

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2008

MERINA
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

5499 AMY STREET • WEST LINN, OR 97068
PHONE: (503) 723-0300 • FAX: (503) 723-9946 • WWW.MERINACPAS.COM

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

CITY OFFICIALS AS OF JUNE 30, 2008

<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
16000 SE Misty Drive
Happy Valley, Oregon 97086
(503) 783-3800
(503) 658-5174

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CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

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INDEPENDENT AUDITOR'S REPORT

THE UNIVERSITY OF TEXAS AT AUSTIN

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Happy Valley
Happy Valley, Oregon

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Happy Valley, Oregon, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Happy Valley, Oregon'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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Happy Valley, Oregon, as of June 30, 2008, and the respective changes in financial position 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, 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 budgetary comparison 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 an opinion on the financial statements that collectively comprise the City of Happy Valley, Oregon's basic financial statements. The other supplementary information section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Merina & Company

Merina & Company, LLP
West Linn, Oregon
December 9, 2008

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CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL STATEMENTS

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, 2008. Please read it in conjunction with the City's financial statements and notes, which follow this section.

FINANCIAL HIGHLIGHT

- The City's total net assets were \$62,386,654 at June 30, 2008.
- During the year, the City's net assets decreased by \$474,334.
- The general fund had an unreserved fund balance at the end of the year of \$815,253. This is equal to 31 percent of total general fund expenditures for the year.
- The City issued full faith and credit obligations in the amount of \$5 million to partially fund the construction of a new city hall facility. As this was the first long term debt issued by the City, it increased the total debt by \$5 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of; *management's discussion and analysis* (this section), *basic financial statements*, *required supplementary information*, and *other supplementary information*.

The basic financial statements include two kinds of statements which present different views of the City as well as the notes. The first two statements are *government-wide financial statements* and provide both *long-term* and *short-term* information about the City's overall financial status. The remaining statements are *fund financial statements* and focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements. The *governmental fund* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending. The notes contain information to help explain some of the information in the financial statements and provide more detailed data.

The basic financial statements are followed by a section of *required supplementary information* and *other supplementary information* to further explain and support the information in the basic 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 changed. Net assets are the difference between the City's assets and liabilities and are 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 include *Governmental activities* which are most of the City's basic services. These include general government, public safety, planning and building, streets and parks. Property taxes, franchise taxes, permits and fees, and intergovernmental revenues finance most of these activities.

Fund Financial Statements

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

The City has governmental funds which are explained as follows:

- *Governmental funds* - Most of the City's basic services are included in governmental funds, which focus on the inflow and outflow of *cash and other financial assets* that can readily be converted to cash and the balances left at year-end available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view to determine whether there are more or fewer financial resources available to finance the City's programs in the near future. Reconciliations are provided to explain the relationship (or differences) between these statements and the long-term focus of the government-wide statements.

Other Information

In addition to the basic financial statements and notes, this report also presents certain required supplementary information and supplementary information concerning the City's compliance with its annual appropriated budget amounts. A budgetary comparison statement for each fund is provided to demonstrate compliance with the budget.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

CITY OF HAPPY VALLEY - NET ASSETS

	Total 2008	Total 2007
ASSETS:		
Current and Other Assets	\$ 13,819,731	\$ 13,614,588
Long Term Debt	148,531	0
Capital Assets	55,680,595	51,064,396
Total Assets	69,648,857	64,678,984
LIABILITIES:		
Current and Other Liabilities	2,312,113	1,817,996
Non-Current Liabilities	4,950,090	0
Total Liabilities	7,262,203	1,817,996
NET ASSETS		
Invested in Capital Assets,		
Net of Related Debt	50,638,277	51,064,396
Unrestricted	11,748,377	11,796,592
Total Net Assets	\$ 62,386,654	\$ 62,860,988

CITY OF HAPPY VALLEY - CHANGES IN NET ASSETS

	Total 2008	Total 2007
REVENUES:		
Program Revenues:		
Charges for Services	\$ 2,307,968	\$ 3,045,300
General Revenues:		
Property Taxes-Perm Rate	859,558	720,299
Property Taxes-Levy	1,773,665	1,477,178
Other Taxes	428,381	389,193
Intergovernmental	559,998	498,671
Other Revenue	1,036,599	0
Gain on sale of capital assets	531,948	1,048,247
Total Revenues	<u>7,498,117</u>	<u>7,178,888</u>
EXPENSES:		
General Government	4,909,642	1,936,126
Building Inspection Program	797,763	920,768
Parks Development	2,054,712	48,768
Storm Drainage	24,302	0
Streets	4,366	0
Interest on long term debt	181,666	182,429
Total Expenses	<u>7,972,451</u>	<u>3,088,091</u>
Change in Net Assets	-474,334	4,090,797
Beginning Net Assets	<u>62,860,988</u>	<u>58,770,191</u>
Ending Net Assets	<u>\$ 62,386,654</u>	<u>\$ 62,860,988</u>

The City's total revenues were \$7,498,117 and Net Assets decreased by \$474,334 which indicates a decrease in the City's financial position. The decrease was due to the issuance of long term debt to partially fund construction of the new city hall facility and \$2 million paid for construction of a new park in the City by the North Clackamas Park and Recreation District.

The City of Happy Valley faces many challenges:

- The city hall facility is too small and has begun construction of a new facility which will be completed in December 2008.
- The economic slowdown has caused a decrease in building in the City. This has in turn caused a decrease in permits and fees paid to the City. With the continuation of this downturn the City faces ongoing decreased revenues.
- East Happy Valley expansion will provide 2,500 acres for future growth. It was expected this expansion would happen in the next year or two but due to the current state of the economy it is not as likely in that time period.
- 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 funded through a local option levy and contracted through Clackamas County. The City would like to pursue permanent funding for police services rather than rely on funding using a local option levy.
- In order to diversify the tax base, the City must expand its boundaries. The City cannot anticipate when that might happen since annexation is by petition only.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$6,928,271 in 2008. Governmental fund balances totaled \$11,564,725 at June 30, 2008. A summary of changes in governmental fund balances follows:

City of Happy Valley - Changes in Governmental Fund Balances

	June 30, 2008	June 30, 2007	Change
General Fund	\$ 815,253	\$ 1,379,393	\$ -564,140
Street Fund	\$ 748,525	\$ 1,051,054	\$ -302,529
Building Fund	\$ 764,296	\$ 827,187	\$ -62,891
System Development Fund	\$ 1,274,337	\$ 3,585,103	\$ -2,310,766
Road Improvement Fund	\$ 488,993	\$ 414,192	\$ 74,801
Public Safety Fund	\$ 1,679,931	\$ 1,259,798	\$ 420,133
Reserve for Pension Fund	\$ 0	\$ 283,825	\$ -283,825
New City Hall Fund	\$ 5,793,390	\$ 2,995,836	\$ 2,797,554

GENERAL FUND BUDGETARY HIGHLIGHTS

The fund balance in the General Fund decreased \$564,140 from the prior year. This decrease was due in part to the General Fund transfer of \$1.366 million to the New City Hall Fund. The City made the decision to partially fund the new city hall and therefore reduce the amount of debt incurred for the project. Also Construction Fees were well below prior year levels due to the downturn in the housing market and economy. Although the General Fund balance decreased there were some revenues in excess of budget estimates. They are as follows:

Property Taxes	\$ 70,558
Development Fees	\$ 58,972
Franchise Fees	\$152,528
State Shared Revenues	\$ 63,533

These excesses however were not enough to overcome the deficit amount of Construction Fees collected.

CAPITAL ASSETS

At June 30, 2008, the City had \$55,680,595 invested in capital assets. This is an increase of \$4,616,199 from the prior year. This increase was due primarily to park improvements, the new city hall facility, and street additions when there is new construction in the City. Frontage improvements which widened the street and added a sidewalk were constructed at Happy Valley Park continuing the City's commitment to quality of life. These improvements were completed in the spring of 2008. More detailed information about the City's capital assets is presented in the notes to the financial statements.

LONG TERM DEBT

At June 30, 2008, the City had outstanding debt of \$5,042,318. The City issued Full Faith and Credit Obligations Series August 2007 to finance a portion of the new city hall facility. The remaining amount for the project was financed using the fund balance accumulated by transfers from the General Fund and the Building Fund.

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: 16000 SE Misty Drive, Happy Valley, OR 97086.

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TRINITY SOURCE

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

BASIC FINANCIAL STATEMENTS

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

STATEMENT OF NET ASSETS
June 30, 2008

ASSETS

Current Assets:

Cash and Investments	\$ 13,483,783
Accounts Receivable	212,142
Property Taxes Receivable	123,806
Total Current Assets	<u>13,819,731</u>

Non-Current Assets:

Bond issuance costs	148,531
Capital Assets - non-depreciable	7,930,231
Capital Assets - depreciable	53,570,440
Less accumulated depreciation	<u>-5,820,076</u>
Total Non-Current Assets	<u>55,829,126</u>

Total Assets	<u><u>\$ 69,648,857</u></u>
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LIABILITIES

Current Liabilities:

Accounts Payable	\$ 828,486
Payroll Liabilities	94,368
Other Payables	538,063
Accrued Vacation Payable	78,803
Cable Pegs Fees	367,682
Developer Trust Payable	74,640
Due to Clackamas County	237,843
Current portion of long term debt	<u>92,228</u>
Total Current Liabilities	<u>2,312,113</u>

Non-Current Liabilities:

Bonds Payable	4,910,000
Premium on bonds payable	<u>40,090</u>
Total Non-Current Liabilities	<u>4,950,090</u>

Total Liabilities	<u>7,262,203</u>
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NET ASSETS:

Invested in Capital Assets, Net of Related Debt	50,638,277
Unrestricted	<u>11,748,377</u>
Total Net Assets	<u><u>\$ 62,386,654</u></u>

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, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	
Governmental Activities				
General Government	\$ 4,909,642	\$ 1,324,799	\$ 0	\$ -3,584,843
Building	797,763	840,582	0	42,819
Parks	2,054,712	22,651	0	-2,032,061
Storm Drainage	24,302	44,250	0	19,948
Streets	4,366	75,686	0	71,320
Interest on long term debt	181,666	0	0	-181,666
Total Governmental Activities	<u>\$ 7,972,451</u>	<u>\$ 2,307,968</u>	<u>\$ 0</u>	<u>-5,664,483</u>
General Revenues				
		Property Taxes		2,633,223
		Other Taxes		428,381
		Intergovernmental		559,998
		Other Revenue		1,036,599
		Gain on sale of capital assets		<u>531,948</u>
		Total General Revenues		<u>5,190,149</u>
		Change in Net Assets		-474,334
		Beginning Net Assets		<u>62,860,988</u>
		Ending Net Assets		<u>\$ 62,386,654</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, 2008

	<u>GENERAL FUND</u>	<u>STREET FUND</u>	<u>BUILDING FUND</u>
ASSETS			
Cash and Investments	\$ 1,841,816	\$ 742,663	\$ 904,458
Accounts Receivable	176,719	35,423	0
Property Taxes Receivable	<u>41,004</u>	<u>0</u>	<u>0</u>
Total Assets	<u><u>\$ 2,059,539</u></u>	<u><u>\$ 778,086</u></u>	<u><u>\$ 904,458</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 121,077	\$ 27,010	\$ 35,254
Payroll and Payroll Taxes Payable	67,865	2,551	21,584
Construction Fees	337,070	0	0
Retainage	200,993	0	0
Cable Pegs Fees	367,682	0	0
Deferred Taxes	37,740	0	0
Developer Trust Payable	74,640	0	0
Due to Clackamas County	<u>37,219</u>	<u>0</u>	<u>83,324</u>
Total Liabilities	<u>1,244,286</u>	<u>29,561</u>	<u>140,162</u>
Fund Balances:			
Unreserved and Undesignated	<u>815,253</u>	<u>748,525</u>	<u>764,296</u>
Total Fund Balances	<u>815,253</u>	<u>748,525</u>	<u>764,296</u>
Total Liabilities and Fund Balances	<u><u>\$ 2,059,539</u></u>	<u><u>\$ 778,086</u></u>	<u><u>\$ 904,458</u></u>

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

SYSTEM DEVELOPMENT FUND	ROAD IMPROVEMENT FUND	PUBLIC SAFETY FUND	RESERVE FOR PENSION FUND	NEW CITY HALL FUND	TOTAL
\$ 1,392,411	\$ 489,754	\$ 1,677,227	\$ 0	\$ 6,435,454	\$ 13,483,783
0	0	0	0	0	212,142
0	0	82,802	0	0	123,806
<u>\$ 1,392,411</u>	<u>\$ 489,754</u>	<u>\$ 1,760,029</u>	<u>\$ 0</u>	<u>\$ 6,435,454</u>	<u>\$ 13,819,731</u>
\$ 774	\$ 0	\$ 2,307	\$ 0	\$ 642,064	\$ 828,486
0	761	1,607	0	0	94,368
0	0	0	0	0	337,070
0	0	0	0	0	200,993
0	0	0	0	0	367,682
0	0	76,184	0	0	113,924
0	0	0	0	0	74,640
117,300	0	0	0	0	237,843
<u>118,074</u>	<u>761</u>	<u>80,098</u>	<u>0</u>	<u>642,064</u>	<u>2,255,006</u>
<u>1,274,337</u>	<u>488,993</u>	<u>1,679,931</u>	<u>0</u>	<u>5,793,390</u>	<u>11,564,725</u>
<u>1,274,337</u>	<u>488,993</u>	<u>1,679,931</u>	<u>0</u>	<u>5,793,390</u>	<u>11,564,725</u>
<u>\$ 1,392,411</u>	<u>\$ 489,754</u>	<u>\$ 1,760,029</u>	<u>\$ 0</u>	<u>\$ 6,435,454</u>	<u>\$ 13,819,731</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, 2008

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

Fund Balances	\$ 11,564,725
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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	55,680,595
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Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.

Accrued Vacation	-78,803
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Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Long term debt	\$ -5,042,318	
Long term debt issuance costs	148,531	
Net Adjustment	<u>-4,893,787</u>	-4,893,787

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>113,924</u>
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Total Net Assets	<u><u>\$ 62,386,654</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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	<u>GENERAL FUND</u>	<u>STREET FUND</u>	<u>BUILDING FUND</u>	<u>SYSTEM DEVELOPMENT FUND</u>
REVENUES				
Property Taxes	\$ 859,558	\$ 0	\$ 0	\$ 0
Gas Tax Revenue	0	428,381	0	0
Licenses and Permits	1,347,450	0	840,582	0
System Development Charges	0	0	0	44,250
Intergovernmental Revenues	555,905	0	4,093	0
Other Revenue	395,163	32,085	61,207	74,668
	<u>3,158,076</u>	<u>460,466</u>	<u>905,882</u>	<u>118,918</u>
Total Revenues				
EXPENDITURES				
Personal Services	1,657,824	126,551	720,014	0
Materials & Services	681,392	90,890	77,749	0
Debt Service	183,894	0	0	0
Capital Outlay	118,249	545,554	26,010	2,429,684
	<u>2,641,359</u>	<u>762,995</u>	<u>823,773</u>	<u>2,429,684</u>
Total Expenditures				
Excess of Revenues Over, -Under Expenditures	516,717	-302,529	82,109	-2,310,766
Other Financing Sources, -Uses				
Bond Proceeds	0	0	0	0
Proceeds from Land Sale	0	0	0	0
Transfers In	285,143	0	0	0
Transfers Out	-1,366,000	0	-145,000	0
	<u>-1,080,857</u>	<u>0</u>	<u>-145,000</u>	<u>0</u>
Total Other Financing Sources, -Uses				
Net Change in Fund Balance	-564,140	-302,529	-62,891	-2,310,766
Beginning Fund Balance	1,379,393	1,051,054	827,187	3,585,103
Ending Fund Balance	<u>\$ 815,253</u>	<u>\$ 748,525</u>	<u>\$ 764,296</u>	<u>\$ 1,274,337</u>

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	\$ 1,735,767	\$ 0	\$ 0	\$ 2,595,325
0	0	0	0	428,381
75,686	0	0	0	2,263,718
0	0	0	0	44,250
0	0	0	0	559,998
20,696	84,110	1,318	367,352	1,036,599
<u>96,382</u>	<u>1,819,877</u>	<u>1,318</u>	<u>367,352</u>	<u>6,928,271</u>
21,581	47,408	0	0	2,573,378
0	1,352,336	0	0	2,202,367
0	0	0	0	183,894
0	0	0	7,010,893	10,130,390
<u>21,581</u>	<u>1,399,744</u>	<u>0</u>	<u>7,010,893</u>	<u>15,090,029</u>
74,801	420,133	1,318	-6,643,541	-8,161,758
0	0	0	5,044,546	5,044,546
0	0	0	2,885,549	2,885,549
0	0	0	1,511,000	1,796,143
0	0	-285,143	0	-1,796,143
<u>0</u>	<u>0</u>	<u>-285,143</u>	<u>9,441,095</u>	<u>7,930,095</u>
74,801	420,133	-283,825	2,797,554	-231,663
414,192	1,259,798	283,825	2,995,836	11,796,388
<u>\$ 488,993</u>	<u>\$ 1,679,931</u>	<u>\$ 0</u>	<u>\$ 5,793,390</u>	<u>\$ 11,564,725</u>

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, 2008

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

Excess of Revenues over Expenditures	\$	-231,663
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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	\$	8,321,779	
Fixed Asset Deletions		-2,353,601	
Depreciation Expense		<u>-1,351,979</u>	
Net Adjustment			4,616,199

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		-2,981
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The issuance of long term debt provides current financial resources and the repayment of principal of long term debt consumes current financial resources of governmental funds. The issuance of debt along with the related costs and discounts or premiums do not affect net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Long term debt		-5,044,546	
Long term debt issuance costs		156,349	
Amortization of LTD Issuance Costs		-7,818	
Amortization of LTD Premium		<u>2,228</u>	
Net Adjustment			-4,893,787

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>37,898</u>
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Change in Net Assets	\$	<u><u>-474,334</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 of the City of Happy Valley, Clackamas County, Oregon 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 City's 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. The City of Happy Valley has 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 District's 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)

The City reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

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 the City’s general revenues.

FUND FINANCIAL STATEMENTS

The accounts of the City 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 by the government.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. DESCRIPTION OF FUNDS

The City reports the following major funds:

GENERAL FUND

This fund accounts for all financial resources and expenditures of the City, except those required to be accounted for in another fund. The principal revenue sources are property taxes, intergovernmental revenues, various fees for provided services, 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 City's 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 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 2006.

RESERVE FOR PENSION FUND

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

RESERVE FOR NEW CITY HALL FUND

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

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.

The City begins its budget process 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: Public Safety Fund, Personal Services in the amount of \$1,508.

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. The City defines capital assets 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. LONG-TERM DEBT

In the government-wide financial statements long-term debt is reported as a liability in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the life of the bonds.

In the fund financial statements bond premiums and discounts, as well as bond issuance costs, are recognized when incurred. The face amount of the debt issued and premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

H. RETIREMENT PLAN

City 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.

I. VESTED COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a 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.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. 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.

K. 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.

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	363,112
Cash with County	17,646
Investments	<u>13,102,625</u>
Total Cash and Investments	<u>\$ 13,483,783</u>

DEPOSITS - Deposits with financial institutions include bank demand deposits. The total bank balance per the bank statements is \$386,896. Of the current year bank balance, \$100,000 is covered by federal depository insurance and \$266,752 is uninsured and uncollateralized. The City bank account was a sweep account through August 31, 2007 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. The account was changed to a demand deposit account due to a change in the type of repurchase agreements used by the bank which no longer complied with Oregon requirements for government investments.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

INVESTMENTS - Statutes authorize the City to invest 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 City's investments during the year were also invested in the state treasurer's investment pool.

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, 2008.

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 District's position in the State Treasurer's Local Investment Pool and the value of the pool shares at June 30, 2008. There were no known violations of legal or contractual provisions for deposits and investments during the fiscal year.

At year-end, the City's 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	\$ 2,702,886	\$ 1,607,517	\$ 1,095,369	\$ 0
State Treasurer's Investment Pool	10,399,739	10,399,739	0	0
Total	\$ 13,102,625	\$ 12,007,256	\$ 1,095,369	\$ 0

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 submitted to and reviewed by the OSTFB. The City does not have any investments with a maturity date exceeding 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, 2008, the City had 79% of total investments in the State Treasurer's Investment Pool. State statutes do not limit the percentage of investments in this instrument. At June 30, 2008, the City had 21% of total investments in obligations of U.S. Agencies. This included one Freddie Mac Discount Note and two Federal Home Loan Discount Notes. The maturity date of each note is between four and 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, 2008 are as follows:

GOVERNMENTAL ACTIVITIES CAPITAL ASSETS				
	June 30, 2007	Additions	Disposals	June 30, 2008
Land and Improvements (non depreciable)	\$ 3,272,939	\$ 2,453,409	\$ 2,353,601	\$ 3,372,747
Construction in Progress (non depreciable)	0	4,557,484	0	4,557,484
Buildings	1,240,682	25,642	0	1,266,324
Vehicles	235,707	90,978	0	326,685
Other Equipment	105,393	9,100	0	114,493
Park Improvements	1,869,292	404,957	0	2,274,249
Park Equipment	38,960	0	0	38,960
Streets	48,769,520	780,209	0	49,549,729
Less: Accumulated Depreciation	-4,468,097	-1,351,979	0	-5,820,076
Total Governmental Activities	<u>\$ 51,064,396</u>	<u>\$ 6,969,800</u>	<u>\$ 2,353,601</u>	<u>\$ 55,680,595</u>

Governmental Activities Depreciation Allocation to Functions

Function	Governmental Funds
General Government	\$ 867,512
Building	135,286
Parks	348,441
Streets	740
Total	<u>\$ 1,351,979</u>

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

4. LONG-TERM DEBT

Full Faith and Credit Obligation Bonds

The City issued full faith and credit obligation bonds to provide funds for the construction of a new city hall building. Interest coupon rates range from 4% to 4.25%. The bonds are direct obligations and pledge the full faith and credit of the City. They are issued as 20-year serial bonds with increasing principal amounts due each year.

Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 90,000	\$ 207,588	\$ 297,588
2010	175,000	201,956	376,956
2011	180,000	194,413	374,413
2012	190,000	186,550	376,550
2013	195,000	178,369	373,369
2014	205,000	169,869	374,869
2015	215,000	160,944	375,944
2016	220,000	151,700	371,700
2017	230,000	142,138	372,138
2018	240,000	132,450	372,450
2019	250,000	122,650	372,650
2020	260,000	112,288	372,288
2021	270,000	101,356	371,356
2022	285,000	89,909	374,909
2023	295,000	77,947	372,947
2024	310,000	65,469	375,469
2025	325,000	52,169	377,169
2026	340,000	38,038	378,038
2027	355,000	23,269	378,269
2028	370,000	7,863	377,863
	<u>\$ 5,000,000</u>	<u>\$ 2,416,932</u>	<u>\$ 7,416,932</u>

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

4. LONG-TERM DEBT, (CONTINUED)

Change in long-term liabilities

Long-term liability activity for the fiscal year ending June 30, 2008, was as follows:

	<u>06/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/08</u>	<u>Due within one Year</u>
Bonds Payable					
Full Faith & Credit Obligation, Series 2007, Interest 4%-4.25%	\$ 0	\$ 5,000,000	\$ 0	\$ 5,000,000	\$ 90,000
Plus deferred amounts:					
Bond Premium	0	44,546	2,228	42,318	2,228
Total bonds payable	0	5,044,546	2,228	5,042,318	92,228
Compensated Absences	75,822	2,981	0	78,803	78,803
Total Long-term liabilities	<u>\$ 75,822</u>	<u>\$ 5,047,527</u>	<u>\$ 2,228</u>	<u>\$ 5,121,121</u>	<u>\$ 171,031</u>

5. COMPENSATED ABSENCES PAYABLE

At June 30, 2008, the City's liability for vacation pay is estimated at \$78,803.

6. RETIREMENT PLANS

Plan Description

The City participates in the State of Oregon Public Employees Retirement System (PERS), a cost-sharing multiple -employer public employee retirement system. All employees of the City 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.

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, 2008 were \$90,740. The City is required to contribute at actuarially determined rates, as adopted by the PERS Board. The current rate effective July 1, 2007 is 12.54% of covered payroll for Tier 1/2 employees and 13.61% for OPSRP employees.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

6. RETIREMENT PLANS (CONTINUED)

Annual Pension Cost

The City's contribution to the plan for the years ending June 30, 2008, 2007, and 2006 was \$195,244, \$161,837, and \$129,470, respectively, and was equal to the required contributions for the year.

7. DEFERRED COMPENSATION

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees of the City, 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.

8. 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 exempt from the reductions. The Constitution sets restrictive voter approval requirements for most tax, many fee increases, and new bond issues.

9. 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. The City has 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 \$367,682 are currently held in a deferred revenue liability account of the City.

10. 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. The City purchases commercial insurance to minimize its exposure to these risks. Settled claims have not exceeded this commercial coverage for any of the past three years.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

11. COMMITMENTS

The City has recognized as a liability only that portion of construction contracts representing construction completed through June 30, 2008.

The City is committed under the New City Hall project construction contract at June 30, 2008. The project budget for the New City Hall project totals \$11,552,887. As of June 30, 2008, \$6,750,793 has been expended with contracts outstanding of \$4,802,904. The project is scheduled to be complete November 2008. The project is 58% complete and expenditures total 58% of the project budget.

REQUIRED SUPPLEMENTARY INFORMATION

Other Financial Schedules

**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, 2008**

<u>GENERAL FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE -NEGATIVE</u>
REVENUES				
Taxes:				
Property Taxes - Current	\$ 779,000	\$ 779,000	\$ 848,589	\$ 69,589
Property Taxes - Delinquent	10,000	10,000	10,969	969
Total Taxes	<u>789,000</u>	<u>789,000</u>	<u>859,558</u>	<u>70,558</u>
Licenses, Fees, and Permits:				
Franchise Fees	505,000	505,000	657,528	152,528
Sewer Permit Fee	10,000	10,000	7,684	-2,316
Erosion Control Permit Fee	80,000	80,000	38,150	-41,850
Miscellaneous Permits	26,000	26,000	1,845	-24,155
Right of Way Permits	55,000	55,000	17,040	-37,960
Development Fees	250,000	250,000	308,972	58,972
Construction Fees	650,000	650,000	197,658	-452,342
Cell Tower Fees	24,000	24,000	25,075	1,075
Park Reservation Permits	25,000	25,000	22,651	-2,349
SDC-Administration Fees	15,000	15,000	16,233	1,233
Business Licenses	40,000	40,000	33,081	-6,919
Animal Control Licenses	10,000	10,000	15,873	5,873
Alarm Permits and Penalties	6,000	6,000	5,660	-340
Total Licenses, Fees, and Permits	<u>1,696,000</u>	<u>1,696,000</u>	<u>1,347,450</u>	<u>-348,550</u>
Intergovernmental:				
Alcohol Tax	80,000	80,000	114,000	34,000
Cigarette Tax	13,000	13,000	16,055	3,055
State Revenue Sharing	55,000	55,000	81,478	26,478
Park Revenue from NCPRD	206,000	206,000	204,500	-1,500
Code Enforcement IGAs	92,500	92,500	79,872	-12,628
Grants	630,000	630,000	60,000	-570,000
Total Intergovernmental	<u>1,076,500</u>	<u>1,076,500</u>	<u>555,905</u>	<u>-520,595</u>
Other Revenue:				
Interest	102,000	102,000	58,875	-43,125
Traffic Fines	200,000	200,000	220,489	20,489
Municipal Court	271,950	271,950	39,291	-232,659
State Court Assessments	42,000	42,000	27,694	-14,306
Community Events	40,000	40,000	28,827	-11,173
Miscellaneous Revenue	0	0	19,987	19,987
Total Other Revenue	<u>655,950</u>	<u>655,950</u>	<u>395,163</u>	<u>-260,787</u>
Total Revenues	<u>4,217,450</u>	<u>4,217,450</u>	<u>3,158,076</u>	<u>-1,059,374</u>

Continued on page -26-

**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, 2008**

	<u>GENERAL FUND</u>			VARIANCE
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>POSITIVE -NEGATIVE</u>
EXPENDITURES				
Personal Services				
Salaries	\$ 1,387,300	\$ 1,387,300	\$ 1,128,667	\$ 258,633
Employee Benefits	653,600	653,600	529,157	124,443
Total Personal Services	<u>2,040,900</u>	<u>2,040,900</u> (1)	<u>1,657,824</u>	<u>383,076</u>
Materials and Services				
Office Supplies	38,000	38,000	26,047	11,953
Public Works Supplies	45,000	45,000	30,136	14,864
Equipment under \$5,000	30,000	30,000	19,415	10,585
Travel	27,000	27,000	10,184	16,816
Training	39,000	39,000	21,783	17,217
Maps and Printing	5,000	5,000	2,512	2,488
Membership and Dues	17,000	17,000	8,201	8,799
Utilities	70,000	70,000	48,833	21,167
Vehicle Operation and Maintenance	57,500	57,500	51,333	6,167
Publication and Subscription	24,000	24,000	16,658	7,342
Newsletter	60,000	60,000	59,961	39
Postage	20,000	20,000	9,213	10,787
Insurance	45,000	45,000	31,480	13,520
Repairs and Maintenance	87,000	87,000	35,268	51,732
Emergency Supplies	15,000	15,000	3,231	11,769
Community Concept Planning	70,000	70,000	61,258	8,742
Miscellaneous Admin.	10,000	10,000	23,941	-13,941
Legal	130,000	130,000	90,288	39,712
Audit	7,000	7,000	6,495	505
Minutes Clerical	4,000	4,000	1,136	2,864
Contract Services	316,000	316,000	97,407	218,593
Software	2,000	2,000	0	2,000
Interpreting Services	2,000	2,000	451	1,549
Public Outreach	8,000	8,000	1,260	6,740
Community Events	50,000	50,000	24,901	25,099
Total Materials and Services	<u>1,178,500</u>	<u>1,178,500</u> (1)	<u>681,392</u>	<u>497,108</u>
Debt Service				
Interest	<u>0</u>	<u>0</u>	<u>183,894</u>	<u>-183,894</u>
Total Debt Service	<u>0</u>	<u>0</u>	<u>183,894</u>	<u>-183,894</u>

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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, 2008**

	<u>GENERAL FUND</u>			VARIANCE POSITIVE -NEGATIVE
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
EXPENDITURES (CONTINUED)				
Capital Outlay				
Vehicles	120,000	120,000	75,613	44,387
Equipment	50,000	50,000	23,842	26,158
Facility Improvements	50,000	50,000	18,794	31,206
Land/Land Improvements	480,000	480,000	0	480,000
Parks	60,000	60,000	0	60,000
Total Capital Outlay	<u>760,000</u>	<u>760,000</u> (1)	<u>118,249</u>	<u>641,751</u>
Contingency	<u>680,550</u>	<u>680,550</u> (1)	<u>0</u>	<u>680,550</u>
Total Expenditures	<u>4,659,950</u>	<u>4,659,950</u>	<u>2,641,359</u>	<u>2,018,591</u>
Excess of Revenues Over, -Under Expenditures	-442,500	-442,500	516,717	959,217
OTHER FINANCING SOURCES, -USES				
Transfers In	294,500	294,500	285,143	-9,357
Transfers Out To:				
Road Improvement Fund	0	0	0	0
Public Safety Fund	0	0	0	0
New City Hall Fund	<u>-1,366,000</u>	<u>-1,366,000</u> (1)	<u>-1,366,000</u>	<u>0</u>
Net Change in Fund Balance	-1,514,000	-1,514,000	-564,140	949,860
Beginning Fund Balance	<u>1,514,000</u>	<u>1,514,000</u>	<u>1,379,393</u>	<u>-134,607</u>
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 815,253</u>	<u>\$ 815,253</u>

(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, 2008**

<u>STREET FUND</u>				
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 30,000	\$ 30,000	\$ 32,085	\$ 2,085
Gas Tax Revenue	373,000	373,000	428,381	55,381
Rock Tax	10,000	10,000	0	-10,000
Total Revenues	413,000	413,000	460,466	47,466
EXPENDITURES				
Personal Services				
Salaries	123,000	123,000	73,884	49,116
Employee Benefits	56,100	56,100	52,667	3,433
Total Personal Services	179,100	179,100 (1)	126,551	52,549
Materials and Services				
Equipment under \$5,000	3,500	3,500	1,481	2,019
Training	3,000	3,000	0	3,000
Vehicle Expenses	15,000	15,000	7,490	7,510
Contract Services	85,000	85,000	44,803	40,197
Traffic Control Devices	12,000	12,000	3,894	8,106
Street Repair Materials	15,000	15,000	1,185	13,815
Traffic Signs and Striping	35,000	35,000	32,037	2,963
Total Materials and Services	168,500	168,500 (1)	90,890	77,610
Capital Outlay				
Street Reconstruction	550,000	550,000	545,554	4,446
Vehicles	40,000	40,000	0	40,000
Equipment	40,000	40,000	0	40,000
Right of Way Improvements	140,500	140,500	0	140,500
Total Capital Outlay	770,500	770,500 (1)	545,554	224,946
Contingency	165,400	165,400 (1)	0	165,400
Total Expenditures	1,283,500	1,283,500	762,995	520,505
Net Change in Fund Balance	-870,500	-870,500	-302,529	567,971
Beginning Fund Balance	980,000	980,000	1,051,054	71,054
Ending Fund Balance	\$ 109,500	\$ 109,500	\$ 748,525	\$ 639,025

(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, 2008**

	<u>BUILDING FUND</u>			VARIANCE
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>POSITIVE -NEGATIVE</u>
REVENUES				
Interest	\$ 50,000	\$ 50,000	\$ 40,450	\$ -9,550
Permits and Fees	3,956,100	3,956,100	840,582	-3,115,518
State Surcharge	0	0	0	0
Construction Excise Tax	20,000	20,000	4,093	-15,907
Miscellaneous	0	0	20,757	20,757
Total Revenues	<u>4,026,100</u>	<u>4,026,100</u>	<u>905,882</u>	<u>-3,120,218</u>
EXPENDITURES				
Personal Services				
Salaries	1,026,100	1,026,100	488,136	537,964
Employee Benefits	<u>515,900</u>	<u>515,900</u>	<u>231,878</u>	<u>284,022</u>
Total Personal Services	<u>1,542,000</u>	<u>1,542,000 (1)</u>	<u>720,014</u>	<u>821,986</u>
Materials and Services				
Office Supplies	35,000	35,000	5,742	29,258
Equipment under \$5,000	225,000	225,000	4,923	220,077
Travel	10,000	10,000	293	9,707
Training	28,000	28,000	5,120	22,880
Membership and Dues	5,700	5,700	1,073	4,627
Utilities	30,000	30,000	10,304	19,696
Vehicle Expenses	24,000	24,000	10,684	13,316
Publications and Subscriptions	10,000	10,000	3,543	6,457
Postage	1,500	1,500	0	1,500
Insurance	15,000	15,000	10,902	4,098
Repairs and Maintenance	25,500	25,500	7,511	17,989
Public Outreach	25,000	25,000	2,526	22,474
Legal	20,000	20,000	1,301	18,699
Contract Services	1,307,500	1,307,500	1,497	1,306,003
Electrical Programs	0	0	0	0
State Surcharge Fees	0	0	0	0
Construction Excise Tax	0	0	0	0
Municipal Lease	16,000	16,000	11,267	4,733
Software and Software Contract	<u>45,000</u>	<u>45,000</u>	<u>1,063</u>	<u>43,937</u>
Total Materials and Services	<u>1,823,200</u>	<u>1,823,200 (1)</u>	<u>77,749</u>	<u>1,745,451</u>
Capital Outlay				
Vehicles	110,000	110,000	19,162	90,838
Equipment	25,000	25,000	0	25,000
Facility Improvements	<u>0</u>	<u>0</u>	<u>6,848</u>	<u>-6,848</u>
Total Capital Outlay	<u>135,000</u>	<u>135,000 (1)</u>	<u>26,010</u>	<u>108,990</u>

(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, 2008**

	<u>BUILDING FUND</u>			VARIANCE
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>POSITIVE -NEGATIVE</u>
EXPENDITURES (CONTINUED)				
Contingency	<u>390,900</u>	<u>390,900 (1)</u>	<u>0</u>	<u>390,900</u>
Total Expenditures	<u>3,891,100</u>	<u>3,891,100</u>	<u>823,773</u>	<u>3,067,327</u>
OTHER FINANCING SOURCES, -USES				
Transfers Out	<u>-870,000</u>	<u>-870,000 (1)</u>	<u>-145,000</u>	<u>725,000</u>
Net Change in Fund Balance	-735,000	-735,000	-62,891	672,109
Beginning Fund Balance	<u>735,000</u>	<u>735,000</u>	<u>827,187</u>	<u>92,187</u>
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 764,296</u>	<u>\$ 764,296</u>

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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, 2008**

SYSTEM DEVELOPMENT FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE -NEGATIVE</u>
REVENUES				
Interest	\$ 150,000	\$ 150,000	\$ 74,668	\$ -75,332
SDC-Storm Drainage	100,000	100,000	44,250	-55,750
SDC-Parks	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenues	<u>250,000</u>	<u>250,000</u>	<u>118,918</u>	<u>-131,082</u>
EXPENDITURES				
Capital Outlay				
SDC Projects-Transportation	160,000	160,000	0	160,000
SDC Projects-Storm Drainage	100,000	100,000	24,302	75,698
SDC Projects-Parks	<u>3,100,000</u>	<u>3,100,000</u>	<u>2,405,382</u>	<u>694,618</u>
Total Capital Outlay	<u>3,360,000</u>	<u>3,360,000 (1)</u>	<u>2,429,684</u>	<u>930,316</u>
Total Expenditures	<u>3,360,000</u>	<u>3,360,000</u>	<u>2,429,684</u>	<u>930,316</u>
Net Change in Fund Balance	-3,110,000	-3,110,000	-2,310,766	799,234
Beginning Fund Balance	<u>3,110,000</u>	<u>3,110,000</u>	<u>3,585,103</u>	<u>475,103</u>
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,274,337</u>	<u>\$ 1,274,337</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, 2008**

ROAD IMPROVEMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 11,000	\$ 11,000	\$ 20,696	\$ 9,696
Privilege Tax	57,750	57,750	75,686	17,936
Cooperative Projects	100,000	100,000	0	-100,000
Grants	154,000	154,000	0	-154,000
Total Revenues	322,750	322,750	96,382	-226,368
EXPENDITURES				
Personal Services				
Salaries	21,800	21,800	15,600	6,200
Employee Benefits	9,000	9,000	5,981	3,019
Total Personal Services	30,800	30,800 (1)	21,581	9,219
Materials and Services				
Contract Engineering	100,000	100,000	0	100,000
Total Materials and Services	100,000	100,000 (1)	0	100,000
Capital Outlay				
Bicycle & Ped Pathways	100,000	100,000	0	100,000
Road Construction	481,950	481,950	0	481,950
Total Capital Outlay	581,950	581,950 (1)	0	581,950
Total Expenditures	712,750	712,750	21,581	691,169
Net Change in Fund Balance	-390,000	-390,000	74,801	464,801
Beginning Fund Balance	390,000	390,000	414,192	24,192
Ending Fund Balance	\$ 0	\$ 0	\$ 488,993	\$ 488,993

(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, 2008**

PUBLIC SAFETY FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 40,000	\$ 40,000	\$ 84,110	\$ 44,110
Taxes:				
Property Taxes - Current	1,603,000	1,603,000	1,713,616	110,616
Property Taxes - Delinquent	0	0	22,151	22,151
Total Revenues	1,643,000	1,643,000	1,819,877	176,877
EXPENDITURES				
Personal Services				
Salaries	32,900	32,900	33,170	-270
Employee Benefits	13,000	13,000	14,238	-1,238
Total Personal Services	45,900	45,900 (1)	47,408	-1,508
Materials and Services				
Office Supplies	0	0	192	-192
Equipment under \$5,000	50,000	50,000	9,477	40,523
Utilities	500	500	2,543	-2,043
Vehicle Operation and Maintenance	5,000	5,000	900	4,100
Repairs and Maintenance	0	0	3,845	-3,845
Public Outreach	0	0	178	-178
Legal	0	0	136	-136
Contracted Software Services	5,000	5,000	2,500	2,500
Contract Police Protection	2,300,000	2,300,000	1,332,565	967,435
Total Materials and Services	2,360,500	2,360,500 (1)	1,352,336	1,008,164
Contingency	866,600	866,600 (1)	0	866,600
Total Expenditures	3,273,000	3,273,000	1,399,744	1,873,256
Net Change in Fund Balance	-1,630,000	-1,630,000	420,133	2,050,133
Beginning Fund Balance	1,630,000	1,630,000	1,259,798	-370,202
Ending Fund Balance	\$ 0	\$ 0	\$ 1,679,931	\$ 1,679,931

(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, 2008

RESERVE FOR PENSION FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 7,500	\$ 7,500	\$ 1,318	\$ -6,182
Total Revenues	7,500	7,500	1,318	-6,182
OTHER FINANCING SOURCES, -USES				
Transfers Out	-294,500	-294,500	-285,143	9,357
Net Change in Fund Balance	-287,000	-287,000	-283,825	3,175
Beginning Fund Balance	287,000	287,000	283,825	-3,175
Ending Fund Balance	\$ 0	\$ 0	\$ 0	\$ 0

(1) Appropriation Level

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CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

OTHER SUPPLEMENTARY INFORMATION

Other Financial Schedules

**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, 2008**

NEW CITY HALL FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 55,000	\$ 55,000	\$ 367,352	\$ 312,352
Total Revenues	55,000	55,000	367,352	312,352
EXPENDITURES				
Materials and Services				
Equipment under \$5,000	1,000,000	1,000,000	0	1,000,000
Total Materials and Services	1,000,000	1,000,000 (1)	0	1,000,000
Capital Outlay				
City Hall	10,791,000	10,791,000	4,557,484	6,233,516
Equipment	1,000,000	1,000,000	0	1,000,000
Land/Land Improvements	0	0	2,453,409	-2,453,409
Facility Improvements	2,000,000	2,000,000	0	2,000,000
Total Capital Outlay	13,791,000	13,791,000 (1)	7,010,893	6,780,107
Total Expenditures	14,791,000	14,791,000	7,010,893	7,780,107
Excess of Revenues Over, -Under Expenditures	-14,736,000	-14,736,000	-6,643,541	8,092,459
OTHER FINANCING SOURCES				
Bond Proceeds	10,000,000	10,000,000	5,044,546	-4,955,454
Proceeds from land sale	0	0	2,885,549	2,885,549
Transfers In	2,236,000	2,236,000	1,511,000	-725,000
Net Change in Fund Balance	-2,500,000	-2,500,000	2,797,554	5,297,554
Beginning Fund Balance	2,500,000	2,500,000	2,995,836	495,836
Ending Fund Balance	\$ 0	\$ 0	\$ 5,793,390	\$ 5,793,390

(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, 2008**

<u>TAX YEAR</u>	<u>IMPOSED LEVY OR UNCOL- LECTED AT 7/1/07</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 6/30/08</u>
CURRENT:						
2007-2008	\$ 2,699,731	\$ -64,851	\$ -4,291	\$ 956	\$ 2,538,635	\$ 92,910
PRIOR YEARS:						
2006-2007	61,379	5	-688	1,812	41,837	20,671
2005-2006	13,844	1	-967	821	6,698	7,001
2004-2005	5,425	1	-115	749	3,989	2,071
2003-2004	2,012	0	-77	317	1,559	693
2002-2003 & Prior	581	0	-17	40	144	460
Total Prior	83,241	7	-1,864	3,739	54,227	30,896
Total	<u>\$ 2,782,972</u>	<u>\$ -64,844</u>	<u>\$ -6,155</u>	<u>\$ 4,695</u>	<u>\$ 2,592,862</u>	<u>\$ 123,806</u>

RECONCILIATION OF REVENUE:	<u>GENERAL FUND</u>
Cash Collections by County Treasurer Above	\$ 2,592,862
Accrual of Receivables:	
June 30, 2007	-7,158
June 30, 2008	9,855
Total Revenue	<u>\$ 2,595,559</u>

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

AUDITOR'S COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS

CITY OF HAPPY VALLEY, OREGON
AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS

Introduction

Oregon Administrative Rules 162-10-000 through 162-10-320 incorporate the Minimum Standards for Audits of Oregon Municipal Corporations. These standards, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosures required in audit reports. The required statements and schedules are set forth in the preceding section of this report. Required comments and disclosures related to our audit of such statements and schedules are contained in this section.

Internal Accounting Control

We have audited the financial statements of the City of Happy Valley, Oregon (the City) for the year ended June 30, 2008 and have issued our report thereon dated December 9, 2008.

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

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

CITY OF HAPPY VALLEY, OREGON

AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS

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'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 did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the management, the Mayor, the City Council, and the State of Oregon, Secretary of State, Division of Audits.

Other Comments and Disclosures

We have audited the basic financial statements of the City as of and for the year ended June 30, 2008, 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

The City was not in compliance with ORS Chapter 205 regarding collateral securing deposits for the fiscal year ended June 30, 2008. No collateral certificate was in place after the City converted their sweep account to a general checking account. The City was out of compliance from September 1, 2007 through June 30, 2008.

Indebtedness

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

Budgets

We reviewed the budgets adopted by the City of 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.

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, 2008 are adequate.

CITY OF HAPPY VALLEY, OREGON
AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS

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, 2008 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.

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

Merina & Company, LLP
West Linn, Oregon
December 9, 2008

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