

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2007

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CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

CITY OFFICIALS AS OF JUNE 30, 2007

<u>NAME</u>	<u>TERM EXPIRES</u>
Rob Wheeler – Mayor	December 31, 2010
Lori DeRemer – Council President	December 31, 2008
Markley Drake	December 31, 2010
Tom Andrusko	December 31, 2010
Kristin Mitchell	December 31, 2008

All council members receive mail at the address below.

ADMINISTRATIVE

Cathy Daw, City Manager
12915 SE. King Road
Happy Valley, Oregon 97086
(503) 760-3325
(503) 760-9397

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CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

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INDEPENDENT AUDITORS' REPORT

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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

-
- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
 - (503) 620-2632 • FAX (503) 684-7523

January 11, 2008

To the Honorable Mayor and Members of the City Council
City of Happy Valley
Happy Valley, Oregon

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the City of Happy Valley, Clackamas County, Oregon, as of and for the year ended June 30, 2007, as listed in the table of contents. The basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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 basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of Happy Valley at June 30, 2007 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed on the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Happy Valley's basic financial statements. The supplementary information, including Budgetary comparison schedules listed in the table of contents, have 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.

Pauly, Rogers and Co., P.C.
PAULY, ROGERS AND CO., P.C.

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CITY OF HAPPY VALLEY, OREGON MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the City of Happy Valley's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements and notes, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total net assets were \$62,860,988 at June 30, 2007.
- During the year, the City's net assets increased by \$4,090,797.
- The general fund reported a fund balance this year of \$1,379,393.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's assets and liabilities and is a way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional non-financial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as general government, public safety, planning and building, streets and parks. Property taxes, franchise fees, permits and fees, and intergovernmental revenues finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds* - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City has the following kinds of funds:

- *Governmental funds* - Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Since these statements do not encompass the long-term focus of the government-wide statements a reconciliation is provided which explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

CITY OF HAPPY VALLEY - NET ASSETS

	Total 2007	Total 2006
ASSETS:		
Current and Other Assets	\$ 13,614,588	\$ 11,399,283
Capital Assets	51,064,396	48,222,368
Total Assets	64,678,984	59,621,651
LIABILITIES:		
Current and Other Liabilities	1,817,996	851,460
Total Liabilities	1,817,996	851,460
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	51,064,396	48,222,368
Unrestricted	11,796,592	10,547,823
Total Net Assets	<u>\$ 62,860,988</u>	<u>\$ 58,770,191</u>

CITY OF HAPPY VALLEY - CHANGES IN NET ASSETS

	Total 2007	Total 2006
REVENUES:		
Program Revenues:		
Charges for Services	\$ 3,045,300	\$ 6,265,744
General Revenues:		
Property Taxes-Perm Rate	720,299	586,109
Property Taxes-Levy	1,477,178	1,137,111
Other Taxes	389,193	367,268
Intergovernmental	498,671	311,452
Other	1,048,247	748,364
Total Revenues	<u>7,178,888</u>	<u>9,416,048</u>
EXPENSES:		
General Government	1,936,126	1,523,824
Building Inspection Program	920,768	1,164,901
Parks Development	48,768	20,723
Storm Drainage	0	0
Streets	182,429	171,315
Total Expenses	<u>3,088,091</u>	<u>2,880,763</u>
Change in Net Assets	4,090,797	6,535,285
Beginning Net Assets	<u>58,770,191</u>	<u>52,234,906</u>
Ending Net Assets	<u>\$ 62,860,988</u>	<u>\$ 58,770,191</u>

The City's total revenues were \$7,178,888. The Net Assets increased by \$4,090,797 indicating an increase in the City's financial position. The City of Happy Valley has been recognized as the fastest growing city in the state of Oregon. Key growth indicators are shown below:

Fiscal Year Ending	Population	Taxes Levied	Construction, Development and Building Permit Revenue
1995	2,060	\$148,599	\$308,314
2000	4,519	\$233,632	\$813,244
2005	7,275	\$1,443,486	\$3,552,633

The preliminary population estimate as of July 1, 2007 is 10,380. The population increase and resulting increase in taxes and permit revenues create an increase in net assets. The City, however, cannot depend on this growth for funding. Reserves for the future are necessary because assets may not increase when growth slows.

As a fast growing city, the City of Happy Valley faces many challenges:

- City Hall facility is too small for the current staff. Construction on a new City Hall facility began in September 2007.
- East Happy Valley expansion will provide 2,500 acres for future growth.
- The majority of the roads (excluding the new developments in the City) do not meet current standards. Funds are not available to improve the roads to a higher level of service.
- Police services are contracted through Clackamas County and are funded through a local option levy which expired at the end of the 2006-07 budget year. The levy was put before the voters in

November, 2006 and passed, therefore City police services will continue at the present standard until the end of the 2010-11 budget year.

- Annexation is by petition only. In order to diversify our tax base, we must expand boundaries. The City cannot anticipate when that might happen.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$7,157,906 in 2007. Governmental fund balances totaled \$11,796,388 at June 30, 2007. A summary of changes in governmental fund balances follows:

City of Happy Valley - Changes in Governmental Fund Balances

	June 30, 2007	June 30, 2006	Change
General Fund	\$ 1,379,393	\$ 2,312,092	\$ (932,699)
Street Fund	\$ 1,051,054	\$ 816,206	\$ 234,848
Building Fund	\$ 827,187	\$ 1,314,706	\$ (487,519)
System Development Fund	\$ 3,585,103	\$ 4,162,534	\$ (577,431)
Road Improvement Fund	\$ 414,192	\$ 341,935	\$ 72,257
Public Safety Fund	\$ 1,259,798	\$ 801,900	\$ 457,898
Reserve for Pension Fund	\$ 283,825	\$ 329,537	\$ (45,712)
New City Hall Fund	\$ 2,995,836	\$ 475,951	\$ 2,519,885

GENERAL FUND BUDGETARY HIGHLIGHTS

The fund balance in the General Fund decreased by \$932,699 from the prior year. This decrease was anticipated due to the General Fund transfer of \$2 million to the New City Hall Fund. The City intends to partially fund the new city hall using these amounts and therefore reduce the amount of debt incurred for the project. There were General Fund revenue collections in excess of budget estimates for the following:

Property Taxes	\$319,495
Development and Construction Fees	\$121,285
Franchise Fees	\$123,808
Interest	\$ 94,466

The City of Happy Valley Municipal Court is completely self-supporting.

New staff members are budgeted for the 2007-08 fiscal year as growth and new development increase the need for services for the City of Happy Valley.

CAPITAL ASSETS

At June 30, 2007, the City had \$51,064,396 invested in capital assets. This is an increase of \$2,842,028 from the prior year. This increase was due primarily to the park improvements, the new City Hall project, and street additions. As part of the City's commitment to quality of life a new restroom facility and splash pad were constructed in Happy Valley Park. Both were completed and opened in the spring of 2007. More detailed information about the City's capital assets is presented in the notes to the financial statements.

LONG TERM DEBT

At June 30, 2007, the City did not have outstanding debt.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The City's financial report is designed to provide our taxpayers, with an overview of the City's finances. If you have any questions about this report or need any clarification of information please contact the City of Happy Valley. Our address is: 12915 SE King Road, Happy Valley, OR 97086.

A handwritten signature in cursive script, appearing to read "Catherin Daw", is written over a horizontal line.

Catherin Daw
City Manager

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CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

BASIC FINANCIAL STATEMENTS

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CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

STATEMENT OF NET ASSETS
June 30, 2007

ASSETS

Current Assets:

Cash and Investments	\$ 13,405,279
Accounts Receivable	126,068
Property Taxes Receivable	<u>83,241</u>

Total Current Assets 13,614,588

Capital Assets, net of depreciation 51,064,396

Total Assets 64,678,984

LIABILITIES

Current Liabilities:

Accounts Payable	390,741
Payroll Liabilities	94,679
Other Payables	545,510
Accrued Vacation Payable	75,822
Unearned Cable Pegs Fees	293,794
Developer Trust Payable	47,158
Payable to Clackamas County	<u>370,292</u>

Total Liabilities 1,817,996

NET ASSETS:

Invested in Capital Assets, Net of Related Debt	51,064,396
Unrestricted	<u>11,796,592</u>

Total Net Assets \$ 62,860,988

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

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**CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON**

**STATEMENT OF ACTIVITIES
For the year ended June 30, 2007**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	
Governmental Activities				
General Government	\$ 1,936,126	\$ 1,808,138	\$ 0	\$ -127,988
Building	920,768	1,142,954	0	222,186
Parks	48,768	30,913	0	-17,855
Storm Drainage	0	63,295	0	63,295
Streets	182,429	0	0	-182,429
Total Governmental Activities	<u>\$ 3,088,091</u>	<u>\$ 3,045,300</u>	<u>\$ 0</u>	<u>-42,791</u>
General Revenues				
		Property Taxes		2,197,477
		Other Taxes		389,193
		Intergovernmental		498,671
		Other Revenue		<u>1,048,247</u>
		Total General Revenues		<u>4,133,588</u>
		Change in Net Assets		4,090,797
		Beginning Net Assets		<u>58,770,191</u>
		Ending Net Assets		<u>\$ 62,860,988</u>

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

**CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON**

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007**

	GENERAL FUND	STREET FUND	BUILDING FUND
ASSETS			
Cash and Investments	\$ 2,310,810	\$ 1,029,214	\$ 962,951
Accounts Receivable	91,400	34,668	0
Property Taxes Receivable	83,241	0	0
Total Assets	<u><u>\$ 2,485,451</u></u>	<u><u>\$ 1,063,882</u></u>	<u><u>\$ 962,951</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 75,829	\$ 8,752	\$ 114,146
Payroll and Payroll Taxes Payable	67,741	4,076	21,618
Construction Fees	519,379	0	0
Retainage	26,131	0	0
Unearned Cable Pegs Fees	293,794	0	0
Deferred Taxes	76,026	0	0
Developer Trust Payable	47,158	0	0
Payable to Clackamas County	0	0	0
Total Liabilities	<u>1,106,058</u>	<u>12,828</u>	<u>135,764</u>
Fund Balances:			
Unreserved and Undesignated	<u>1,379,393</u>	<u>1,051,054</u>	<u>827,187</u>
Total Fund Balances	<u>1,379,393</u>	<u>1,051,054</u>	<u>827,187</u>
Total Liabilities and Fund Balances	<u><u>\$ 2,485,451</u></u>	<u><u>\$ 1,063,882</u></u>	<u><u>\$ 962,951</u></u>

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

<u>SYSTEM DEVELOPMENT FUND</u>	<u>ROAD IMPROVEMENT FUND</u>	<u>PUBLIC SAFETY FUND</u>	<u>RESERVE FOR PENSION FUND</u>	<u>NEW CITY HALL FUND</u>	<u>TOTAL</u>
\$ 4,070,313	\$ 414,192	\$ 1,259,962	\$ 285,069	\$ 3,072,768	\$ 13,405,279
0	0	0	0	0	126,068
0	0	0	0	0	83,241
<u>\$ 4,070,313</u>	<u>\$ 414,192</u>	<u>\$ 1,259,962</u>	<u>\$ 285,069</u>	<u>\$ 3,072,768</u>	<u>\$ 13,614,588</u>
\$ 114,918	\$ 0	\$ 164	\$ 0	\$ 76,932	\$ 390,741
0	0	0	1,244	0	94,679
0	0	0	0	0	519,379
0	0	0	0	0	26,131
0	0	0	0	0	293,794
0	0	0	0	0	76,026
0	0	0	0	0	47,158
370,292	0	0	0	0	370,292
<u>485,210</u>	<u>0</u>	<u>164</u>	<u>1,244</u>	<u>76,932</u>	<u>1,818,200</u>
<u>3,585,103</u>	<u>414,192</u>	<u>1,259,798</u>	<u>283,825</u>	<u>2,995,836</u>	<u>11,796,388</u>
<u>3,585,103</u>	<u>414,192</u>	<u>1,259,798</u>	<u>283,825</u>	<u>2,995,836</u>	<u>11,796,388</u>
<u>\$ 4,070,313</u>	<u>\$ 414,192</u>	<u>\$ 1,259,962</u>	<u>\$ 285,069</u>	<u>\$ 3,072,768</u>	<u>\$ 13,614,588</u>

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**CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON**

**RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO STATEMENT OF NET ASSETS**

June 30, 2007

Explanation of certain differences between the governmental fund balance sheet
and the government-wide statement of net assets.

Fund Balances	\$ 11,796,388
The cost of capital assets (land, buildings, improvements, machinery and equipment, infrastructure, and construction in progress) is reported as an expenditure in governmental funds. The statement of net assets includes those capital assets among the assets of the City as a whole.	
Net Capital Assets	51,064,396
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	
Accrued Vacation	-75,822
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	
Deferred Property Tax Revenue	<u>76,026</u>
Total Net Assets	<u>\$ 62,860,988</u>

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

**CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007**

	GENERAL FUND	STREET FUND	BUILDING FUND	SYSTEM DEVELOPMENT FUND
REVENUES				
Property Taxes	\$ 2,176,495	\$ 0	\$ 0	\$ 0
Gas Tax Revenue	0	389,193	0	0
Licenses and Permits	1,822,163	0	1,142,954	0
System Development Charges	0	0	0	80,183
Intergovernmental Revenues	379,287	0	119,384	0
Other Revenue	540,117	46,059	68,759	214,450
Total Revenues	4,918,062	435,252	1,331,097	294,633
EXPENDITURES				
Personal Services	1,510,260	134,837	656,162	0
Materials & Services	640,199	47,592	264,606	0
Capital Outlay	182,104	17,975	27,848	872,064
Total Expenditures	2,332,563	200,404	948,616	872,064
Excess of Revenues Over, -Under Expenditures	2,585,499	234,848	382,481	-577,431
Other Financing Sources, -Uses				
Transfers In	0	0	0	0
Transfers Out	-3,518,198	0	-870,000	0
Total Other Financing Sources, -Uses	-3,518,198	0	-870,000	0
Net Change in Fund Balance	-932,699	234,848	-487,519	-577,431
Beginning Fund Balance	2,312,092	816,206	1,314,706	4,162,534
Ending Fund Balance	\$ 1,379,393	\$ 1,051,054	\$ 827,187	\$ 3,585,103

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

ROAD IMPROVEMENT FUND	PUBLIC SAFETY FUND	RESERVE FOR PENSION FUND	NEW CITY HALL FUND	TOTAL
\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,176,495
0	0	0	0	389,193
0	0	0	0	2,965,117
0	0	0	0	80,183
0	0	0	0	498,671
17,719	54,809	14,741	91,593	1,048,247
17,719	54,809	14,741	91,593	7,157,906
0	0	60,453	0	2,361,712
0	1,060,031	0	0	2,012,428
540	0	0	441,708	1,542,239
540	1,060,031	60,453	441,708	5,916,379
17,179	-1,005,222	-45,712	-350,115	1,241,527
55,078	1,463,120	0	2,870,000	4,388,198
0	0	0	0	-4,388,198
55,078	1,463,120	0	2,870,000	0
72,257	457,898	-45,712	2,519,885	1,241,527
341,935	801,900	329,537	475,951	10,554,861
\$ 414,192	\$ 1,259,798	\$ 283,825	\$ 2,995,836	\$ 11,796,388

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - TO STATEMENT OF ACTIVITIES**
For the year ended June 30, 2007

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities

Net change in fund balance: \$ 1,241,527

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Fixed Asset Additions	\$ 4,111,651	
Depreciation Expense	<u>-1,269,623</u>	
Net Adjustment		2,842,028

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes in liability balances between years.

Compensated Absences	-13,740
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This adjustment combines the net changes in deferred taxes between years.

Property Taxes	<u>20,982</u>
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Change in Net Assets	<u><u>\$ 4,090,797</u></u>
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The accompanying notes are an integral part of the basic financial statements.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting policies. The more significant of the accounting policies are described below.

A. THE FINANCIAL REPORTING ENTITY

The City of Happy Valley was organized in November of 1965, as a Council-Mayor form of government. From January 1991 to December 2000 the City operated under Ordinance 105 that created the position of City Administrator and the City operated under the Council-Administrator form of government. On November 7, 2000 the voters approved a new charter now referred to as the 2000 Happy Valley Charter. The new charter created the position of City Manager. The new form of government formed by the new charter is the Council-Manager. The City Manager is the administrative head of the city government. Beginning with the November 2002 general election, the mayor will be elected for a 4-year term and at each subsequent general election thereafter. At each general election two council members will be elected each for a 4-year term. The City Manager reports to and is responsible to the Mayor and City Council.

These financial statements include all funds, organizations, departments and offices that are not legally separate from the City of Happy Valley. The elected governing body, the City Council, is not financially accountable for any legally separate organization. In addition, there are no organizations, due to either their nature or significance to the City that would make these basic financial statements incomplete or misleading by their exclusion. There are no component units.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS (GWFS)

The Statement of Net Assets and Statements of Activities display information about the reporting government as a whole.

The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions."

Program Revenues included in the Statement of Activities derive directly from the program itself or from parties outside the City's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the general revenues.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION (CONTINUED)

All direct expenses are reported by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Interest of general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. At this time, there is no long-term debt.

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities.

Program Revenues included in the Statement of Activities derive directly from the program itself or from parties outside the City's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from general revenues.

FUND FINANCIAL STATEMENTS

The accounts are organized and operated on the basis of fund accounting. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum numbers of funds are maintained consistent with legal and managerial requirements.

GOVERNMENTAL FUND TYPES

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 government 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, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, 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. All other revenue items are considered to be measurable and available only when cash is received.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. DESCRIPTION OF FUNDS

The following major funds are reported:

GENERAL FUND

This fund accounts for all financial resources and expenditures except those required to be accounted for in another fund. The principal revenue sources are property taxes, intergovernmental revenues, various fees for services provided and interest income.

STREET FUND

This fund accounts for the shared state highway revenues and the expenditures authorized by the Oregon Constitution to be made from those revenues.

BUILDING FUND

This fund accounts for the operations of building permits that are issued under state rules, which are Structural, Mechanical, Electrical, Plumbing and Manufactured Dwelling building permits. Revenue and related expenditures for these permits are accounted for in this fund.

SYSTEMS DEVELOPMENT CHARGE RESERVE FUND

This fund accounts for the development of infrastructure and improvements. Expenditures include credits to developers and capital outlay. Revenues are derived primarily from fees collected from developers.

ROAD IMPROVEMENT FUND

This fund accounts for the operations of planned road construction and improvements. Revenues in this fund are derived from collections from other entities or transfers from the General Fund.

PUBLIC SAFETY FUND

This fund accounts for the operations and maintenance of public safety in the City. Revenues in this fund are derived primarily with funds from the four-year law enforcement levy passed by the voters of Happy Valley in 2002.

RESERVE FOR PENSION FUND

This fund accounts for the future pension liability. Revenues are derived primarily from transfers from the General Fund.

RESERVE FOR NEW CITY HALL FUND

This fund accounts for purchase of land and construction of a new City Hall. Revenues are derived from transfers from the General Fund and the Building Department Fund.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. PROPERTY TAXES RECEIVABLE

In the Government-Wide Financial Statements uncollected property taxes are recorded on the Statement of Net Assets. In the Fund Financial Statements property taxes that are collected within 60 days after year-end are considered measurable and available and, therefore, are recognized as revenue. The remaining balance is recorded as deferred revenue because it is not deemed available to finance operation of the current period. An allowance for doubtful accounts is not deemed necessary, as uncollectible taxes become a lien on the property. Property taxes are levied on all taxable property as of July 1, the beginning of the fiscal year, and become a lien on that date. Property taxes are payable on November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

E. BUDGETS

A budget is prepared and legally adopted for each governmental fund type on the modified accrual basis of accounting in the main program categories required by the Oregon Local Budget Law. The budgets for all budgeted funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America with the exception that capital outlay expenditures are expensed when purchased and depreciation is not calculated, and inventories of supplies are budgeted as expenditures when purchased.

The budget process begins early in each fiscal year with the establishment of the budget committee. Recommendations are developed through late winter with the budget committee approving the budget in early spring. Public notices of the budget hearing are published generally in early spring with a public hearing being held approximately three weeks later. The Council may amend the budget prior to adoption, however, budgeted expenditures for each fund may not be increased by more than ten percent. The budget is then adopted, appropriations are made and the tax levy declared no later than June 30th.

Expenditure budgets are appropriated at the following levels for each fund: Personal Services, Materials and Services, Capital Outlay, Operating Contingency, and Interfund Transactions.

Expenditures can not legally exceed the above appropriation levels except in the case of grants which could not be estimated at the time of budget adoption. Appropriations lapse at the fiscal year end. Management may amend line items in the budget without Council approval as long as appropriation levels (the legal level of control) are not changed. Supplemental appropriations may occur if the Council approves them due to a need which exists which was not determined at the time the budget was adopted. Budget amounts shown in the Basic Financial Statements reflect the original budget. Expenditures of the various funds were within authorized appropriations except for the following over-expenditure: General Fund, Transfer out to the Public Safety Fund in the amount of \$7,120.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. CAPITAL ASSETS

Capital assets are recorded at the original or estimated cost. Donated capital assets are recorded at their estimated fair market value on the date donated. Capital assets are defined as assets with an initial cost of more than \$5,000 and an estimated life in excess of five years. Interest incurred during construction, maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 to 75 years
Equipment	5 to 15 years
Streets	40 years

G. RETIREMENT PLAN

Employees are participants in Public Employees Retirement System (PERS). Contributions to PERS are made on a current basis as required by the plan and are charged to expenditures as funded.

H. VESTED COMPENSATED ABSENCES

It is the policy to permit employees to accumulate earned unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since there is no policy to pay any amounts when employees separate from service with the City. All unused vacation pay is accrued when earned in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignation and retirements.

I. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. NET ASSETS

Net assets comprise the various net earnings from operations, non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three categories:

Invested in capital assets, net of related debt – consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. NET ASSETS (CONTINUED)

Restricted – consists of external constraints placed on asset use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. There are no restricted assets.

Unrestricted net assets – consists of all other assets that are not included in the other categories previously mentioned.

2. CASH AND INVESTMENTS

Cash and Investments consisted of:

Deposits with Financial Institutions:

Petty Cash	\$ 400
Demand Deposits	14,709
Cash with County	14,006
Investments	<u>13,376,164</u>

Total Cash and Investments	<u><u>\$ 13,405,279</u></u>
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DEPOSITS - Deposits with financial institutions include bank demand deposits. The total bank balance per the bank statements is \$54,135, all of which is covered by federal depository insurance. The bank account is a sweep account with the end of day balance invested overnight in repurchase agreements. The repurchase transaction is an obligation of the bank and the underlying security serves as collateral.

INVESTMENTS - Statutes authorize investing in obligations of the U.S. Treasury and U.S. agencies, bankers' acceptances, repurchase agreements, commercial paper rated A-1 by Fitch Ratings and Standard & Poor's Corporation or P1 by Moody's Commercial Paper Record (A-2/P-2 if Oregon commercial paper) and the state treasurer's investment pool. The investments during the year were also invested in the state treasurer's investment pool.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

The State Treasurer's Local Government Investment Pool is not registered with the U.S. Securities and Exchange Commission as an investment company. The Oregon Revised Statutes and the Oregon Investment Council govern the State's investment policies. The State Treasurer is the investment officer for the Council and is responsible for all funds in the State Treasury. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the Fund are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board (OSTFB), which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The fund was in compliance with all portfolio guidelines at June 30, 2007.

Amounts in the State Treasurer's Local Government Investment Pool are not required to be collateralized. There is no material difference between the fair value of the City's position in the State Treasurer's Local Investment Pool and the value of the pool shares at June 30, 2007. There were no known violations of legal or contractual provisions for deposits and investments during the fiscal year.

At year-end, investment balances were as follows (carrying value is the same as fair market value):

Investment Type	Fair Value	Investment Maturities (in months)		
		Less than 3	3-18	18-59
Categorized Investments:				
Obligations of the U.S. Agencies	\$ 5,623,244	\$ 2,552,826	\$ 3,070,418	\$ -
Repurchase Agreements	597,121	-	-	-
State Treasurer's Investment Pool	7,155,799	7,155,799	-	-
Total	\$ 13,376,164	\$ 9,708,625	\$ 3,070,418	\$ -

INTEREST RATE RISK – Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted a written investment policy that was submitted to and reviewed by the OSTFB. There are no investments that have a maturity date that exceeds 18 months.

CREDIT RISK – Oregon Revised Statutes does not limit investments as to credit rating for securities purchased from US Government Agencies or USGSE. The State Investment Pool is not rated.

CONCENTRATION OF RISK – At June 30, 2007, 53% of total investments were in the State Treasurer's Investment Pool. State statutes do not limit the percentage of investments in this instrument. At June 30, 2007, the City had 42% of total investments in obligations of U.S. Agencies. This included one Fannie Mae Discount Note and five Freddie Mac Discount Notes. The maturity date of each note is six months from the date of purchase.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

3. CAPITAL ASSETS

The changes in fixed assets for the fiscal year ended June 30, 2007 are as follows:

GOVERNMENTAL ACTIVITIES CAPITAL ASSETS				
	June 30, 2006	Additions	Disposals	June 30, 2007
Land and Improvements (non depreciable)	\$ 3,272,939	\$ 0	\$ 0	\$ 3,272,939
Buildings	671,921	568,761	0	1,240,682
Vehicles	205,763	29,944	0	235,707
Other Equipment	99,335	6,058	0	105,393
Park Improvements	1,015,539	853,753	0	1,869,292
Park Equipment	38,960	0	0	38,960
Streets	46,116,385	2,653,135	0	48,769,520
Less: Accumulated Depreciation	-3,198,474	-1,269,623	0	-4,468,097
Total Governmental Activities	<u>\$ 48,222,368</u>	<u>\$ 2,842,028</u>	<u>\$ 0</u>	<u>\$ 51,064,396</u>

Governmental Activities Depreciation Allocation to Functions

Function	Governmental Funds
General Government	\$ 295,202
Building	512,469
Parks	41,182
Streets	420,770
Total	<u>\$ 1,269,623</u>

4. RETIREMENT PLANS

Plan Description

The City participates in the State of Oregon Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system. All employees who work more than 600 hours each year are covered by the plans after six months of employment. The Public Employers Retirement System is a defined pension plan to which employee and employer contribute. Retirement is allowed at age 58 with full benefits, but retirement is generally available after age 55 with reduced benefits. Compulsory retirement is age 70. Retirement benefits are payable in lump sum or monthly amounts using several payment options. PERS also provides death and disability benefits. Benefits are established by State statute. The Oregon Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

4. RETIREMENT PLANS (CONTINUED)

Funding Policy

Covered employees are required by State statute to contribute 6% of their salary to the plan, beginning in July 2003, the City began paying this amount for the employee. Employee contributions for the year ended June 30, 2007 were \$94,181. The City is required to contribute at actuarially determined rates, as adopted by the PERS Board. The current rate effective July 1, 2005 is 11.64% of covered payroll for Tier One/Two employees and 8.04% for OPSRP employees. Contributions to the plan for the years ending June 30, 2007, and 2006 was \$161,837 and \$129,470 respectively, and was equal to the required contributions for the year.

Schedule of Funding Progress:

Dec. 31 Valuation Date	Value of Assets	Actuarial Liability	Unfunded Actuarial Liability	Funded Percent	Covered Payroll	Funding Excess as a Percent of Covered Payroll
2003	POOLED	POOLED	\$428,183	POOLED	\$657,800	65%
2004	POOLED	POOLED	637,705	POOLED	829,606	77%
2005	POOLED	POOLED	385,504	POOLED	1,112,211	35%

5. DEFERRED COMPENSATION

Employees are offered a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, are the property of the participants, and, accordingly are not recorded as assets of the City.

6. COMPENSATED ABSENCES PAYABLE

At June 30, 2007, the liability for vacation pay is estimated at \$75,822.

7. PROPERTY TAX LIMITATIONS

The State of Oregon has a constitutional limit on property taxes for schools and non-school government operations. The limitation provides that property taxes for non-school operations are limited to \$10.00 for each \$1,000 of property market value. This limitation does not apply to taxes levied for principal and interest on general obligation bonded debt.

An additional limit reduces the amount of operating property tax revenues available to the City for its 1997-98 fiscal year, and thereafter. This reduction was accomplished by rolling property values back to their 1995-96 values less 10% and limiting future tax value growth of each property to no more than 3% per year, subject to certain exceptions. Taxes levied to support bonded debt are exempted from the reductions. The Constitution also sets restrictive voter approval requirements for most tax and many fee increases and new bond issues.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

8. CABLE PEG FEES DEFERRED REVENUE

Cable PEG access is defined as Public, Educational and Governmental access collectively where the general public, schools and governmental institutions have the availability of equipment to create and the editorial control over non-commercial programming. There is an existing cable franchise agreement that stipulates PEG access capital funds in the amount of 3% dedicated for the development of capital projects related to providing PEG access. PEG funds in the amount of \$293,794 are currently held in an unearned revenue liability account.

9. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Commercial insurance to minimize its exposure to these risks. Settled claims have not exceeded this commercial coverage for any of the past three years.

10. SUBSEQUENT EVENTS

The City began construction of a new city hall building in September 2007. The City issued Full Faith and Credit Obligations, Series 2007 on August 15, 2007 in the amount of \$5,000,000 to fund a portion of the construction.

The City transferred \$2,000,000 from the System Development Fund to the North Clackamas Park and Recreation District (NCPRD) in July 2007. The money is to be used by NCPRD to secure land for a new 20 to 30 acre park in the Rock Creek area as per the Annexation and Service Agreement between NCPRD and the City.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

REQUIRED SUPPLEMENTARY INFORMATION

Other Financial Schedules

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CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2007

GENERAL FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Taxes:				
Property Taxes - Current	\$ 1,837,000	\$ 1,837,000	\$ 2,148,821	\$ 311,821
Property Taxes - Delinquent	20,000	20,000	27,674	7,674
Total Taxes	1,857,000	1,857,000	2,176,495	319,495
Licenses, Fees, and Permits:				
Franchise Fees	458,000	458,000	581,808	123,808
Sewer Permit Fee	35,000	35,000	9,434	-25,566
Erosion Control Permit Fee	300,000	300,000	77,300	-222,700
Miscellaneous Permits	50,500	50,500	24,775	-25,725
Right of Way Permits	15,000	15,000	52,504	37,504
Development Fees	200,000	200,000	274,202	74,202
Construction Fees	650,000	650,000	697,083	47,083
Cell Tower Fees	24,000	24,000	25,191	1,191
Park Reservation Permits	17,000	17,000	14,025	-2,975
SDC-Administration Fees	60,000	60,000	25,629	-34,371
Business Licenses	12,000	12,000	32,427	20,427
Alarm Permits and Penalties	9,000	9,000	7,785	-1,215
Total Licenses, Fees, and Permits	1,830,500	1,830,500	1,822,163	-8,337
Intergovernmental:				
Alcohol Tax	72,000	72,000	89,709	17,709
Cigarette Tax	11,000	11,000	30,230	19,230
State Revenue Sharing	48,000	48,000	44,478	-3,522
Park Revenue from NCPRD	150,000	150,000	150,000	0
Grants	300,000	300,000	64,870	-235,130
Total Intergovernmental	581,000	581,000	379,287	-201,713
Other Revenue:				
Interest	40,000	40,000	134,466	94,466
Traffic Fines	200,000	200,000	214,540	14,540
Municipal Court	36,000	36,000	51,891	15,891
State Court Assessments	84,000	84,000	61,901	-22,099
Community Events	0	0	67,357	67,357
Miscellaneous Revenue	0	0	9,962	9,962
Total Other Revenue	360,000	360,000	540,117	180,117
Total Revenues	4,628,500	4,628,500	4,918,062	289,562

Continued on page -24-

**CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET**

For the Year Ended June 30, 2007

<u>GENERAL FUND</u>				VARIANCE
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>POSITIVE -NEGATIVE</u>
EXPENDITURES				
Personal Services				
Salaries	\$ 1,128,000	\$ 1,128,000	\$ 1,082,857	\$ 45,143
Employee Benefits	531,000	531,000	427,403	103,597
Total Personal Services	1,659,000	1,659,000 (1)	1,510,260	148,740
Materials and Services				
Office Supplies	39,000	39,000	29,275	9,725
Public Works Supplies	24,500	24,500	12,503	11,997
Travel	10,400	10,400	7,899	2,501
Training	22,500	22,500	11,065	11,435
Maps and Printing	5,000	5,000	3,304	1,696
Membership and Dues	11,750	11,750	10,848	902
Utilities	42,100	42,100	38,754	3,346
Vehicle Operation and Maintenance	52,200	52,200	48,966	3,234
Publication and Subscription	23,300	23,300	14,634	8,666
Newsletter	60,000	60,000	51,678	8,322
Postage	12,500	12,500	12,486	14
Insurance	30,000	30,000	29,652	348
Repairs and Maintenance	70,500	70,500	51,561	18,939
Emergency Weather	15,000	15,000	7,000	8,000
Community Concept Planning	200,000	200,000	38,629	161,371
Miscellaneous Admin.	15,000	15,000	15,794	-794
Legal	220,000	220,000	105,248	114,752
Audit	6,000	6,000	4,150	1,850
Minutes Clerical	6,000	6,000	0	6,000
Contract Services	179,500	179,500	73,958	105,542
Software	5,000	5,000	1,220	3,780
Interpreting Services	1,000	1,000	970	30
Traffic Court Turnover-State Assessments	30,000	30,000	30,609	-609
Community Events	0	40,000	39,996	4
Total Materials and Services	1,081,250	1,121,250 (1)	640,199	481,051
Capital Outlay				
Vehicles	40,500	40,500	28,999	11,501
Equipment	143,000	143,000	24,086	118,914
Facility Improvements	0	0	121,511	-121,511
Parks	70,000	70,000	7,508	62,492
Total Capital Outlay	253,500	253,500 (1)	182,104	71,396
Contingency	356,750	83,650 (1)	0	83,650

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**CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2007**

GENERAL FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE -NEGATIVE</u>
EXPENDITURES (CONTINUED)				
Total Expenditures	<u>3,350,500</u>	<u>3,117,400</u>	<u>2,332,563</u>	<u>784,837</u>
OTHER FINANCING SOURCES, -USES				
Transfers In	0	0	0	0
Transfers Out To:				
Road Improvement Fund	-42,000	-55,100 (1)	-55,078	22
Public Safety Fund	-1,236,000	-1,456,000 (1)	-1,463,120	-7,120
New City Hall Fund	<u>-2,000,000</u>	<u>-2,000,000 (1)</u>	<u>-2,000,000</u>	<u>0</u>
Net Change in Fund Balance	-2,000,000	-2,000,000	-932,699	1,067,301
Beginning Fund Balance	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,312,092</u>	<u>312,092</u>
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,379,393</u>	<u>\$ 1,379,393</u>

(1) Appropriation Level

Continued from page -24-

**CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2007**

PUBLIC SAFETY FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 10,000	\$ 10,000	\$ 54,809	\$ 44,809
Total Revenues	10,000	10,000	54,809	44,809
EXPENDITURES				
Materials and Services				
Contract Police Protection	1,571,000	1,791,000	1,060,031	730,969
Total Materials and Services	1,571,000	1,791,000 (1)	1,060,031	730,969
Contingency	250,000	250,000 (1)	0	250,000
Total Expenditures	1,821,000	2,041,000	1,060,031	980,969
OTHER FINANCING SOURCES, -USES				
Transfers In	1,236,000	1,456,000	1,463,120	7,120
Net Change in Fund Balance	-575,000	-575,000	457,898	1,032,898
Beginning Fund Balance	575,000	575,000	801,900	226,900
Ending Fund Balance	\$ 0	\$ 0	\$ 1,259,798	\$ 1,259,798

(1) Appropriation Level

**CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2007**

RESERVE FOR PENSION FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 6,000	\$ 6,000	\$ 14,741	\$ 8,741
Total Revenues	6,000	6,000	14,741	8,741
EXPENDITURES				
Materials and Services				
Employee Benefits	346,000	346,000	60,453	285,547
Total Materials and Services	346,000	346,000 (1)	60,453	285,547
Total Expenditures	346,000	346,000	60,453	-285,547
Net Change in Fund Balance	-340,000	-340,000	-45,712	294,288
Beginning Fund Balance	340,000	340,000	329,537	-10,463
Ending Fund Balance	\$ 0	\$ 0	\$ 283,825	\$ 283,825

(1) Appropriation Level

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**CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2007**

STREET FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 15,000	\$ 15,000	\$ 46,059	\$ 31,059
Gas Tax Revenue	340,000	340,000	389,193	49,193
Total Revenues	355,000	355,000	435,252	80,252
EXPENDITURES				
Personal Services				
Salaries	102,300	102,300	97,257	5,043
Employee Benefits	46,300	46,300	37,580	8,720
Total Personal Services	148,600	148,600 (1)	134,837	13,763
Materials and Services				
Training	4,000	4,000	0	4,000
Vehicle Expenses	12,500	12,500	5,182	7,318
Contract Services	100,000	100,000	5,896	94,104
Traffic Control Devices	10,000	10,000	4,120	5,880
Street Repair Materials	15,000	15,000	2,016	12,984
Traffic Signs and Striping	35,000	35,000	30,378	4,622
Bike and Foot Path Maintenance	5,000	5,000	0	5,000
Contract Street Sweeping	500	500	0	500
Other Materials and Services	3,500	3,500	0	3,500
Total Materials and Services	185,500	185,500 (1)	47,592	137,908
Capital Outlay				
Road Maintenance	530,900	530,900	14,794	516,106
Vehicles	10,000	10,000	0	10,000
Equipment	50,000	50,000	129	49,871
Sidewalks and Bike Paths	180,000	180,000	3,052	176,948
Total Capital Outlay	770,900	770,900 (1)	17,975	752,925
Total Expenditures	1,105,000	1,105,000	200,404	904,596
Net Change in Fund Balance	-750,000	-750,000	234,848	984,848
Beginning Fund Balance	750,000	750,000	816,206	66,206
Ending Fund Balance	\$ 0	\$ 0	\$ 1,051,054	\$ 1,051,054

(1) Appropriation Level

**CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2007**

	<u>BUILDING FUND</u>			VARIANCE
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>POSITIVE -NEGATIVE</u>
REVENUES				
Interest	\$ 30,000	\$ 30,000	\$ 51,099	\$ 21,099
Permits and Fees	3,947,500	3,947,500	1,142,954	-2,804,546
State Surcharge	195,600	195,600	44,599	-151,001
Construction Excise Tax	400,000	400,000	74,785	-325,215
Miscellaneous	0	0	17,660	17,660
Total Revenues	<u>4,573,100</u>	<u>4,573,100</u>	<u>1,331,097</u>	<u>-3,242,003</u>
EXPENDITURES				
Personal Services				
Salaries	929,300	929,300	461,773	467,527
Employee Benefits	470,500	470,500	194,389	276,111
Total Personal Services	<u>1,399,800</u>	<u>1,399,800 (1)</u>	<u>656,162</u>	<u>743,638</u>
Materials and Services				
Office Supplies	35,000	35,000	7,322	27,678
Travel	10,000	10,000	468	9,532
Training	28,000	28,000	11,884	16,116
Membership and Dues	5,700	5,700	815	4,885
Utilities	20,000	20,000	9,849	10,151
Vehicle Expenses	24,000	24,000	9,047	14,953
Publications and Subscriptions	6,500	6,500	4,176	2,324
Postage	500	500	0	500
Insurance	12,000	12,000	0	12,000
Repairs and Maintenance	20,000	20,000	7,827	12,173
Public Outreach	22,000	22,000	6,236	15,764
Legal	15,000	15,000	850	14,150
Contract Services	1,283,000	1,283,000	1,523	1,281,477
Electrical Programs	275,000	275,000	67,812	207,188
State Surcharge Fees	195,600	195,600	54,032	141,568
Construction Excise Tax	380,000	380,000	71,282	308,718
Municipal Lease	16,000	16,000	10,416	5,584
Software and Software Contract	45,000	45,000	1,067	43,933
Total Materials and Services	<u>2,393,300</u>	<u>2,393,300 (1)</u>	<u>264,606</u>	<u>2,128,694</u>
Capital Outlay				
Vehicles	110,000	110,000	19,945	90,055
Equipment	200,000	200,000	2,361	197,639
Facility Improvments	0	0	5,542	-5,542
Total Capital Outlay	<u>310,000</u>	<u>310,000 (1)</u>	<u>27,848</u>	<u>282,152</u>

Continued on page -30-

**CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2007**

	<u>BUILDING FUND</u>			VARIANCE POSITIVE -NEGATIVE
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
EXPENDITURES (CONTINUED)				
Contingency	<u>1,000,000</u>	<u>1,000,000 (1)</u>	<u>0</u>	<u>1,000,000</u>
Total Expenditures	<u>5,103,100</u>	<u>5,103,100</u>	<u>948,616</u>	<u>4,154,484</u>
OTHER FINANCING SOURCES, -USES				
Transfers Out	<u>-870,000</u>	<u>-870,000 (1)</u>	<u>-870,000</u>	<u>0</u>
Net Change in Fund Balance	<u>-1,400,000</u>	<u>-1,400,000</u>	<u>-487,519</u>	<u>1,320,259</u>
Beginning Fund Balance	<u>1,400,000</u>	<u>1,400,000</u>	<u>1,314,706</u>	<u>-85,294</u>
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 827,187</u>	<u>\$ 827,187</u>
(1) Appropriation Level				

**CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2007**

SYSTEM DEVELOPMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 50,000	\$ 50,000	\$ 214,450	\$ 164,450
SDC-Storm Drainage	190,000	190,000	63,295	-126,705
SDC-Parks	3,800,000	3,800,000	16,888	-3,783,112
Total Revenues	4,040,000	4,040,000	294,633	-3,745,367
EXPENDITURES				
Capital Outlay				
SDC Projects-Transportation	170,000	170,000	15,541	154,459
SDC Projects-Storm Drainage	700,000	700,000	250	699,750
SDC Projects-Parks	7,070,000	7,070,000	856,273	6,213,727
Total Capital Outlay	7,940,000	7,940,000 (1)	872,064	7,067,936
Total Expenditures	7,940,000	7,940,000	872,064	7,067,936
Net Change in Fund Balance	-3,900,000	-3,900,000	-577,431	3,322,569
Beginning Fund Balance	3,900,000	3,900,000	4,162,534	262,534
Ending Fund Balance	\$ 0	\$ 0	\$ 3,585,103	\$ 3,585,103

(1) Appropriation Level

**CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2007**

ROAD IMPROVEMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 8,000	\$ 8,000	\$ 17,719	\$ 9,719
Cooperative Projects	100,000	100,000	0	-100,000
Grants	250,000	250,000	0	-250,000
Total Revenues	358,000	358,000	17,719	-340,281
EXPENDITURES				
Materials and Services				
Contract Engineering	100,000	113,100	0	113,100
Total Materials and Services	100,000	113,100 (1)	0	113,100
Capital Outlay				
Bicycle & Ped Pathways	100,000	100,000	0	100,000
Road Construction	500,000	500,000	540	499,460
Total Capital Outlay	600,000	600,000 (1)	540	599,460
Total Expenditures	700,000	713,100	540	712,560
OTHER FINANCING SOURCES, -USES				
Transfers In	42,000	55,100	55,078	-22
Net Change in Fund Balance	-300,000	-300,000	72,257	372,257
Beginning Fund Balance	300,000	300,000	341,935	41,935
Ending Fund Balance	\$ 0	\$ 0	\$ 414,192	\$ 414,192

(1) Appropriation Level

**CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2007**

NEW CITY HALL FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 15,000	\$ 15,000	\$ 91,593	\$ 76,593
Total Revenues	15,000	15,000	91,593	76,593
EXPENDITURES				
Capital Outlay				
City Hall	15,350,000	15,350,000	441,708	14,908,292
Equipment	150,000	150,000	0	150,000
Facility Improvements	0	0	0	0
Total Capital Outlay	15,500,000	15,500,000 (1)	441,708	15,058,292
Total Expenditures	15,500,000	15,500,000	441,708	15,058,292
OTHER FINANCING SOURCES				
Bond Proceeds	10,000,000	10,000,000	0	10,000,000
Transfers In	2,870,000	2,870,000	2,870,000	0
Net Change in Fund Balance	-2,615,000	-2,615,000	2,519,885	5,134,885
Beginning Fund Balance	2,615,000	2,615,000	475,951	-2,139,049
Ending Fund Balance	\$ 0	\$ 0	\$ 2,995,836	\$ 2,995,836

(1) Appropriation Level

**CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON**

**SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES
OF TAXES UNCOLLECTED - GENERAL FUND
For the Year Ended June 30, 2007**

<u>TAX YEAR</u>	<u>IMPOSED LEVY OR UNCOL- LECTED AT 7/1/06</u>	<u>DEDUCT DISCOUNTS</u>	<u>ADJUST- MENTS TO ROLLS</u>	<u>ADD INTEREST</u>	<u>CASH COLLEC- TIONS BY COUNTY TREAS- URER</u>	<u>BALANCE UNCOL- LECTED OR UNSEG- REGATED AT 6/30/07</u>
CURRENT:						
2006-2007	\$ 2,253,189	\$ -54,440	\$ -3,896	\$ 852	\$ 2,134,326	\$ 61,379
PRIOR YEARS:						
2005-2006	42,729	0	-309	1,493	30,069	13,844
2004-2005	10,814	3	-308	749	5,833	5,425
2003-2004	5,190	0	-182	641	3,637	2,012
2002-2003	836	0	-236	86	431	255
2001-2002 & Prior	469	1	-60	-49	35	326
Total Prior	60,038	4	-1,095	2,920	40,005	21,862
Total	<u>\$ 2,313,227</u>	<u>\$ -54,436</u>	<u>\$ -4,991</u>	<u>\$ 3,772</u>	<u>\$ 2,174,331</u>	<u>\$ 83,241</u>

RECONCILIATION OF REVENUE:		<u>GENERAL FUND</u>
Cash Collections by County Treasurer Above		\$ 2,174,331
Accrual of Receivables:		
June 30, 2006		-4,994
June 30, 2007		7,158
Total Revenue		<u>\$ 2,176,495</u>

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CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

AUDITORS' COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS

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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

-
- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
 - (503) 620-2632 • FAX (503) 684-7523

January 11, 2008

2006-07 AUDITORS' COMMENTS AND DISCLOSURES

The Minimum Standards for Audits of Oregon Municipal Corporations, 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 financial reports. The required statements and schedules are set forth in preceding pages of this report. Required comments and disclosures related to our audit of such statements and schedules are set forth as follows.

INTERNAL CONTROL

We have audited the basic financial statements of the City of Happy Valley, Oregon, as of and for the year ended June 30, 2007, and have issued our report thereon dated January 11, 2008.

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 audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

The management of the City of Happy Valley 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 generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless 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 operation of policies and procedures may deteriorate.

In planning and performing our audit of the basic financial statements of the City of Happy Valley for the year ended June 30, 2007, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants.

CITY OF HAPPY VALLEY
2006-07 AUDITORS' COMMENTS AND DISCLOSURES

INTERNAL CONTROL (CONTINUED)

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

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 entity'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's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

We noted matters involving the internal control structure and its operation that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants, which are noted in our management letter dated January 11, 2008.

A material weakness is a significant deficiency in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the council, audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

ACCOUNTING RECORDS

The records and systems were adequate to meet audit requirements.

BUDGET TRANSACTIONS

Expenditures of the various funds appeared to be within authorized appropriations, except as noted on page 16.

2006-2007 and 2007-2008 BUDGETS

The budgets adopted for the current and ensuing fiscal year were examined during the audit. Based on our testing, it appeared that budget preparation and adoption procedures followed were in compliance with the Oregon Local Budget Law.

COLLATERAL SECURING BANK DEPOSITS

Based on our testing, we are not aware of any failure to comply with legal requirements related to the amount and adequacy of collateral pledged by depositories to secure funds.

CITY OF HAPPY VALLEY
2006-07 AUDITORS' COMMENTS AND DISCLOSURES

STATUTORY BONDED DEBT LIMITATION

There was no bonded debt outstanding at June 30, 2007.

INSURANCE AND FIDELITY BONDS

We are not aware of any failure to comply with legal requirements relating to insurance and fidelity bonds, however, we are not competent by training and experience to comment on the adequacy of insurance coverage. We recommend the City consult appropriate advisers related to these issues.

OUTSTANDING WARRANTS

There were no outstanding endorsed warrants at June 30, 2007.

PUBLIC CONTRACTS AND PURCHASING

The procedures for awarding public contracts were reviewed and, based on our testing, appeared to be in compliance with ORS Chapter 279 during 2006-2007.

INVESTMENTS

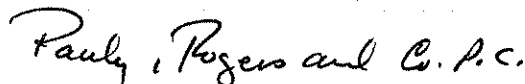
Based on our testing, we are not aware of any failure to comply with legal requirements relating to the investment of public funds.

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. Since less than \$500,000 was expended in federal financial assistance for the year ended June 30, 2007, it was not necessary to perform, nor did we perform, tests in accordance with the Federal Single Audit Act, as amended (U.S. Office of Management and Budget Circular A-133).

HIGHWAY FUNDS

Based on our testing, we are not aware of any failure to comply with programs funded from State Highway funds received during the year ended June 30, 2007.


PAULY, ROGERS AND CO., P.C.

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