

GLADSTONE URBAN RENEWAL AGENCY

FINANCIAL STATEMENTS

For the Fiscal Year Ended
June 30, 2010

with

Independent Auditor's
Report

MERINA
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INTRODUCTORY SECTION

**GLADSTONE URBAN RENEWAL AGENCY
LIST OF PRINCIPAL OFFICIALS
June 30, 2010**

<u>Officials</u>	<u>Term Expires</u>
Wade Byers, Mayor Gladstone, Oregon 97027	December 31, 2010
Tom Pagh, President Gladstone, Oregon 97027	December 31, 2012
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
Hal Busch Gladstone, Oregon 97027	December 31, 2010
<u>Administrator</u> Peter Boyce Gladstone, Oregon 97027	
<u>Assistant Administrator</u> Jolene Morishita Gladstone, Oregon 97027	

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

City Council
Gladstone Urban Renewal Agency
Gladstone, Oregon

We have audited the accompanying financial statements of the governmental activities and each major fund, of the Gladstone Urban Renewal Agency, a component unit of the City of Gladstone, Oregon, (the Agency) as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency, as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited

procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Merina & Company

Merina & Company, LLP
West Linn, Oregon
December 1, 2010

Gladstone Urban Renewal Agency Management's Discussion and Analysis

Management staff of the Gladstone Urban Renewal Agency offers this executive summary of the financial activities of the Gladstone Urban Renewal Agency for the fiscal year ended June 30, 2010.

Financial Highlights

The assets of the Gladstone Urban Renewal Agency exceeded its liabilities at the close of the most recent fiscal year by \$1,224,202 (net assets). This amount may be used to meet the Agency's ongoing obligations to citizens and creditors.

The Gladstone Urban Renewal Agency's total net assets increased by \$777,472 from the fiscal year ending in 2009 due to the Agency initiating no capital projects and, instead, saving almost all of its assets for possible future construction of a new library or streetscape improvements on Portland Avenue.

As of the close of the current fiscal year, the Gladstone Urban Renewal Agency's governmental fund reported a total ending fund balance of \$1,178,462. The difference between \$1,224,202 unrestricted net assets and the ending fund balance of \$1,178,462 is due to uncollected property tax.

Overview of the Financial Statements

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

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

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

A statement of activities in this discussion and analysis presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes). Governmental activity of the Urban Renewal Agency includes community development. There are no affiliated business type activities.

Fund Financial Statements. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Gladstone Urban Renewal Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund of the Gladstone Urban Renewal Agency is in the governmental funds category.

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

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

The Gladstone Urban Renewal Agency maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the Urban Renewal Fund. The Agency adopts an annual appropriate budget for the governmental fund. A budgetary comparison has been provided to demonstrate compliance with the adopted budget.

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$1,224,202 at the close of the most recent fiscal year.

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

The following table reflects a Summary of Net Assets for fiscal years 2009-2010 and 2008-2009.

	<u>2010</u>	<u>2009</u>	<u>Total Change</u>
Cash and investments	\$ 1,168,317	\$ 393,888	\$ 774,429
Due from other governments	5,710	5,642	68
Property taxes receivable	50,175	47,200	2,975
Total assets	<u>\$ 1,224,202</u>	<u>\$ 446,730</u>	<u>\$ 777,472</u>
Net assets:			
Unrestricted	<u>\$ 1,224,202</u>	<u>\$ 446,730</u>	<u>\$ 777,472</u>
Total net assets	<u>\$ 1,224,202</u>	<u>\$ 446,730</u>	<u>\$ 777,472</u>

The following table summarizes revenues and expenses for fiscal years 2009-2010 and 2008-2009.

Table 2
Governmental Activities

REVENUES	<u>2010</u>	<u>2009</u>	<u>Total Change</u>
General Revenues:			
Property taxes	\$ 778,062	\$ 730,570	\$ 47,492
Interest	4,908	8,212	(3,304)
Total revenues	<u>\$ 782,970</u>	<u>\$ 738,782</u>	<u>\$ 44,188</u>
 EXPENSES			
Community development	<u>\$ 5,498</u>	<u>\$ 608,492</u>	<u>\$ (602,994)</u>
 Increase in net assets	 777,472	 130,290	 647,182
Beginning net assets	446,730	316,440	130,290
Ending net assets	<u>\$ 1,224,202</u>	<u>\$ 446,730</u>	<u>\$ 777,472</u>

Governmental Activities. Governmental activities increased the Gladstone Urban Renewal Agency's net assets by \$777,472.

Financial Analysis of the Agency's funds

Governmental Fund. The focus of the Gladstone Urban Renewal Agency's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financial requirements. In particular, unreserved fund balance may serve as useful measure of a government's net resources available for spending at the end of the fiscal year. The \$1,224,202 ending net assets represents spendable income.

Budgetary Highlights. The Gladstone Urban Renewal Agency did not have expenditures for any community projects for the fiscal year ended 2009-2010. Those proceeds have been saved for future construction of a new library.

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

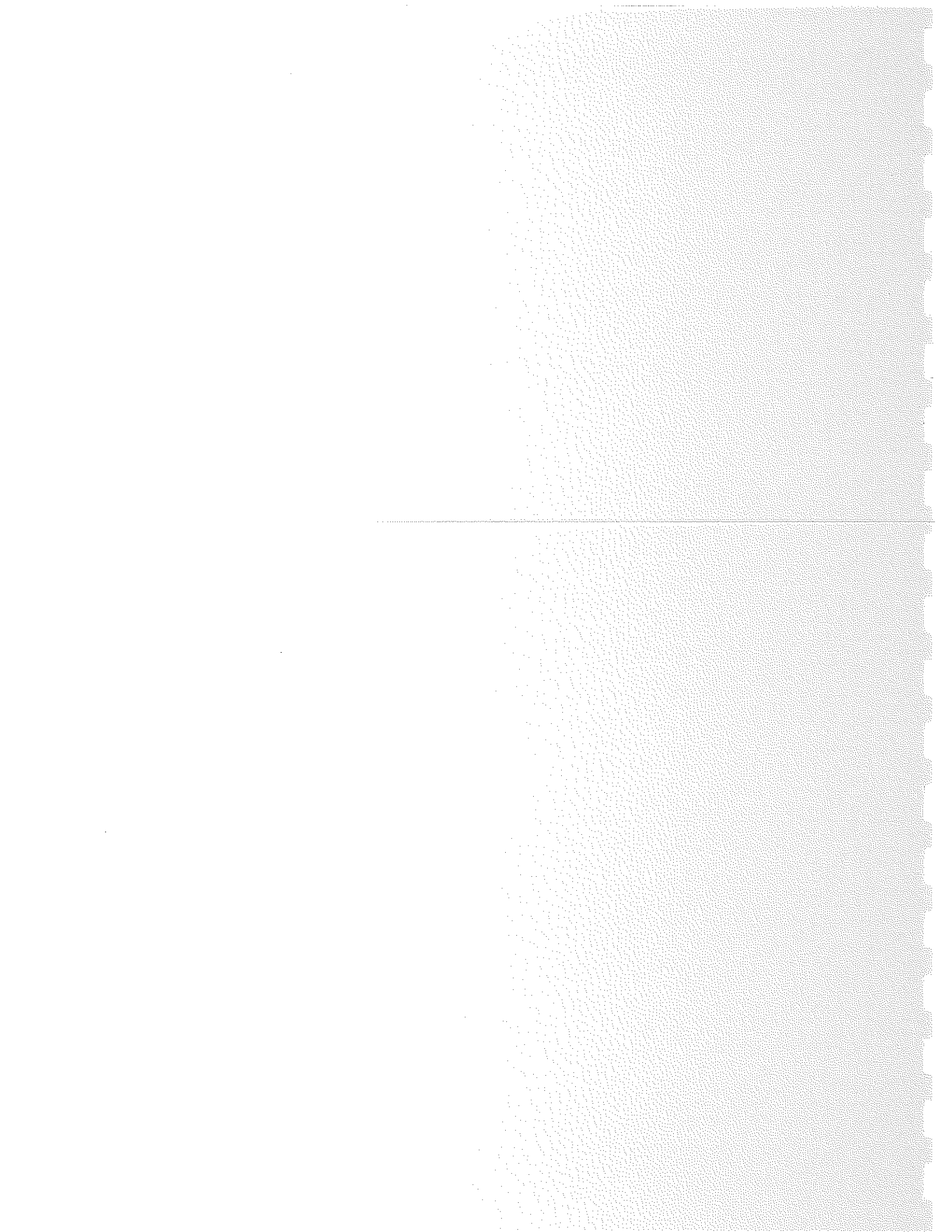
Long-term Debt. At the end of the fiscal year, the Gladstone Urban Renewal Agency had no long-term debt outstanding. In response to 1997 state legislation, the Gladstone City Council, acting as officials of the Gladstone Urban Renewal Agency, at its April 1998 meeting, authorized \$23,000,000 in maximum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

Economic Factors and Next Year's Budget. The future finances of the Agency will largely be determined by pending decisions of its governing board regarding the inclusion of additional streets within the Agency's boundary and possible exclusion of land and increment value from

existing renewal boundary. This could include inclusion of Portland Avenue from Gloucester Street to Clackamas Boulevard for possible streetscape improvements. Also, with formation of a library district, approved by voters in November, 2008, the Agency may use urban renewal monies to fund the cost of a new library building.

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

BASIC FINANCIAL STATEMENTS



GLADSTONE URBAN RENEWAL AGENCY
STATEMENT OF NET ASSETS
June 30, 2010

	<u>Governmental Activities</u>
ASSETS:	
Cash and cash equivalents	\$ 1,168,317
Due from other governments	5,710
Property taxes receivable	<u>50,175</u>
Total assets	<u><u>\$ 1,224,202</u></u>
NET ASSETS:	
Unrestricted	<u>1,224,202</u>
Total net assets	<u>1,224,202</u>
Total liabilities and net assets:	<u><u>\$ 1,224,202</u></u>

The accompanying notes are an integral part of these financial statements

GLADSTONE URBAN RENEWAL AGENCY
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010

	<u>Expenses</u>	<u>Net Revenue (Expenses) and Changes in Net Assets</u>
EXPENSES:		
Governmental activities:		
Community development	\$ 5,498	\$ (5,498)
		<u>(5,498)</u>
Total program expenses		<u>(5,498)</u>
Net program expense		<u>(5,498)</u>
GENERAL REVENUES:		
Property taxes		778,062
Interest		<u>4,908</u>
Total general revenues		<u>782,970</u>
Change in net assets		777,472
NET ASSETS, BEGINNING		<u>446,730</u>
NET ASSETS, ENDING		<u><u>\$ 1,224,202</u></u>

The accompanying notes are an integral part of these financial statements

GLADSTONE URBAN RENEWAL AGENCY
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2010

ASSETS:

Cash and cash equivalents	\$ 1,168,317
Due from other governments	5,710
Property taxes receivable	<u>50,175</u>
 Total assets	 <u><u>\$ 1,224,202</u></u>

LIABILITIES:

Deferred revenue	<u>\$ 45,740</u>
 Total liabilities	 <u>45,740</u>

FUND BALANCE:

Unreserved	<u>1,178,462</u>
 Total fund balance	 <u>1,178,462</u>
 Total liabilities and fund balance	 <u><u>\$ 1,224,202</u></u>

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

Total fund balance	\$ 1,178,462
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the fund	<u>45,740</u>
 Net assets of governmental activities	 <u><u>\$ 1,224,202</u></u>

GLADSTONE URBAN RENEWAL AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND
For the Fiscal Year Ended June 30, 2010

REVENUES:

Property taxes	\$ 775,291
Interest on investments	4,908
	<hr/>
Total revenues	780,199

EXPENDITURES:

Materials and services	5,498
Capital outlay	-
	<hr/>
Total expenditures	5,498

Revenues over (under) expenditures	<hr/> 774,701
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Net change in fund balance	774,701
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FUND BALANCE, BEGINNING	<hr/> 403,761
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FUND BALANCE, ENDING	<hr/> <hr/> \$ 1,178,462
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**GLADSTONE URBAN RENEWAL AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010**

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

Net change in fund balance - total governmental fund	\$ 774,701
Some revenue reported in the statement of activities do not provide current financial resources in the government fund	<u>2,771</u>
Changes in net assets of governmental activity	<u>\$ 777,472</u>

GLADSTONE URBAN RENEWAL AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 668,000	\$ 668,000	\$ 775,291	\$ 107,291
Interest on investments	9,000	9,000	4,908	(4,092)
Total revenues	677,000	677,000	780,199	103,199
EXPENDITURES:				
Materials and services	58,000	58,000	5,498	52,502
Capital outlay	939,774	939,774	-	939,774
Total expenditures	997,774	997,774	5,498	992,276
Net change in fund balances	(320,774)	(320,774)	774,701	1,095,475
FUND BALANCES, BEGINNING	320,774	320,774	403,761	82,987
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,178,462</u>	<u>\$ 1,178,462</u>

The accompanying notes are an integral part of these financial statements

GLADSTONE URBAN RENEWAL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

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

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

A. Description of Reporting Entity

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

The Agency is a legally separate entity governed by the City Council. The Agency Board of Directors is not financially accountable for any other governmental entity. Financial accountability is determined in accordance with criteria set forth in accounting principles generally accepted in the United States of America, primarily on the basis of authority to appoint voting majority of an organization's governing board, ability to impose its will on that organization, the potential for that organization to provide specific benefits or impose specific financial burdens and that organization's fiscal dependency. The Agency is a component unit of the City of Gladstone and, as such is included in the financial statements of the City of Gladstone for the year ended June 30, 2010.

The Agency has no component units.

B. Basic Financial Statements

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

Agency-wide financial statements

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

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

GLADSTONE URBAN RENEWAL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

Fund financial statements

These statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, and fiduciary. Currently the Agency has only governmental fund types.

C. Basis of Presentation

The financial transactions of the Agency are recorded in the General fund. The fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses.

The new GASB 34 model sets forth minimum criteria (percentage of the assets liabilities, revenues or expenditures/expenses of either fund category or the governmental and proprietary combined) for the determination of major funds. For purposes of presentation, the Agency's fund is presented as a major fund.

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

D. Measurement Focus and Basis of Accounting

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

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

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

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

GLADSTONE URBAN RENEWAL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

E. Cash and Investments

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

F. Receivables and Property Tax Calendar

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

G. Fund Equity

Tentative plans for utilization of fund balances in future periods are recorded as designations of fund balance in the fund-level financial statements. Planned expenditures primarily include future capital projects and debt service.

H. Use of Estimates

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

(2) Stewardship, Compliance, and Accountability

A. Budgetary Information

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

The resolution authorizing appropriations for each fund sets the legal level of control by which expenditures cannot legally exceed appropriations. Expenditure categories of personal services, materials and services, capital outlay, debt service transfers, and contingency are the legal level of control for all other funds. The detail budget document, however, is required to contain more specific information for the above mentioned expenditure categories. Unexpected additional resources may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers, and adoption by the

**GLADSTONE URBAN RENEWAL AGENCY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2010**

Agency Council. Management may modify original and supplemental budgets by the use of appropriation transfers between the legal levels of control within a fund. Such transfers require approval by the Agency Council. Management may not amend the budget without seeking the approval of the Council. Appropriations lapse as of year-end.

(3) Cash and Cash Equivalents

At June 30, 2010 investments included in cash and cash equivalents of the Gladstone Urban Renewal Agency consist of the following:

	<u>Weighted Average Maturity (Years)</u>	<u>Fair Value</u>
Investments in the State Treasurer's Local Government Investment Pool	0.00	\$ 1,142,579

A. Interest rate risk

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

B. Credit risk

State statutes authorize the Gladstone Urban Renewal Agency to invest in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, and the State Treasurer's Oregon Local Government Investment Pool, among others. The Agency has no investment policy that would further limit its investment choices.

C. Concentration of credit risk

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

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

GLADSTONE URBAN RENEWAL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

D. Custodial credit risk – deposits

This is the risk that in the event of a bank failure, the Agency's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the Agency's deposits with financial institutions up to \$250,000 each for the aggregate of all non-interest bearing accounts and the aggregate of all interest bearing accounts at each institution. Deposits in excess of FDIC coverage with institutions participating in the Oregon Public Funds Collateralization Program are considered fully collateralized. As of June 30, 2010, none of the Agency's bank balances were exposed to credit risk.

(4) Property Taxes

Property tax transactions for the year ended June 30, 2010, were as follows:

Tax Year	Taxes Receivable July 1, 2009	2009-2010 Levy	Adjustments and Discounts	Collections	Taxes Receivable June 30, 2010
2009-10	\$ -	\$ 797,798	\$ (20,982)	\$ (747,188)	\$ 29,628
2008-09	32,139	-	(546)	(18,802)	12,791
2007-08	9,429	-	(168)	(4,348)	4,913
2006-07	3,387	-	(117)	(1,707)	1,563
2005-06	1,079	-	(122)	(615)	342
2004-05	345	-	(92)	(15)	238
2003-04	230	-	(39)	(8)	183
Prior	591	-	(27)	(47)	517
	<u>\$ 47,200</u>	<u>\$ 797,798</u>	<u>\$ (22,093)</u>	<u>\$ (772,730)</u>	<u>\$ 50,175</u>

(5) Deferred Revenue

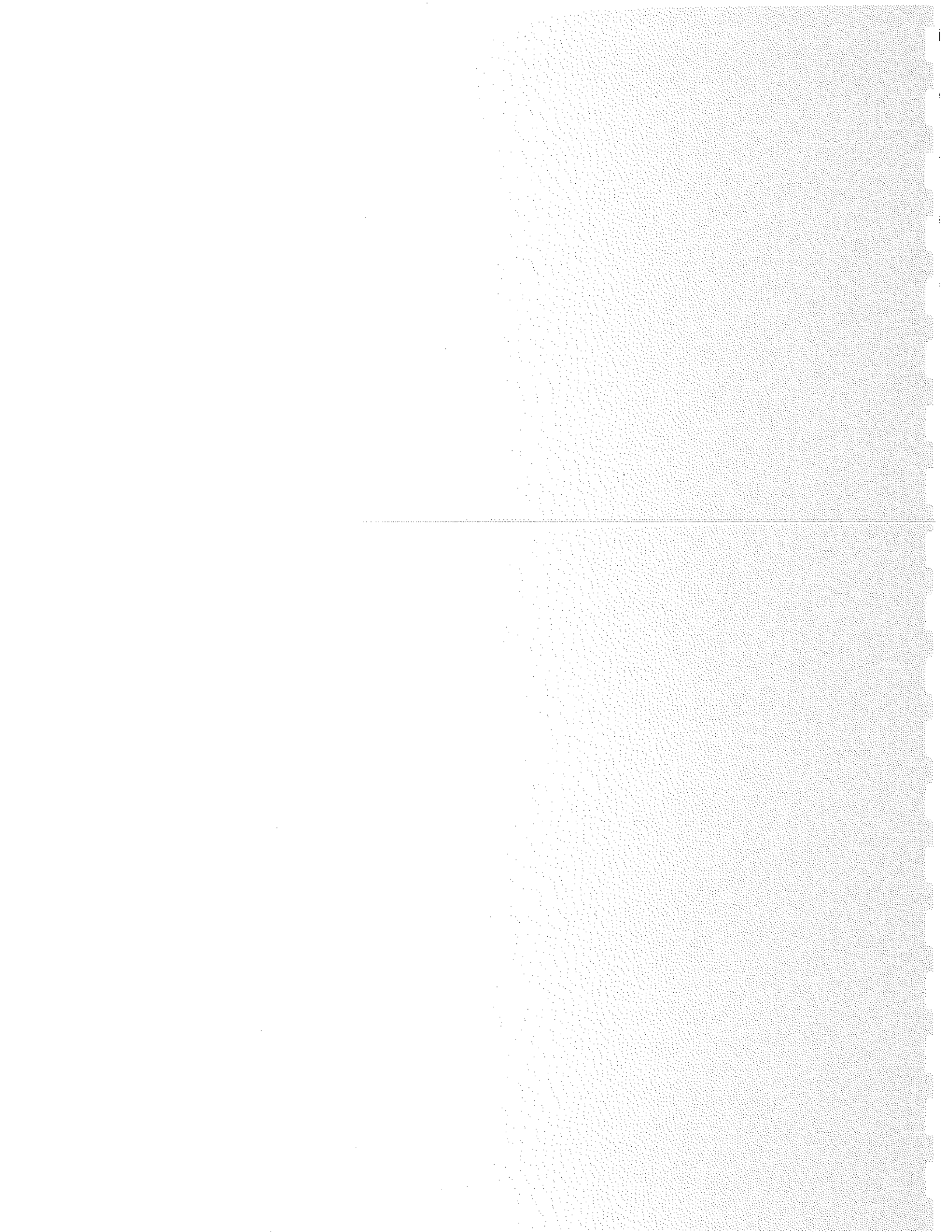
Deferred revenue as of June 30, 2010 consists of uncollected property taxes not deemed available to finance operations of the current period.

(6) Risk Management

The Agency is exposed to various risks of loss related to: torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. Except for unemployment compensation, the Agency purchases commercial insurance to minimize its exposure to these risks. There has been no reduction in commercial insurance coverage from fiscal year 2009 to 2010.

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



GLADSTONE URBAN RENEWAL AGENCY
AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS
June 30, 2010

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 Gladstone Urban Renewal Agency (the Agency) for the year ended June 30, 2010 and have issued our report thereon dated December 1, 2010.

The management of Gladstone Urban Renewal Agency 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 internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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 Agency'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 Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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significant deficiency is a deficiency, or combination of deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified deficiencies in internal control over financial reporting that we consider to be material weaknesses and have communicated them to management in a separately issued letter.

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 Agency to be adequate for audit purposes considering the size and complexity of the municipal corporation.

Collateral

The Agency was in compliance with ORS Chapter 295 regarding collateral securing deposits for fiscal year ended June 30, 2010.

Indebtedness

The Agency currently does not have any debt or bonded debt.

Budgets

We reviewed budgets adopted by the Agency for the current and ensuing fiscal year. Budget preparation and adoption procedures followed by the Agency 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 Agency-owned property in force at June 30, 2010 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 Agency appeared to have appropriate procedures for making expenditures on behalf of, and reporting for, such programs.

Highway Funds

The Agency does not receive Highway Funds.

Investments

The Agency's investments for the year ended June 30, 2010 were tested and appear to be in compliance with Oregon Revised Statutes Chapter 294 with regard to legal restrictions pertaining to the investment of public funds.

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Public Contracts and Purchasing

We reviewed and tested the Agency's procedures for awarding public contracts. Agency appears to be in compliance with the cost accounting guidelines developed by the State of Oregon Executive Department with regard to the Agency'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 Agency 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
December 1, 2010

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