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CITY OF GLADSTONE, OREGON
CITY OFFICIALS
June 30, 2007

City Officials

Term Expires

Wade Byers, Mayor
Gladstone, Oregon 97027

December 31, 2010

Council Members

Tom Pagh, President
Gladstone, Oregon 97027

December 31, 2008

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, 2008

Carl Gardner
Gladstone, Oregon 97027

December 31, 2008

City Administrator

Ronald J. Partch
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, 2007

Chief of Police

Frank Grace
Gladstone, Oregon 97027

Fire Chief

John Figini
Gladstone, Oregon 97027

City Attorney

John H. Hammond
Portland, Oregon 97201

INDEPENDENT AUDITORS' 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, 2007, 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, 2007, 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladstone, Oregon's 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 have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are 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
December 19, 2007

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, 2007.

Financial Highlights

The assets of the City of Gladstone exceeded its liabilities at the close of the most recent fiscal year by \$22,013,324 (net assets). Of this amount \$7,850,830 (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 \$1,193,231.

The City's governmental activities reported total net assets of \$13,867,542. Of this amount \$3,424,731 is unrestricted and thus available for spending at the City's discretion.

The City's business-type activities reported total net assets of \$8,145,782. Of this amount \$4,426,099 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 six 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

With this fourth year implementation of GASB 34, the City is presenting comparable columns for fiscal years ending June 30, 2006 and June 30, 2007.

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>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Cash and investments	3,562,342	3,769,061	310,066	536,379	3,872,408	4,305,440
Restricted cash and investments	567,862	14,378	148,669	216,126	716,531	230,504
Other assets	656,363	699,581	148,585	3,547,226	804,948	4,246,807
Capital assets	<u>8,492,711</u>	<u>9,882,429</u>	<u>10,075,825</u>	<u>6,636,541</u>	<u>18,586,536</u>	<u>16,518,970</u>
Total assets	13,279,278	14,365,449	10,683,145	10,936,272	23,962,423	25,301,721
Total liabilities	359,279	497,907	2,783,051	2,790,490	3,142,330	3,288,397
Net assets						
Invested in capital assets, net of debt	8,492,711	9,882,429	8,436,651	3,503,557	15,362,552	13,385,986
Restricted for other purposes	475,168	560,382	148,669	216,126	623,837	776,508
Unrestricted (deficit)	<u>3,952,120</u>	<u>3,424,731</u>	<u>881,584</u>	<u>4,426,099</u>	<u>4,833,704</u>	<u>7,850,830</u>
Total Net Assets	<u>12,919,999</u>	<u>13,867,542</u>	<u>7,900,094</u>	<u>8,145,782</u>	<u>20,820,093</u>	<u>22,013,324</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$ 22,013,324 at the close of the most recent fiscal year.

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 \$7,850,830 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 2005-2006 and 2006-2007.

TABLE 2
Governmental and Proprietary Activities

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Government</u>	
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
REVENUES						
Program revenues:						
Charges for services	419,002	461,055	1,962,787	2,190,696	2,381,789	2,651,751
Operating grants and contributions	7,827	69,192	(19,875)	-	(12,048)	69,192
Capital grants and contributions	670	-	-	-	670	-
General revenues:						
Property taxes	3,935,433	4,060,207	-	-	3,935,433	4,060,207
Franchise fees and public services taxes	1,510,687	1,543,784	-	-	1,510,687	1,543,784
Grants and contributions not restricted	112,277	118,346	-	-	112,277	118,346
Interest	172,206	237,163	-	-	172,206	237,163
Other	<u>87,990</u>	<u>97,081</u>	<u>88,725</u>	<u>41,480</u>	<u>176,715</u>	<u>138,561</u>
Total Revenues	6,246,092	6,586,828	2,031,637	2,232,176	8,277,729	8,819,004
EXPENSES						
Governmental activities:						
General government	774,747	780,941	-	-	774,747	780,941
Public safety	2,845,886	2,924,640	-	-	2,845,886	2,924,640
Highways and streets	491,500	500,755	-	-	491,500	500,755
Culture and recreation	948,980	990,053	-	-	948,980	990,053
Urban renewal	64,297	57,252	-	-	64,297	57,252
Business type activities:						
Water	-	-	877,165	888,065	877,165	888,065
Sewer	-	-	<u>970,888</u>	<u>1,191,859</u>	<u>970,888</u>	<u>1,191,859</u>
Total Expenses	5,125,410	5,253,641	1,848,053	2,079,924	6,973,463	7,333,565
Increase in net assets before transfers and internal balances	1,120,682	1,333,187	183,584	152,252	1,304,266	1,193,231
Transfers	114,618	(298,702)	(114,618)	298,702	-	-
Gain (loss) on sale of capital asset	-	(103,942)	1,052,865	-	1,052,865	(103,942)
Equity income (loss) in joint venture	-	-	(59,675)	(188,266)	(59,675)	(188,266)
Internal balances	<u>17,000</u>	<u>17,000</u>	<u>(17,000)</u>	<u>(17,000)</u>	-	-
Changes in net assets	1,252,300	947,543	1,045,156	245,688	2,297,456	1,193,231
Beginning net assets	<u>11,667,699</u>	<u>12,919,998</u>	<u>6,854,938</u>	<u>7,900,094</u>	<u>18,522,637</u>	<u>20,820,093</u>
Ending net assets	<u>12,919,999</u>	<u>13,867,542</u>	<u>7,900,094</u>	<u>8,145,782</u>	<u>20,820,903</u>	<u>22,013,324</u>

Governmental activities. Governmental activities increased the City of Gladstone's net assets by \$947,543.

Business-type activities. Business-type activities increased the City of Gladstone's net assets by \$245,688.

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 \$4,037,035.

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

Capital Assets. The following tables compare capital assets and changes in capital assets as of June 30, 2006 and June 30, 2007.

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Government</u>	
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Land	5,519,830	5,519,830	640,964	640,964	6,160,794	6,160,794
Buildings	1,177,470	1,257,723	40,563	33,437	1,218,033	1,291,160
Motor vehicles and equipment	410,967	1,063,724	10,520	2,932	421,487	1,066,656
Investment in joint venture	-	-	3,602,308	3,414,042	3,602,308	3,414,042
Infrastructure	<u>1,384,444</u>	<u>2,041,152</u>	<u>5,781,470</u>	<u>5,959,208</u>	<u>7,165,914</u>	<u>8,000,360</u>
Total	8,492,711	9,882,429	10,075,825	10,050,583	18,568,536	19,933,012

Table 4
Changes in Capital Assets

	<u>Governmental Activities</u>		<u>Business-type activities</u>		<u>Total Government</u>	
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Beginning balance	7,676,937	8,492,711	6,519,337	10,075,825	14,196,274	18,568,536
Additions	1,037,915	1,651,525	3,810,970	407,750	4,848,885	2,059,275
Depreciation	(218,344)	(260,143)	(194,807)	(244,726)	(413,151)	(504,869)
Deletions	<u>(3,797)</u>	<u>(1,664)</u>	<u>(59,675)</u>	<u>(188,266)</u>	<u>(63,472)</u>	<u>(189,930)</u>
Ending Balance	<u>8,492,711</u>	<u>9,882,429</u>	<u>10,075,825</u>	<u>10,050,583</u>	<u>18,568,536</u>	<u>19,933,012</u>

Long-term debt. At the end of the fiscal year, the City had long-term debt outstanding of \$2,791,425 of which \$2,560,000 was for the purchase of equity ownership in a water treatment facility and the remaining balance is 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



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

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CITY OF GLADSTONE, OREGON
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 780,941	\$ 58,686	\$ 61,339	\$ -
Public safety	2,924,640	230,795	-	-
Highways and streets	500,755	76,747	-	-
Urban and renewal	57,252	-	-	-
Culture and recreation	990,053	94,827	7,853	-
Total governmental activities	5,253,641	461,055	69,192	-
Business-type activities:				
Water Fund	888,065	991,583	-	-
Sewer Fund	1,191,859	1,199,113	-	-
Total business type activities	2,079,924	2,190,696	-	-
Total government	\$ 7,333,565	\$ 2,651,751	\$ 69,192	\$ -

General revenues:

Taxes:

Property taxes

Public service taxes

Franchise fees

Grants and contributions not restricted to specific programs

Interest and investment earnings

Equity in income (loss) of joint venture

Miscellaneous

Gain (loss) on sale of capital assets

Internal charges

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.

CITY OF GLADSTONE, OREGON
STATEMENT OF NET ASSETS
June 30, 2007

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 3,769,061	\$ 536,379	\$ 4,305,440
Cash with county treasurer	27,543	-	27,543
Accounts receivable	16,639	341,492	358,131
Property taxes receivable	171,316	-	171,316
Prepays	-	144,190	144,190
Due from other governments	45,961	-	45,961
Miscellaneous	15,138	-	15,138
Total current assets	4,045,658	1,022,061	5,067,719
Noncurrent assets:			
Internal balances	422,984	(422,984)	-
Restricted cash and investments	14,378	216,126	230,504
Assessments receivable	-	8,083	8,083
Bond issue cost	-	60,024	60,024
Interest receivable	-	2,379	2,379
Investment in joint venture	-	3,414,042	3,414,042
Capital assets, net	9,882,429	6,636,541	16,518,970
Total noncurrent assets	10,319,791	9,914,211	20,234,002
Total assets	\$ 14,365,449	\$ 10,936,272	\$ 25,301,721
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 287,700	\$ 160,077	\$ 447,777
Interest payable	-	49,195	49,195
Accrued compensated absences	210,207	21,218	231,425
Bonds payable - current maturity	-	95,000	95,000
Total current liabilities	497,907	325,490	823,397
Noncurrent liabilities:			
Bonds payable	-	2,465,000	2,465,000
Total noncurrent liabilities	-	2,465,000	2,465,000
Total liabilities	497,907	2,790,490	3,288,397
NET ASSETS			
Invested in capital assets, net of related debt	9,882,429	3,503,557	13,385,986
Restricted for:			
Other purposes	560,382	216,126	776,508
Unrestricted	3,424,731	4,426,099	7,850,830
Total net assets	13,867,542	8,145,782	22,013,324
Total liabilities and net assets	\$ 14,365,449	\$ 10,936,272	\$ 25,301,721

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
\$ (660,916)	\$ -	\$ (660,916)
(2,693,845)	-	(2,693,845)
(424,008)	-	(424,008)
(57,252)	-	(57,252)
(887,373)	-	(887,373)
<u>(4,723,394)</u>	<u>-</u>	<u>(4,723,394)</u>
-	103,518	103,518
-	7,254	7,254
<u>-</u>	<u>110,772</u>	<u>110,772</u>
<u>(4,723,394)</u>	<u>110,772</u>	<u>(4,612,622)</u>
4,060,207	-	4,060,207
1,066,736	-	1,066,736
477,048	-	477,048
118,346	-	118,346
237,163	-	237,163
-	(188,266)	(188,266)
97,081	41,480	138,561
(103,942)	-	(103,942)
17,000	(17,000)	-
(298,702)	298,702	-
<u>5,670,937</u>	<u>134,916</u>	<u>5,805,853</u>
<u>947,543</u>	<u>245,688</u>	<u>1,193,231</u>
<u>12,919,999</u>	<u>7,900,094</u>	<u>20,820,093</u>
<u>\$ 13,867,542</u>	<u>\$ 8,145,782</u>	<u>\$ 22,013,324</u>

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



City of
Gladstone

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FUND FINANCIAL STATEMENTS
Major Governmental Funds

General Fund

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

State Revenue Sharing Fund

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

Road and Street Fund

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

Urban Renewal Agency Fund

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

CITY OF GLADSTONE, OREGON
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2007

	<u>General Fund</u>	<u>State Revenue Sharing Fund</u>	<u>Road and Street Fund</u>
ASSETS			
Cash and investments	\$ 2,272,700	\$ 122,262	\$ 744,357
Restricted cash and investments	14,378	-	-
Cash with county treasurer	18,871	-	-
Property taxes receivable	119,691	-	-
Due from other funds	-	422,984	-
Due from other governments	-	-	45,961
Miscellaneous	15,138	-	-
	<u>2,440,778</u>	<u>545,246</u>	<u>790,318</u>
Total assets	<u>\$ 2,440,778</u>	<u>\$ 545,246</u>	<u>\$ 790,318</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 107,903	\$ 3,200	\$ 143,877
Deferred revenue	110,730	-	-
	<u>218,633</u>	<u>3,200</u>	<u>143,877</u>
Total liabilities	<u>218,633</u>	<u>3,200</u>	<u>143,877</u>
FUND BALANCES:			
Unreserved, reported in:			
General fund	2,222,145	-	-
Special revenue fund	-	542,046	646,441
	<u>2,222,145</u>	<u>542,046</u>	<u>646,441</u>
Total fund balance	<u>2,222,145</u>	<u>542,046</u>	<u>646,441</u>
Total liabilities and fund balance	<u>\$ 2,440,778</u>	<u>\$ 545,246</u>	<u>\$ 790,318</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>
\$ 233,653	\$ 396,089	\$ 3,769,061
-	-	14,378
4,501	4,171	27,543
27,831	23,794	171,316
-	-	422,984
-	-	45,961
-	-	15,138
<u>\$ 265,985</u>	<u>\$ 440,693</u>	<u>\$ 4,483,020</u>
\$ -	\$ 32,720	\$ 287,700
25,742	21,813	158,285
<u>25,742</u>	<u>54,533</u>	<u>445,985</u>
-	-	2,222,145
240,243	386,160	1,814,890
<u>240,243</u>	<u>386,160</u>	4,037,035
<u>\$ 265,985</u>	<u>\$ 440,693</u>	
		9,882,429
		158,285
		<u>(210,207)</u>
		<u>\$ 13,867,542</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, 2007

	General Fund	State Revenue Sharing Fund	Road and Street Fund
REVENUES:			
Property taxes	\$ 2,766,377	\$ -	\$ -
Public service taxes	437,055	-	566,383
Franchise taxes	477,048	-	-
Grants	77,822	79,462	-
Charges for services	121,713	-	76,747
Licenses and permits	31,800	-	-
Fines and forfeitures	230,795	-	-
Contributions and donations	30,254	-	-
Interest	176,265	35,503	-
Miscellaneous	97,054	-	27
	<u>4,446,183</u>	<u>114,965</u>	<u>643,157</u>
EXPENDITURES:			
Current:			
General government	765,814	-	-
Public safety	2,392,222	-	-
Highways and streets	-	-	229,663
Urban and renewal	-	-	-
Culture and recreation	842,573	-	-
Capital outlay	349,860	474,375	549,150
	<u>4,350,469</u>	<u>474,375</u>	<u>778,813</u>
Total expenditures	4,350,469	474,375	778,813
Revenues over (under) expenditures	95,714	(359,410)	(135,656)
OTHER FINANCING SOURCES (USES):			
Transfers in	72,274	-	-
Transfers out	-	-	-
	<u>72,274</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	72,274	-	-
Net changes in fund balances	167,988	(359,410)	(135,656)
FUND BALANCES, BEGINNING	<u>2,054,157</u>	<u>901,456</u>	<u>782,097</u>
FUND BALANCES, ENDING	<u>\$ 2,222,145</u>	<u>\$ 542,046</u>	<u>\$ 646,441</u>

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

Urban Renewal Agency Fund	Other Governmental	Total Governmental
\$ 662,265	\$ 612,979	\$ 4,041,621
-	63,298	1,066,736
-	-	477,048
-	-	157,284
-	-	198,460
-	-	31,800
-	-	230,795
-	-	30,254
16,867	25,528	254,163
-	-	97,081
<u>679,132</u>	<u>701,805</u>	<u>6,585,242</u>
-	-	765,814
-	435,105	2,827,327
-	-	229,663
49,487	-	49,487
-	-	842,573
<u>707,634</u>	<u>291,622</u>	<u>2,372,641</u>
<u>757,121</u>	<u>726,727</u>	<u>7,087,505</u>
(77,989)	(24,922)	(502,263)
-	-	72,274
-	(15,967)	(15,967)
-	(15,967)	56,307
(77,989)	(40,889)	(445,956)
<u>318,232</u>	<u>427,049</u>	<u>4,482,991</u>
<u>\$ 240,243</u>	<u>\$ 386,160</u>	<u>\$ 4,037,035</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, 2007

Amounts reported in the statement of activities are different because:

Net change in fund balances	\$ (445,956)
 The statement of revenues, expenditures, and changes if 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	 1,389,718
 Some revenue reported in the statement of activities do not provide current financial resources in the governmental funds	 18,586
 The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This is the amount by which proceeds exceed repayments	 <u>(14,805)</u>
Change in net assets of governmental activities	<u>\$ 947,543</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.

Fund description

CITY OF GLADSTONE, OREGON
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2007

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Cash and investments	\$ 197,761	\$ 338,618	\$ 536,379
Trade accounts receivable	150,849	190,643	341,492
Prepays	144,190	-	144,190
Total current assets	492,800	529,261	1,022,061
Noncurrent assets:			
Assessments receivable	-	8,083	8,083
Interest receivable	-	2,379	2,379
Restricted cash	82,011	134,115	216,126
Due from other funds	-	150,000	150,000
Bond issue cost	60,024	-	60,024
Investment in joint venture	3,414,042	-	3,414,042
Capital assets, net	3,837,270	2,799,271	6,636,541
Total noncurrent assets	7,393,347	3,093,848	10,487,195
Total assets	\$ 7,886,147	\$ 3,623,109	\$ 11,509,256
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts payable	\$ 31,897	\$ 128,180	\$ 160,077
Interest payable	49,195	-	49,195
Accrued compensated absences	10,664	10,554	21,218
Bonds payable - current maturity	95,000	-	95,000
Bonds payable	2,465,000	-	2,465,000
Due to other funds	572,984	-	572,984
Total liabilities	3,224,740	138,734	3,363,474
NET ASSETS:			
Invested in capital assets, net of related debt	704,286	2,799,271	3,503,557
Restricted for:			
Other purposes	82,011	134,115	216,126
Unrestricted	3,875,110	550,989	4,426,099
Total net assets	4,661,407	3,484,375	8,145,782
Total liabilities and net assets	\$ 7,886,147	\$ 3,623,109	\$ 11,509,256

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, 2007**

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
OPERATING REVENUES:			
Service charges	\$ 903,375	\$ 1,120,962	\$ 2,024,337
Connection and installation fees	11,600	70,302	81,902
System development charge	59,608	7,849	67,457
Miscellaneous	40,289	1,191	41,480
Total operating revenues	<u>1,014,872</u>	<u>1,200,304</u>	<u>2,215,176</u>
OPERATING EXPENSES:			
Purchases	202,088	815,402	1,017,490
Salaries and fringe benefits	230,377	202,139	432,516
Contract charges	10,278	-	10,278
Connection turnovers	-	62,222	62,222
Maintenance and repairs	121,261	33,082	154,343
Utilities	16,478	504	16,982
Depreciation and amortization	166,216	78,510	244,726
Supplies	9,370	-	9,370
Miscellaneous	16,629	-	16,629
Total operating expenses	<u>772,697</u>	<u>1,191,859</u>	<u>1,964,556</u>
Operating income (loss)	242,175	8,445	250,620
NON-OPERATING INCOME (EXPENSE):			
Interest expense	<u>(115,368)</u>	-	<u>(115,368)</u>
Total non-operating income (expenses)	<u>(303,634)</u>	-	<u>(303,634)</u>
Net income (loss) before operating transfers	(61,459)	8,445	(53,014)
TRANSFERS:			
Transfers in (out)	<u>355,009</u>	<u>(56,307)</u>	<u>298,702</u>
Change in net assets	293,550	(47,862)	245,688
NET ASSETS, BEGINNING	<u>4,367,857</u>	<u>3,532,237</u>	<u>7,900,094</u>
NET ASSETS, ENDING	<u>\$ 4,661,407</u>	<u>\$ 3,484,375</u>	<u>\$ 8,145,782</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, 2007

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 1,013,753	\$ 1,200,228	\$ 2,213,981
Cash paid to employees and others for salaries and benefits	(228,858)	(200,153)	(429,011)
Cash paid to suppliers and others	(376,262)	(819,415)	(1,195,677)
Net cash provided (used) by operating activities	408,633	180,660	589,293
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Payment from (to) other funds	17,000	-	17,000
Transfers in (out)	355,009	(56,307)	298,702
Net cash provided (used) by non-capital financing activities	372,009	(56,307)	315,702
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of capital assets	(390,148)	(17,602)	(407,750)
Interest paid on capital debt	(116,719)	-	(116,719)
Bond costs	3,335	-	3,335
Bond proceeds	(90,000)	-	(90,000)
Net cash provided (used) by capital and related financing activities	(593,532)	(17,602)	(611,134)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	-	(91)	(91)
Net cash provided (used) by investing activities	-	(91)	(91)
Net increase in cash and cash equivalents	187,110	106,660	293,770
CASH AND CASH EQUIVALENTS, BEGINNING	92,662	366,073	458,735
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 279,772</u>	<u>\$ 472,733</u>	<u>\$ 752,505</u>
COMPRISED AS FOLLOWS:			
Unrestricted	\$ 197,761	\$ 338,618	\$ 536,379
Restricted	82,011	134,115	216,126
Total	<u>\$ 279,772</u>	<u>\$ 472,733</u>	<u>\$ 752,505</u>

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

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:**

Operating Income	\$ 242,175	\$ 8,445	\$ 250,620
Adjustments			
Depreciation	166,216	78,510	244,726
Decrease (increase) in:			
Accounts receivable	(1,119)	(76)	(1,195)
Assessments receivable	(3,648)	-	(3,648)
Increase (decrease) in:			
Accounts payable and accrued expenses	3,490	91,795	95,285
Deferred revenue	1,519	1,986	3,505
	<u> </u>	<u> </u>	<u> </u>
Net cash provided (used) by operating activities	<u>\$ 408,633</u>	<u>\$ 180,660</u>	<u>\$ 589,293</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, 2007

	<u>Agency Funds</u>
<u>ASSETS:</u>	
Cash and investments	\$ 42,998
Total assets	<u>42,998</u>
<u>LIABILITIES:</u>	
Other current liabilities	\$ 42,998
Total liabilities	42,998
<u>NET ASSETS:</u>	<u>-</u>
Total liabilities and net assets	<u>\$ 42,998</u>

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



City of
Gladstone

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CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

1. Summary of Significant Accounting Policies

The financial statements of the City have been prepared in accordance with Generally Accepted Accounting Principles (GAAP). GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In June 1999, the GASB approved Statement 34 Basic Financial Statements and Management Discussion and Analysis for State and Local Governments (GASB 34). This Statement provides for significant changes in financial reporting and is scheduled for phased implementation based on the size of the government, starting with fiscal years ending 2002. As a part of this Statement, there is a new reporting requirement regarding the local government's infrastructure (roads, paths, street lights, etc.) The City of Gladstone financial statements for the fiscal year ended June 30, 2007 comply with the requirements of GASB 34.

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).

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

B. Basic Financial Statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Government-wide statements

The statement of net 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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

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:

- *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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is 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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

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

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

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.

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 government-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 \$2,000 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, 2007.

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*

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

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.

Funds used to liquidate accrued compensated absences included the general fund, road and street fund, police communications special levy fund, fire and emergency services 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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

bonds issued to acquire or construct capital assets. The nonexpendable portion of permanent funds is reported as a component of restricted net 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.

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.

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, 2007 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	\$ 4,344,897
Certificates of deposit	0.04	11,068
IDS annuity	1.25	9,504
Municipal bond	<u>20.79</u>	<u>25,046</u>
Portfolio weighted average maturity	<u>0.12</u>	<u>\$ 4,390,515</u>

A. Interest rate risk

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

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 Moody'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. Oregon Revised Statutes requires the depository institution to maintain on deposit with a collateral pool manager, security having a value of not less than 25% of the outstanding certificates of participation issued by the pool manager. However, in accordance with State statutes, the State Treasurer allows certain depository banks to be the custodian with respect to their own pledged collateral securities. For these institutions, the State Treasurer is the collateral pool manager. The total bank balance at June 30, 2007 as shown on the bank statements was \$261,784. Of these deposits, \$172,541 was covered by federal depository insurance and the remainder was collateralized in accordance with Oregon Revised 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, 2007, 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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

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

Loans receivable/payable to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sewer Fund	Water Fund	\$ 150,000
State Revenue Sharing Fund	Water Fund	412,984
Total		<u>\$ 562,984</u>

Transfers between funds during the year were as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
Major Governmental Funds:		
General Fund	\$ 72,274	\$ -
Urban Renewal Fund	-	355,009
Total Major Governmental Funds	<u>72,274</u>	<u>355,009</u>
Nonmajor Governmental Funds:		
Police and Communications Fund	-	11,389
Fire and Emergency Services Special Levy Fund	-	4,578
Total Non-major Governmental Funds	<u>-</u>	<u>15,967</u>
Proprietary Funds:		
Water Fund	355,009	-
Sewer Fund	-	56,307
Total Proprietary Funds	<u>-</u>	<u>56,307</u>
Total All Funds	<u>\$ 427,283</u>	<u>\$ 427,283</u>

The Police and Communications Fund, Fire and Emergency Services Special Levy Fund, and Sewer Fund transferred \$72,274 to the General Fund to cover general operating and administrative expenses.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

5. Capital Assets

Capital asset activity for the year ended June 30, 2007 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	5,519,830	-	-	5,519,830
<i>Capital assets, being depreciated:</i>				
Buildings	2,092,963	134,208	-	2,227,171
Equipment	945,901	60,068	-	1,005,969
Vehicles	1,372,871	766,539	(73,267)	2,066,143
Infrastructure	1,424,407	690,710	-	2,115,117
Total capital assets, being depreciated	5,836,142	1,651,525	(73,267)	7,414,400
<i>Less accumulated depreciation for:</i>				
Buildings	(915,493)	(53,955)	-	(969,448)
Equipment	(670,091)	(100,551)	-	(770,642)
Vehicles	(1,237,714)	(71,635)	71,603	(1,237,746)
Infrastructure	(39,963)	(34,002)	-	(73,965)
Total accumulated depreciation	(2,863,261)	(260,143)	71,603	(3,051,801)
Total capital assets, being depreciated, net	2,972,881	1,391,382	(1,664)	4,362,599
Governmental activities capital assets, net	\$ 8,492,711	\$ 1,391,382	\$ (1,664)	\$ 9,882,429

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

Business-type Activities:	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital assets, not being depreciated:</i>				
Land	\$ 640,964	\$ -	\$ -	\$ 640,964
Investment in Joint Venture	3,602,308	-	(188,266)	3,414,042
Total capital assets, not being depreciated	<u>4,243,272</u>	<u>-</u>	<u>(188,266)</u>	<u>4,055,006</u>
<i>Capital assets, being depreciated:</i>				
Buildings	299,113	-	-	299,113
Equipment	64,214	-	-	64,214
Vehicles	115,130	-	-	115,130
Infrastructure	9,173,505	407,750	-	9,581,255
Total capital assets being depreciated	<u>9,651,962</u>	<u>407,750</u>	<u>-</u>	<u>10,059,712</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(258,550)	(7,126)	-	(265,676)
Equipment	(63,261)	(789)	-	(64,050)
Vehicles	(105,563)	(6,799)	-	(112,362)
Infrastructure	(3,392,035)	(230,012)	-	(3,622,047)
Total accumulated depreciation	<u>(3,819,409)</u>	<u>(244,726)</u>	<u>-</u>	<u>(4,064,135)</u>
Total capital assets being depreciated, net	<u>5,832,553</u>	<u>163,024</u>	<u>-</u>	<u>5,995,577</u>
Business type activities capital assets, net	<u>\$ 10,075,825</u>	<u>\$ 163,024</u>	<u>\$ (188,266)</u>	<u>\$ 10,050,583</u>

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

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

Governmental activities:

General government	\$ 12,722
Highways and Streets	39,031
Public safety	169,432
Culture and recreation	38,958
	<hr/>
Total depreciation expense - governmental activities	<u>\$ 260,143</u>

Business-type activities:

Water	\$ 166,216
Sewer	78,510
	<hr/>
Total depreciation expense - business-type activities	<u>\$ 244,726</u>

6. Joint Venture

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

The City of Gladstone became a partner in the joint venture through the First Addendum to the Second Intergovernmental Agreement, paying \$2,609,118, transferring rights to 8,900,000 gallons per day of Clackamas River Water, and supporting the substitution of the North Clackamas County Water Commission for the City as a member of the Willamette Water Resources Commission to acquire ten 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.

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

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 share of the net losses of the joint venture for the year ended June 30, 2007 was (\$188,266). Of this amount, (\$179,041) represented the City's share of the operating losses of the joint venture, and (\$9,225) represented the City's share of a prior period adjustment to the financial statements of the joint venture. The City's net equity in the joint venture as of June 30, 2007 was \$3,414,042. 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, Oak Grove, Oregon 97267.

7. Deferred Revenue

Deferred revenue as of June 30, 2007 consists of the following:

	General Fund	Fire & Emergency Services Special Levy Fund	Police & Communications Special Levy Fund	Urban Renewal Fund	Total
Property taxes	\$ 110,730	\$ 6,982	\$ 14,831	\$ 25,742	\$ 158,285

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

8. Long Term Debt

A. Changes in General Long-Term Liabilities

During the year ended June 30, 2007, long-term liability activity was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities					
Compensated absences:	\$ 195,402	\$ 167,095	\$ (152,290)	\$ 210,207	\$ 210,207
Governmental activities long-term liabilities	<u>\$ 195,402</u>	<u>\$ 167,095</u>	<u>\$ (152,290)</u>	<u>\$ 210,207</u>	<u>\$ 210,207</u>
Business-type Activities					
Bonds	\$ 2,650,000	\$ -	\$ (90,000)	\$ 2,560,000	\$ 95,000
Compensated absences:	17,713	21,218	(17,713)	21,218	21,218
Business-type activities long-term liabilities	<u>\$ 2,667,713</u>	<u>\$ 21,218</u>	<u>\$ (107,713)</u>	<u>\$ 2,581,218</u>	<u>\$ 116,218</u>

9. Pension Plan

A. Plan Description

The City contributes to two pension plans administered by the Oregon Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the City's contribution for qualifying employees who were hired before August 29, 2003, and is a cost-sharing multiple-employer defined benefit pension plan. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to the OPERF and consists of two programs: The Pension Program, the defined benefit portion of the plan, applies to qualifying City employees hired after August 29, 2003, and to inactive employees who return to employment following a six-month or greater break in service. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service. Beginning January 1, 2004, all PERS member contributions go into the Individual Account Program (IAP), the defined contribution portion of the plan. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member's IAP, not the member's PERS account.

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

CITY OF GLADSTONE
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

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, 2007 was 14.37% and the annual pension cost was \$371,315. The OPSRP rates in effect for the year ended June 30, 2007 was 8.04% for general employees and 11.65% 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, 2007, 2006, and 2005 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/05	276,649	100%	-
6/30/06	394,146	100%	-
6/30/07	371,315	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 \$815,402 were made to the service districts during fiscal 2007 under these agreements.

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 2006 to 2007. 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

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

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CITY OF GLADSTONE, OREGON
GENERAL FUND
SCHEDULE OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2007

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 2,680,593	\$ 2,680,593	\$ 2,766,377	\$ 85,784
Public service taxes	405,076	405,076	437,055	31,979
Franchise taxes	432,060	432,060	477,048	44,988
Grants	1,514,900	1,514,900	77,822	(1,437,078)
Charges for services	85,873	85,873	121,713	35,840
Licenses and permits	27,600	27,600	31,800	4,200
Fines and forfeitures	225,000	225,000	230,795	5,795
Contributions and donations	32,000	32,000	30,254	(1,746)
Interest	85,000	85,000	176,265	91,265
Miscellaneous	74,000	74,000	97,054	23,054
Total revenues	<u>5,562,102</u>	<u>5,562,102</u>	<u>4,446,183</u>	<u>(1,115,919)</u>
EXPENDITURES:				
General government	832,525	832,525	765,814	66,711
Public safety	2,614,017	2,649,017	2,392,222	256,795
Cultural and recreation	908,958	908,958	842,573	66,385
Capital outlay	2,315,977	2,380,977	349,860	2,031,117
Contingency	690,192	690,192	-	690,192
Total expenditures	<u>7,361,669</u>	<u>7,461,669</u>	<u>4,350,469</u>	<u>3,111,200</u>
Transfers in	<u>122,394</u>	<u>222,394</u>	<u>72,274</u>	<u>(150,120)</u>
Total other financing sources (uses)	<u>122,394</u>	<u>222,394</u>	<u>72,274</u>	<u>(150,120)</u>
Net changes in fund balances	(1,677,173)	(1,677,173)	167,988	1,845,161
FUND BALANCE, BEGINNING	<u>1,677,173</u>	<u>1,677,173</u>	<u>2,054,157</u>	<u>376,984</u>
FUND BALANCE, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,222,145</u>	<u>\$ 2,222,145</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, 2007**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Grants	\$ 65,000	\$ 65,000	\$ 79,462	\$ 14,462
Interest	15,000	15,000	18,503	3,503
Total revenues	80,000	80,000	97,965	17,965
EXPENDITURES:				
Capital outlay	945,155	445,155	474,375	(29,220)
Total expenditures	945,155	445,155	474,375	(29,220)
Revenues over (under) expenditures	(865,155)	(365,155)	(376,410)	(11,255)
OTHER FINANCING SOURCES (USES):				
Transfers out	-	500,000	-	(500,000)
Total other financing sources (uses)	-	500,000	-	(500,000)
Net changes in fund balances	(865,155)	134,845	(376,410)	(511,255)
FUND BALANCE, BEGINNING BUDGETARY BASIS	865,155	865,155	901,456	36,301
FUND BALANCE, ENDING BUDGETARY BASIS	\$ -	\$ 1,000,000	525,046	\$ (474,954)
Interfund loan and interest receivable			17,000	
FUND BALANCES, ENDING			\$ 542,046	

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, 2007

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Public service taxes	\$ 577,212	\$ 577,212	\$ 566,383	\$ (10,829)
Charges for services	10,000	10,000	76,747	66,747
Miscellaneous	1,000	1,000	27	(973)
Total revenues	<u>588,212</u>	<u>588,212</u>	<u>643,157</u>	<u>54,945</u>
EXPENDITURES:				
Personal service	127,276	127,276	98,787	28,489
Materials and service	158,500	158,500	130,876	27,624
Capital outlay	926,152	926,152	549,150	377,002
Contingency	5,000	5,000	-	5,000
Total expenditures	<u>1,216,928</u>	<u>1,216,928</u>	<u>778,813</u>	<u>438,115</u>
Revenues over (under) expenditures	<u>(628,716)</u>	<u>(628,716)</u>	<u>(135,656)</u>	<u>493,060</u>
Net changes in fund balances	(628,716)	(628,716)	(135,656)	493,060
FUND BALANCES, BEGINNING	<u>628,716</u>	<u>628,716</u>	<u>782,097</u>	<u>153,381</u>
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 646,441</u>	<u>\$ 646,441</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, 2007

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 609,500	\$ 609,500	\$ 662,265	\$ 52,765
Interest	20,000	20,000	16,867	(3,133)
Miscellaneous	1,000	1,000	-	(1,000)
Total revenues	630,500	630,500	679,132	48,632
EXPENDITURES:				
Materials and service	84,000	84,000	49,487	34,513
Capital outlay	707,980	707,980	707,634	346
Contingency	5,000	5,000	-	5,000
Total expenditures	796,980	796,980	757,121	39,859
Revenues over (under) expenditures	(166,480)	(166,480)	(77,989)	88,491
Net changes in fund balances	(166,480)	(166,480)	(77,989)	88,491
FUND BALANCES, BEGINNING	166,480	166,480	318,232	151,752
FUND BALANCES, ENDING	\$ -	\$ -	\$ 240,243	\$ 240,243

CITY OF GLADSTONE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2007

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. The City adopted one supplemental budget during the year ended June 30, 2007. 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, 2007. Appropriations lapse as of year-end.

Expenditures in the following funds exceeded appropriations for the year ended June 30, 2007:

Fund	Budget Category	Amount of Over-Expenditure
General	Recreation Department	\$ 16,847
State Revenue Sharing Fund	Capital Outlay	29,220
Water Fund	Debt Service	49,173



City of
Gladstone

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OTHER SUPPLEMENTARY INFORMATION



OTHER SUPPLEMENTARY INFORMATION

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

Such statements and schedules include:

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

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, 2007

	911 Excise Tax Resource Fund	Police and Communications Special Levy Fund	Fire and Emergency Services Special Levy Fund	Total
ASSETS				
Cash and investments	\$ 37,950	\$ 229,657	\$ 128,482	\$ 396,089
Cash with county treasurer	-	2,836	1,335	4,171
Accounts receivable	16,639	-	-	16,639
Property taxes receivable	-	16,178	7,616	23,794
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 54,589</u>	<u>\$ 248,671</u>	<u>\$ 137,433</u>	<u>\$ 440,693</u>
LIABILITIES AND FUND EQUITY				
LIABILITIES:				
Accounts payable	\$ 13,333	\$ 19,229	\$ 158	\$ 32,720
Deferred revenue	-	14,831	6,982	21,813
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>13,333</u>	<u>34,060</u>	<u>7,140</u>	<u>54,533</u>
FUND BALANCES:				
Unreserved, reported in:				
Special revenue fund	<u>41,256</u>	<u>214,611</u>	<u>130,293</u>	<u>386,160</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund equity	<u>41,256</u>	<u>214,611</u>	<u>130,293</u>	<u>386,160</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund equity	<u>\$ 54,589</u>	<u>\$ 248,671</u>	<u>\$ 137,433</u>	<u>\$ 440,693</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, 2007

	911 Excise Tax Resource Fund	Police and Communications Special Levy Fund	Fire and Emergency Services Special Levy Fund	Total
REVENUES:				
Property taxes	\$ -	\$ 416,826	\$ 196,153	\$ 612,979
Public service taxes	63,298	-	-	63,298
Interest	2,537	10,938	12,053	25,528
Total revenues	<u>65,835</u>	<u>427,764</u>	<u>208,206</u>	<u>701,805</u>
EXPENDITURES:				
Public safety	45,289	300,123	89,693	435,105
Capital outlay	-	69,819	221,803	291,622
Total expenditures	<u>45,289</u>	<u>369,942</u>	<u>311,496</u>	<u>726,727</u>
Revenues over (under) expenditures	20,546	57,822	(103,290)	(24,922)
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(11,389)	(4,578)	(15,967)
Total other financing sources (uses)	<u>-</u>	<u>(11,389)</u>	<u>(4,578)</u>	<u>(15,967)</u>
Net changes in fund balances	20,546	46,433	(107,868)	(40,889)
FUND BALANCES, BEGINNING	<u>20,710</u>	<u>168,178</u>	<u>238,161</u>	<u>427,049</u>
FUND BALANCES, ENDING	<u>\$ 41,256</u>	<u>\$ 214,611</u>	<u>\$ 130,293</u>	<u>\$ 386,160</u>

CITY OF GLADSTONE, OREGON
AGENCY FUNDS
COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
For the Fiscal Year Ended June 30, 2007

	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007
Municipal Court Fund				
Assets				
Cash	\$ 6,855	\$ -	\$ 1,682	\$ 5,173
Liabilities				
Other current liabilities	\$ 6,855	\$ -	\$ 1,682	\$ 5,173
Library Board Trust Fund				
Assets				
Cash	\$ 36,224	\$ 1,601	\$ -	\$ 37,825
Liabilities				
Other current liabilities	\$ 36,224	\$ 1,601	\$ -	\$ 37,825
Totals - All Agency Funds				
Assets				
Cash	\$ 43,079	\$ 1,601	\$ 1,682	\$ 42,998
Liabilities				
Other current liabilities	\$ 43,079	\$ 1,601	\$ 1,682	\$ 42,998

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, 2007

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
General Administration:				
Personal services	\$ 414,658	\$ 414,658	\$ 385,984	\$ 28,674
Materials and services	417,867	417,867	379,830	38,037
Capital outlay	70,000	70,000	-	70,000
Subtotal	902,525	902,525	765,814	136,711
Municipal Court:				
Personal services	127,144	137,144	119,368	17,776
Materials and services	86,500	111,500	104,774	6,726
Subtotal	213,644	248,644	224,142	24,502
Police:				
Personal services	1,564,235	1,564,235	1,395,656	168,579
Materials and services	306,971	306,971	291,353	15,618
Capital outlay	65,000	65,000	67,586	(2,586)
Subtotal	1,936,206	1,936,206	1,754,595	181,611
Fire:				
Personal services	307,898	307,898	301,824	6,074
Materials and services	221,269	221,269	179,247	42,022
Capital outlay	1,091,000	1,156,000	183,161	972,839
Subtotal	1,620,167	1,685,167	664,232	1,020,935
Parks:				
Personal services	100,739	100,739	98,304	2,435
Materials and services	54,700	54,700	55,529	(829)
Capital outlay	663,000	663,000	34,242	628,758
Subtotal	818,439	818,439	188,075	630,364
Recreation:				
Personal services	24,960	24,960	22,440	2,520
Materials and services	29,187	29,187	48,554	(19,367)
Subtotal	54,147	54,147	70,994	(16,847)

CITY OF GLADSTONE, OREGON
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2007

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
Senior Center:				
Personal services	176,133	176,133	155,472	20,661
Materials and services	37,250	37,250	34,724	2,526
Capital outlay	260,477	260,477	1,241	259,236
Subtotal	473,860	473,860	191,437	282,423
Library:				
Personal services	434,989	434,989	386,995	47,994
Materials and services	51,000	51,000	40,555	10,445
Capital outlay	166,500	166,500	63,630	102,870
Subtotal	652,489	652,489	491,180	161,309
Total expenditures	<u>\$ 6,671,477</u>	<u>\$ 6,771,477</u>	<u>\$ 4,350,469</u>	<u>\$ 2,421,008</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, 2007

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Public service taxes	\$ 59,390	\$ 59,390	\$ 63,298	\$ 3,908
Interest	1,500	1,500	2,537	1,037
Total revenues	60,890	60,890	65,835	4,945
EXPENDITURES:				
Materials and service	53,000	53,000	45,289	7,711
Capital outlay	20,599	20,599	-	20,599
Total expenditures	73,599	73,599	45,289	28,310
Revenues over (under) expenditures	(12,709)	(12,709)	20,546	33,255
Net changes in fund balances	(12,709)	(12,709)	20,546	33,255
FUND BALANCES, BEGINNING	12,709	12,709	20,710	8,001
FUND BALANCES, ENDING	\$ -	\$ -	\$ 41,256	\$ 41,256

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, 2007

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 377,910	\$ 377,910	\$ 416,826	\$ 38,916
Contributions and donations	2,000	2,000	-	(2,000)
Interest	5,000	5,000	10,938	5,938
Total revenues	384,910	384,910	427,764	42,854
EXPENDITURES:				
Personal service	334,193	334,193	297,327	36,866
Materials and service	6,500	6,500	2,796	3,704
Capital outlay	133,670	133,670	69,819	63,851
Total expenditures	474,363	474,363	369,942	104,421
Revenues over (under) expenditures	(89,453)	(89,453)	57,822	147,275
OTHER FINANCING SOURCES (USES):				
Transfers out	(11,389)	(11,389)	(11,389)	-
Total other financing sources (uses)	(11,389)	(11,389)	(11,389)	-
Net changes in fund balances	(100,842)	(100,842)	46,433	147,275
FUND BALANCE, BEGINNING BUDGETARY BASIS	100,842	100,842	168,178	67,336
FUND BALANCE, ENDING	\$ -	\$ -	\$ 214,611	\$ 214,611

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, 2007

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 170,112	\$ 170,112	\$ 196,153	\$ 26,041
Interest	6,200	6,200	12,053	5,853
Total revenues	176,312	176,312	208,206	31,894
EXPENDITURES:				
Personal service	110,577	110,577	89,693	20,884
Materials and service	5,000	5,000	-	5,000
Capital outlay	264,697	664,697	221,803	442,894
Total expenditures	380,274	780,274	311,496	468,778
Revenues over (under) expenditures	(203,962)	(603,962)	(103,290)	500,672
OTHER FINANCING SOURCES (USES):				
Transfers in	-	400,000	-	(400,000)
Transfers out	(4,578)	(4,578)	(4,578)	-
Total other financing sources (uses)	(4,578)	395,422	(4,578)	(400,000)
Net changes in fund balances	(208,540)	(208,540)	(107,868)	100,672
FUND BALANCES, BEGINNING	208,540	208,540	238,161	29,621
FUND BALANCES, ENDING	\$ -	\$ -	\$ 130,293	\$ 130,293

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, 2007

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Service charges	\$ 831,128	\$ 831,128	\$ 903,375	\$ 72,247
Connection and installation fees	5,000	5,000	11,600	6,600
System development charge	18,000	18,000	59,608	41,608
Miscellaneous	1,000	1,000	40,289	39,289
Total revenues	855,128	855,128	1,014,872	159,744
EXPENDITURES:				
Personal service	240,935	240,935	230,377	10,558
Materials and service	333,518	433,518	372,769	60,749
Capital outlay	315,400	215,400	35,139	180,261
Debt service:				
Principal	90,000	90,000	90,000	-
Interest	50,546	50,546	99,719	(49,173)
Contingency	10,000	10,000	-	10,000
Total expenditures	1,040,399	1,040,399	828,004	212,395
Revenues over (under) expenditures	(185,271)	(185,271)	186,868	372,139
OTHER FINANCING SOURCES (USES):				
Interfund loan proceeds (payments)	(100,000)	(100,000)	-	100,000
Transfers out	(50,120)	(50,120)	-	50,120
Total other financing sources (uses)	(150,120)	(150,120)	-	150,120
Net changes in fund balances	(335,391)	(335,391)	186,868	522,259
FUND BALANCE, BEGINNING BUDGETARY BASIS	335,391	335,391	160,153	(175,238)
FUND BALANCE, ENDING BUDGETARY BASIS	\$ -	\$ -	\$ 347,021	\$ 347,021

	Revenues	Expenditures
Total revenue and expenditures above	\$ 1,014,872	\$ 828,004
Expenditures capitalized	-	(35,139)
Debt service principal payments	-	(90,000)
Interest receivable from/due to other funds	-	17,000
Depreciation and amortization expense	-	166,216
Accrued interest payable	-	(1,351)
Capital assets transferred from another fund	355,009	-
Bond costs	-	3,335
Equity in net income/loss of joint venture	(188,266)	-
Total revenues and expenses - generally accepted accounting principles	\$ 1,181,615	888,065
Change in net assets		\$ 293,550

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, 2007

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Service charge	\$ 1,127,372	\$ 1,127,372	\$ 1,120,962	\$ (6,410)
Connection and installation fees	60,000	60,000	70,302	10,302
System development charge	3,000	3,000	7,849	4,849
Miscellaneous	3,000	3,000	1,191	(1,809)
Total revenues	<u>1,193,372</u>	<u>1,193,372</u>	<u>1,200,304</u>	<u>6,932</u>
EXPENDITURES:				
Personal service	207,398	207,398	202,139	5,259
Materials and service	909,907	944,907	907,587	37,320
Capital outlay	212,918	177,918	21,225	156,693
Contingency	10,000	10,000	-	10,000
Total expenditures	<u>1,340,223</u>	<u>1,340,223</u>	<u>1,130,951</u>	<u>209,272</u>
Revenues over (under) expenditures	(146,851)	(146,851)	69,353	216,204
Transfers out	<u>(56,307)</u>	<u>(56,307)</u>	<u>(56,307)</u>	<u>-</u>
Total other financing sources (uses)	<u>43,693</u>	<u>43,693</u>	<u>(56,307)</u>	<u>(100,000)</u>
Net changes in fund balances	(103,158)	(103,158)	13,046	116,204
FUND BALANCE, BEGINNING BUDGETARY BASIS	<u>103,158</u>	<u>103,158</u>	<u>297,834</u>	<u>194,676</u>
FUND BALANCE, ENDING BUDGETARY BASIS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 310,880</u>	<u>\$ 310,880</u>
			<u>Revenues</u>	<u>Expenditures</u>
Total revenue and expenditures above			\$ 1,200,304	\$ 1,130,951
Operating transfers in/out			-	56,307
Expenditures capitalized			-	(17,602)
Depreciation and amortization expense			-	78,510
Total revenues and expenses - generally accepted accounting principles			<u>\$ 1,200,304</u>	<u>1,248,166</u>
Change in net assets				<u>\$ (47,862)</u>



City of
Gladstone

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OTHER FINANCIAL SCHEDULES

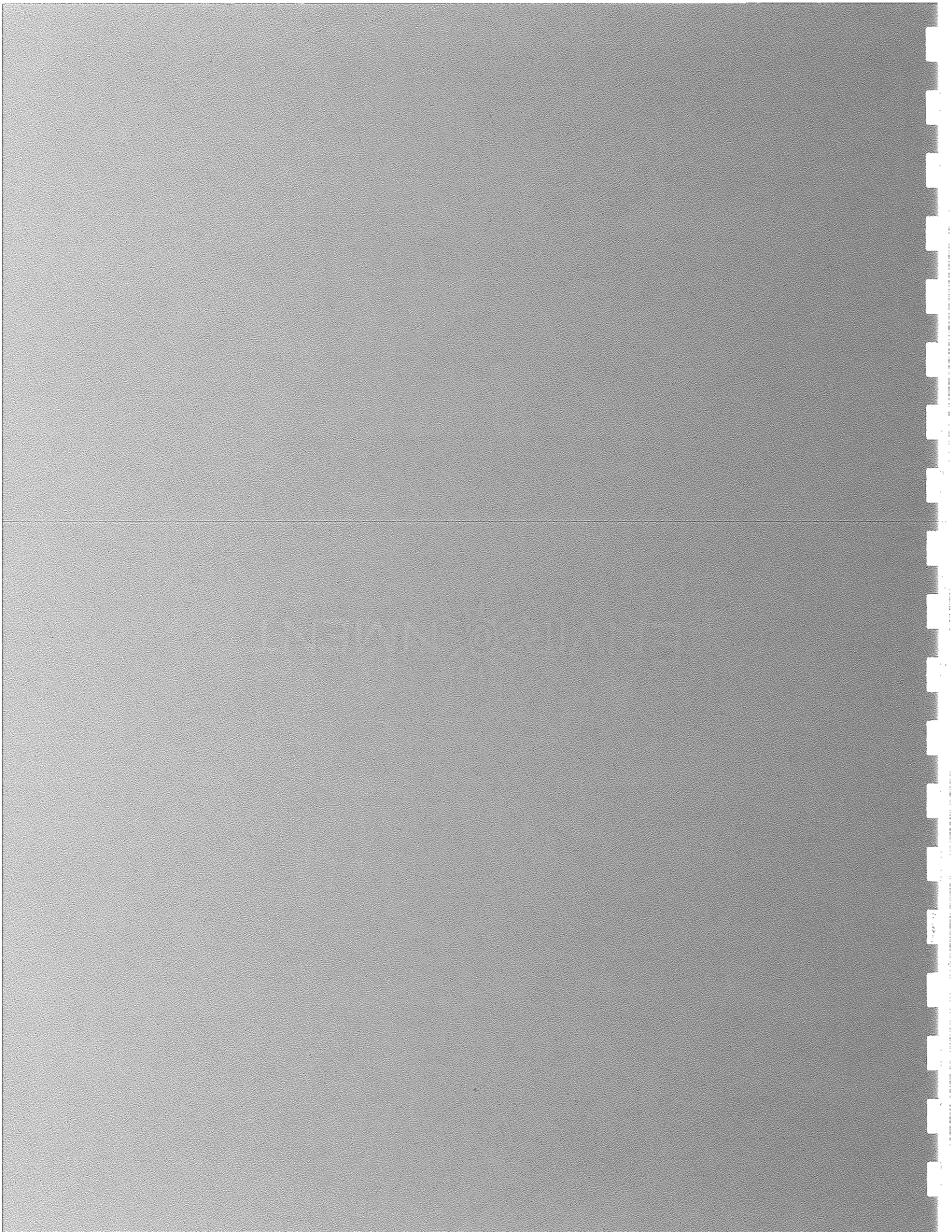
CITY OF GLADSTONE, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS AND OUTSTANDING BALANCES
For the Fiscal Year Ended June 30, 2007

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2006</u>	<u>2005-2006 Levy</u>	<u>Adjustments/ Discount</u>	<u>Collections</u>	<u>Uncollected Balance June 30, 2007</u>
2006-07	\$ -	\$ 4,155,903	\$ (107,599)	\$ (3,935,095)	\$ 113,209
2005-06	97,689	-	(707)	(65,331)	31,651
2004-05	29,227	-	(824)	(13,740)	14,663
2003-04	14,651	-	(513)	(8,457)	5,681
2002-03	7,860	-	(2,215)	(3,245)	2,400
2001-02	2,495	-	(444)	(521)	1,530
2000-01	1,153	-	(58)	(235)	860
1999-00	637	-	(164)	(118)	355
Prior years	987	-	-	(20)	967
Totals	\$ 154,699	\$ 4,155,903	\$ (112,524)	\$ (4,026,762)	\$ 171,316

Taxes receivable classified by fund:

General Fund	\$ 119,691
Police Fund	16,178
Fire Fund	7,616
Urban Renewal Agency Debt Service Fund	27,831
	<u>\$ 171,316</u>

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



CITY OF GLADSTONE, OREGON
AUDIT COMMENTS & DISCLOSURES REQUIRED BY STATE REGULATIONS
June 30, 2007

Introduction

Oregon Administrative Rules 162-10-000 through 162-10-320 incorporates 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 basic financial statements of the City of Gladstone, Oregon for the year ended June 30, 2007 and have issued our report thereon dated December 19, 2007.

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 basic 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 audit 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.

CITY OF GLADSTONE, OREGON
AUDIT COMMENTS & DISCLOSURES REQUIRED BY STATE REGULATIONS
June 30, 2007

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.

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. We identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and material weaknesses and have communicated them to management in a separate 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 Audits Division.

Other Comments and Disclosures

We have audited the basic financial statements for the City of Gladstone, Oregon as of and for the year ended June 30, 2007, and our report thereon is included on Page 1 of this report. Our audit was made in accordance with auditing standards generally accepted in the United States of America.

In connection with our audit:

Accounting Records

We found the accounting records of the City to be adequate for audit purposes.

Collateral

Based on our testing, the City appears to be in compliance with ORS Chapter 295 regarding securing deposits during the fiscal year ended June 30, 2007.

Indebtedness

During our audit, nothing came to our attention that caused us to believe the City was not in compliance with legal debt 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, with the following exceptions: the budget document presented only the adopted budget amounts instead of the proposed, approved, and adopted amounts. Expenditures in the following funds exceeded appropriations for the year ended June 30, 2007:

Fund	Budget Category	Amount of Over-Expenditure
General	Recreation Department	\$ 16,847
State Revenue Sharing Fund	Capital Outlay	29,220
Water Fund	Debt Service	49,173

CITY OF GLADSTONE, OREGON
AUDIT COMMENTS & DISCLOSURES REQUIRED BY STATE REGULATIONS
June 30, 2007

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, 2007 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.

Investments

The City investments for the year ended June 30, 2007 were tested and appear to be in compliance with Oregon Revised Statutes 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
December 19, 2007



City of
Gladstone

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