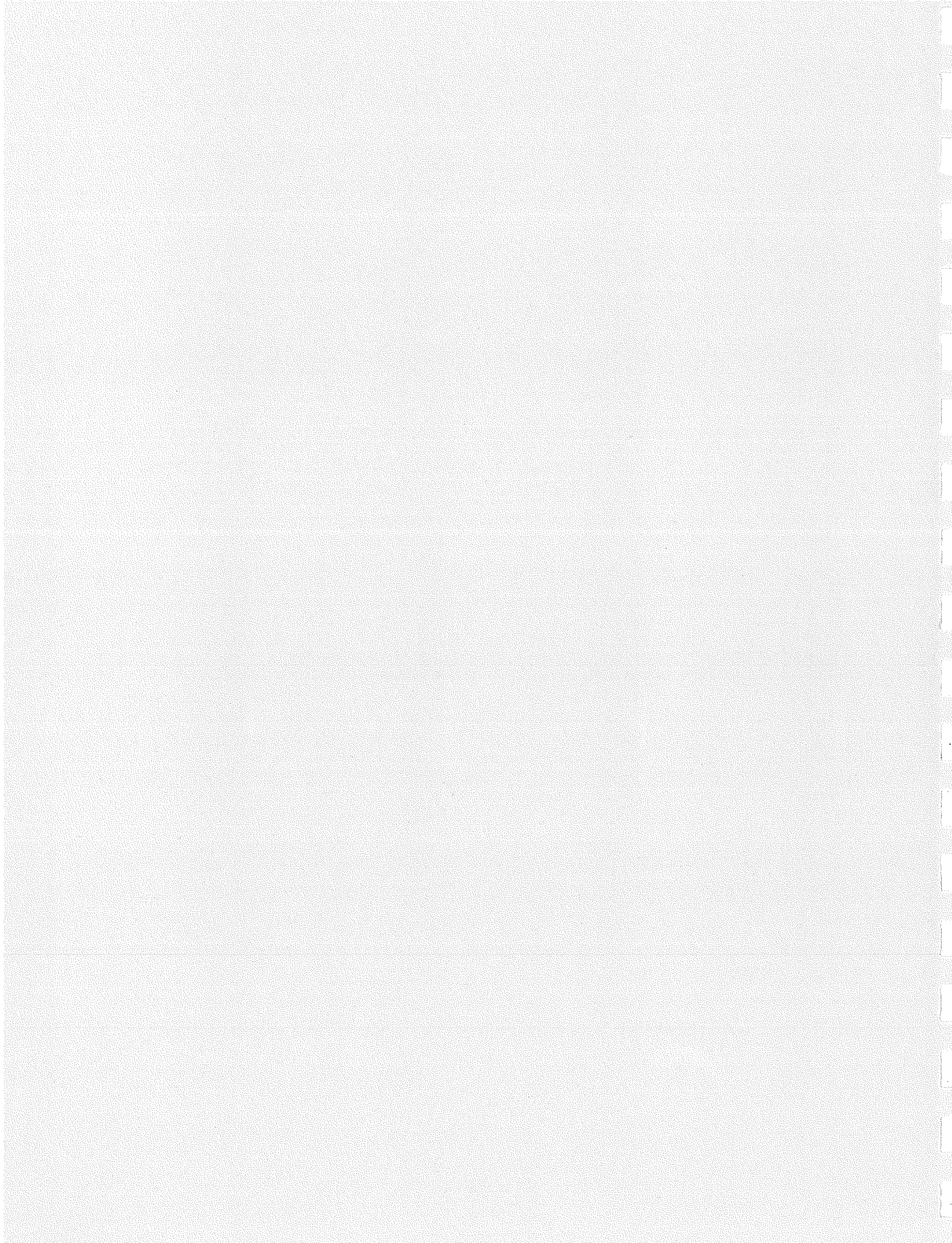
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## **INTRODUCTORY SECTION**



**CITY OF GLADSTONE, OREGON**  
**CITY OFFICIALS**  
**June 30, 2014**

---

City Officials

Wade Byers, Mayor  
Gladstone, Oregon 97027

Term Expires

December 31, 2014

Council Members

Ray Jaren, President  
Gladstone, Oregon 97027

December 31, 2014

Kari Martinez  
Gladstone, Oregon 97027

December 31, 2014

Neal Reisner  
Gladstone, Oregon 97027

December 31, 2016

Len Nelson  
Gladstone, Oregon 97027

December 31, 2016

Hal Busch  
Gladstone, Oregon 97027

December 31, 2014

Thomas Mersereau  
Gladstone, Oregon 97027

December 31, 2016

City Administrator

Peter Boyce  
Gladstone, Oregon 97027

Chief of Police

Jim Pryde  
Gladstone, Oregon 97027

Assistant City Administrator

Jolene Morishita  
Gladstone, Oregon 97027

Fire Chief

Stan Monte  
Gladstone, Oregon 97027

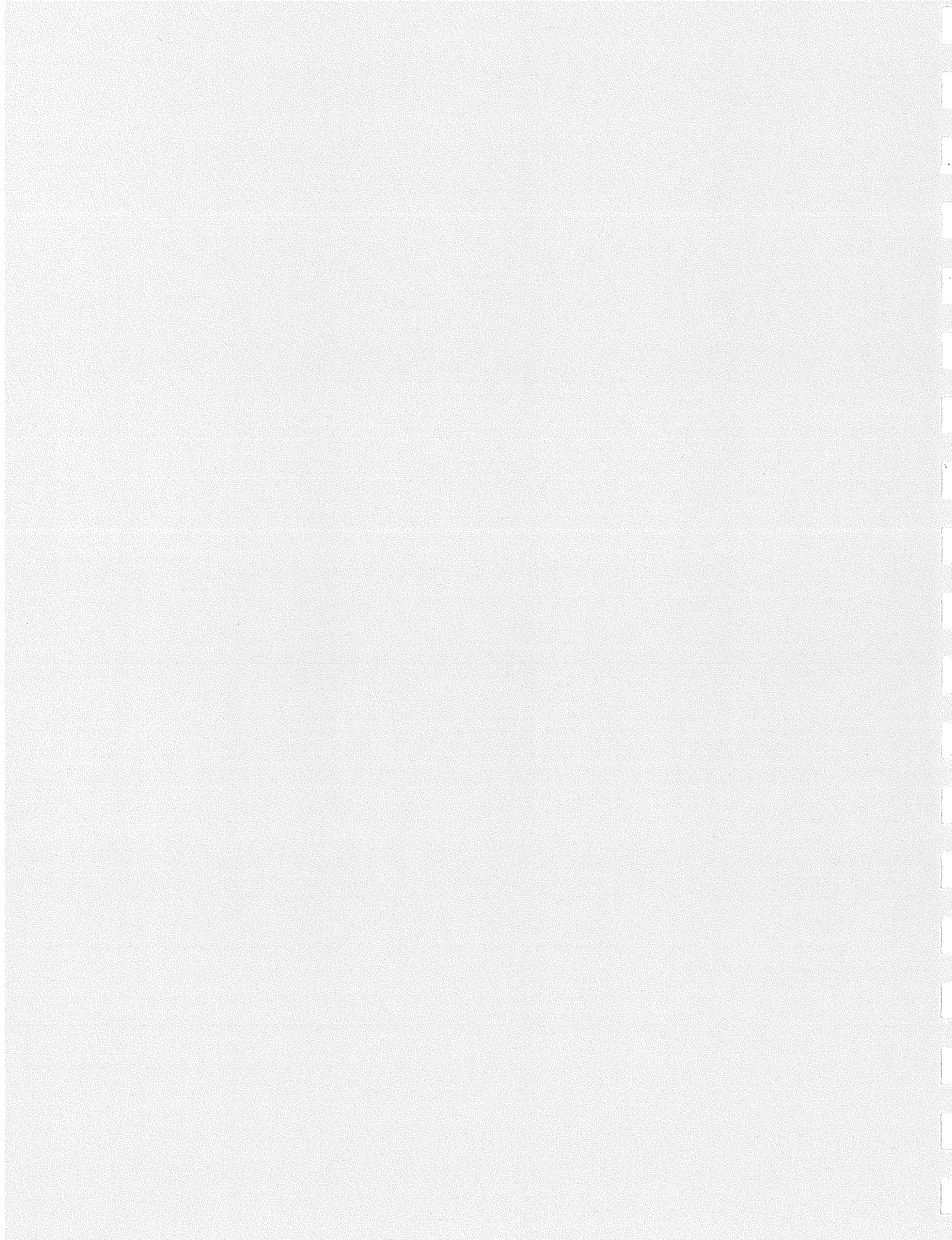
Municipal Judge

Linda Beloof  
Gladstone, Oregon 97027

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## **FINANCIAL SECTION**





**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

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, 2014, and the related notes to the financial statements, which collectively comprise the City of Gladstone, Oregon's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of North Clackamas County Water Commission, a joint venture of the City of Gladstone, which represents 24 percent and 29 percent, respectively, of the assets and net position of the business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for North Clackamas County Water Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

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

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

### **Opinions**

In our opinion, based on our audit and the report of other auditors, 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, 2014, and, the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison schedules, and the other post-employment benefits schedule of funding progress, 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 management's discussion and analysis and to the other post-employment benefits schedule of funding progress, as listed in the table of contents under 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 schedules, as listed in the table of contents under required supplementary information, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

#### *Other Information*

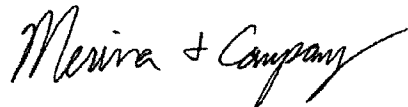
Our audit and the audit of other auditors, was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladstone, Oregon's basic financial statements. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic 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.

**Report on Other Legal and Regulatory Requirements**

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated December 29, 2014, on our consideration of the City of Gladstone, Oregon's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

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

Merina & Company, LLP  
West Linn, Oregon  
December 29, 2014

**JUNE 30, 2014**  
**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, 2014.

**Financial Highlights**

The assets of the City of Gladstone exceeded its liabilities at the close of the most recent fiscal year by \$32,270,855 (net position). Of this amount, \$17,595,392 is investment in capital assets, \$5,169,386 is restricted for specific purposes, and \$9,506,077 (unrestricted) may be used to meet the government's obligations to creditors and to meet service expectations by its citizens. The City's total net position increased by \$1,286,638 from prior year.

The City's governmental activities reported total net position of \$22,103,900. Of this amount \$4,257,401 is unrestricted and thus available for spending at the City's discretion.

The City's business-type activities reported total net position of \$10,166,955. Of this amount \$5,248,676 is unrestricted and thus available for spending at the City's discretion.

The City's governmental funds reported combined ending fund balances of \$9,213,374, an increase of \$501,603 compared to the prior year. The increase is due to the Urban Renewal Fund holding reserves for future projects.

**Overview of the Financial Statements**

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

**Government-Wide Financial Statements**

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

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

The Statement of Activities focuses on the change in net position over the last year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave). Governmental activities of the City of Gladstone 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 balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, State Revenue Sharing Fund, Road and Street Fund, Urban Renewal Agency Fund and Library Capital 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 schedules 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 schedules 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 position may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$32,270,855 at the close of the most recent fiscal year. The following table reflects a Summary of Net Position for these fiscal years:

**TABLE I**  
**Summary of Net Position as of June 30,**

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Cash and investments	\$ 9,060,541	\$ 8,026,439	\$ 2,055,681	\$ 1,665,602	\$ 11,116,222	\$ 9,692,041
Restricted cash and investments	286,009	264,609	306,143	283,962	592,152	548,571
Other assets	412,782	918,977	3,617,700	3,113,990	4,030,482	4,032,967
Capital assets	12,983,256	12,930,329	6,427,136	6,598,097	19,410,392	19,528,426
<b>Total assets</b>	<b>\$ 22,742,588</b>	<b>\$ 22,140,354</b>	<b>\$ 12,406,660</b>	<b>\$ 11,661,651</b>	<b>\$ 35,149,248</b>	<b>\$ 33,802,005</b>
Current liabilities	\$ 461,196	\$ 417,061	\$ 524,450	\$ 410,796	\$ 985,646	\$ 827,857
Long-term debt	177,492	156,433	1,715,255	1,833,498	1,892,747	1,989,931
<b>Total liabilities</b>	<b>638,688</b>	<b>573,494</b>	<b>2,239,705</b>	<b>2,244,294</b>	<b>2,878,393</b>	<b>2,817,788</b>
<b>Net position</b>						
Net investment in capital assets	\$ 12,983,256	\$ 12,930,329	\$ 4,612,136	\$ 4,663,097	\$ 17,595,392	\$ 17,593,426
Restricted	4,863,243	3,925,143	306,143	283,962	5,169,386	4,209,105
Unrestricted	4,257,401	4,711,388	5,248,676	4,470,298	9,506,077	9,181,686
<b>Total net position</b>	<b>\$ 22,103,900</b>	<b>\$ 21,566,860</b>	<b>\$ 10,166,955</b>	<b>\$ 9,417,357</b>	<b>\$ 32,270,855</b>	<b>\$ 30,984,217</b>

By far the largest portion of the City of Gladstone's net position reflect its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets do not have financial liquidity easily available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to pay these liabilities. The remaining balance of \$9,506,077 is unrestricted net position and may be used to meet the City's ongoing obligations to citizens and creditors.

The following table summarizes revenues and expenses for fiscal years 2014 and 2013:

**TABLE 2**  
**Governmental and Proprietary Activities**

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
<b>Receipts</b>						
Program receipts						
Charges for services	\$ 359,007	\$ 307,467	\$ 3,057,754	\$ 2,744,532	\$ 3,416,761	\$ 3,051,999
Operating grants and contributions	48,267	40,437	-	-	48,267	40,437
Capital grants and contributions	-	105,990	-	-	-	105,990
General receipts						
Property tax	5,068,152	4,870,744	-	-	5,068,152	4,870,744
Franchise fees and public services tax	2,069,951	2,034,347	-	-	2,069,951	2,034,347
Interest	56,747	62,810	-	-	56,747	62,810
Other	266,671	94,940	34,737	5,853	301,408	100,793
Total receipts	7,868,795	7,516,735	3,092,491	2,750,385	10,961,286	10,267,120
<b>Expenses</b>						
Governmental activities						
General government	1,064,211	941,058	-	-	1,064,211	941,058
Public safety	3,854,704	3,682,376	-	-	3,854,704	3,682,376
Highways and streets	672,328	539,069	-	-	672,328	539,069
Culture and recreation	1,258,039	1,296,225	-	-	1,258,039	1,296,225
Urban renewal	23,885	46,974	-	-	23,885	46,974
Business type activities						
Water	-	-	999,683	1,060,655	1,060,655	1,060,655
Sewer	-	-	1,750,897	1,595,691	1,595,691	1,595,691
Total expenses	6,873,167	6,505,702	2,750,580	2,656,346	9,623,747	9,162,048
Change in net position before transfers	995,628	1,011,033	341,911	94,039	1,337,539	1,105,072
Transfers	38,396	37,277	(38,396)	(37,277)	-	-
Reimbursement to Clackamas County	-	(1,500,000)	-	-	(1,500,000)	-
Equity income (loss) in joint venture	-	-	(50,901)	(75,418)	(50,901)	(75,418)
Changes in net position	1,034,024	(451,690)	252,614	(18,656)	1,286,638	(470,346)
Beginning net position	21,566,860	22,018,550	9,417,357	9,479,559	30,984,217	31,498,109
Special item	(496,984)	-	496,984	-	-	-
Prior period adjustments	-	-	-	(43,546)	-	(43,546)
Ending net position	\$22,103,900	\$21,566,860	\$10,166,955	\$9,417,357	\$32,270,855	\$30,984,217

**Governmental Activities.** Governmental activities increased the City of Gladstone's net position by \$537,040.

**Business-type Activities.** Business-type activities increased the City of Gladstone's net position by \$749,598.



## **Financial Analysis of the City's Funds**

**Governmental Funds.** The focus of the City of Gladstone's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Gladstone's financial requirements. In particular, unassigned fund balance may serve as useful measure of a government's net resources available for spending at the end of the fiscal year as they have not been limited to use for a particular purpose.

At the end of the fiscal year, the City of Gladstone's governmental funds reported combined ending fund balances of \$9,213,374.

**Proprietary Funds.** The City's proprietary funds are enterprise funds and fiduciary funds. An enterprise fund is used to account for activities for which a fee is charged to external users for services. These funds provide the same type of information found in the government-wide financial statements, but in more detail. Fiduciary funds do not involve results of operations and are custodial in nature.

## **Budgetary Highlights**

Changes to the General Fund budget included an appropriation transfer from Contingency to cover additional operating expenses in the Administration Department, Police Department and the Library.

## **Capital Assets and Debt Administration**

The following tables compare capital assets and changes in capital assets as of June 30, 2014 and June 30, 2013:

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Government</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 5,519,830	\$ 5,519,830	\$ 640,964	\$ 640,964	\$ 6,160,794	\$ 6,160,794
Construction in Progress	1,223,341	1,223,341	-	-	1,223,341	1,223,341
Buildings	2,045,924	2,132,244	15,035	17,250	2,060,959	2,149,494
Vehicles and Equipment	930,490	681,301	17,260	32,174	947,750	713,475
Intangible Assets	52,669	53,420	-	-	52,669	53,420
Infrastructure	3,211,002	3,320,193	5,753,877	5,907,709	8,964,879	9,227,902
Total	<u>\$12,983,256</u>	<u>\$12,930,329</u>	<u>\$ 6,427,136</u>	<u>\$ 6,598,097</u>	<u>\$19,410,392</u>	<u>\$19,528,426</u>

**Table 4**  
**Changes in Capital Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Government</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 12,930,329	\$ 13,078,293	\$ 6,598,097	\$ 6,670,911	\$ 19,528,426	\$ 19,749,204
Additions	563,686	319,844	81,340	178,833	645,026	498,677
Depreciation	(510,759)	(467,808)	(252,301)	(251,647)	(763,060)	(719,455)
Deletions	-	-	-	-	-	-
Ending Balance	<u>\$ 12,983,256</u>	<u>\$ 12,930,329</u>	<u>\$ 6,427,136</u>	<u>\$ 6,598,097</u>	<u>\$ 19,410,392</u>	<u>\$ 19,528,426</u>

**Long-term Debt.** At June 30, 2014, the City had bonded debt outstanding of \$1,815,000 compared to \$1,935,000 at June 30, 2013. 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 \$29,176,747.

**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 exceed expenditures.

Gladstone voters approved a new library ballot measure in November of 2014. This ballot measure allows the City to acquire property in the Portland Avenue area and construct a library that will serve the Gladstone and Oak Grove Library Service Areas. The estimated cost of the project is \$6.365 million broken down as follows: \$5.075 million to design, construct, finance, and acquire property, plus \$1.29 million in interest to finance debt. Funding sources include \$1 million from Clackamas County, \$1.375 million from the Clackamas County Library District, and the remaining funds necessary to construct the project will come from incurring debt. Debt payments will be covered by an increase in annual Library District revenue due to consolidation of the library service areas.

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

**BASIC FINANCIAL STATEMENTS**





## **BASIC FINANCIAL STATEMENTS**

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

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

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

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**CITY OF GLADSTONE, OREGON**  
**STATEMENT OF NET POSITION**  
**June 30, 2014**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Current assets:			
Cash and investments	\$ 9,031,217	\$ 2,055,681	\$ 11,086,898
Cash with county treasurer	29,324	-	29,324
Accounts receivable	49,461	521,654	571,115
Property taxes receivable	311,676	-	311,676
Prepays	-	155,846	155,846
Due from other governments	51,645	-	51,645
<b>Total current assets</b>	<b>9,473,323</b>	<b>2,733,181</b>	<b>12,206,504</b>
Noncurrent assets:			
Restricted cash and investments	286,009	306,143	592,152
Assessments receivable	-	6,062	6,062
Interest receivable	-	2,564	2,564
Investment in joint venture	-	2,931,574	2,931,574
Capital assets:			
Non depreciable	6,743,171	640,964	7,384,135
Depreciable, net	6,240,085	5,786,172	12,026,257
<b>Total noncurrent assets</b>	<b>13,269,265</b>	<b>9,673,479</b>	<b>22,942,744</b>
<b>Total assets</b>	<b>\$ 22,742,588</b>	<b>\$ 12,406,660</b>	<b>\$ 35,149,248</b>
<b>LIABILITIES:</b>			
Current liabilities:			
Accounts payable	\$ 232,946	\$ 348,831	\$ 581,777
Interest payable	-	35,846	35,846
Accrued compensated absences	198,999	19,773	218,772
Bonds payable - current maturity	-	120,000	120,000
Other current liabilities	29,251	-	29,251
<b>Total current liabilities</b>	<b>461,196</b>	<b>524,450</b>	<b>985,646</b>
Noncurrent liabilities:			
OPEB liability	177,492	20,255	197,747
Noncurrent portion of long-term obligations	-	1,695,000	1,695,000
<b>Total noncurrent liabilities</b>	<b>177,492</b>	<b>1,715,255</b>	<b>1,892,747</b>
<b>Total liabilities</b>	<b>638,688</b>	<b>2,239,705</b>	<b>2,878,393</b>
<b>NET POSITION:</b>			
Net investment in capital assets	12,983,256	4,612,136	17,595,392
Restricted for:			
911 system	1,663	-	1,663
Street operations	637,724	-	637,724
Senior center	145,432	-	145,432
Library capital projects	538,886	-	538,886
System development	-	306,143	306,143
Urban Renewal development	3,539,538	-	3,539,538
Unrestricted	4,257,401	5,248,676	9,506,077
<b>Total net position</b>	<b>22,103,900</b>	<b>10,166,955</b>	<b>32,270,855</b>
<b>Total liabilities and net position</b>	<b>\$ 22,742,588</b>	<b>\$ 12,406,660</b>	<b>\$ 35,149,248</b>

*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, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental activities:			
General government	\$ 1,064,211	\$ 22,324	\$ -
Public safety	3,854,704	238,701	12,057
Highways and streets	672,328	19,863	-
Urban and renewal	23,885	-	-
Culture and recreation	1,258,039	78,119	36,210
Total governmental activities	<u>6,873,167</u>	<u>359,007</u>	<u>48,267</u>
Business-type activities:			
Water Fund	999,683	1,221,855	-
Sewer Fund	1,750,897	1,835,899	-
Total business type activities	<u>2,750,580</u>	<u>3,057,754</u>	<u>-</u>
Total government	<u>\$ 9,623,747</u>	<u>\$ 3,416,761</u>	<u>\$ 48,267</u>

General revenues:

- Taxes:
  - Property taxes
  - Public service taxes
- Franchise fees
- Interest and investment earnings
- Gain (loss) in joint venture
- Miscellaneous
- Transfers in (out)
- Special item:
  - Interfund loan forgiveness

Total general revenues, transfers and special item

Change in net position

Net position - beginning

Net position - ending

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



Net Expense Revenue and Change in Net Position		
Governmental Activities	Business Type Activities	Total
\$ (1,041,887)	\$ -	\$ (1,041,887)
(3,603,946)	-	(3,603,946)
(652,465)	-	(652,465)
(23,885)	-	(23,885)
(1,143,710)	-	(1,143,710)
<u>(6,465,893)</u>	<u>-</u>	<u>(6,465,893)</u>
-	222,172	222,172
-	85,002	85,002
-	307,174	307,174
<u>(6,465,893)</u>	<u>307,174</u>	<u>(6,158,719)</u>
5,068,152	-	5,068,152
1,558,036	-	1,558,036
511,915	-	511,915
56,747	-	56,747
-	(50,901)	(50,901)
266,671	34,737	301,408
38,396	(38,396)	-
<u>(496,984)</u>	<u>496,984</u>	<u>-</u>
<u>7,002,933</u>	<u>442,424</u>	<u>7,445,357</u>
537,040	749,598	1,286,638
<u>21,566,860</u>	<u>9,417,357</u>	<u>30,984,217</u>
<u>\$ 22,103,900</u>	<u>\$ 10,166,955</u>	<u>\$ 32,270,855</u>

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

**FUND FINANCIAL STATEMENTS**  
**Major Governmental Funds**

**General Fund**

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

**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.

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**CITY OF GLADSTONE, OREGON**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2014**

	General Fund	State Revenue Sharing Fund	Road and Street Fund
<b>ASSETS:</b>			
Cash and investments	\$ 3,129,762	\$ 806,338 ✓	\$ 468,746
Restricted cash and investments	145,432 ✓	-	140,577
Cash with county treasurer	19,849 ✓	-	-
Accounts receivable	23,662 ✓	25,799 ✓	-
Property taxes receivable	211,465 ✓	-	-
Due from other governments	-	-	51,645 ✓
<b>Total assets</b>	<b>\$ 3,530,170</b>	<b>\$ 832,137</b>	<b>\$ 660,968</b>
<b>LIABILITIES:</b>			
Accounts payable	\$ 184,370	\$ -	\$ 23,244
Other current liabilities	29,251 ✓	-	-
<b>Total liabilities</b>	<b>213,621</b>	<b>-</b>	<b>23,244</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Unavailable revenues - property taxes	192,559 ✓	-	-
<b>Total deferred inflows of resources</b>	<b>192,559</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES:</b>			
Restricted:			
911 system	-	-	-
Street operations	-	-	637,724 ✓
Senior center	145,432 ✓	-	-
Library capital projects	-	-	-
Urban Renewal development	-	-	-
Assigned:			
Capital projects	-	832,137 ✓	-
Police services	-	-	-
Fire and emergency services	-	-	-
Unassigned	2,978,558	-	-
<b>Total fund balance</b>	<b>3,123,990</b>	<b>832,137</b>	<b>637,724</b>
<b>Total liabilities, deferred inflows of resources and fund balance</b>	<b>\$ 3,530,170</b>	<b>\$ 832,137</b>	<b>\$ 660,968</b>

TVAP 31,981 ✓  
 308,324 ✓  
 470 ✓  
 (22,173.7) ✓  
 181,668 ✓  
 32,751,195 ✓  
 181,668 ✓  
 A/P 2,702 ✓  
 184,370 ✓

599,321 ✓  
 25,000 ✓  
 99,280 ✓  
 99,280 ✓  
 13,316 ✓

Amounts reported in the statement of net position 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 position of governmental activities

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

Urban Renewal Agency Fund	Library Capital Fund	Other Governmental	Total Governmental
\$ 3,529,678 ✓	\$ 538,886	\$ 557,807	\$ 9,031,217
-	-	-	286,009
5,058 ✓	-	4,417	29,324
-	-	-	49,461
53,592 ✓	-	46,619	311,676
-	-	-	51,645
<u>\$ 3,588,328</u>	<u>\$ 538,886</u>	<u>\$ 608,843</u>	<u>\$ 9,759,332</u>
\$ -	\$ -	\$ 25,332	\$ 232,946
-	-	-	29,251
-	-	25,332	262,197
48,790 ✓	-	42,412	283,761
48,790	-	42,412	283,761
-	-	1,663	1,663
-	-	-	637,724
-	-	-	145,432
-	538,886	-	538,886
3,539,538 ✓	-	-	3,539,538
-	-	-	832,137
-	-	360,965	360,965
-	-	178,471	178,471
-	-	-	2,978,558
<u>3,539,538</u>	<u>538,886</u>	<u>541,099</u>	<u>9,213,374</u>
<u>\$ 3,588,328</u>	<u>\$ 538,886</u>	<u>\$ 608,843</u>	
			12,983,256
			283,761
			<u>(376,491)</u>
			<u>\$ 22,103,900</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, 2014**

	General Fund	State Revenue Sharing Fund	Road and Street Fund
<b>REVENUES:</b>			
Property taxes	\$ 3,442,106	\$ -	\$ -
Public service taxes	795,017	106,196	656,823
Franchise taxes	511,915	-	-
Grants	14,819	-	-
Charges for services	78,119	-	19,863
Licenses and permits	22,324	-	-
Fines and forfeitures	238,701	-	-
Contributions and donations	33,448	-	-
Interest	30,222	3,941	-
Miscellaneous	263,051	-	3,620
Total revenues	<u>5,429,722</u>	<u>110,137</u>	<u>680,306</u>
<b>EXPENDITURES:</b>			
Current:			
General government	1,036,126	-	-
Public safety	2,906,463	-	-
Highways and streets	-	-	488,047
Urban and renewal	-	-	-
Culture and recreation	1,124,926	-	-
Capital outlay	<u>155,969</u>	<u>7,895</u>	<u>27,174</u>
Total expenditures	<u>5,223,484</u>	<u>7,895</u>	<u>515,221</u>
Revenues over (under) expenditures	206,238	102,242	165,085
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	113,766	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>(57,021)</u>
Total other financing sources (uses)	<u>113,766</u>	<u>-</u>	<u>(57,021)</u>
Net changes in fund balances before special item	320,004	102,242	108,064
Special item:			
Interfund loan forgiveness	<u>-</u>	<u>(496,984)</u>	<u>-</u>
Net changes in fund balances	320,004	(394,742)	108,064
<b>FUND BALANCES, BEGINNING</b>	<u>2,803,986</u>	<u>1,226,879</u>	<u>529,660</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 3,123,990</u>	<u>\$ 832,137</u>	<u>\$ 637,724</u>

*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>
\$ 878,054	\$ -	\$ 765,850	\$ 5,086,010
-	-	-	1,558,036
-	-	-	511,915
-	-	-	14,819
-	-	-	97,982
-	-	-	22,324
-	-	-	238,701
-	-	-	33,448
16,874	2,641	3,069	56,747
-	-	-	266,671
<u>894,928</u>	<u>2,641</u>	<u>768,919</u>	<u>7,886,653</u>
-	-	-	1,036,126
-	-	592,637	3,499,100
-	-	-	488,047
23,886	-	-	23,886
-	-	-	1,124,926
45,193	-	518,146	754,377
<u>69,079</u>	<u>-</u>	<u>1,110,783</u>	<u>6,926,462</u>
825,849	2,641	(341,864)	960,191
-	-	-	113,766
-	-	(18,349)	(75,370)
-	-	(18,349)	38,396
825,849	2,641	(360,213)	998,587
-	-	-	(496,984)
825,849	2,641	(360,213)	501,603
<u>2,713,689</u>	<u>536,245</u>	<u>901,312</u>	<u>8,711,771</u>
<u>\$ 3,539,538</u>	<u>\$ 538,886</u>	<u>\$ 541,099</u>	<u>\$ 9,213,374</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, 2014**

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Amounts reported in the statement of activities are different because:

Net change in fund balances	\$	501,603
<p>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.</p>		
		52,927
<p>Some revenue reported in the statement of activities do not provide current financial resources in the governmental funds.</p>		
		(17,858)
<p>Accrued compensated absences and OPEB obligations are not due and payable in the current period and therefore are not reported in the funds.</p>		
		<u>368</u>
Change in net position of governmental activities	<u>\$</u>	<u>537,040</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 POSITION**  
**June 30, 2014**

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>ASSETS:</b>			
Current assets:			
Cash and investments	\$ 879,837	\$ 1,175,844	\$ 2,055,681
Trade accounts receivable	194,560	327,094	521,654
Prepays	155,846	-	155,846
Total current assets	<u>1,230,243</u>	<u>1,502,938</u>	<u>2,733,181</u>
Noncurrent assets:			
Assessments receivable	-	6,062	6,062
Interest receivable	-	2,564	2,564
Restricted cash	158,380	147,763	306,143
Investment in joint venture	2,931,574	-	2,931,574
Capital assets:			
Non-depreciable	129,414	511,550	640,964
Depreciable	<u>3,721,338</u>	<u>2,064,834</u>	<u>5,786,172</u>
Total noncurrent assets	<u>6,940,706</u>	<u>2,732,773</u>	<u>9,673,479</u>
Total assets	<u>\$ 8,170,949</u>	<u>\$ 4,235,711</u>	<u>\$ 12,406,660</u>
<b>LIABILITIES:</b>			
Current liabilities:			
Accounts payable	\$ 71,329	\$ 277,502	\$ 348,831
Interest payable	35,846	-	35,846
Accrued compensated absences	6,816	12,957	19,773
Bonds payable - current maturity	<u>120,000</u>	<u>-</u>	<u>120,000</u>
Total current liabilities	<u>233,991</u>	<u>290,459</u>	<u>524,450</u>
Noncurrent liabilities:			
OPEB liability	9,732	10,523	20,255
Bonds payable	<u>1,695,000</u>	<u>-</u>	<u>1,695,000</u>
Total noncurrent liabilities	<u>1,704,732</u>	<u>10,523</u>	<u>1,715,255</u>
Total liabilities	<u>1,938,723</u>	<u>300,982</u>	<u>2,239,705</u>
<b>NET POSITION:</b>			
Net investment in capital assets	2,035,752	2,576,384	4,612,136
Restricted for:			
System development	158,380	147,763	306,143
Unrestricted	<u>4,038,094</u>	<u>1,210,582</u>	<u>5,248,676</u>
Total net position	<u>6,232,226</u>	<u>3,934,729</u>	<u>10,166,955</u>
Total liabilities and net position	<u>\$ 8,170,949</u>	<u>\$ 4,235,711</u>	<u>\$ 12,406,660</u>

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

**CITY OF GLADSTONE, OREGON**  
**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
**For the Fiscal Year Ended June 30, 2014**

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>OPERATING REVENUES:</b>			
Service charges	\$ 1,189,254	\$ 1,810,060	\$ 2,999,314
Connection and installation fees	12,975	23,284	36,259
System development charge	19,626	2,555	22,181
Miscellaneous	31,897	2,840	34,737
Total operating revenues	<u>1,253,752</u>	<u>1,838,739</u>	<u>3,092,491</u>
<b>OPERATING EXPENSES:</b>			
Purchases	277,392	1,285,386	1,562,778
Salaries and fringe benefits	257,862	238,493	496,355
Maintenance and repairs	195,309	140,414	335,723
Utilities	16,714	355	17,069
Depreciation and amortization	166,680	85,621	252,301
Net OPEB obligation	1,129	628	1,757
Miscellaneous	12,906	-	12,906
Total operating expenses	<u>927,992</u>	<u>1,750,897</u>	<u>2,678,889</u>
Operating income (loss)	325,760	87,842	413,602
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest expense	(71,691)	-	(71,691)
Gain (loss) in joint venture	(50,901)	-	(50,901)
Total non-operating revenues (expenses)	<u>(122,592)</u>	<u>-</u>	<u>(122,592)</u>
Income before transfers	203,168	87,842	291,010
<b>TRANSFERS:</b>			
Transfers in (out)	(13,685)	(24,711)	(38,396)
Income before special item	189,483	63,131	252,614
<b>SPECIAL ITEM:</b>			
Interfund loan forgiveness	496,984	-	496,984
Change in net position	686,467	63,131	749,598
<b>NET POSITION, BEGINNING</b>	<u>5,545,759</u>	<u>3,871,598</u>	<u>9,417,357</u>
<b>NET POSITION, ENDING</b>	<u>\$ 6,232,226</u>	<u>\$ 3,934,729</u>	<u>\$ 10,166,955</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, 2014**

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from customers	\$ 1,248,908	\$ 1,783,706	\$ 3,032,614
Cash paid to employees for salaries and benefits	(258,233)	(233,054)	(491,287)
Cash paid to suppliers and others	(467,677)	(1,347,713)	(1,815,390)
Net cash provided by operating activities	522,998	202,939	725,937
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>			
Payment from (to) other funds	(150,000)	150,000	-
Transfers in (out)	(13,685)	(24,711)	(38,396)
Net cash provided (used) by non-capital financing activities	(163,685)	125,289	(38,396)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Purchase of capital assets	(17,766)	(63,574)	(81,340)
Principal paid on capital debt	(120,000)	-	(120,000)
Interest paid on capital debt	(73,941)	-	(73,941)
Net cash used by capital and related financing activities	(211,707)	(63,574)	(275,281)
Net increase in cash and cash equivalents	147,606	264,654	412,260
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	890,611	1,058,953	1,949,564
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 1,038,217</u>	<u>\$ 1,323,607</u>	<u>\$ 2,361,824</u>
<b>COMPRISED AS FOLLOWS:</b>			
Unrestricted	\$ 879,837	\$ 1,175,844	\$ 2,055,681
Restricted	158,380	147,763	306,143
Total cash and cash equivalents	<u>\$ 1,038,217</u>	<u>\$ 1,323,607</u>	<u>\$ 2,361,824</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating Income	\$ 325,760	\$ 87,842	\$ 413,602
Adjustments:			
Depreciation	166,680	85,621	252,301
Decrease (increase) in:			
Accounts receivable	(4,844)	(55,033)	(59,877)
Prepays	2,250	-	2,250
Increase (decrease) in:			
Accounts payable and accrued expenses	33,523	79,070	112,593
Accrued compensated absences	(1,500)	4,811	3,311
OPEB obligation	1,129	628	1,757
Net cash provided by operating activities	<u>\$ 522,998</u>	<u>\$ 202,939</u>	<u>\$ 725,937</u>
<b>NON-CASH INFORMATION:</b>			
Special item: interfund loan forgiveness	\$ 496,984	\$ -	\$ 496,984
Increase (decrease) in joint venture	(50,901)	-	(50,901)

*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.

**CITY OF GLADSTONE, OREGON**  
**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**June 30, 2014**

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	<u>Agency Funds</u>
<b>ASSETS:</b>	
Cash and investments	\$ 25,504
Total assets	<u>\$ 25,504</u>
<b>LIABILITIES:</b>	
Other current liabilities	\$ 25,504
Total liabilities	<u>\$ 25,504</u>

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

**CITY OF GLADSTONE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2014**

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**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 type and is considered a blended component unit.

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.

Based on the criteria from Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statement No. 14 and No. 34*, the Gladstone Seniors Foundation, a nonprofit 501(c)(3), and Gladstone Public Library Foundation, a nonprofit 501(c)(3), are considered discretely presented component units. These discretely presented component units are not considered material in relation to the City of Gladstone and accordingly, have not been included in the City of Gladstone's 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).

**CITY OF GLADSTONE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**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.

Government-wide statements

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

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

Fund financial statements

These statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, and fiduciary, even though the latter are excluded from government-wide financial statements. 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, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

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

The City reports the following major governmental funds:

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



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

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

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

The *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.

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 position and changes in net position. 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

**CITY OF GLADSTONE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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under accrual accounting. However, long-term compensated absences are recorded only when payment is due.

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

A deferred inflow of resources arises in the Governmental Funds Balance Sheet when potential revenue does not meet both the measurable and available criteria for recognition in the current period. This unavailable revenue consists primarily of uncollected property taxes and assessments not deemed available to financial operation of the current period. In the government-wide Statement of Net Position, with a full accrual basis of accounting, revenue must be recognized as soon as it is earned regardless of its availability. Thus, the liability created on the Governmental Fund Balance Sheet for unavailable revenue is eliminated. Note that deferred inflow of resources 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**E. Cash and Cash Equivalents**

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

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

**F. Investments**

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

**G. Restricted Cash and Investments**

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

**H. Fund Balance**

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components – non-spendable, restricted, committed, assigned and unassigned.

**Non-Spendable** – Includes amounts not immediately converted to cash, such as prepaid items and inventory.

**Restricted** – Includes amounts that are restricted by external creditors, grantors or contributors, or restricted by enabling legislation.

**Committed** – Includes amounts that have been committed by resolution by the City Council which is the City's "highest level of decision-making authority." Committed amounts may not be used for any other purpose unless the City Council removes the constraint by similar council action. Commitments of fund balance must be made prior to the end of the fiscal year.

**Assigned** – Includes amounts assigned for specific purposes by council action. In accordance with the City's adopted fund policy, adopted by resolution, amounts may be assigned by the City Administrator.

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

**I. Use of Restricted Resources**

When both restricted and unrestricted resources are available for use, it is the 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**J. Receivables and Payables**

Property taxes receivable in the governmental fund types, which have been collected within sixty days following year end, are considered measurable and available and are recognized as revenues in Governmental Funds. All other property taxes receivable for the governmental fund types are offset by deferred inflows of resources and, accordingly, have not been recorded as revenue. Property taxes become a lien against the property as of July 1 each year and are payable in three installments on November 15, February 15 and May 15 following the lien date. All property taxes receivable are due from property owners within the City.

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

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 is unknown. 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.

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, 2014.

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

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

**CITY OF GLADSTONE**  
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**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 position 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 Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred.

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.

**O. Deferred Outflows/Inflows of Resources**

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**P. Net Position**

In the government-wide financial statements and proprietary funds financial statements, net position is reported in three categories: net investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets represents capital assets less accumulated depreciation less outstanding principal of related debt. Net investment in capital assets does not include the unspent proceeds of capital debt. Restricted net position represents net position restricted by parties outside of the City (such as creditors, grantors, contributors, laws, and regulations of other governments) and includes unspent proceeds of bonds issued to acquire or construct capital assets. The City's other restricted net position is temporarily restricted (ultimately expendable) assets. The remaining net position is 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, 2014 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	\$ 11,360,357
Municipal bond	14.00	31,981
Portfolio weighted average maturity	<u>0.04</u>	<u>\$ 11,392,338</u>

**A. Interest rate risk**

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

**B. Credit risk**

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

**CITY OF GLADSTONE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**C. Concentration of credit risk**

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

**D. Custodial credit risk – deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the City's deposits up to \$250,000 for the combined total of all deposit accounts at each financial institution. Deposits in excess of FDIC coverage with institutions participating in the Oregon Public Funds Collateralization Program are considered fully collateralized. As of June 30, 2014, none of the City's bank balances were exposed to custodial 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, 2014, 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.

**CITY OF GLADSTONE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**4. Interfund Transfers**

Transfers between funds during the year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds		
General Fund	\$ 113,766	\$ -
Road & Street Fund	-	57,021
Total Major Governmental Funds	<u>113,766</u>	<u>57,021</u>
Non-major Governmental Funds		
Police / Comm. Levy Fund	-	12,919
Fire / Emergency Services Fund	-	5,430
Total Non-major Governmental Funds	<u>-</u>	<u>18,349</u>
Proprietary Funds		
Water Fund	-	13,685
Sewer Fund	-	24,711
Total Proprietary Funds	<u>-</u>	<u>38,396</u>
Total All Funds	<u>\$ 113,766</u>	<u>\$ 113,766</u>

The Police and Communications Special Levy Fund, Fire and Emergency Services Special Levy Fund, Water Fund, Sewer Fund, and the Road and Street Fund transferred \$113,766 to the General Fund to cover general operating and administrative expenses.



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**5. Capital Assets**

Capital asset activity for the year ended June 30, 2014 is as follows:

<b>Primary Government</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
<b>Capital assets, non-depreciable:</b>				
Land	\$ 5,519,830	\$ -	\$ -	\$ 5,519,830
Construction in progress	1,223,341	-	-	1,223,341
Total capital assets, non-depreciable	6,743,171	-	-	6,743,171
<b>Capital assets, depreciable:</b>				
Intangible assets	59,086	11,350	-	70,436
Buildings, structures and improve	3,589,007	-	-	3,589,007
Equipment	1,246,773	58,675	-	1,305,448
Vehicles	2,607,757	493,661	(15,389)	3,086,029
Infrastructure	3,885,906	-	-	3,885,906
Total capital assets, depreciable	11,388,529	563,686	(15,389)	11,936,826
Total assets	18,131,700	563,686	(15,389)	18,679,997
<b>Less accumulated depreciation for:</b>				
Intangible assets	(5,666)	(12,101)	-	(17,767)
Buildings, structures and improve	(1,456,763)	(86,320)	-	(1,543,083)
Equipment	(1,148,273)	(39,904)	-	(1,188,177)
Vehicles	(2,024,956)	(263,243)	15,389	(2,272,810)
Infrastructure	(565,713)	(109,191)	-	(674,904)
Total accumulated depreciation	(5,201,371)	(510,759)	15,389	(5,696,741)
Net depreciable capital assets	6,187,158	52,927	-	6,240,085
<b>Net capital assets</b>	<b>\$ 12,930,329</b>	<b>\$ 52,927</b>	<b>\$ -</b>	<b>\$ 12,983,256</b>

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

**Governmental activities:**

General government	\$ 28,148
Public safety	260,465
Roads and highways	146,172
Culture and recreations	75,974
Total depreciation expense	<u>\$ 510,759</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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<b>Business-type activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
<b>Capital assets, non-depreciable:</b>				
Land	\$ 640,964	\$ -	\$ -	\$ 640,964
Total capital assets, non-depreciable	640,964	-	-	640,964
<b>Capital assets, depreciable:</b>				
Buildings	299,113	-	-	299,113
Equipment	155,650	-	-	155,650
Vehicles	125,991	-	-	125,991
Infrastructure	10,688,976	81,340	-	10,770,316
Total capital assets, depreciable	11,269,730	81,340	-	11,351,070
Total	11,910,694	81,340	-	11,992,034
<b>Less accumulated depreciation for:</b>				
Buildings	(281,863)	(2,215)	-	(284,078)
Equipment	(136,855)	(11,604)	-	(148,459)
Vehicles	(112,612)	(3,310)	-	(115,922)
Infrastructure	(4,781,267)	(235,172)	-	(5,016,439)
Total accumulated depreciation	(5,312,597)	(252,301)	-	(5,564,898)
Net depreciable capital assets	5,957,133	(170,961)	-	5,786,172
<b>Net capital assets</b>	<b>\$ 6,598,097</b>	<b>\$ (170,961)</b>	<b>\$ -</b>	<b>\$ 6,427,136</b>
<b>Business-type activities:</b>				
Water		\$ (166,680)		
Sewer		(85,621)		
Total depreciation expense - business-type activities		<u>\$ (252,301)</u>		

**6. Joint Venture**

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

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

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

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 selects three commissioners each, and the Gladstone City Council selects one commissioner. The commissioners are required to be voting members of the governing body, council, or board of commissioners of the party making the selection. The commissioners select a Chair from among their members to serve a term of one year, beginning July 1 of each year. The position of Chair will rotate each year to represent each party. The commissioners will also select a Vice Chair to serve in the absence of the Chair. Each commissioner will have one vote. Five commissioners must be present to meet requirements for a quorum, and five affirmative votes will be required for adoption of any measure, ordinance, or resolution.

The City's net position in the joint venture as of June 30, 2014 was \$2,931,574. The current year operation of the Commission resulted in a net loss on investment to the City of \$50,901. The City had water purchases from the Commission of \$258,596 for the year ended June 30, 2014.

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. Construction in Process**

For the year ended June 30, 2014 the City had \$1,233,341 in construction in process. The City had set out to design and build a new library that would support the City of Gladstone and Oak Lodge area two years ago. Near the end of the design process citizens approved ballot measures amending the City Charter. These amendments required the City to seek voter approval to move forward with the library construction project.

Gladstone voters approved a new library ballot measure in November of 2014. This ballot measure allows the City to acquire property in the Portland Avenue area and construct a library that will serve the Gladstone and Oak Grove Library Service Areas. The estimated cost of the project is \$6.365 million broken down as follows: \$5.075 million to design, construct, finance, and acquire property plus \$1.29 million in interest to finance debt. Funding sources include \$1 million from Clackamas County, \$1.375 million from the Clackamas County Library District, and the remaining funds necessary to construct the project will come from incurring debt. Debt payments will be covered by an increase in annual Library District revenue due to consolidation of the library service areas.

**CITY OF GLADSTONE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2014**

**8. Deferred Inflows of Resources**

Deferred revenue as of June 30, 2014 consists of the following:

	General Fund	Fire & Emergency Services Special Levy Fund	Police & Communications Special Levy Fund	Urban Renewal Fund	Total
Property taxes	\$ 192,559	\$ 13,881	\$ 28,531	\$ 48,790	\$ 283,761

**9. Long Term Debt**

**A. Changes in General Long-Term Liabilities**

During the year ended June 30, 2014, long-term liability activity was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
<b>Governmental Activities</b>					
Compensated absences	\$ 220,426	\$ 198,999	\$ (220,426)	\$ 198,999	\$ 198,999
Other postemployment benefits	156,433	21,059	-	177,492	-
Governmental activities Long-term liabilities	<u>\$ 376,859</u>	<u>\$ 220,058</u>	<u>\$ (220,426)</u>	<u>\$ 376,491</u>	<u>\$ 198,999</u>
<b>Business-type Activities</b>					
Bonds	\$ 1,935,000	\$ -	\$ (120,000)	\$ 1,815,000	\$ 120,000
Compensated absences	16,462	19,773	16,462	19,773	19,773
Other postemployment benefits	18,498	1,757	-	20,255	-
Business-type activities Long-term liabilities	<u>\$ 1,969,960</u>	<u>\$ 21,530</u>	<u>\$ (103,538)</u>	<u>\$ 1,855,028</u>	<u>\$ 139,773</u>

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

**CITY OF GLADSTONE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2014**

**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>\$ 1,815,000</u>
Total bonds payable	<u>\$ 1,815,000</u>

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

<u>Business-type Activities</u>				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
2015	4.000 %	\$ 120,000	\$ 69,290	\$ 189,290
2016	3.700 %	125,000	64,579	189,579
2017	3.700 %	130,000	59,861	189,861
2018	3.800 %	135,000	54,891	189,891
2019-2023	3.800 - 4.125 %	765,000	190,550	955,550
2024-2028	4.000 - 4.125 %	<u>540,000</u>	<u>32,800</u>	<u>572,800</u>
Total		<u>\$ 1,815,000</u>	<u>\$ 471,971</u>	<u>\$ 2,286,971</u>

**10. Net Position**

Net position resulting from the City's receipt of state gas tax revenue is restricted for road and street repairs and improvement in the amount of \$637,724.

**11. 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.

**CITY OF GLADSTONE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2014**

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Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service. Beginning January 1, 2004, all PERS member contributions go into the Individual Account Program (IAP), the defined contribution portion of the plan. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member's IAP, not the member's PERS account.

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

**B. Funding Policy**

Members of PERS are required to contribute 6.00% of their salary covered under the plan, which is invested in the OPSRP Individual Account Program; this is paid by the City. The City is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPERF plan, and a general service rate for the qualifying employees under the OPSRP plan. The OPERF rate for the year ended June 30, 2014 was 12.61% and the annual pension cost was \$453,610. The OPSRP rates in effect for the year ended June 30, 2014 was 8.16% for general employees and 10.89% 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, 2014, 2013, and 2012 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/12	\$ 419,507	100%	-
6/30/13	\$ 417,726	100%	-
6/30/14	\$ 453,610	100%	

**12. 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.

**CITY OF GLADSTONE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2014**

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**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, 2014 is:

	<u>Regence</u>	<u>Kaiser</u>
Employee	\$ 497	\$ 583
Employee + child	908	1,055
Employee + spouse	1,035	1,203
Employee + family	1,427	1,699

**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.

The annual OPEB cost and net OPEB obligation at June 30, 2014 is as follows:

	<u>2014</u>
Annual Required Contribution (ARC)	\$ 33,573
Interest on Net OPEB Obligation	6,997
Adjustment to ARC	<u>(6,248)</u>
Annual OPEB cost	34,322
Contributions made	<u>(11,506)</u>
Increase in Net OPEB Obligation	22,816
Net OPEB Obligation – beginning of year	<u>174,931</u>
Net OPEB Obligation – end of year	<u>\$ 197,747</u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contribution	Net OPEB Obligation
6/30/2014	\$ 34,322	34%	\$ 197,747
6/30/2013	33,078	23%	174,931
6/30/2012	82,432	49%	149,372

**D. Funding Status**

As of July 1, 2012, the most recent actuarial valuation, the plan was zero percent funded. The actuarial accrued liability (AAL) for benefits was \$296,770 and also equaled the unfunded actuarial accrued liability (UAAL). The annual payroll of active employees covered by the plan (covered payroll) was \$2,525,297 and the ratio of the UAAL to the covered payroll was 11.8%.

**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 assumptions 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.

In the July 1, 2012 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 8% for 2014, grading down over seventeen years to 5%. The Unfunded Actuarial Accrued Liability (UAAL) is being amortized over an open period of 30 years.

**13. Retirement Health Insurance Account (RHIA)**

**A. Plan Description**

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.

**B. Funding Policy**

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

Participating employers are contractually required to contribute to RHIA at a rate assessed each year by OPERS, currently 0.59% of annual coverall payroll. The OPERS Board of Trustees sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represent a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortized any unfunded actuarial liabilities (or funding excess) of the plan over a period



**CITY OF GLADSTONE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2014**

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not to exceed thirty years. The City's contributions to RHIA for the years ended June 30, 2014 equaled the required contributions.

**14. Agreements with Service Districts**

The City has agreements with certain service districts to collect and process City sewage. General terms of these agreements are as follows:

- The City will process and review all permit applications for hookup and inspection thereof; operate and maintain local collection facilities; bill and collect use charges and bill and collect connection charges.
- The City will collect and remit all connections charges to the service districts, except for a portion to reimburse administrative costs.
- The City or the service districts may terminate the agreements upon 30 to 180 days notice.

Payments of \$1,285,386 were made to the service districts during fiscal year 2014 under these agreements.

**15. 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 2013 to 2014. 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.

**16. 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.

**17. Special Item**

During 2013-2014, the City of Gladstone forgave the interfund loan of \$496,984 owed to the State Revenue Sharing Fund by the Water Fund. The forgiveness of this interfund loan has been reported as a special item on the Statement of Activities.

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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
- Other Post Employment Benefits Schedule of Funding Progress
- Notes to the Required Supplementary Information

**CITY OF GLADSTONE, OREGON**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2014**

	Budget		Actual	Variance
	Original	Final		Positive (Negative)
<b>REVENUES:</b>				
Property taxes	\$ 3,203,059	\$ 3,203,059	\$ 3,442,106	\$ 239,047
Public service taxes	750,735	750,735	795,017	44,282
Franchise taxes	479,837	479,837	511,915	32,078
Grants	254,100	254,100	14,819	(239,281)
Charges for services	42,400	42,400	78,119	35,719
Licenses and permits	19,550	19,550	22,324	2,774
Fines and forfeitures	185,000	185,000	238,701	53,701
Contributions and donations	30,500	30,500	33,448	2,948
Interest	23,000	23,000	30,222	7,222
Miscellaneous	285,935	285,935	263,051	(22,884)
Total revenues	<u>5,274,116</u>	<u>5,274,116</u>	<u>5,429,722</u>	<u>155,606</u>
<b>EXPENDITURES:</b>				
General government	1,018,091	1,173,091	1,036,126	136,965
Public safety	3,169,977	3,169,977	2,906,463	263,514
Cultural and recreation	1,243,997	1,243,997	1,124,926	119,071
Capital outlay	1,250,030	1,250,030	155,969	1,094,061
Contingency	300,000	145,000	-	145,000
Total expenditures	<u>6,982,095</u>	<u>6,982,095</u>	<u>5,223,484</u>	<u>1,758,611</u>
Revenues over (under) expenditures	(1,707,979)	(1,707,979)	206,238	1,914,217
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	113,766	113,766	113,766	-
Total other financing sources (uses)	<u>113,766</u>	<u>113,766</u>	<u>113,766</u>	<u>-</u>
Net changes in fund balances	(1,594,213)	(1,594,213)	320,004	1,914,217
<b>FUND BALANCES, BEGINNING</b>	<u>2,648,453</u>	<u>2,648,453</u>	<u>2,803,986</u>	<u>155,533</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 1,054,240</u>	<u>\$ 1,054,240</u>	<u>\$ 3,123,990</u>	<u>\$ 2,069,750</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, 2014**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Public service taxes	\$ 92,000	\$ 92,000	\$ 106,196	\$ 14,196
Interest	2,800	2,800	3,941	1,141
Total revenues	94,800	94,800	110,137	15,337
<b>EXPENDITURES:</b>				
Capital outlay	754,924	754,924	7,895	747,029
Total expenditures	754,924	754,924	7,895	747,029
Revenues over (under) expenditures	(660,124)	(660,124)	102,242	762,366
<b>OTHER FINANCING SOURCES (USES):</b>				
Interfund loan receipts	99,396	99,396	-	(99,396)
Interfund loan payments	(150,000)	(150,000)	-	150,000
Total other financing sources (uses)	(50,604)	(50,604)	-	50,604
Net changes in fund balances	(710,728)	(710,728)	102,242	812,970
<b>FUND BALANCES, BEGINNING BUDGETARY BASIS</b>	710,728	710,728	729,895	19,167
<b>FUND BALANCES, ENDING</b>	\$ -	\$ -	\$ 832,137	\$ 832,137

**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, 2014**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Public service taxes	\$ 585,200	\$ 585,200	\$ 656,823	\$ 71,623
Charges for services	5,000	5,000	19,863	14,863
Miscellaneous	500	500	3,620	3,120
Total revenues	590,700	590,700	680,306	89,606
<b>EXPENDITURES:</b>				
Personnel service	176,003	176,003	159,344	16,659
Materials and service	232,575	417,575	328,703	88,872
Capital outlay	592,559	407,559	27,174	380,385
Total expenditures	1,001,137	1,001,137	515,221	485,916
Revenues over (under) expenditures	(410,437)	(410,437)	165,085	575,522
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(57,021)	(57,021)	(57,021)	-
Total other financing sources (uses)	(57,021)	(57,021)	(57,021)	-
Net changes in fund balances	(467,458)	(467,458)	108,064	575,522
<b>FUND BALANCES, BEGINNING</b>	467,458	467,458	529,660	62,202
<b>FUND BALANCES, ENDING</b>	\$ -	\$ -	\$ 637,724	\$ 637,724



**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, 2014**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 855,072	\$ 855,072	\$ 878,054	\$ 22,982
Interest	8,500	8,500	16,874	8,374
Total revenues	863,572	863,572	894,928	31,356
<b>EXPENDITURES:</b>				
Materials and service	76,300	76,300	23,886	52,414
Capital outlay	3,492,593	3,492,593	45,193	3,447,400
Total expenditures	3,568,893	3,568,893	69,079	3,499,814
Net changes in fund balances	(2,705,321)	(2,705,321)	825,849	3,531,170
<b>FUND BALANCES, BEGINNING</b>	2,705,321	2,705,321	2,713,689	8,368
<b>FUND BALANCES, ENDING</b>	\$ -	\$ -	\$ 3,539,538	\$ 3,539,538

**CITY OF GLADSTONE, OREGON**  
**SCHEDULE OF FUNDING PROGRESS**  
**OTHER POST-EMPLOYMENT BENEFITS**  
**June 30, 2014**

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Other Post-Employment Benefits

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2009	\$ -	\$ 699,333	\$ 699,333	0.00%	\$ 2,937,298	24.00%
7/1/2012	-	296,770	296,770	0.00%	2,525,297	11.80%

**CITY OF GLADSTONE**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2014**

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**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 personnel 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, 2014. Appropriations lapse as of year-end.

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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 analysis.

Such statements and schedules include:

- Combining Statements – Nonmajor Governmental Funds
- Budgetary Comparison Schedules
  - General Fund
  - Library Capital Fund
  - Nonmajor Governmental Funds
- Budgetary Comparison Schedules
  - 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**

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. Funds included in this category are:

#### **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**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**COMBINING BALANCE SHEET**  
**June 30, 2014**

	911 Excise Tax Resource Fund	Police and Communications Special Levy Fund	Fire and Emergency Services Special Levy Fund	Total
<b>ASSETS:</b>				
Cash and investments	\$ 1,663	\$ 365,032	\$ 191,112	\$ 557,807
Cash with county treasurer	-	2,985	1,432	4,417
Property taxes receivable	-	31,374	15,245	46,619
Total assets	<u>\$ 1,663</u>	<u>\$ 399,391</u>	<u>\$ 207,789</u>	<u>\$ 608,843</u>
<b>LIABILITIES:</b>				
Accounts payable	\$ -	\$ 9,895	\$ 15,437	\$ 25,332
Total liabilities	<u>-</u>	<u>9,895</u>	<u>15,437</u>	<u>25,332</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Unavailable revenues - property taxes	-	28,531	13,881	42,412
Total deferred inflows of resources	<u>-</u>	<u>28,531</u>	<u>13,881</u>	<u>42,412</u>
<b>FUND BALANCES:</b>				
Restricted:				
911 system	1,663	-	-	1,663
Assigned:				
Police services	-	360,965		360,965
Fire and emergency services	-	-	178,471	178,471
Total fund balances	<u>1,663</u>	<u>360,965</u>	<u>178,471</u>	<u>541,099</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,663</u>	<u>\$ 399,391</u>	<u>\$ 207,789</u>	<u>\$ 608,843</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, 2014**

	911 Excise Tax Resource Fund	Police and Communications Special Levy Fund	Fire and Emergency Services Special Levy Fund	Total
<b>REVENUES:</b>				
Property taxes	\$ -	\$ 517,580	\$ 248,270	\$ 765,850
Interest	9	2,017	1,043	3,069
Total revenues	<u>9</u>	<u>519,597</u>	<u>249,313</u>	<u>768,919</u>
<b>EXPENDITURES:</b>				
Public safety	-	470,077	122,560	592,637
Capital outlay	-	9,894	508,252	518,146
Total expenditures	<u>-</u>	<u>479,971</u>	<u>630,812</u>	<u>1,110,783</u>
Revenues over (under) expenditures	9	39,626	(381,499)	(341,864)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	-	(12,919)	(5,430)	(18,349)
Total other financing sources (uses)	<u>-</u>	<u>(12,919)</u>	<u>(5,430)</u>	<u>(18,349)</u>
Net changes in fund balances	9	26,707	(386,929)	(360,213)
<b>FUND BALANCES, BEGINNING</b>	<u>1,654</u>	<u>334,258</u>	<u>565,400</u>	<u>901,312</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 1,663</u>	<u>\$ 360,965</u>	<u>\$ 178,471</u>	<u>\$ 541,099</u>

**CITY OF GLADSTONE, OREGON**  
**AGENCY FUNDS**  
**COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES**  
**For the Fiscal Year Ended June 30, 2014**

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>
<b>Municipal Court Fund</b>				
Assets				
Cash	<u>\$ 6,115</u>	<u>\$ -</u>	<u>\$ 2,784</u>	<u>\$ 3,331</u>
Liabilities				
Other current liabilities	<u>\$ 6,115</u>	<u>\$ -</u>	<u>\$ 2,784</u>	<u>\$ 3,331</u>
 <b>Library Board Trust Fund</b>				
Assets				
Cash	<u>\$ 22,055</u>	<u>\$ 118</u>	<u>\$ -</u>	<u>\$ 22,173</u>
Liabilities				
Other current liabilities	<u>\$ 22,055</u>	<u>\$ 118</u>	<u>\$ -</u>	<u>\$ 22,173</u>
 <b>Totals - All Agency Funds</b>				
Assets				
Cash	<u>\$ 28,170</u>	<u>\$ 118</u>	<u>\$ 2,784</u>	<u>\$ 25,504</u>
Liabilities				
Other current liabilities	<u>\$ 28,170</u>	<u>\$ 118</u>	<u>\$ 2,784</u>	<u>\$ 25,504</u>

## 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
- Library Capital 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, 2014**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>General Administration:</b>				
Personnel services	\$ 484,091	\$ 484,091	\$ 453,034	\$ 31,057
Materials and services	534,000	689,000	583,092	105,908
Subtotal	1,018,091	1,173,091	1,036,126	136,965
<b>Municipal Court:</b>				
Personnel services	136,094	136,094	158,135	(22,041)
Materials and services	131,219	131,219	66,119	65,100
Subtotal	267,313	267,313	224,254	43,059
<b>Police:</b>				
Personnel services	1,863,660	1,863,660	1,729,419	134,241
Materials and services	233,000	233,000	246,187	(13,187)
Capital outlay	5,000	5,000	22	4,978
Subtotal	2,101,660	2,101,660	1,975,628	126,032
<b>Fire:</b>				
Personnel services	443,204	443,204	409,508	33,696
Materials and services	362,800	362,800	297,095	65,705
Capital outlay	640,000	640,000	36,887	603,113
Subtotal	1,446,004	1,446,004	743,490	702,514
<b>Parks:</b>				
Personnel services	149,907	149,907	117,133	32,774
Materials and services	123,712	123,712	115,772	7,940
Capital outlay	311,835	311,835	22,030	289,805
Subtotal	585,454	585,454	254,935	330,519
<b>Recreation:</b>				
Personnel services	27,000	27,000	21,275	5,725
Materials and services	34,910	34,910	28,955	5,955
Subtotal	61,910	61,910	50,230	11,680

**CITY OF GLADSTONE, OREGON**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2014**

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	Budget		Actual	Variance Positive (Negative)
	Original	Final		
Senior Center:				
Personnel services	211,784	211,784	206,857	4,927
Materials and services	43,700	43,700	36,395	7,305
Capital outlay	182,195	182,195	1,195	181,000
Subtotal	<u>437,679</u>	<u>437,679</u>	<u>244,447</u>	<u>193,232</u>
Library:				
Personnel services	560,185	560,185	509,435	50,750
Materials and services	92,799	92,799	89,104	3,695
Capital outlay	111,000	111,000	95,835	15,165
Subtotal	<u>763,984</u>	<u>763,984</u>	<u>694,374</u>	<u>69,610</u>
Total expenditures	<u>\$ 6,682,095</u>	<u>\$ 6,837,095</u>	<u>\$ 5,223,484</u>	<u>\$ 1,613,611</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, 2014**

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	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Interest	\$ -	\$ -	\$ 2,641	\$ 2,641
Total revenues	-	-	2,641	2,641
Net changes in fund balances	-	-	2,641	2,641
<b>FUND BALANCES, BEGINNING</b>	-	-	536,245	536,245
<b>FUND BALANCES, ENDING</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 538,886</u>	<u>\$ 538,886</u>

**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, 2014**

---

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Interest	\$ -	\$ -	\$ 9	\$ 9
Total revenues	-	-	9	9
Net changes in fund balances	-	-	9	9
<b>FUND BALANCES, BEGINNING</b>	-	-	1,654	1,654
<b>FUND BALANCES, ENDING</b>	\$ -	\$ -	\$ 1,663	\$ 1,663



**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, 2014**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 505,247	\$ 505,247	\$ 517,580	\$ 12,333
Interest	2,500	2,500	2,017	(483)
Total revenues	<u>507,747</u>	<u>507,747</u>	<u>519,597</u>	<u>11,850</u>
<b>EXPENDITURES:</b>				
Personnel service	453,073	483,073	467,767	15,306
Materials and service	119,930	119,930	2,310	117,620
Capital outlay	130,000	100,000	9,894	90,106
Total expenditures	<u>703,003</u>	<u>703,003</u>	<u>479,971</u>	<u>223,032</u>
Revenues over (under) expenditures	(195,256)	(195,256)	39,626	234,882
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	<u>(12,919)</u>	<u>(12,919)</u>	<u>(12,919)</u>	<u>-</u>
Total other financing sources (uses)	<u>(12,919)</u>	<u>(12,919)</u>	<u>(12,919)</u>	<u>-</u>
Net changes in fund balances	(208,175)	(208,175)	26,707	234,882
<b>FUND BALANCES, BEGINNING</b>	<u>358,612</u>	<u>358,612</u>	<u>334,258</u>	<u>(24,354)</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 150,437</u>	<u>\$ 150,437</u>	<u>\$ 360,965</u>	<u>\$ 210,528</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, 2014**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 234,485	\$ 234,485	\$ 248,270	\$ 13,785
Interest	2,000	2,000	1,043	(957)
Total revenues	236,485	236,485	249,313	12,828
<b>EXPENDITURES:</b>				
Personnel service	131,164	131,164	117,327	13,837
Materials and service	20,000	20,000	5,233	14,767
Capital outlay	654,000	654,000	508,252	145,748
Total expenditures	805,164	805,164	630,812	174,352
Revenues over (under) expenditures	(568,679)	(568,679)	(381,499)	187,180
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	150,000	150,000	-	(150,000)
Transfers out	(5,430)	(5,430)	(5,430)	-
Total other financing sources (uses)	144,570	144,570	(5,430)	(150,000)
Net changes in fund balances	(424,109)	(424,109)	(386,929)	37,180
<b>FUND BALANCES, BEGINNING</b>	543,551	543,551	565,400	21,849
<b>FUND BALANCES, ENDING</b>	<u>\$ 119,442</u>	<u>\$ 119,442</u>	<u>\$ 178,471</u>	<u>\$ 59,029</u>

## **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, 2014**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Service charges	\$ 1,134,000	\$ 1,134,000	1,189,254	\$ 55,254
Connection and installation fees	2,500	2,500	12,975	10,475
System development charge	1,500	1,500	19,626	18,126
Miscellaneous	500	500	31,897	31,397
Total revenues	1,138,500	1,138,500	1,253,752	115,252
<b>EXPENDITURES:</b>				
Personnel service	299,201	299,201	257,862	41,339
Materials and service	659,400	659,400	476,318	183,082
Capital outlay	573,006	552,006	43,769	508,237
Debt service:				
Principal	120,000	120,000	120,000	-
Interest	73,941	73,941	73,941	-
Total expenditures	1,725,548	1,704,548	971,890	732,658
Revenues over (under) expenditures	(587,048)	(566,048)	281,862	847,910
<b>OTHER FINANCING SOURCES (USES):</b>				
Interfund loan payments	(129,396)	(150,396)	(150,000)	396
Transfers out	(13,685)	(13,685)	(13,685)	-
Total other financing sources (uses)	(143,081)	(164,081)	(163,685)	396
Net changes in fund balances	(730,129)	(730,129)	118,177	848,306
<b>FUND BALANCES, BEGINNING</b>				
<b>BUDGETARY BASIS</b>	730,129	730,129	1,007,073	276,944
<b>FUND BALANCES, ENDING</b>				
<b>BUDGETARY BASIS</b>	\$ -	\$ -	\$ 1,125,250	\$ 1,125,250

	Revenues	Expenditures
Total revenue and expenditures above	\$ 1,253,752	\$ 971,890
Operating transfers in/out	-	13,685
Expenditures capitalized	-	(17,766)
Debt service principal payments	-	(120,000)
Depreciation expense	-	166,680
Accrued interest payable	-	(2,250)
Net OPEB obligation	-	1,129
Special item: interfund loan forgiveness	496,984	-
Equity in net income/loss of joint venture	(50,901)	-
Total revenues and expenses - generally accepted accounting principles	\$ 1,699,835	1,013,368
Change in net position		\$ 686,467

**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, 2014**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Service charge	\$ 1,718,478	\$ 1,718,478	\$ 1,810,060	\$ 91,582
Connection and installation fees	4,000	4,000	23,284	19,284
System development charge	500	500	2,555	2,055
Miscellaneous	600	600	2,840	2,240
Total revenues	<u>1,723,578</u>	<u>1,723,578</u>	<u>1,838,739</u>	<u>115,161</u>
<b>EXPENDITURES:</b>				
Personnel service	243,166	243,166	238,493	4,673
Materials and service	1,563,518	1,563,518	1,416,292	147,226
Capital outlay	842,547	842,547	73,437	769,110
Total expenditures	<u>2,649,231</u>	<u>2,649,231</u>	<u>1,728,222</u>	<u>921,009</u>
Revenues over (under) expenditures	(925,653)	(925,653)	110,517	1,036,170
<b>OTHER FINANCING SOURCES (USES):</b>				
Interfund loan receipts	30,000	30,000	150,000	120,000
Transfers out	(24,711)	(24,711)	(24,711)	-
Total other financing sources (uses)	<u>5,289</u>	<u>5,289</u>	<u>125,289</u>	<u>120,000</u>
Net changes in fund balances	(920,364)	(920,364)	235,806	1,156,170
<b>FUND BALANCES, BEGINNING BUDGETARY BASIS</b>	<u>920,364</u>	<u>920,364</u>	<u>908,838</u>	<u>(11,526)</u>
<b>FUND BALANCES, ENDING BUDGETARY BASIS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,144,644</u>	<u>\$ 1,144,644</u>

	Revenues	Expenditures
Total revenue and expenditures above	\$ 1,838,739	\$ 1,728,222
Operating transfers in/out	-	24,711
Expenditures capitalized	-	(63,574)
Depreciation and amortization expense	-	85,621
Net OPEB obligation	-	628
Total revenues and expenses - generally accepted accounting principles	<u>\$ 1,838,739</u>	<u>1,775,608</u>
Change in net position		<u>\$ 63,131</u>

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**OTHER FINANCIAL SCHEDULES**

**CITY OF GLADSTONE, OREGON**  
**SCHEDULE OF PROPERTY TAX TRANSACTIONS AND OUTSTANDING BALANCES**  
**For the Fiscal Year Ended June 30, 2014**

Fiscal Year	Uncollected Balance June 30, 2013	2013-2014 Levy	Adjustments/ Discount	Collections	Uncollected Balance June 30, 2014
2013-2014	\$ -	\$ 5,159,734	\$ (140,435)	\$ (4,924,712)	\$ 130,587
2012-2013	147,911	-	(3,972)	(71,811)	72,128
2011-2012	83,264	-	(1,273)	(31,215)	50,776
2010-2011	52,843	-	(361)	(23,493)	28,989
2009-2010	29,787	-	(562)	(8,558)	20,667
2008-2009	5,273	-	(738)	(964)	3,571
Prior years	6,785	-	(766)	(1,061)	4,958
<b>Totals</b>	<b>\$ 325,863</b>	<b>\$ 5,159,734</b>	<b>\$ (148,107)</b>	<b>\$ (5,061,814)</b>	<b>\$ 311,676</b>

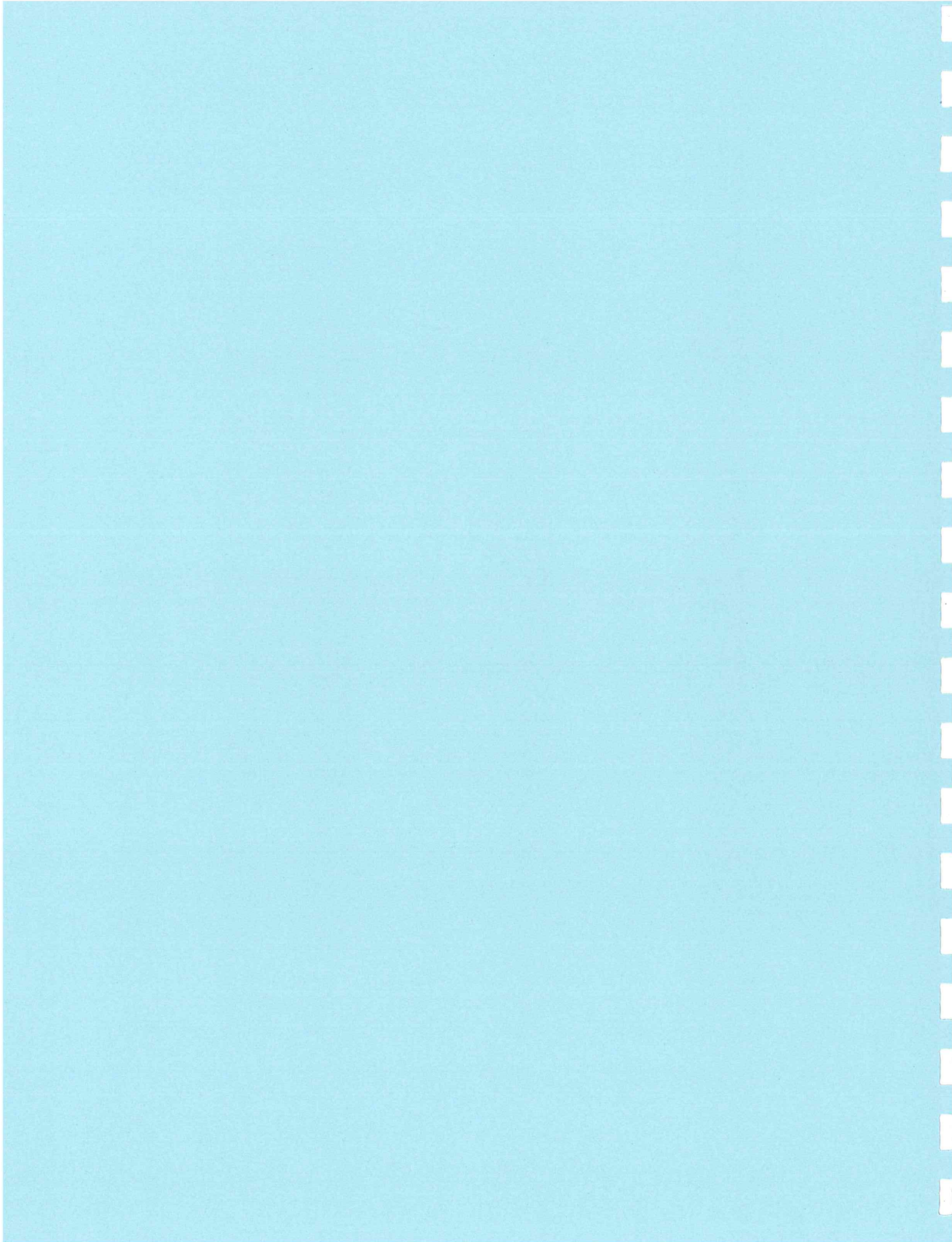
Taxes receivable classified by fund:

General Fund	\$ 211,465
Police and Communications Special Levy Fund	31,374
Fire and Emergency Services Special Levy Fund	15,245
Urban Renewal Agency Debt Service Fund	53,592
	<u>\$ 311,676</u>



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





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

We have audited the basic financial statements of the City of Gladstone, Oregon, as of and for the year ended June 30, 2014 and have issued our report thereon dated December 29, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

**Compliance**

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

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

- Deposits of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions, and repayments.
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Highway revenues used for public highways, roads, and streets.
- Authorized investment of surplus funds. (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, and 279C).
- Accountability for collecting or receiving money by elected officials. The City does not have any elected officials collecting or receiving money.

In connection with our testing, nothing came to our attention that caused us to believe the City of Gladstone, Oregon, was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as

specified in the Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

### **OAR 162-10-0230 Internal Control**

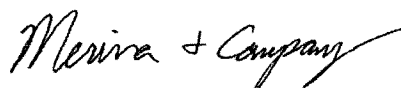
In planning and performing our audit, we considered the City of Gladstone, Oregon's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Gladstone, Oregon's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Gladstone, Oregon's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control and have communicated them in a separate letter to management dated December 29, 2014.

In addition, we noted certain matters that we reported to management of the City of Gladstone, Oregon, in a separate letter to management dated December 29, 2014.

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



Merina & Company, LLP  
West Linn, Oregon  
December 29, 2014

