

CITY OF GLADSTONE, OREGON

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

For the Fiscal Year Ended
June 30, 2009
with
Independent Auditor's Report

MERINA
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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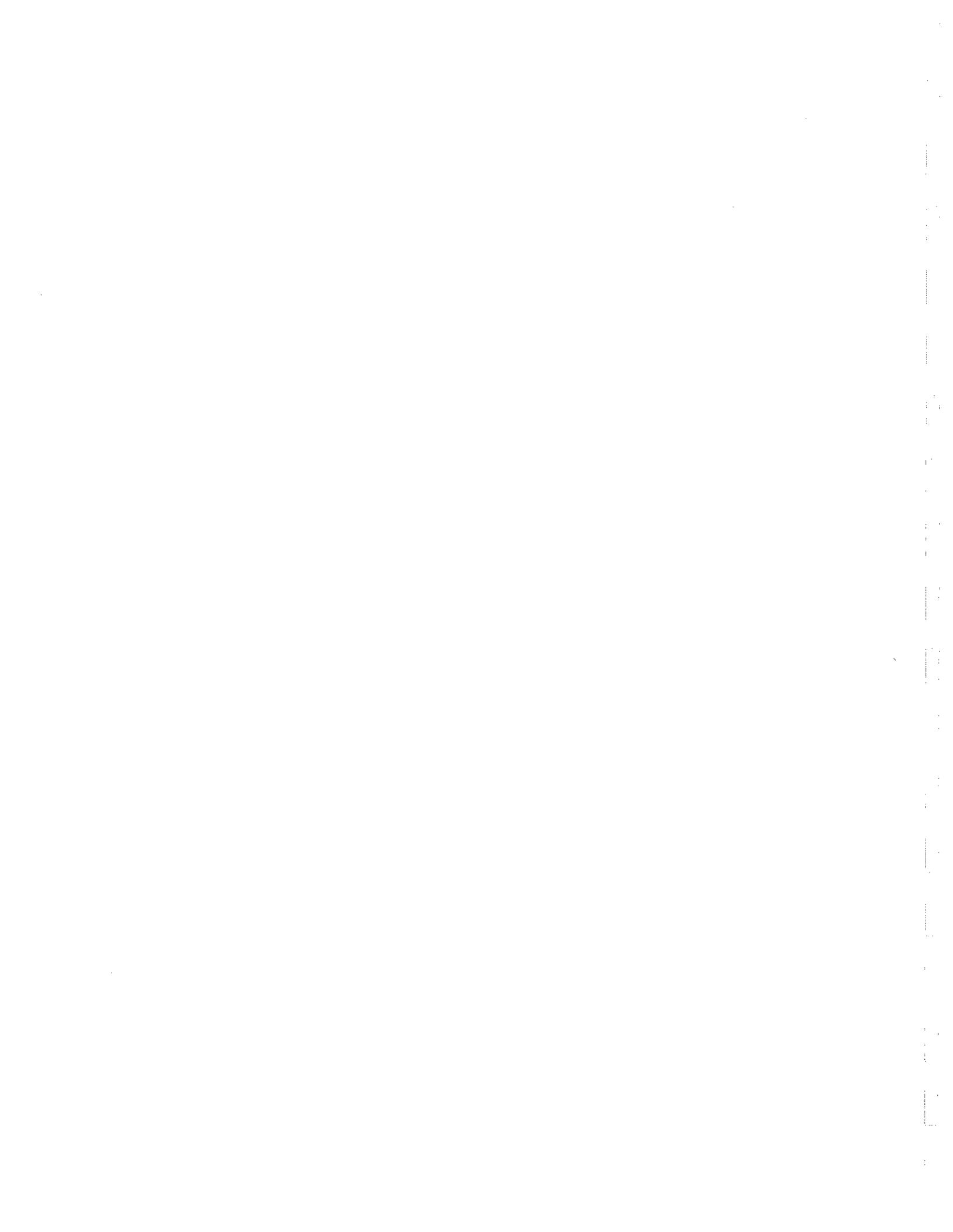
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INTRODUCTORY SECTION



CITY OF GLADSTONE, OREGON
CITY OFFICIALS
June 30, 2009

City Officials

Wade Byers, Mayor
Gladstone, Oregon 97027

Term Expires

December 31, 2010

Council Members

Tom Pagh, President
Gladstone, Oregon 97027

December 31, 2012

Hal Busch
Gladstone, Oregon 97027

December 31, 2010

Ray Jaren
Gladstone, Oregon 97027

December 31, 2010

Kari Martinez
Gladstone, Oregon 97027

December 31, 2010

Judith Ervin
Gladstone, Oregon 97027

December 31, 2012

Len Nelson
Gladstone, Oregon 97027

December 31, 2012

City Administrator

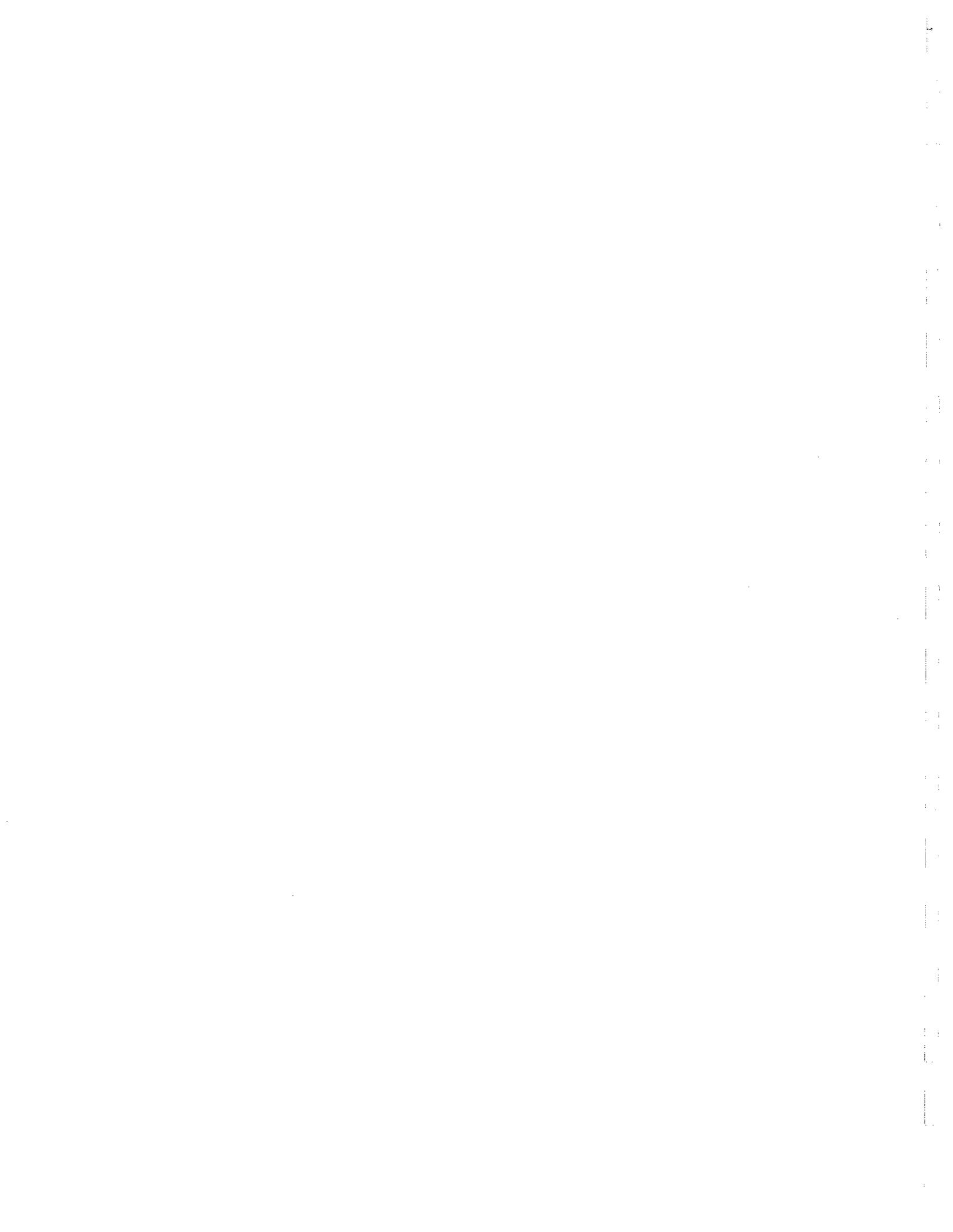
Peter Boyce
Gladstone, Oregon 97027

City Recorder

Jonathan Block
Gladstone, Oregon 97027

Municipal Judge

Phil Ringle, Jr.
Gladstone, Oregon 97027



CITY OF GLADSTONE, OREGON
CITY OFFICIALS
June 30, 2009

Chief of Police

Jim Pryde
Gladstone, Oregon 97027

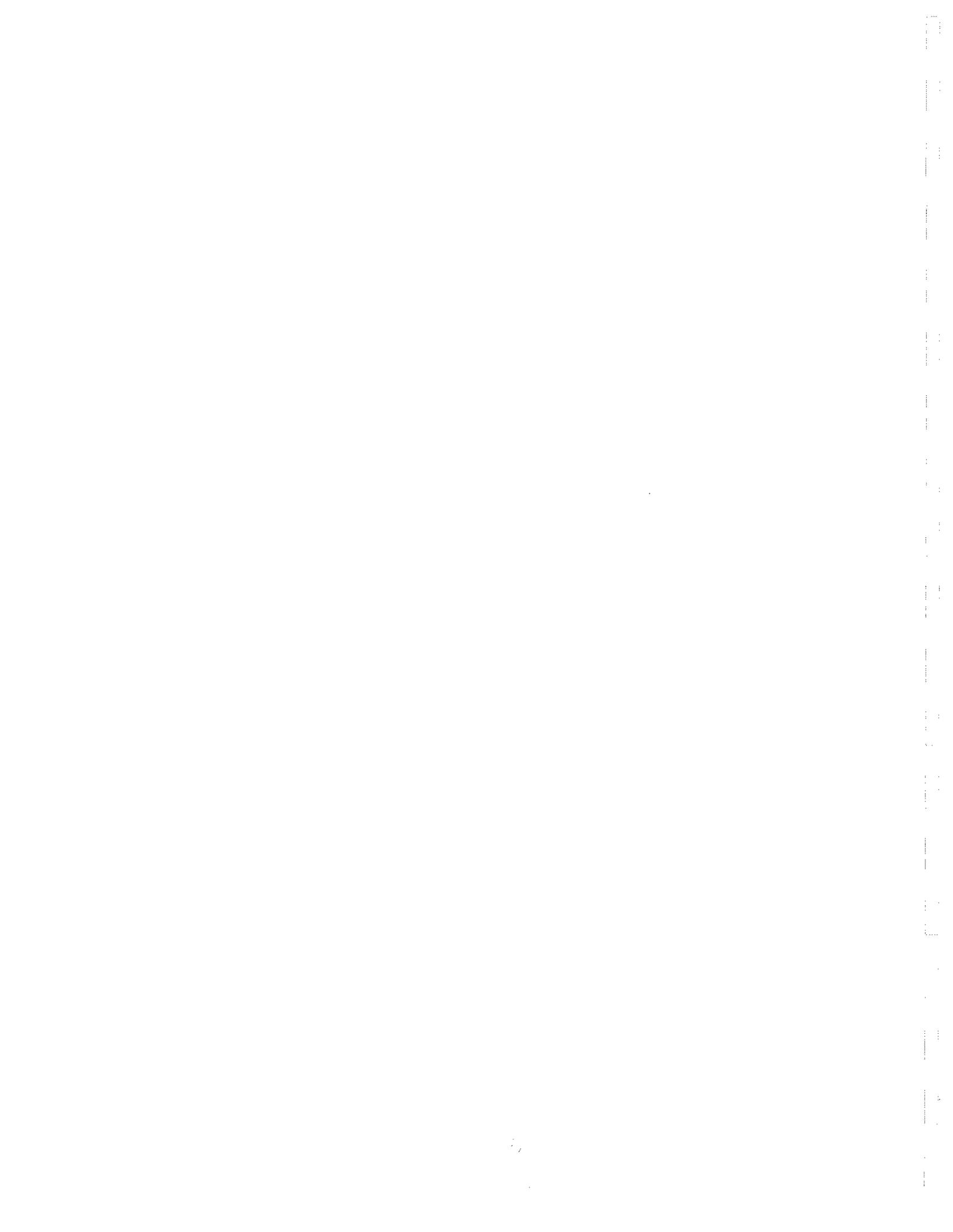
Fire Chief

John Figini
Gladstone, Oregon 97027

City Attorney

John H. Hammond
Portland, Oregon 97201

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gladstone, Oregon (the City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Gladstone, Oregon, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of City of Gladstone, Oregon as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplementary information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the management's discussion and analysis which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The required supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladstone, Oregon's 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken 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 express no opinion on it.

Merina & Company

Merina & Company, LLP
West Linn, Oregon
October 5, 2009

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, 2009.

Financial Highlights

The assets of the City of Gladstone exceeded its liabilities at the close of the most recent fiscal year by \$24,255,743 (net assets). Of this amount \$8,317,229 (unrestricted net assets) may be used to meet the government's obligations to creditors and to meet service expectations by its citizens.

The City's total net assets increased by \$787,829.

The City's governmental activities reported total net assets of \$15,556,940. Of this amount \$4,285,523 is unrestricted and thus available for spending at the City's discretion.

The City's business-type activities reported total net assets of \$8,698,803. Of this amount \$4,031,706 is unrestricted and thus available for spending at the City's discretion.

Overview of the Financial Statements

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

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

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

A statement of activities in this discussion and analysis presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave). Governmental activities of the City of Gladstone include general government, public safety, highways and streets, culture and recreation and urban renewal. Urban renewal is considered a component of the City of Gladstone even though it has separate financial statements and management discussion and analysis. Business type activities consist of water and sewer.

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

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

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

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

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

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

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

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

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$ 24,255,743 at the close of the most recent fiscal year.

The following table reflects a Summary of Net Assets for these fiscal years.

TABLE 1
Summary of Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Government</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Cash and investments	3,767,864	3,853,277	818,524	596,437	4,586,388	4,449,714
Restricted cash and investments	724,355	5,513	249,925	236,516	974,280	242,029
Other assets	884,305	785,889	3,481,017	3,482,085	4,365,322	4,267,974
Capital assets	10,571,024	10,661,297	6,772,172	6,873,881	17,343,196	17,535,178
Total assets	15,947,548	15,305,976	11,321,638	11,188,919	27,269,186	26,494,895
Current liabilities	390,608	355,445	367,835	316,536	758,443	671,981
Long-term liabilities			2,255,000	2,355,000	2,255,000	2,355,000
Total liabilities	390,608	355,445	2,622,835	2,671,536	3,013,443	3,026,981
Net assets						
Invested in capital assets, net of debt	10,571,024	10,661,297	4,417,172	3,761,897	14,988,196	14,423,194
Restricted for other purposes	700,393	646,926	249,925	236,516	950,318	883,442
Unrestricted (deficit)	4,285,523	3,642,308	4,031,706	4,518,970	8,317,229	8,161,278
Total Net Assets	15,556,940	14,950,531	8,698,803	8,517,383	24,255,743	23,467,914

By far the largest portion of the City of Gladstone's net assets reflect its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets do not have financial liquidity easily available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to pay these liabilities. The remaining balance of \$8,317,229 is unrestricted net assets and may be used to meet the City's ongoing obligations to citizens and creditors. The following table summarizes revenues and expenses for fiscal years 2008-2009 and 2007-2008.

TABLE 2
Governmental and Proprietary Activities

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Government</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
REVENUES						
Program revenues:						
Charges for services	335,836	546,394	2,262,315	2,144,625	2,598,151	2,691,019
Operating grants and contributions	78,436	142,205	-	-	78,436	142,205
General revenues:						
Property taxes	4,382,194	4,233,921	-	-	4,382,194	4,233,921
Franchise fees and public services taxes	1,514,103	1,568,613	-	-	1,514,103	1,568,613
Grants and contributions not restricted	121,742	120,445	-	-	121,742	120,445
Interest	95,852	188,715	-	-	95,852	188,715
Other	88,510	101,032	1,614	45,712	90,124	146,744
Total Revenues	6,616,673	6,901,325	2,263,929	2,190,337	8,880,602	9,091,662
EXPENSES						
Governmental activities:						
General government	1,162,838	818,896	-	-	1,162,838	818,896
Public safety	3,284,623	3,291,502	-	-	3,284,623	3,291,502
Highways and streets	477,355	394,830	-	-	477,355	394,830
Culture and recreation	1,087,482	1,061,862	-	-	1,087,482	1,061,862
Urban renewal	20,547	25,476	-	-	20,547	25,476
Business type activities:						
Water	-	-	883,709	907,768	883,709	907,768
Sewer	-	-	1,176,219	1,124,020	1,176,219	1,124,020
Total Expenses	6,032,845	5,592,566	2,059,928	2,031,788	8,092,733	7,624,354
Increase in net assets before transfers and internal balances	583,828	1,308,759	204,001	158,549	787,829	1,467,308
Transfers	22,581	(225,770)	(22,581)	225,770	-	-
Gain (loss) on sale of capital asset	-	-	-	-	-	-
Equity income (loss) in joint venture	-	-	-	(12,718)	-	(12,718)
Changes in net assets	606,409	1,082,989	181,420	371,601	787,829	1,454,590
Beginning net assets	14,950,531	13,867,542	8,517,383	8,145,782	23,467,914	22,013,324
Ending net assets	15,556,940	14,950,531	8,698,803	8,517,383	24,255,743	23,467,914

Governmental activities. Governmental activities increased the City of Gladstone's net assets by \$606,409.

Business-type activities. Business-type activities increased the City of Gladstone's net assets by \$181,420.

Financial Analysis of the City's funds

Governmental funds. The focus of the City of Gladstone's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Gladstone's financial requirements. In particular, unreserved fund balance may serve as useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the fiscal year, the City of Gladstone's governmental funds reported combined ending fund balances of \$4,938,285.

Proprietary funds. The City's proprietary funds are the same as the enterprise funds. An enterprise fund is used to account for activities for which a fee is charged to external users for services. These funds provide the same type of information found in the government-wide financial statements, but in more detail.

General Fund Budgetary Highlights

The budgeted expenditures in the final amended General Fund budget increased \$370,000 from the original budget. The increased appropriations were made primarily to cover additional cost in general administration.

Capital Assets and Debt Administration

The following tables compare capital assets and changes in capital assets as of June 30, 2008 and June 30, 2009.

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Government</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Land	5,519,830	5,519,830	640,964	640,964	6,160,794	6,160,794
Buildings	1,577,196	1,469,720	26,112	23,012	1,603,308	1,492,732
Motor vehicles and equipment	869,572	1,002,676	62,010	(307)	931,582	1,002,369
Investment in joint venture	-	-	3,401,324	3,401,324	3,401,324	3,401,324
Infrastructure	2,604,426	2,669,071	6,043,086	6,210,212	8,647,512	8,879,283
Total	10,571,024	10,661,297	10,173,496	10,275,205	20,744,520	20,936,502

Table 4
Changes in Capital Assets

	<u>Governmental Activities</u>		<u>Business-type activities</u>		<u>Total Government</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Beginning balance	10,661,297	9,882,429	10,275,205	10,050,584	20,936,502	19,933,013
Additions	325,970	1,152,226	160,737	488,406	486,707	1,640,632
Depreciation	(399,995)	(367,553)	(262,446)	(251,067)	(662,441)	(618,620)
Deletions	(16,248)	(5,805)	-	(12,718)	(16,248)	(18,523)
Ending Balance	<u>10,571,024</u>	<u>10,661,297</u>	<u>10,173,496</u>	<u>10,275,205</u>	<u>20,744,520</u>	<u>20,936,502</u>

Long-term debt. At June 30, 2009, the City had long-term debt outstanding of \$2,577,667 of which \$2,355,000 was for the purchase of equity ownership in a water treatment facility and the remaining balance was for compensated absences. At June 30, 2008, the City's long-term debt outstanding was \$2,676,789 of which \$211,789 was for compensated absences. 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 \$29,784,481.

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. Next year's financial circumstances should decrease due to one-time major capital expenditures associated with Fire Department and, to a lesser extent, the Water Department. The following fiscal year revenues should again exceed expenditures.

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

BASIC FINANCIAL STATEMENTS

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.

CITY OF GLADSTONE, OREGON
STATEMENT OF NET ASSETS
June 30, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 3,767,864	\$ 818,524	\$ 4,586,388
Cash with county treasurer	33,986	-	33,986
Accounts receivable	15,279	368,851	384,130
Property taxes receivable	284,798	-	284,798
Prepays	-	145,846	145,846
Due from other governments	40,082	-	40,082
Miscellaneous	13,176	-	13,176
Total current assets	4,155,185	1,333,221	5,488,406
Noncurrent assets:			
Internal balances	496,984	(496,984)	-
Restricted cash and investments	724,355	249,925	974,280
Assessments receivable	-	6,062	6,062
Bond issue cost	-	53,354	53,354
Interest receivable	-	2,564	2,564
Investment in joint venture	-	3,401,324	3,401,324
Capital assets, net	10,571,024	6,772,172	17,343,196
Total noncurrent assets	11,792,363	9,988,417	21,780,780
Total assets	15,947,548	11,321,638	27,269,186
LIABILITIES			
Current liabilities:			
Accounts payable	178,912	211,018	389,930
Interest payable	-	45,846	45,846
Accrued compensated absences	211,696	10,971	222,667
Bonds payable - current maturity	-	100,000	100,000
Total current liabilities	390,608	367,835	758,443
Noncurrent liabilities:			
Bonds payable	-	2,255,000	2,255,000
Total noncurrent liabilities	-	2,255,000	2,255,000
Total liabilities	390,608	2,622,835	3,013,443
NET ASSETS			
Invested in capital assets, net of related debt	10,571,024	4,417,172	14,988,196
Restricted for:			
Other purposes	700,393	249,925	950,318
Unrestricted	4,285,523	4,031,706	8,317,229
Total net assets	15,556,940	8,698,803	24,255,743
Total liabilities and net assets	\$ 15,947,548	\$ 11,321,638	\$ 27,269,186

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, 2009

<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	\$ 1,162,838	\$ 14,113	\$ -
Public safety	3,284,623	242,612	14,536
Highways and streets	477,355	20,147	-
Urban and renewal	20,547	-	-
Culture and recreation	1,087,482	58,964	63,900
Total governmental activities	<u>6,032,845</u>	<u>335,836</u>	<u>78,436</u>
Business-type activities:			
Water Fund	883,709	950,921	-
Sewer Fund	1,176,219	1,311,394	-
Total business type activities	<u>2,059,928</u>	<u>2,262,315</u>	<u>-</u>
Total government	<u>\$ 8,092,773</u>	<u>\$ 2,598,151</u>	<u>\$ 78,436</u>

General revenues:

Taxes:

 Property taxes

 Public service taxes

Franchise fees

Grants and contributions not restricted to specific programs

Interest and investment earnings

Miscellaneous

Transfers in (out)

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

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

Net Expense Revenue and Change in Net Asset		
Governmental Activities	Business Type Activities	Total
\$ (1,148,725)	\$ -	\$ (1,148,725)
(3,027,475)	-	(3,027,475)
(457,208)	-	(457,208)
(20,547)	-	(20,547)
(964,618)	-	(964,618)
<u>(5,618,573)</u>	<u>-</u>	<u>(5,618,573)</u>
-	67,212	67,212
-	135,175	135,175
-	202,387	202,387
<u>(5,618,573)</u>	<u>202,387</u>	<u>(5,416,186)</u>
4,382,194	-	4,382,194
1,007,406	-	1,007,406
506,697	-	506,697
121,742	-	121,742
95,852	-	95,852
88,510	1,614	90,124
22,581	(22,581)	-
<u>6,224,982</u>	<u>(20,967)</u>	<u>6,204,015</u>
<u>606,409</u>	<u>181,420</u>	<u>787,829</u>
<u>14,950,531</u>	<u>8,517,383</u>	<u>23,467,914</u>
<u>\$ 15,556,940</u>	<u>\$ 8,698,803</u>	<u>\$ 24,255,743</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.

CITY OF GLADSTONE, OREGON
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2009

	General Fund	State Revenue Sharing Fund	Road and Street Fund
ASSETS			
Cash and investments	\$ 2,141,887	\$ 333,599	\$ 47,499
Restricted cash and investments	332,853	-	391,502
Cash with county treasurer	23,213	-	-
Accounts receivable	-	-	-
Property taxes receivable	194,730	-	-
Due from other funds	-	496,984	-
Due from other governments	-	-	40,082
Miscellaneous	13,176	-	-
Total assets	<u>\$ 2,705,859</u>	<u>\$ 830,583</u>	<u>\$ 479,083</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 157,936	\$ -	\$ 12,308
Deferred revenue	177,333	-	-
Total liabilities	<u>335,269</u>	<u>-</u>	<u>12,308</u>
FUND BALANCES:			
General fund	2,370,590	-	-
Special revenue fund	-	830,583	466,775
Debt service fund	-	-	-
Capital projects fund	-	-	-
Total fund balance	<u>2,370,590</u>	<u>830,583</u>	<u>466,775</u>
Total liabilities and fund balance	<u>\$ 2,705,859</u>	<u>\$ 830,583</u>	<u>\$ 479,083</u>

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

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

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

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

Net assets of governmental activities

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

<u>Urban Renewal Agency Fund</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 393,889	\$ 850,990	\$ 3,767,864
-	-	724,355
5,642	5,131	33,986
-	15,279	15,279
47,200	42,868	284,798
-	-	496,984
-	-	40,082
-	-	13,176
<u>\$ 446,731</u>	<u>\$ 914,268</u>	<u>\$ 5,376,524</u>
\$ -	\$ 8,668	\$ 178,912
42,970	39,024	259,327
<u>42,970</u>	<u>47,692</u>	<u>438,239</u>
-	-	2,370,590
403,761	866,576	2,567,695
-	-	-
-	-	-
<u>403,761</u>	<u>866,576</u>	<u>4,938,285</u>
<u>\$ 446,731</u>	<u>\$ 914,268</u>	
		10,571,024
		259,327
		<u>(211,696)</u>
		<u>\$ 15,556,940</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, 2009

	General Fund	State Revenue Sharing Fund	Road and Street Fund
REVENUES:			
Property taxes	\$ 2,949,380	\$ -	\$ -
Public service taxes	473,451	-	469,987
Franchise taxes	506,697	-	-
Grants	78,436	90,222	-
Charges for services	73,077	-	20,147
Licenses and permits	20,768	-	-
Fines and forfeitures	221,844	-	-
Contributions and donations	31,520	-	-
Interest	72,419	1,328	-
Miscellaneous	92,109	331,735	200,325
Total revenues	<u>4,519,701</u>	<u>423,285</u>	<u>690,459</u>
EXPENDITURES:			
Current:			
General government	1,109,217	-	-
Public safety	2,389,438	-	-
Highways and streets	-	-	370,889
Urban and renewal	-	-	-
Culture and recreation	927,959	-	-
Capital outlay	262,145	-	356,836
Total expenditures	<u>4,688,759</u>	<u>-</u>	<u>727,725</u>
Revenues over (under) expenditures	(169,058)	423,285	(37,266)
OTHER FINANCING SOURCES (USES):			
Transfers in	91,388	-	-
Transfers out	-	-	(52,127)
Total other financing sources (uses)	<u>91,388</u>	<u>-</u>	<u>(52,127)</u>
Net changes in fund balances	(77,670)	423,285	(89,393)
FUND BALANCES, BEGINNING	<u>2,448,260</u>	<u>407,298</u>	<u>556,168</u>
FUND BALANCES, ENDING	<u>\$ 2,370,590</u>	<u>\$ 830,583</u>	<u>\$ 466,775</u>

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

Urban Renewal Agency Fund	Other Governmental	Total Governmental	
\$ 720,267	\$ 652,267	\$ 4,321,914	1
-	63,968	1,007,406	2
-	-	506,697	3
-	-	168,658	4
-	-	93,224	5
-	-	20,768	6
-	-	221,844	7
-	-	31,520	
8,212	13,893	95,852	
-	63,738	687,907	
<u>728,479</u>	<u>793,866</u>	<u>7,155,790</u>	
-	-	1,109,217	
-	441,958	2,831,396	
-	-	370,889	
20,519	-	20,519	
-	-	927,959	
<u>587,973</u>	<u>67,861</u>	<u>1,274,815</u>	
<u>608,492</u>	<u>509,819</u>	<u>6,534,795</u>	
119,987	284,047	620,995	
-	-	91,388	
-	(16,680)	(68,807)	
-	(16,680)	22,581	
119,987	267,367	643,576	
<u>283,774</u>	<u>599,209</u>	<u>4,294,709</u>	
<u>\$ 403,761</u>	<u>\$ 866,576</u>	<u>\$ 4,938,285</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, 2009

Amounts reported in the statement of activities are different because:

Net change in fund balances	\$ 643,576
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 depreciation exceeded capital outlay in the current period.	(90,273)
Some revenue reported in the statement of activities do not provide current financial resources in the governmental funds.	60,280
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(7,174)</u>
Change in net assets of governmental activities	<u><u>\$ 606,409</u></u>

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

FUND FINANCIAL STATEMENTS
Proprietary Funds

Enterprise Funds

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

Water Fund

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

Sewer Fund

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

CITY OF GLADSTONE, OREGON
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2009

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Cash and investments	\$ 198,451	\$ 620,073	\$ 818,524
Trade accounts receivable	144,755	224,096	368,851
Prepays	145,846	-	145,846
Total current assets	489,052	844,169	1,333,221
Noncurrent assets:			
Assessments receivable	-	6,062	6,062
Interest receivable	-	2,564	2,564
Restricted cash	109,037	140,888	249,925
Due from other funds	-	150,000	150,000
Bond issue cost	53,354	-	53,354
Investment in joint venture	3,401,324	-	3,401,324
Capital assets, net	4,073,626	2,698,546	6,772,172
Total noncurrent assets	7,637,341	2,998,060	10,635,401
Total assets	\$ 8,126,393	\$ 3,842,229	\$ 11,968,622
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts payable	\$ 51,492	\$ 159,526	\$ 211,018
Interest payable	45,846	-	45,846
Accrued compensated absences	3,357	7,614	10,971
Bonds payable - current maturity	100,000	-	100,000
Bonds payable	2,255,000	-	2,255,000
Due to other funds	646,984	-	646,984
Total liabilities	3,102,679	167,140	3,269,819
NET ASSETS:			
Invested in capital assets, net of related debt	1,718,626	2,698,546	4,417,172
Restricted for:			
Other purposes	109,037	140,888	249,925
Unrestricted	3,196,051	835,655	4,031,706
Total net assets	5,023,714	3,675,089	8,698,803
Total liabilities and net assets	\$ 8,126,393	\$ 3,842,229	\$ 11,968,622

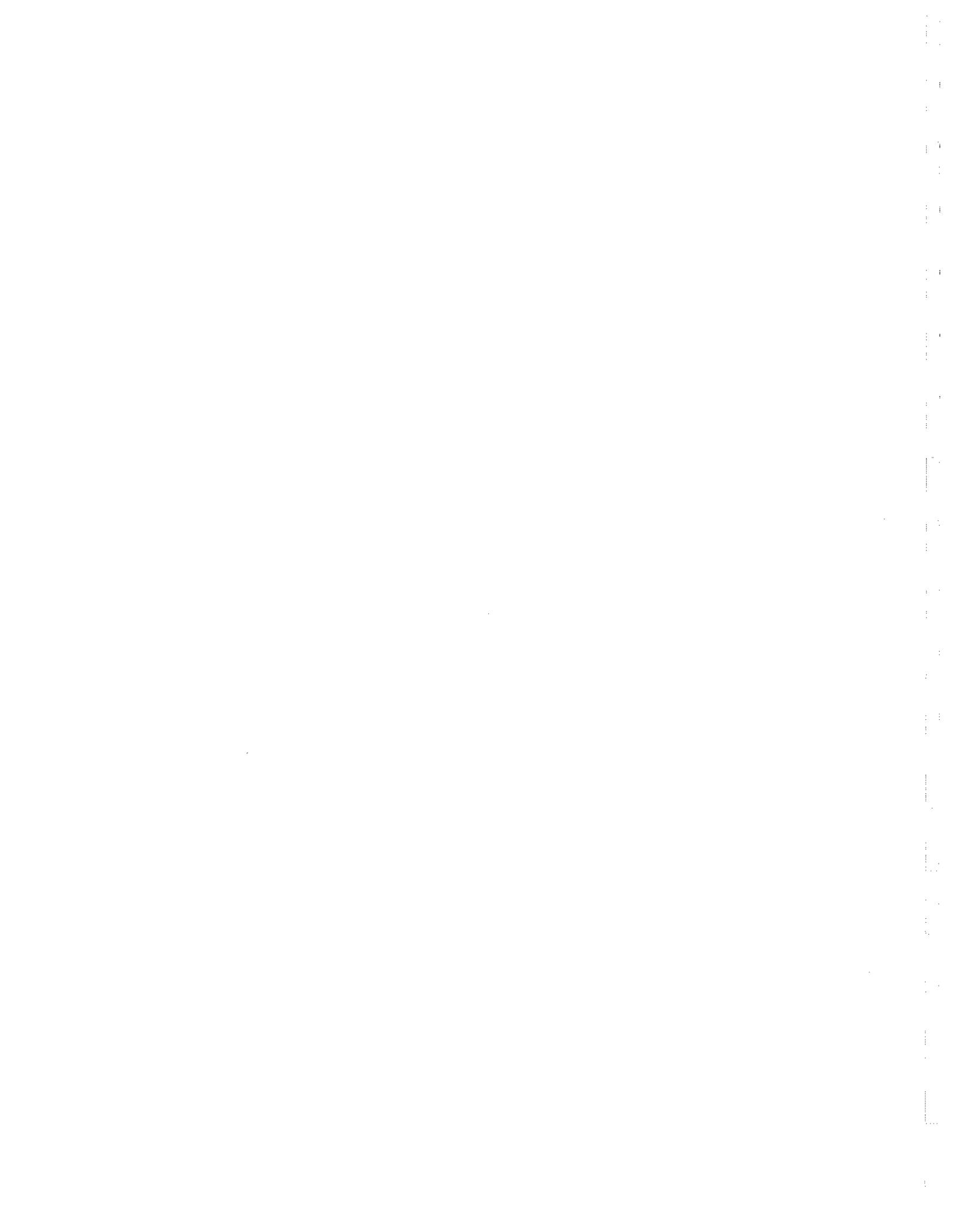
The accompanying notes are an integral part of the basic financial statements.



CITY OF GLADSTONE, OREGON
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
For the Fiscal Year Ended June 30, 2009

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
OPERATING REVENUES:			
Service charges	\$ 933,552	\$ 1,285,462	\$ 2,219,014
Connection and installation fees	7,700	24,192	31,892
System development charge	9,669	1,740	11,409
Miscellaneous	670	944	1,614
	<u>951,591</u>	<u>1,312,338</u>	<u>2,263,929</u>
OPERATING EXPENSES:			
Purchases	252,779	837,091	1,089,870
Salaries and fringe benefits	206,206	190,113	396,319
Contract charges	11,140	-	11,140
Connection turnovers	-	20,659	20,659
Maintenance and repairs	106,062	51,531	157,593
Utilities	17,260	525	17,785
Depreciation and amortization	186,146	76,300	262,446
Supplies	10,082	-	10,082
Miscellaneous	14,288	-	14,288
	<u>803,963</u>	<u>1,176,219</u>	<u>1,980,182</u>
Total operating expenses			
Operating income (loss)	147,628	136,119	283,747
NON-OPERATING INCOME (EXPENSE):			
Interest expense	(79,746)	-	(79,746)
	<u>(79,746)</u>	<u>-</u>	<u>(79,746)</u>
Total non-operating income (expenses)			
Net income (loss) before operating transfers	67,882	136,119	204,001
TRANSFERS:			
Transfers in (out)	-	(22,581)	(22,581)
	<u>-</u>	<u>(22,581)</u>	<u>(22,581)</u>
Net income (loss) before contributions	67,882	113,538	181,420
Change in net assets	67,882	113,538	181,420
NET ASSETS, BEGINNING	<u>4,955,832</u>	<u>3,561,551</u>	<u>8,517,383</u>
NET ASSETS, ENDING	<u>\$ 5,023,714</u>	<u>\$ 3,675,089</u>	<u>\$ 8,698,803</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, 2009

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 957,907	\$ 1,287,091	\$ 2,244,998
Cash paid to employees and others for salaries and benefits	(203,980)	(188,635)	(392,615)
Cash paid to suppliers and others	(363,004)	(892,284)	(1,255,288)
Net cash provided (used) by operating activities	390,923	206,172	597,095
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Transfers in (out)	-	(22,581)	(22,581)
Net cash provided (used) by non-capital financing activities	-	(22,581)	(22,581)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of capital assets	(105,310)	(50,111)	(155,421)
Principal paid on capital debt	(110,000)	-	(110,000)
Interest paid on capital debt	(81,671)	-	(81,671)
Bond costs	3,335	-	3,335
Proceeds from assessment receivables		4,739	4,739
Net cash provided (used) by capital and related financing activities	(293,646)	(45,372)	(339,018)
Net increase in cash and cash equivalents	97,277	138,219	235,496
CASH AND CASH EQUIVALENTS, BEGINNING	210,211	622,742	832,953
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 307,488</u>	<u>\$ 760,961</u>	<u>\$ 1,068,449</u>
COMPRISED AS FOLLOWS:			
Unrestricted	\$ 198,451	\$ 620,073	\$ 818,524
Restricted	109,037	140,888	249,925
Total	<u>\$ 307,488</u>	<u>\$ 760,961</u>	<u>\$ 1,068,449</u>

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

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income	\$ 147,628	\$ 136,119	\$ 283,747
Adjustments			
Depreciation	180,830	76,300	257,130
Decrease (increase) in:			
Accounts receivable	6,316	(25,247)	(18,931)
Prepays	11,925	-	11,925
Increase (decrease) in:			
Accounts payable and accrued expenses	41,998	17,522	59,520
Accrued compensated absences	2,226	1,478	3,704
Net cash provided (used) by operating activities:	<u>\$ 390,923</u>	<u>\$ 206,172</u>	<u>\$ 597,095</u>

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

FUND FINANCIAL STATEMENTS
Fiduciary Funds

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

Agency Funds

Municipal Court Fund

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

Library Board Trust Fund

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

CITY OF GLADSTONE, OREGON
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2009

	<u>Agency Funds</u>
<u>ASSETS:</u>	
Cash and investments	\$ 25,571
Total assets	<u>\$ 25,571</u>
<u>LIABILITIES:</u>	
Other current liabilities	\$ 25,571
Total liabilities	25,571
<u>NET ASSETS:</u>	<u>-</u>
Total liabilities and net assets	<u>\$ 25,571</u>

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

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 financials statements present the government and its component unit (Gladstone Urban Renewal Agency), entities for which the government is considered to be financially accountable.

Gladstone Urban Renewal Agency

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

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

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

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

B. Basic Financial Statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

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

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

Fund financial statements

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

C. Basis of Presentation

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

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

The City reports the following major governmental funds:

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

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

- *Special Revenue Funds*

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

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

- *Water Fund*
- *Sewer Fund*

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

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

D. Measurement Focus and Basis of Accounting

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

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

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

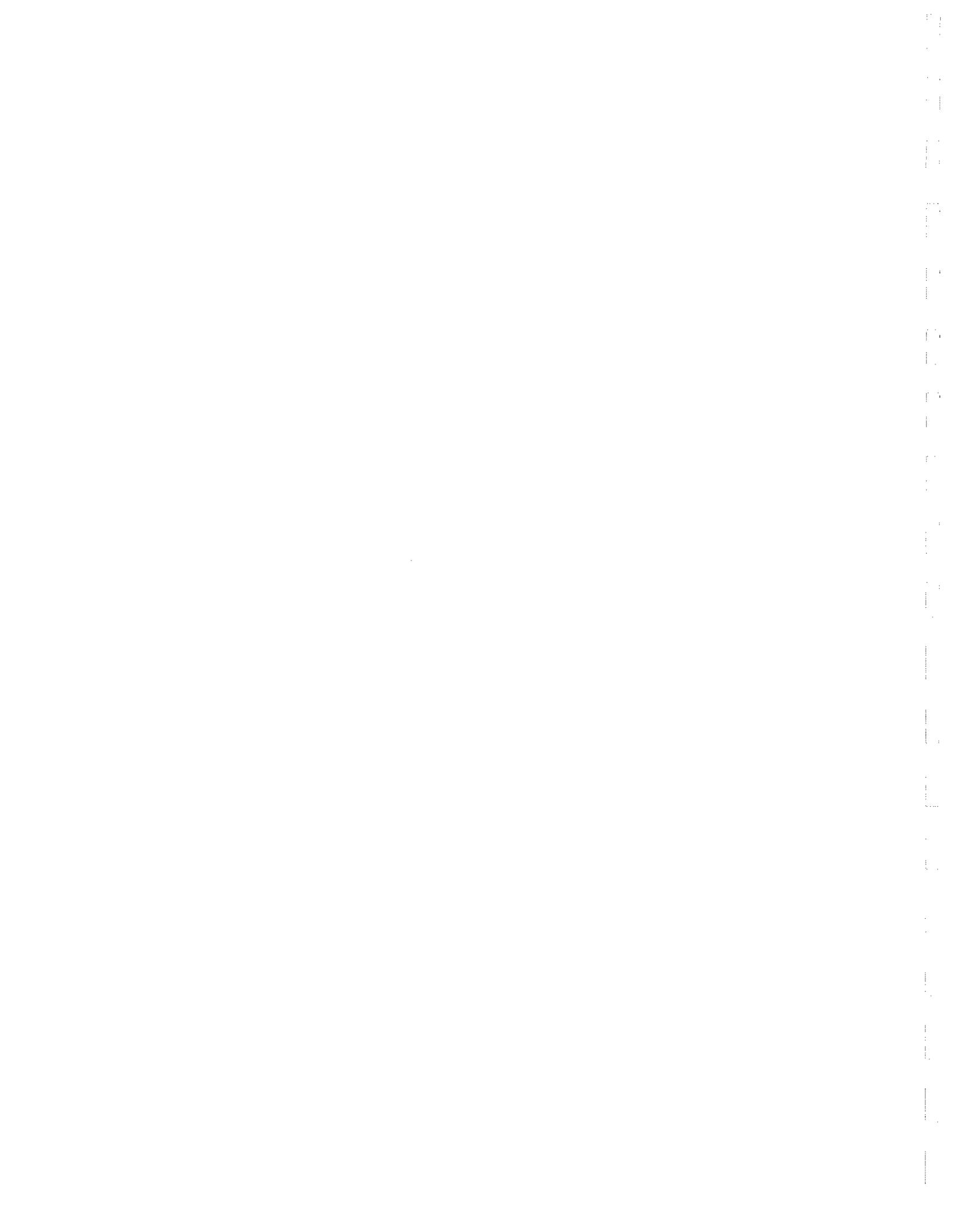
Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period 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 revenue liability arises in the Governmental Funds Balance Sheet when potential revenue does not meet both the measurable and available criteria for recognition in the current period. This unavailable deferred revenue consists primarily of uncollected property taxes and assessments not deemed available to financial operation of the current period. In the government-wide Statement of Net Assets, with a full accrual basis of accounting, revenue must be recognized as soon as it is earned regardless of its availability. Thus, the liability created on the Governmental Fund Balance Sheet for unavailable deferred revenue is eliminated. Note that deferred revenues also arise outside the scope of measurement focus and basis of accounting, such as when the City receives resources before it has a legal claim to them. For instance, when grant monies are received prior to the incurrence of qualifying expenditures.

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

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

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



CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

The proprietary financial statements have incorporated all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

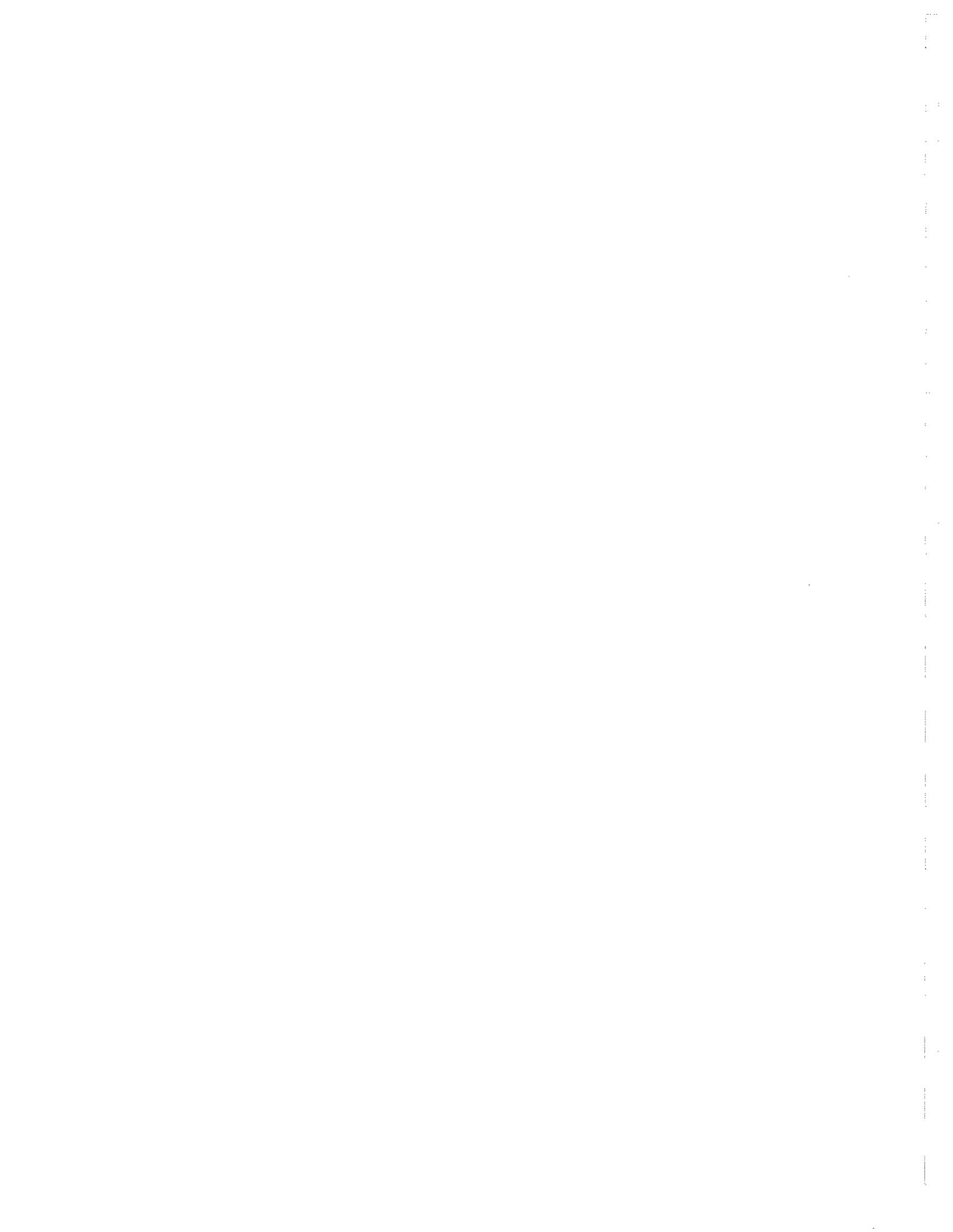
Assets whose use is restricted to specific purposes by state statute are segregated on the balance sheet.

H. Receivables and Payables

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

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

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



CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

I. Capital Assets and Depreciation

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

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

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, 2009.

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

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

J. Investments Accounted For By The Equity Method

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

K. 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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

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.

L. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are treated as period costs in the year of issue and are shown as other financial uses.

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

M. Deferred Revenue

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

N. Net Assets and Fund Equity

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

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. At June 30, 2009, there are no designations of fund balances.

O. 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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

P. 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, 2009 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	0.000	\$ 5,392,856
Municipal bond	18.81	23,962
Portfolio weighted average maturity	18.81	\$ 5,416,818

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. The City also invests in U.S. government obligations and agency obligation and commercial paper with a Standard & Poor's rating of A or better.

C. Concentration of credit risk

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

D. Custodial credit risk – deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned. ORS Chapter 295 governs the collateralization of Oregon public funds and provides the statutory requirements for the Public Funds Collateralization Program. The Public Funds

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

Collateralization Program was created by the Office of the State Treasurer to facilitate bank depository, custodian and public official compliance with ORS 295. Bank depositories, which are part of a shared liability pool, are required to pledge collateral against any public funds deposits in excess of deposit insurance amounts. ORS 295 sets the specific value of the collateral, as well as the type of collateral that are acceptable. Oregon Revised Statutes require the depository institution to pledge collateral against any public funds deposits in excess of deposit insurance amounts. Depositories are required to pledge collateral valued from 10% to 110% of their quarter-end public fund deposits. The City's total bank balance, at June 30, 2009, shown on the bank statements was \$212,661. Of these deposits, \$212,661 was covered by federal depository insurance. The City's deposits are in compliance with state statutes.

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, 2009, the City had no investments exposed to custodial credit risk.

F. Restricted Deposits

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

3. Assessment Liens Receivable

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

4. Interfund Loans Receivable, Payable, and Transfers

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

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

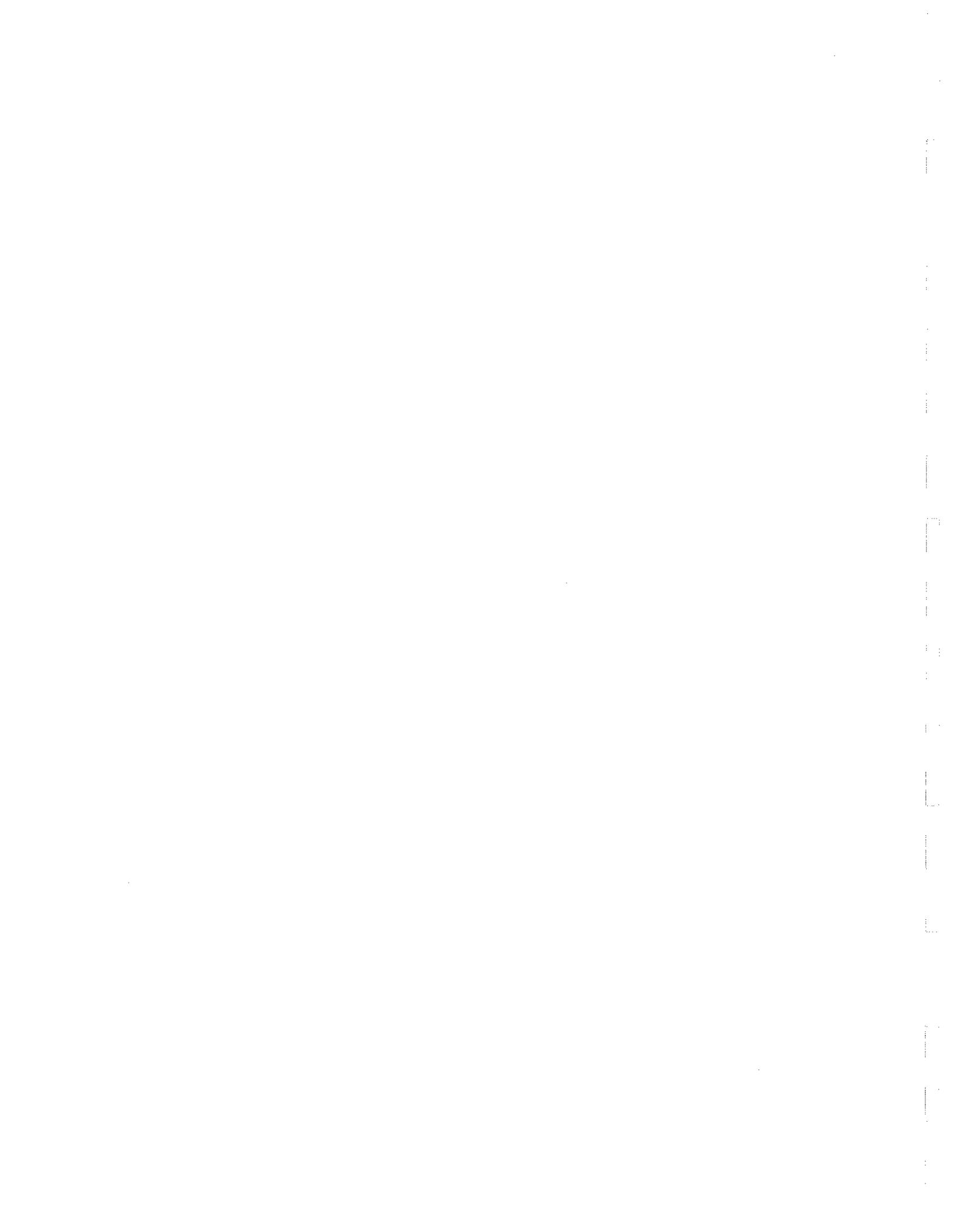


CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

Transfers between funds during the year were as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
Major Governmental Funds:		
General Fund	\$ 91,388	\$ -
Road and Street Fund	-	52,127
	<u>91,388</u>	<u>52,127</u>
Nonmajor Governmental Funds:		
Police and Communications Special Levy Fund	-	11,810
Fire and Emergency Services Special Levy Fund	-	4,870
	<u>-</u>	<u>16,680</u>
Proprietary Funds:		
Sewer Fund	-	22,581
	<u>-</u>	<u>22,581</u>
Total All Funds	<u>\$ 91,388</u>	<u>\$ 91,388</u>

The Police and Communications Special Levy Fund, Fire and Emergency Services Special Levy Fund, Sewer Fund, and the Road and Street Fund transferred \$91,388 to the General Fund to cover general operating and administrative expenses.



CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

5. Capital Assets

Capital asset activity for the year ended June 30, 2009 is as follows:

Primary Government	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital assets, not being depreciated:</i>				
Land	\$ 5,519,830	\$ -	\$ -	\$ 5,519,830
Total capital assets, not being depreciated	<u>5,519,830</u>	<u>-</u>	<u>-</u>	<u>5,519,830</u>
<i>Capital assets, being depreciated:</i>				
Buildings	2,508,413	191,621	(10,000)	2,690,034
Equipment	1,099,156	-	(9,834)	1,089,322
Vehicles	2,137,132	134,349	(121,187)	2,150,294
Infrastructure	<u>2,792,424</u>	<u>-</u>	<u>(6,572)</u>	<u>2,785,852</u>
Total capital assets, being depreciated	<u>8,537,125</u>	<u>325,970</u>	<u>(147,593)</u>	<u>8,715,502</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(1,038,693)	(81,270)	7,125	(1,112,838)
Equipment	(877,817)	(95,503)	3,033	(970,287)
Vehicles	(1,355,795)	(165,149)	121,187	(1,399,757)
Infrastructure	<u>(123,353)</u>	<u>(58,073)</u>	<u>-</u>	<u>(181,426)</u>
Total accumulated depreciation	<u>(3,395,658)</u>	<u>(399,995)</u>	<u>131,345</u>	<u>(3,664,308)</u>
Total capital assets, being depreciated, net	<u>5,141,467</u>	<u>(74,025)</u>	<u>(16,248)</u>	<u>5,051,194</u>
Governmental activities capital assets, net	<u>\$ 10,661,297</u>	<u>(74,025)</u>	<u>(16,248)</u>	<u>\$ 10,571,024</u>

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

Business-type Activities:	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 640,964	\$ -	\$ -	\$ 640,964
Investment in Joint Venture	3,401,324	-	-	3,401,324
Total capital assets, not being depreciated	4,042,288	-	-	4,042,288
Capital assets, being depreciated:				
Buildings	299,113	5,316	(5,316)	299,113
Equipment	64,214	69,000	-	133,214
Vehicles	102,817	-	-	102,817
Infrastructure	10,069,662	86,421	-	10,156,083
Total capital assets being depreciated	10,535,806	160,737	(5,316)	10,691,227
Less accumulated depreciation for:				
Buildings	(276,101)	(2,216)	5,316	(273,001)
Equipment	(64,521)	(6,683)	-	(71,204)
Vehicles	(102,817)	-	-	(102,817)
Infrastructure	(3,859,450)	(253,547)	-	(4,112,997)
Total accumulated depreciation	(4,302,889)	(262,446)	5,316	(4,560,019)
Total capital assets being depreciated, net	6,232,917	(101,709)	-	6,131,208
Business type activities capital assets, net	\$ 10,275,205	\$ (101,709)	\$ -	\$ 10,173,496

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

Governmental activities:	
General government	\$ 15,539
Highways and Streets	266,517
Public safety	69,390
Culture and recreation	48,549
Total depreciation expense - governmental activities	\$ 399,995
Business-type activities:	
Water	\$ 186,146
Sewer	76,300
Total depreciation expense - business-type activities	\$ 262,446

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

6. Joint Venture

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

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

The Addendum to the second intergovernmental agreement reconstituted the Board of Commissioners for the North Clackamas County Water Commission. The Board of Commissioners consists of seven members: the Boards of Commissioners for Sunrise Water Authority and Oak Lodge Water District will select three commissioners each, and the Gladstone City Council will select one commissioner. The commissioners are required to be voting members of the governing body, council, or board of commissioners of the party making the selection. The commissioners will select a Chair from among their members to serve a term of one year, beginning July 1 of each year. The position of Chair will rotate each year to represent each party. The commissioners will also select a Vice Chair to serve in the absence of the Chair. Each commissioner will have one vote. Five commissioners must be present to meet requirements for a quorum, and five affirmative votes will be required for adoption of any measure, ordinance, or resolution.

The City's net equity in the joint venture as of June 30, 2009 was \$3,401,324. This interest is reported in the Water Fund and in the business-type activities column of the government-wide Statement of Net Assets as investment in joint ventures. Separate financial statements for the North Clackamas County Water Commission can be obtained from the Commission at 14496 SE River Road, Milwaukie, Oregon 97267.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

7. Deferred Revenue

Deferred revenue as of June 30, 2009 consists of the following:

	General Fund	Fire & Emergency Services Special Levy Fund	Police & Communications Special Levy Fund	Urban Renewal Fund	Total
Property taxes	\$ 177,333	\$ 12,493	\$ 26,531	\$ 42,970	\$ 259,327

8. Long Term Debt

A. Changes in General Long-Term Liabilities

During the year ended June 30, 2009, long-term liability activity was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities					
Compensated absences:	\$ 204,522	\$ 171,420	\$ (164,246)	\$ 211,696	\$ 211,696
Governmental activities					
Long-term liabilities	<u>\$ 204,522</u>	<u>\$ 171,420</u>	<u>\$ (164,246)</u>	<u>\$ 211,696</u>	<u>\$ 211,696</u>
Business-type Activities					
Bonds	\$ 2,465,000	\$ -	\$ (110,000)	\$ 2,355,000	\$ 100,000
Compensated absences:	<u>7,267</u>	<u>3,704</u>	<u>-</u>	<u>10,971</u>	<u>10,971</u>
Business-type activities					
Long-term liabilities	<u>\$ 2,472,267</u>	<u>\$ 3,704</u>	<u>\$ (110,000)</u>	<u>\$ 2,365,971</u>	<u>\$ 110,971</u>

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

B. Bonds Payable

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

Business Activities

During 2005-2006, the City issued \$2,650,000 in general obligations bonds to finance the purchase of a portion of a water treatment plant and for capital improvements to the City's water system. The bonds carry interest rates varying from 3.00% to 4.00%. Interest is payable semiannually on January 1 and July 1 of each year. Bond principal is payable annually through July 2025.	<u>\$ 2,355,000</u>
Total bonds payable	<u>\$ 2,355,000</u>

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

Business-type Activities

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2010	3.75 %	\$ 100,000	\$ 91,691	\$ 191,691
2011	3.75 %	105,000	88,191	193,191
2012	3.75 %	100,000	84,254	184,254
2013	3.75 %	115,000	80,504	195,504
2014	4.0 %	120,000	76,191	196,191
2015-2019	3.7 – 4.0 %	650,000	310,630	960,630
2020-2024	4.0 – 4.125%	800,000	173,224	973,224
2025-2029	4.0 %	365,000	22,000	387,000
Total		\$ 2,335,000	\$ 926,685	\$ 3,281,685

9. Pension Plan

A. Plan Description

The City contributes to two pension plans administered by the Oregon Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the City's contribution for qualifying employees who were hired before August 29, 2003, and is a cost-sharing multiple-employer defined benefit pension plan. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to the OPERF and consists of two programs: The Pension Program, the defined benefit portion of the plan, applies to qualifying City employees hired after August 29, 2003, and to inactive employees who return to employment following a six-month or greater break in service. Benefits are calculated by a formula for members who attain normal retirement age. The

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

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, 2009 was 10.38% and the annual pension cost was \$332,197. The OPSRP rates in effect for the year ended June 30, 2009 was 9% for general employees and 12.27% 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, 2009, 2008 and 2007 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/07	371,315	100%	-
6/30/08	342,237	100%	-
6/30/09	332,197	100%	-

10. 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 \$837,091 were made to the service districts during fiscal year 2009 under these agreements.

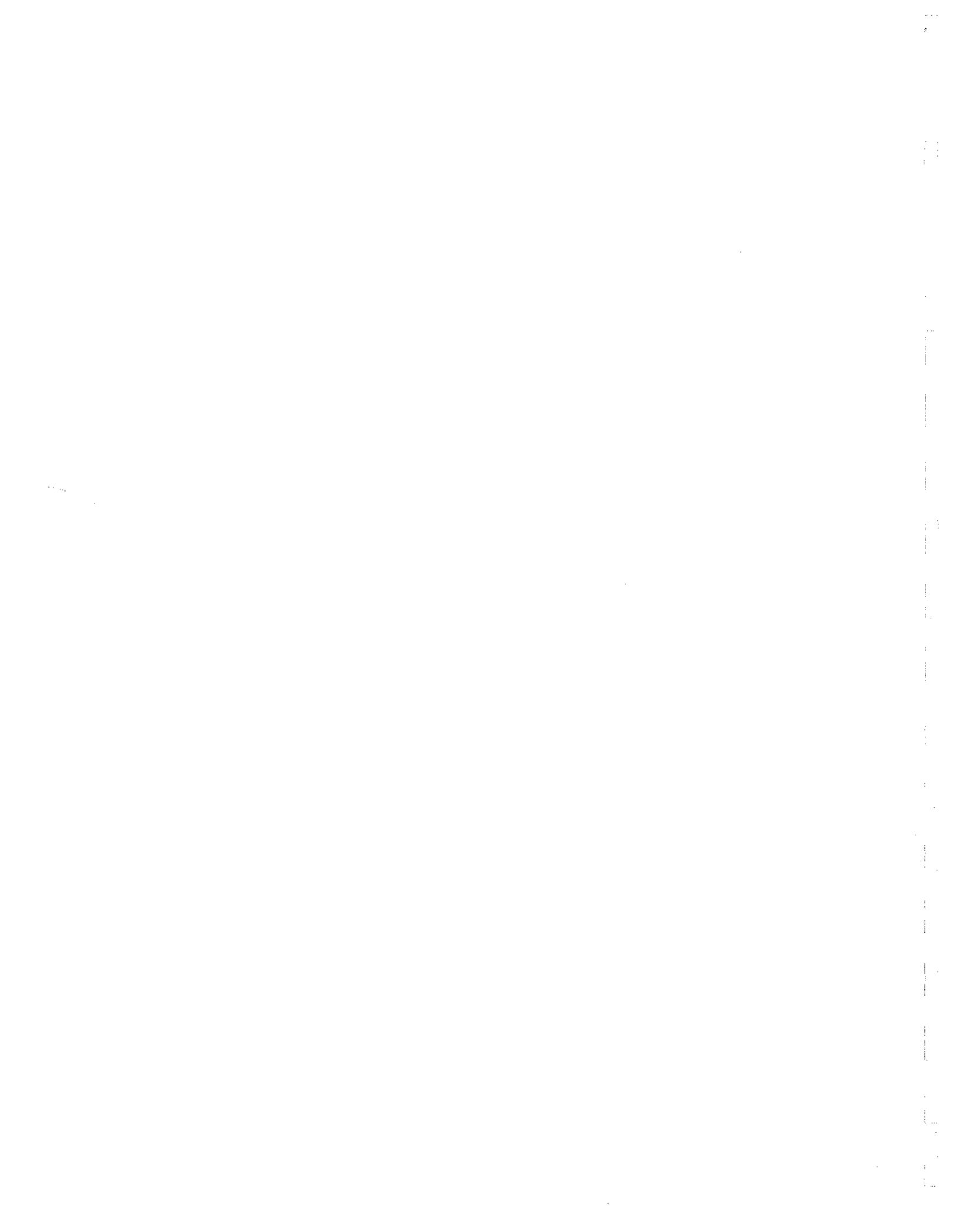
CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

11. 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 2008 to 2009. 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.

12. 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.



REQUIRED SUPPLEMENTARY INFORMATION

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

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

CITY OF GLADSTONE, OREGON
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2009

	Budget		Actual	Variance
	Original	Final		Positive (Negative)
REVENUES:				
Property taxes	\$ 2,818,591	\$ 2,818,591	\$ 2,949,380	\$ 130,789
Public service taxes	458,431	458,431	473,451	15,020
Franchise taxes	531,360	531,360	506,697	(24,663)
Grants	793,900	793,900	78,436	(715,464)
Charges for services	100,000	100,000	73,077	(26,923)
Licenses and permits	29,100	29,100	20,768	(8,332)
Fines and forfeitures	226,000	226,000	221,844	(4,156)
Contributions and donations	36,000	36,000	31,520	(4,480)
Interest	130,000	130,000	72,419	(57,581)
Miscellaneous	180,200	180,200	92,109	(88,091)
Total revenues	<u>5,303,582</u>	<u>5,303,582</u>	<u>4,519,701</u>	<u>(783,881)</u>
EXPENDITURES:				
General government	882,627	1,252,627	1,109,217	143,410
Public safety	3,065,908	3,065,908	2,389,438	676,470
Cultural and recreation	1,063,264	1,063,264	927,959	135,305
Capital outlay	1,626,756	1,626,756	262,145	1,364,611
Contingency	1,071,415	701,415	-	701,415
Total expenditures	<u>7,709,970</u>	<u>7,709,970</u>	<u>4,688,759</u>	<u>3,021,211</u>
Revenues over (under) expenditures	(2,406,388)	(2,406,388)	(169,058)	2,237,330
OTHER FINANCING SOURCES (USES):				
Transfers in	91,388	91,388	91,388	-
Total other financing sources (uses)	<u>91,388</u>	<u>91,388</u>	<u>91,388</u>	<u>-</u>
Net changes in fund balances	(2,315,000)	(2,315,000)	(77,670)	2,237,330
FUND BALANCE, BEGINNING	<u>2,315,000</u>	<u>2,315,000</u>	<u>2,448,260</u>	<u>133,260</u>
FUND BALANCE, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,370,590</u>	<u>\$ 2,370,590</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, 2009**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Grants	\$ 70,000	\$ 70,000	\$ 90,222	\$ 20,222
Interest	10,000	10,000	1,328	(8,672)
Other	-	-	331,735	331,735
Total revenues	80,000	80,000	423,285	343,285
EXPENDITURES:				
Capital outlay	1,174,734	1,174,734	-	1,174,734
Total expenditures	1,174,734	1,174,734	-	1,174,734
Revenues over (under) expenditures	(1,094,734)	(1,094,734)	423,285	1,518,019
OTHER FINANCING SOURCES (USES):				
Interfund loan proceeds (payments)	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net changes in fund balances	(1,094,734)	(1,094,734)	423,285	1,518,019
FUND BALANCE, BEGINNING BUDGETARY BASIS	763,000	763,000	(89,686)	(852,686)
FUND BALANCE, ENDING BUDGETARY BASIS	<u>\$ (331,734)</u>	<u>\$ (331,734)</u>	<u>333,599</u>	<u>\$ 665,333</u>
Interfund loan and interest receivable			496,984	
FUND BALANCES, ENDING			<u>\$ 830,583</u>	

CITY OF GLADSTONE, OREGON
ROAD AND STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2009

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Public service taxes	\$ 533,749	\$ 533,749	\$ 469,987	\$ (63,762)
Charges for services	50,000	50,000	20,147	(29,853)
Miscellaneous	1,000	1,000	11,400	10,400
Other	188,925	188,925	188,925	-
Total revenues	<u>773,674</u>	<u>773,674</u>	<u>690,459</u>	<u>(83,215)</u>
EXPENDITURES:				
Personal service	147,493	167,493	148,560	18,933
Materials and service	203,600	233,600	222,329	11,271
Capital outlay	828,454	778,454	356,836	421,618
Contingency	10,000	10,000	-	10,000
Total expenditures	<u>1,189,547</u>	<u>1,189,547</u>	<u>727,725</u>	<u>461,822</u>
Revenues over (under) expenditures	(415,873)	(415,873)	(37,266)	378,607
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(52,127)</u>	<u>(52,127)</u>	<u>(52,127)</u>	<u>-</u>
Total other financing sources (uses)	<u>(52,127)</u>	<u>(52,127)</u>	<u>(52,127)</u>	<u>-</u>
Net changes in fund balances	(468,000)	(468,000)	(89,393)	378,607
FUND BALANCES, BEGINNING	<u>468,000</u>	<u>468,000</u>	<u>556,168</u>	<u>88,168</u>
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 466,775</u>	<u>\$ 466,775</u>

**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, 2009**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 632,000	\$ 632,000	\$ 720,267	\$ 88,267
Interest	10,000	10,000	8,212	(1,788)
Miscellaneous	500	500	-	(500)
Total revenues	<u>642,500</u>	<u>642,500</u>	<u>728,479</u>	<u>85,979</u>
EXPENDITURES:				
Materials and service	57,000	57,000	20,519	36,481
Capital outlay	810,500	810,500	587,973	222,527
Contingency	5,000	5,000		5,000
Total expenditures	<u>872,500</u>	<u>872,500</u>	<u>608,492</u>	<u>264,008</u>
Revenues over (under) expenditures	<u>(230,000)</u>	<u>(230,000)</u>	<u>119,987</u>	<u>349,987</u>
Net changes in fund balances	(230,000)	(230,000)	119,987	349,987
FUND BALANCES, BEGINNING	<u>230,000</u>	<u>230,000</u>	<u>283,774</u>	<u>53,774</u>
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 403,761</u>	<u>\$ 403,761</u>

CITY OF GLADSTONE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2009

1. Stewardship, Compliance, and Accountability

A. Budgetary Information

On or before June 30 of each year, the City enacts a resolution approving the budget, appropriating the expenditures, and levying the property taxes. Prior to enacting this resolution, the proposed budget is presented to a budget committee consisting of members of the City Council and a like number of interested citizens. The budget committee presents the budget to the City Council for budget hearings prior to enactment of the resolution. The City budgets all funds, except the Fiduciary Funds, as required by Oregon Local Budget Law. The basis of budgeting for all major funds is the same as GAAP.

The resolution authorizing appropriations for each fund sets the legal level of control by which expenditures cannot legally exceed appropriations. Total expenditures by department as established by the resolution are the legal level of control for the General Fund. Expenditure categories of personal services, materials and services, capital outlay, debt service transfers, and contingency are the legal level of control for all other funds. The detail budget document, however, is required to contain more specific information for the above mentioned expenditure categories. Unexpected additional resources may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers, and adoption by the City Council. Management may modify original and supplemental budgets by the use of appropriation transfers between the legal levels of control within a fund. Such transfers require approval by the City Council. The City had appropriation transfers during the year ended June 30, 2009. Appropriations lapse as of year-end.

OTHER SUPPLEMENTARY INFORMATION

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

Such statements and schedules include:

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

COMBINING STATEMENTS

Nonmajor Governmental Funds

Special Revenue Funds

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

911 Excise Tax Resource Fund

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

Police and Communications Special Levy Fund

The Police and Communications Special Levy Fund accounts for the receipts and expenditure of taxes received from a five year local option levy. Proceeds from the levy will be used to increase police personnel.

Fire and Emergency Services Special Levy Fund

The Fire and Emergency Services Special Levy Fund accounts for the receipt and expenditure of taxes received from a five year local option levy. Proceeds from the levy will be used to increase fire personnel and to increase current services.

Agency Funds

Municipal Court Fund

Library Board Trust Fund

CITY OF GLADSTONE, OREGON
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
June 30, 2009

	<u>911 Excise Tax Resource Fund</u>	<u>Police and Communications Special Levy Fund</u>	<u>Fire and Emergency Services Special Levy Fund</u>	<u>Total</u>
ASSETS				
Cash and investments	\$ 123,329	\$ 418,347	\$ 309,314	\$ 850,990
Cash with county treasurer	-	3,489	1,642	5,131
Accounts receivable	15,279	-	-	15,279
Property taxes receivable	-	29,145	13,723	42,868
Total assets	<u>\$ 138,608</u>	<u>\$ 450,981</u>	<u>\$ 324,679</u>	<u>\$ 914,268</u>
LIABILITIES AND FUND EQUITY				
LIABILITIES:				
Accounts payable	\$ -	\$ -	8,668	\$ 8,668
Deferred revenue	-	26,531	12,493	39,024
Total liabilities	<u>-</u>	<u>26,531</u>	<u>21,161</u>	<u>47,692</u>
FUND BALANCES:				
Unreserved, reported in:				
Special revenue fund	<u>138,608</u>	<u>424,450</u>	<u>303,518</u>	<u>866,576</u>
Total fund equity	<u>138,608</u>	<u>424,450</u>	<u>303,518</u>	<u>866,576</u>
Total liabilities and fund equity	<u>\$ 138,608</u>	<u>\$ 450,981</u>	<u>\$ 324,679</u>	<u>\$ 914,268</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, 2009

	911 Excise Tax Resource Fund	Police and Communications Special Levy Fund	Fire and Emergency Services Special Levy Fund	Total
REVENUES:				
Property taxes	\$ -	\$ 443,686	\$ 208,581	\$ 652,267
Public service taxes	63,968	-	-	63,968
Interest	2,291	7,584	4,018	13,893
Miscellaneous	-	-	63,738	63,738
Total revenues	<u>66,259</u>	<u>451,270</u>	<u>276,337</u>	<u>793,866</u>
EXPENDITURES:				
Public safety	36,659	303,678	101,621	441,958
Capital outlay	-	33,334	34,527	67,861
Total expenditures	<u>36,659</u>	<u>337,012</u>	<u>136,148</u>	<u>509,819</u>
Revenues over (under) expenditures	29,600	114,258	140,189	284,047
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(11,810)	(4,870)	(16,680)
Total other financing sources (uses)	<u>-</u>	<u>(11,810)</u>	<u>(4,870)</u>	<u>(16,680)</u>
Net changes in fund balances	29,600	102,448	135,319	267,367
FUND BALANCES, BEGINNING	<u>109,008</u>	<u>322,002</u>	<u>168,199</u>	<u>599,209</u>
FUND BALANCES, ENDING	<u><u>\$ 138,608</u></u>	<u><u>\$ 424,450</u></u>	<u><u>\$ 303,518</u></u>	<u><u>\$ 866,576</u></u>

CITY OF GLADSTONE, OREGON
AGENCY FUNDS
COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
For the Fiscal Year Ended June 30, 2009

	<u>Balance</u> <u>June 30, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2009</u>
Municipal Court Fund				
Assets				
Cash	\$ 4,778	\$ -	\$ 766	\$ 4,012
Liabilities				
Other current liabilities	\$ 4,778	\$ -	\$ 766	\$ 4,012
 Library Board Trust Fund				
Assets				
Cash	\$ 38,962	\$ -	\$ 17,403	\$ 21,559
Liabilities				
Other current liabilities	\$ 38,962	\$ -	\$ 17,403	\$ 21,559
 Totals - All Agency Funds				
Assets				
Cash	\$ 43,740	\$ -	\$ 18,169	\$ 25,571
Liabilities				
Other current liabilities	\$ 43,740	\$ -	\$ 18,169	\$ 25,571

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:

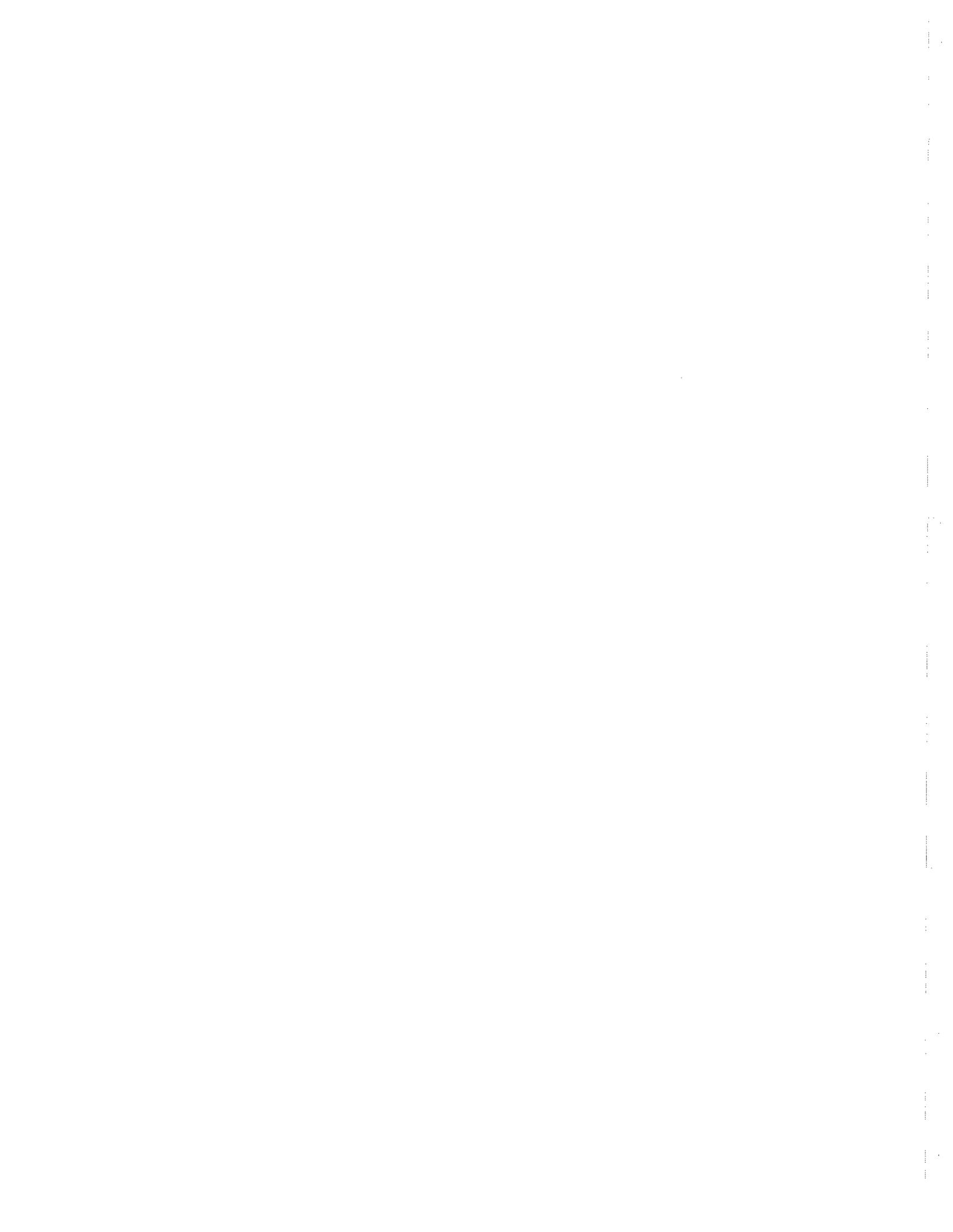
- General Fund Schedule of Expenditures
- Special Revenue Funds - Nonmajor Governmental Funds
 - 911 Excise Tax Resource Fund
 - Police and Communications Special Levy Fund
 - Fire and Emergency Services Special Levy Fund

CITY OF GLADSTONE, OREGON
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2009

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
General Administration:				
Personal services	\$ 460,242	\$ 460,242	\$ 330,523	\$ 129,719
Materials and services	422,385	792,385	778,694	13,691
Capital outlay	75,000	75,000	-	75,000
Subtotal	957,627	1,327,627	1,109,217	218,410
Municipal Court:				
Personal services	150,616	150,616	139,058	11,558
Materials and services	110,000	110,000	106,034	3,966
Subtotal	260,616	260,616	245,092	15,524
Police:				
Personal services	1,788,397	1,788,397	1,344,930	443,467
Materials and services	392,193	392,193	260,267	131,926
Capital outlay	57,500	57,500	29,200	28,300
Subtotal	2,238,090	2,238,090	1,634,397	603,693
Fire:				
Personal services	338,311	338,311	307,918	30,393
Materials and services	286,391	286,391	231,231	55,160
Capital outlay	446,422	446,422	25,397	421,025
Subtotal	1,071,124	1,071,124	564,546	506,578
Parks:				
Personal services	136,621	136,621	130,463	6,158
Materials and services	77,200	77,200	66,617	10,583
Capital outlay	576,000	576,000	66,518	509,482
Subtotal	789,821	789,821	263,598	526,223
Recreation:				
Personal services	26,416	41,416	26,103	15,313
Materials and services	50,250	35,250	14,908	20,342
Subtotal	76,666	76,666	41,011	35,655

CITY OF GLADSTONE, OREGON
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2009

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
Senior Center:				
Personal services	190,150	190,150	159,424	30,726
Materials and services	46,300	46,300	39,309	6,991
Capital outlay	270,834	270,834	58,705	212,129
Subtotal	507,284	507,284	257,438	249,846
Library:				
Personal services	466,827	466,827	430,047	36,780
Materials and services	69,500	69,500	61,088	8,412
Capital outlay	201,000	201,000	82,325	118,675
Subtotal	737,327	737,327	573,460	163,867
Total expenditures	<u>\$ 6,638,555</u>	<u>\$ 7,008,555</u>	<u>\$ 4,688,759</u>	<u>\$ 2,319,796</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, 2009

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Public service taxes	\$ 64,904	\$ 64,904	\$ 63,968	\$ (936)
Interest	2,000	2,000	2,291	291
Total revenues	66,904	66,904	66,259	(645)
EXPENDITURES:				
Materials and service	69,904	69,904	36,659	33,245
Contingency	34,000	34,000	-	34,000
Total expenditures	103,904	103,904	36,659	67,245
Revenues over (under) expenditures	(37,000)	(37,000)	29,600	66,600
Net changes in fund balances	(37,000)	(37,000)	29,600	66,600
FUND BALANCES, BEGINNING	37,000	37,000	109,008	72,008
FUND BALANCES, ENDING	\$ -	\$ -	\$ 138,608	\$ 138,608

**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, 2009**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 432,455	\$ 432,455	\$ 443,686	\$ 11,231
Interest	10,000	10,000	7,584	(2,416)
Total revenues	442,455	442,455	451,270	8,815
EXPENDITURES:				
Personal service	390,581	390,581	302,814	87,767
Materials and service	7,000	7,000	864	6,136
Capital outlay	266,064	266,064	33,334	232,730
Total expenditures	663,645	663,645	337,012	326,633
Revenues over (under) expenditures	(221,190)	(221,190)	114,258	335,448
OTHER FINANCING SOURCES (USES):				
Transfers out	(11,810)	(11,810)	(11,810)	-
Total other financing sources (uses)	(11,810)	(11,810)	(11,810)	-
Net changes in fund balances	(233,000)	(233,000)	102,448	335,448
FUND BALANCE, BEGINNING	233,000	233,000	322,002	89,002
FUND BALANCE, ENDING	\$ -	\$ -	\$ 424,450	\$ 424,450

**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, 2009**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 197,500	\$ 197,500	\$ 208,581	\$ 11,081
Interest	7,000	7,000	4,018	(2,982)
Miscellaneous	63,738	63,738	63,738	-
Total revenues	268,238	268,238	276,337	8,099
EXPENDITURES:				
Personal service	115,104	115,104	101,621	13,483
Materials and service	10,000	10,000	-	10,000
Capital outlay	508,264	508,264	34,527	473,737
Total expenditures	633,368	633,368	136,148	497,220
Revenues over (under) expenditures	(365,130)	(365,130)	140,189	505,319
OTHER FINANCING SOURCES (USES):				
Transfers out	(4,870)	(4,870)	(4,870)	-
Total other financing sources (uses)	(4,870)	(4,870)	(4,870)	-
Net changes in fund balances	(370,000)	(370,000)	135,319	505,319
FUND BALANCES, BEGINNING	370,000	370,000	168,199	(201,801)
FUND BALANCES, ENDING	\$ -	\$ -	\$ 303,518	\$ 303,518

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, 2009

	Budget		Actual	Variance
	Original	Final		Positive (Negative)
REVENUES:				
Service charges	\$ 900,000	\$ 900,000	933,552	\$ 33,552
Connection and installation fees	7,000	7,000	7,700	700
System development charge	21,000	21,000	9,669	(11,331)
Miscellaneous	10,000	10,000	670	(9,330)
Total revenues	938,000	938,000	951,591	13,591
EXPENDITURES:				
Personal service	235,939	235,939	206,206	29,733
Materials and service	407,363	482,363	444,757	37,606
Capital outlay	150,698	75,698	74,145	1,553
Debt service:				
Principal	100,000	100,000	100,000	-
Interest	92,000	92,000	91,671	329
Contingency	10,000	10,000	-	10,000
Total expenditures	996,000	996,000	916,779	79,221
Revenues over (under) expenditures	(58,000)	(58,000)	34,812	92,812
FUND BALANCE, BEGINNING BUDGETARY BASIS	58,000	58,000	323,200	265,200
FUND BALANCE, ENDING BUDGETARY BASIS	\$ -	\$ -	\$358,012	\$ 358,012
			<u>Revenues</u>	<u>Expenditures</u>
Total revenue and expenditures above			\$951,591	\$ 916,779
Expenditures capitalized				(110,626)
Debt service principal payments				(100,000)
Depreciation and amortization expense				186,146
Accrued interest payable				(11,925)
Bond costs				3,335
Total revenues and expenses - generally accepted accounting principles			<u>\$951,591</u>	<u>883,709</u>
Change in net assets				<u>\$ 67,882</u>

CITY OF GLADSTONE, OREGON
SEWER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2009

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Service charge	\$ 1,262,420	\$ 1,262,420	\$ 1,285,462	\$ 23,042
Connection and installation fees	30,000	30,000	24,192	(5,808)
System development charge	3,000	3,000	1,740	(1,260)
Miscellaneous	2,000	2,000	944	(1,056)
Total revenues	<u>1,297,420</u>	<u>1,297,420</u>	<u>1,312,338</u>	<u>14,918</u>
EXPENDITURES:				
Personal service	199,958	199,958	190,113	9,845
Materials and service	1,110,283	1,110,283	903,714	206,569
Capital outlay	206,598	206,598	56,203	150,395
Contingency	10,000	10,000	-	10,000
Total expenditures	<u>1,526,839</u>	<u>1,526,839</u>	<u>1,150,030</u>	<u>376,809</u>
Revenues over (under) expenditures	(229,419)	(229,419)	162,308	391,727
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(22,581)</u>	<u>(22,581)</u>	<u>(22,581)</u>	<u>-</u>
Total other financing sources (uses)	<u>(22,581)</u>	<u>(22,581)</u>	<u>(22,581)</u>	<u>-</u>
Net changes in fund balances	(252,000)	(252,000)	139,727	391,727
FUND BALANCE, BEGINNING BUDGETARY BASIS	<u>252,000</u>	<u>252,000</u>	<u>462,592</u>	<u>210,592</u>
FUND BALANCE, ENDING BUDGETARY BASIS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 602,319</u>	<u>\$ 602,319</u>
			<u>Revenues</u>	<u>Expenditures</u>
Total revenue and expenditures above			\$ 1,312,338	\$ 1,150,030
Operating transfers in/out			-	22,581
Expenditures capitalized			-	(50,111)
Depreciation and amortization expense			-	76,300
Total revenues and expenses - generally accepted accounting principles			<u>\$ 1,312,338</u>	<u>1,198,800</u>
Change in net assets				<u>\$ 113,538</u>

OTHER FINANCIAL SCHEDULES

CITY OF GLADSTONE, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS AND OUTSTANDING BALANCES
For the Fiscal Year Ended June 30, 2009

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2008</u>	<u>2008-2009 Levy</u>	<u>Adjustments/ Discount</u>	<u>Collections</u>	<u>Uncollected Balance June 30, 2009</u>
2008-2009	\$ -	\$ 4,490,925	\$ (117,133)	\$ (4,181,020)	\$ 192,772
2007-2008	149,038	-	(3,297)	(88,944)	56,797
2006-2007	38,128	-	(594)	(16,874)	20,660
2005-2006	16,008	-	(519)	(8,847)	6,642
2004-2005	5,598	-	(178)	(3,274)	2,146
2003-2004	1,960	-	(171)	(377)	1,412
2002-2003	1,815	-	(12)	(253)	1,550
2001-2002	1,124	-	(10)	(74)	1,040
Prior years	1,927	-	(13)	(135)	1,779
Totals	<u>\$ 215,598</u>	<u>\$ 4,490,925</u>	<u>\$ (121,927)</u>	<u>\$ (4,299,798)</u>	<u>\$ 284,798</u>

Taxes receivable classified by fund:

General Fund	\$ 194,730
Police Fund	29,145
Fire Fund	13,723
Urban Renewal Agency Debt Service Fund	47,200
	<u>\$ 284,798</u>

CITY OF GLADSTONE, OREGON
AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS
June 30, 2009

Introduction

Oregon Administrative Rules 162-10-000 through 162-10-330 incorporate the Minimum Standards for Audits of Oregon Municipal Corporations. These standards, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosures required in audit reports. The required statements and schedules are set forth in the preceding section of this report. Required comments and disclosures related to our audit of such statements and schedules are contained in this section.

Internal Accounting Control

We have audited the financial statements of the City of Gladstone, Oregon for the year ended June 30, 2009 and have issued our report thereon dated October 5, 2009.

The management of the City of Gladstone, Oregon is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. Because of inherent limitations in any internal control structure, errors or irregularities may never the less occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operations of policies and procedures may deteriorate.

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Gladstone, Oregon's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Gladstone, Oregon's financial statements that is more than inconsequential will not be prevented or detected by the City of Gladstone, Oregon's internal control.

**AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS**

CITY OF GLADSTONE, OREGON
AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS
June 30, 2009

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Gladstone, Oregon's internal control. We identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and have communicated them to management in a separate letter.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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

In connection with our audit:

Accounting Records

We found the accounting records of the City to be adequate for audit purposes considering the size and complexity of the municipal corporation.

Collateral

The City was in compliance with ORS Chapter 295 regarding collateral securing deposits for fiscal year ended June 30, 2009.

Indebtedness

During our audit, nothing came to our attention that caused us to believe the City was not in compliance with limitation and the provision of bond indentures and other agreements.

Budgets

We reviewed budgets adopted by the City for the current and ensuing fiscal year. Budget preparation and adoption procedures followed by the City appear to be in compliance with Oregon Local Budget Law (ORS Chapter 294.305 to 294.520).

Insurance and Fidelity Bonds

We reviewed policies relating to insurance and fidelity bond coverage and ascertained that such policies appeared to be in force. We are not competent by training to state whether the insurance policies covering City-owned property in force at June 30, 2009 are adequate.

Programs Funded from Outside Sources

We reviewed and tested, to the extent we considered necessary in the circumstances, transactions and reports relative to federal and state grant programs. The City appeared to have appropriate procedures for making expenditures on behalf of, and reporting for, such programs.

Highway Funds

The City was in compliance with legal requirements pertaining to the use of Highway Funds.

CITY OF GLADSTONE, OREGON
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Investments

The City's investments for the year ended June 30, 2009 were tested and appear to be in compliance with Oregon Revised Statutes Chapter 295 with regard to legal restrictions pertaining to the investment of public funds.

Public Contracts and Purchasing

We reviewed and tested the City's procedures for awarding public contracts. The City appears to be in compliance with the cost accounting guidelines developed by the State of Oregon Executive Department with regard to the City's construction projects and ORS Chapter 279 in the awarding of public contracts and the construction of public improvements.

Independently Elected Officials

The Independently Elected Officials of the City do not receive and disburse funds. Accordingly a Schedule of Accountability for Independently Elected Officials is not included.

Merina & Company

Merina & Company, LLP
West Linn, Oregon
October 5, 2009

