

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2010

MERINA
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

CITY OFFICIALS AS OF JUNE 30, 2010

<u>NAME</u>	<u>TERM EXPIRES</u>
Rob Wheeler – Mayor	December 31, 2010
Lori DeRemer – Council President	December 31, 2012
Markley Drake	December 31, 2010
Tom Andrusko	December 31, 2010
Michael Morrow	December 31, 2012

All council members receive mail at the address below.

ADMINISTRATIVE

Jason Tuck, City Manager
16000 SE Misty Drive
Happy Valley, Oregon 97086
(503) 783-3800
(503) 658-5174

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

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INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To 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, (the City), as of and for the year ended June 30, 2010, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Happy Valley, Oregon, as of June 30, 2010, 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.

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

auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. 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 opinions on the financial statements that collectively comprise the City of Happy Valley, Oregon's basic financial statements as a whole. The other supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Merina & Company, LLP
West Linn, Oregon
December 23, 2010

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

**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, 2010. 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 \$59,054,105 at June 30, 2010.
- During the year, the City's net assets decreased by \$1,714,330. This is due to a decrease in revenues received by the City and depreciation expense associated with capital items with no corresponding increase in capital items.
- The general fund had an unreserved fund balance at the end of the year of \$1,708,335. This is equal to 56 percent of total general fund expenditures for the year.
- The full faith and credit obligations end of the year balance was \$4,735,000. This decrease of \$175,000 is per the principle payment schedule as presented in the Official Statement for the obligations.

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 encompass most of the City's basic services. These include general government, public safety, planning, 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 detailed information about each of the City's most significant funds but do not provide information about the City as a whole. Funds are accounting tools 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* are used to account for the City's basic services. Governmental funds focus on near-term inflows and outflows of spendable resources and the balances of spendable resources available at fiscal year end. As a result, 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 services 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 other supplementary information concerning the City's compliance with its annual appropriated budget amounts. A budgetary comparison statement for each fund is provided in the supplementary and other supplementary information to demonstrate compliance with the budget.

FINANCIAL ANALYSIS OF THE CITY

For the year ended June 30, 2010 the City's assets exceeded its liability by \$59,054,105. Cash and Investments represent 12% of total assets. Capital Assets, including land, buildings, streets, equipment, and vehicles comprises 87% of total assets. The remaining assets consist of receivables, and prepaid assets. Seventy seven percent of the City's liabilities are for the repayment of full faith and credit obligations issued for construction of the new city hall facility. The remaining liabilities are payments to vendors, other governments, and accrued salary and benefits.

CITY OF HAPPY VALLEY - NET ASSETS

	Total 2010	Total 2009
ASSETS:		
Current and Other Assets	\$ 8,222,487	\$ 8,759,838
Long Term Debt	132,895	140,713
Capital Assets	56,880,829	58,328,069
Total Assets	<u>65,236,211</u>	<u>67,228,620</u>
LIABILITIES:		
Current and Other Liabilities	1,591,472	1,687,323
Non-Current Liabilities	4,590,634	4,772,862
Total Liabilities	<u>6,182,106</u>	<u>6,460,185</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	52,107,967	53,377,979
Unrestricted	6,946,138	7,390,456
Total Net Assets	<u>\$ 59,054,105</u>	<u>\$ 60,768,435</u>

CITY OF HAPPY VALLEY - CHANGES IN NET ASSETS

	Total 2010	Total 2009
	<u> </u>	<u> </u>
REVENUES:		
Program Revenues:		
Charges for Services	\$ 1,609,088	\$ 2,057,977
General Revenues:		
Property Taxes-Perm Rate	1,045,159	988,849
Property Taxes-Levy	2,144,034	2,025,976
Other Taxes	475,910	422,485
Intergovernmental	542,842	567,585
Other Revenue	655,234	749,804
Total Revenues	<u>6,472,267</u>	<u>6,812,676</u>
EXPENSES:		
General Government	6,813,644	6,429,265
Building Inspection Program	459,832	707,295
Parks Development	97,482	126,200
Storm Drainage	1,900	58,962
Streets	614,011	252,246
Interest on long term debt	199,728	205,360
Total Expenses	<u>8,186,597</u>	<u>7,779,328</u>
Change in Net Assets	-1,714,330	-966,652
Beginning Net Assets	60,768,435	62,386,654
Prior Period Adjustment	<u>0</u>	<u>-651,567</u>
Ending Net Assets	<u>\$ 59,054,105</u>	<u>\$ 60,768,435</u>

The City’s total revenues were \$6,472,267 and Net Assets decreased by \$1,714,330 which indicates a decrease in the City’s financial position. The decrease was due in part to the downturn in the economy which resulted in lower revenues collected for services and lower interest rates. The absence of new streets added to the City’s inventory also contributed to the decrease in Net Assets. The amount of depreciation expense has been offset in past years by the addition of new assets in the form of streets and more recently the new city hall facility.

The City of Happy Valley faces many challenges:

- The economic slowdown continues to decrease development and building in the City. This has caused a considerable decrease in fees paid to the City. While this downturn continues the City will have to cope with the effect of decreased revenues.
- Development in the East Happy Valley expansion area still has not occurred due to the current state of the economy. Once the economy rebounds, development in the East Happy Valley area should create the potential for increased development and construction revenues for the City. Factors that favor development in this area are the completed expansion of 172nd Avenue between Sunnyside Road and Highway 212 and the area being shovel ready for development.
- Many of the streets within the City (excluding the new developments) do not meet acceptable standards. A revenue source adequate to cover the cost to improve streets to a higher level of service is not currently available.

- Police services are funded through a local option levy and contracted through Clackamas County. The City passed another local option levy in November 2010 to continue services within the City. The term of that levy is 2011 – 2015.
- In order to diversify the tax base, the City is working to expand its boundaries but cannot anticipate when that might happen.
- In November 2008 Clackamas County voters approved the creation of a Library District. The City is partnering with Clackamas County to relocate the library currently servicing the City to a location within the City boundaries. The Clackamas County Library District will operate the library with the understanding the City will reevaluate whether or not to take over operation at a future date.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$6,457,024 in 2010. Governmental fund balances totaled \$6,741,723 at June 30, 2010. A summary of changes in governmental fund balances follows:

City of Happy Valley - Changes in Governmental Fund Balances

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Change</u>
General Fund	\$ 1,708,335	\$ 786,385	\$ 921,950
Street Fund	\$ 266,535	\$ 386,212	\$ -119,677
Building Fund	\$ 626,623	\$ 559,371	\$ 67,252
System Development Fund	\$ 1,355,701	\$ 1,310,143	\$ 45,558
Road Improvement Fund	\$ 639,372	\$ 567,473	\$ 71,899
Public Safety Fund	\$ 1,577,636	\$ 1,682,291	\$ -104,655
New City Hall Fund	\$ 0	\$ 1,348,931	\$ -1,348,931
Reserve for Replacement Fund	\$ 567,521	\$ 546,582	\$ 20,939

The sizeable decrease in the New City Hall Fund is due to the completion of the new facility in the fall of 2008 and the subsequent transfer of the balance to the General Fund. The considerable increase in the General Fund is also due to the completion and subsequent transfer related to the new city hall facility. The decrease in the Street Fund was a result of the 145th Avenue thin lift overlay project. This will increase the life span of the portion of road and was done based on the City's program to systematically maintain streets to increase their useful life.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund ending fund balance increased \$921,950 from the prior year. This increase was due to the fund balance transfer from the New City Hall Fund. Although the General Fund ending fund balance increased, revenues decreased and expenditures increased from the prior year. The decrease in revenues was due to lower Development and Construction fees collected. The increase in expenditures was due primarily to higher personnel costs. Although expenditures increased they were within budgeted levels. Some General Fund revenues were in excess of budget estimates. They are as follows:

Franchise Fees	\$ 54,363
Erosion Control Permit Fees	\$ 12,677
Animal Control Licenses	\$ 11,748
State Revenue Sharing	\$ 28,862
Traffic Fines	\$ 58,867

CAPITAL ASSETS

At June 30, 2010, the City had \$56,880,829 invested in capital assets. This is a decrease of \$1,447,270 from the previous year. This decrease was due primarily to there being no new significant capital asset additions to offset the amount of depreciation expense for the current year. More detailed information about the City's capital assets is presented in the notes to the financial statements.

LONG TERM DEBT

At June 30, 2010, the City had outstanding debt of \$4,735,000. The City issued \$5,000,000 of 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 Department Fund. Detailed information about the City's long term debt is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The most significant economic factor affecting the City is the state of the housing market. Between 2005 and 2008 there was extensive site development and subdivision of larger parcels into single family home lots within the City. This development created many buildable lots in the City just as the economy started to decline. The subsequent national decline in new residential construction left the City with an overabundance of buildable lots with few potential buyers. Until the current buildable lot supply is depleted it is unlikely there will be a significant increase in development and construction revenue for the City.

The 2010-11 budget reflects this continuation of lower expected revenues by foregoing merit increases, postponing hiring, sharing health benefit costs with employees, decreasing materials and services expenditures, and increasing the length of service of assets. These measures are short term solutions and the City is completing a strategic plan to clarify the link between the operations budget and the City's long term goals. This plan is extremely important as the City adjusts to lower revenues in future years.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The City's financial report is designed to provide the user with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about this report or need clarification of the information please contact the City of Happy Valley Finance Director at: 16000 SE Misty Drive, Happy Valley, OR 97086, phone number 503-783-3800.

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CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

BASIC FINANCIAL STATEMENTS

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

STATEMENT OF NET ASSETS
June 30, 2010

ASSETS

Current Assets:

Cash and Investments	\$ 7,728,842
Accounts Receivable	293,489
Property Taxes Receivable	200,156
Total Current Assets	<u>8,222,487</u>

Non-Current Assets:

Bond issuance costs	132,895
Capital Assets - non-depreciable	3,372,747
Capital Assets - depreciable	62,281,911
Less accumulated depreciation	<u>-8,773,829</u>
Total Non-Current Assets	<u>57,013,724</u>

Total Assets	<u>\$ 65,236,211</u>
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LIABILITIES

Current Liabilities:

Accounts Payable	\$ 152,956
Payroll Liabilities	99,074
Other Payables	464,911
Accrued Vacation Payable	111,054
Cable Pegs Fees	280,078
Developer Trust Payable	149,467
Due to Other Governments	151,704
Current portion of long term debt	<u>182,228</u>
Total Current Liabilities	<u>1,591,472</u>

Non-Current Liabilities:

Bonds Payable	4,555,000
Premium on bonds payable	<u>35,634</u>
Total Non-Current Liabilities	<u>4,590,634</u>

Total Liabilities	<u>6,182,106</u>
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NET ASSETS:

Invested in Capital Assets, Net of Related Debt	52,107,967
Unrestricted	<u>6,946,138</u>
Total Net Assets	<u>\$ 59,054,105</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, 2010

Functions/Programs	Expendses	<u>Program Revenues</u> Charges for Services	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities			
General Government	\$ 6,813,644	\$ 1,080,402	\$ (5,733,242)
Building	459,832	359,716	(100,116)
Parks	97,482	36,668	(60,814)
Storm Drainage	1,900	32,052	30,152
Streets	614,011	100,250	(513,761)
Interest on long term debt	199,728	-	(199,728)
Total Governmental Activities	\$ 8,186,597	\$ 1,609,088	\$ (6,577,509)

General Revenues

Property Taxes	3,189,193
Other Taxes	475,910
Intergovernmental	542,842
Other Revenue	655,234
Total General Revenues	4,863,179
Change in Net Assets	-1,714,330
Beginning Net Assets	60,768,435
Ending Net Assets	\$ 59,054,105

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, 2010

	GENERAL FUND	STREET FUND	BUILDING FUND
ASSETS			
Cash and Investments	\$ 2,581,586	\$ 236,824	\$ 721,136
Accounts Receivable	253,460	40,029	0
Property Taxes Receivable	65,625	0	0
Total Assets	\$ 2,900,671	\$ 276,853	\$ 721,136
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 114,976	\$ 1,907	\$ 8,064
Payroll and Payroll Taxes Payable	72,700	8,411	12,591
Construction Fees	458,041	0	0
Retainage	6,870	0	0
Cable Pegs Fees	280,078	0	0
Deferred Taxes	59,872	0	0
Developer Trust Payable	149,467	0	0
Due to Other Governments	50,332	0	73,858
Total Liabilities	1,192,336	10,318	94,513
Fund Balances:			
Unreserved and Undesignated	1,708,335	266,535	626,623
Total Fund Balances	1,708,335	266,535	626,623
Total Liabilities and Fund Balances	\$ 2,900,671	\$ 276,853	\$ 721,136

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 REPLACEMENT</u>	<u>TOTAL</u>
\$ 1,383,215	\$ 640,503	\$ 1,588,392	\$ 577,186	\$ 7,728,842
0	0	0	0	293,489
<u>0</u>	<u>0</u>	<u>134,531</u>	<u>0</u>	<u>200,156</u>
<u>\$ 1,383,215</u>	<u>\$ 640,503</u>	<u>\$ 1,722,923</u>	<u>\$ 577,186</u>	<u>\$ 8,222,487</u>
\$ 0	\$ 0	\$ 18,344	\$ 9,665	\$ 152,956
0	1,131	4,241	0	99,074
0	0	0	0	458,041
0	0	0	0	6,870
0	0	0	0	280,078
0	0	122,702	0	182,574
0	0	0	0	149,467
<u>27,514</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>151,704</u>
<u>27,514</u>	<u>1,131</u>	<u>145,287</u>	<u>9,665</u>	<u>1,480,764</u>
<u>1,355,701</u>	<u>639,372</u>	<u>1,577,636</u>	<u>567,521</u>	<u>6,741,723</u>
<u>1,355,701</u>	<u>639,372</u>	<u>1,577,636</u>	<u>567,521</u>	<u>6,741,723</u>
<u>\$ 1,383,215</u>	<u>\$ 640,503</u>	<u>\$ 1,722,923</u>	<u>\$ 577,186</u>	<u>\$ 8,222,487</u>

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

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

June 30, 2010

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

Fund Balances		\$ 6,741,723
<p>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.</p>		
Net Capital Assets		56,880,829
<p>Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.</p>		
Accrued Vacation		-111,054
<p>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 those differences in the treatment of long-term debt and related items.</p>		
Long term debt	\$ -4,772,862	
Long term debt issuance costs	132,895	
Net Adjustment	<u>-4,639,967</u>	
<p>Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.</p>		
Deferred Property Tax Revenue		<u>182,574</u>
Total Net Assets		<u>\$ 59,054,105</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 REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

	<u>GENERAL FUND</u>	<u>STREET FUND</u>	<u>BUILDING FUND</u>	<u>SYSTEM DEVELOPMENT FUND</u>
REVENUES				
Property Taxes	\$ 1,040,129	\$ 0	\$ 0	\$ 0
Gas Tax Revenue	0	475,910	0	0
Licenses and Permits	1,100,541	0	359,716	0
System Development Charges	0	0	0	48,581
Intergovernmental Revenues	536,583	0	6,259	0
Other Revenue	559,709	4,759	35,606	21,377
Total Revenues	<u>3,236,962</u>	<u>480,669</u>	<u>401,581</u>	<u>69,958</u>
EXPENDITURES				
Personal Services	2,108,347	246,901	440,161	0
Materials & Services	886,137	123,127	19,671	0
Debt Service	0	0	0	0
Capital Outlay	0	187,318	0	24,400
Total Expenditures	<u>2,994,484</u>	<u>557,346</u>	<u>459,832</u>	<u>24,400</u>
Excess of Revenues Over, -Under Expenditures	242,478	-76,677	-58,251	45,558
Other Financing Sources, -Uses				
Transfers In	1,348,931	0	125,503	0
Transfers Out	-669,459	-43,000	0	0
Total Other Financing Sources, -Uses	<u>679,472</u>	<u>-43,000</u>	<u>125,503</u>	<u>0</u>
Net Change in Fund Balance	921,950	-119,677	67,252	45,558
Beginning Fund Balance	<u>786,385</u>	<u>386,212</u>	<u>559,371</u>	<u>1,310,143</u>
Ending Fund Balance	<u>\$ 1,708,335</u>	<u>\$ 266,535</u>	<u>\$ 626,623</u>	<u>\$ 1,355,701</u>

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

<u>ROAD IMPROVEMENT FUND</u>	<u>PUBLIC SAFETY FUND</u>	<u>NEW CITY HALL FUND</u>	<u>RESERVE FOR REPLACEMENT</u>	<u>DEBT SERVICE</u>	<u>TOTAL</u>
\$ 0	\$ 2,133,821	\$ 0	\$ 0	\$ 0	\$ 3,173,950
0	0	0	0	0	475,910
100,250	0	0	0	0	1,560,507
0	0	0	0	0	48,581
0	0	0	0	0	542,842
8,314	25,469	0	0	0	655,234
<u>108,564</u>	<u>2,159,290</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,457,024</u>
32,665	124,472	0	0	0	2,952,546
4,000	2,139,473	0	14,340	0	3,186,748
0	0	0	0	376,956	376,956
0	0	0	174,721	0	386,439
<u>36,665</u>	<u>2,263,945</u>	<u>0</u>	<u>189,061</u>	<u>376,956</u>	<u>6,902,689</u>
71,899	-104,655	0	-189,061	-376,956	-445,665
0	0	0	210,000	376,956	2,061,390
0	0	-1,348,931	0	0	-2,061,390
<u>0</u>	<u>0</u>	<u>-1,348,931</u>	<u>210,000</u>	<u>376,956</u>	<u>0</u>
71,899	-104,655	-1,348,931	20,939	0	-445,665
<u>567,473</u>	<u>1,682,291</u>	<u>1,348,931</u>	<u>546,582</u>	<u>0</u>	<u>7,187,388</u>
<u>\$ 639,372</u>	<u>\$ 1,577,636</u>	<u>\$ 0</u>	<u>\$ 567,521</u>	<u>\$ 0</u>	<u>\$ 6,741,723</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, 2010

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 \$ -445,665

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	\$ 148,722	
Fixed Asset Deletions	-18,151	
Depreciation Expense	<u>-1,577,811</u>	
Net Adjustment		-1,447,240

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 -6,078

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	175,000	
Amortization of LTD Issuance Costs	-7,818	
Amortization of LTD Premium	<u>2,228</u>	
Net Adjustment		169,410

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This adjustment is the net change in deferred taxes between last year and this year.

Property Taxes 15,243

Change in Net Assets \$ -1,714,330

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 was elected for a 4-year term and will be 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 REPLACEMENT FUND

This fund accounts for the future purchase of items such as heavy equipment, vehicles, and equipment per a replacement schedule. Revenues are derived from transfers from the General Fund, Street Fund, and Building Department Fund.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. DESCRIPTION OF FUNDS (CONTINUED)

RESERVE FOR DEBT SERVICE FUND

This fund accounts for the debt service payments for City of Happy Valley, Oregon Full Faith and Credit Obligations Series 2007 issued August 15, 2007. Revenues are derived 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.

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.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. BUDGETS (CONTINUED)

Expenditures cannot 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. Expenditures of the various funds were within authorized appropriations.

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.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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	\$ 535
Demand Deposits	235,831
Cash with County	15,418
Investments	<u>7,477,058</u>
 Total Cash and Investments	 <u><u>\$ 7,728,842</u></u>

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

DEPOSITS - Deposits with financial institutions include bank demand deposits. The total bank balance per the bank statement is \$228,245. Of the current year bank balance, all is covered by federal depository insurance and are held at a financial institution on the list of qualified depositories found on the State of Oregon Treasurer’s website. The account is a non-interest bearing demand deposit account.

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 local government investment pool. The City’s investments during the year were also invested in the State Treasurer’s Local Government 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, 2010.

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, 2010. 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	\$ 2,525,539	\$ 0	\$ 2,525,539	\$ 0
State Treasurer’s Local Government Investment Pool	4,951,519	4,951,519	0	0
Total	<u>\$ 7,477,058</u>	<u>\$ 4,951,519</u>	<u>\$ 2,525,539</u>	<u>\$ 0</u>

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 Treasurer’s Local Government Investment Pool is not rated.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

CONCENTRATION OF RISK – At June 30, 2010, the City had 66% of total investments in the State Treasurer’s Local Government Investment Pool. State statutes do not limit the percentage of investments in this instrument. At June 30, 2010, the City had 34% of total investments in obligations of U.S. Agencies. This included two Federal Home Loan Discount Notes, and one Farm Credit Note. The maturity date of each note is between sixteen and eighteen months from the date of purchase.

3. CAPITAL ASSETS

The changes in fixed assets for the fiscal year ended June 30, 2010 are as follows:

	GOVERNMENTAL ACTIVITIES CAPITAL ASSETS			
	June 30, 2009	Additions	Disposals	June 30, 2010
Land and Improvements (non depreciable)	\$ 3,372,747	\$ 0	\$ 0	\$ 3,372,747
Buildings	10,122,412	24,680	0	10,147,092
Vehicles	342,460	59,029	18,151	383,338
Other Equipment	323,082	65,013	0	388,095
Park Improvements	2,274,249	0	0	2,274,249
Park Equipment	38,960	0	0	38,960
Streets	49,050,177	0	0	49,050,177
Less: Accumulated Depreciation	-7,196,018	-1,592,162	-14,351	-8,773,829
Total Governmental Activities	\$ 58,328,069	\$ -1,443,440	\$ 3,800	\$ 56,880,829

Governmental Activities Depreciation Allocation to Functions

Function	Governmental Funds
General Government	\$ 1,353,329
Building	88,103
Parks	18,735
Streets	117,644
Total	\$ 1,577,811

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

4. LONG-TERM DEBT

Full Faith and Credit Obligation Bonds

In August 2007 the City issued \$5,000,000 of 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
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>\$ 4,735,000</u>	<u>\$ 2,007,388</u>	<u>\$ 6,742,388</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, 2010, was as follows:

	<u>6/30/2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2010</u>	<u>Due within one Year</u>
Bonds Payable					
Full Faith & Credit Obligation, Series 2007, Interest 4%-4.25%	\$ 4,910,000	\$ -	\$ 175,000	\$ 4,735,000	\$ 180,000
Plus deferred amounts:					
Bond Premium	<u>40,090</u>	<u>-</u>	<u>2,228</u>	<u>37,862</u>	<u>2,228</u>
Total bonds payable	<u>4,950,090</u>	<u>-</u>	<u>177,228</u>	<u>4,772,862</u>	<u>182,228</u>
Compensated Absences	<u>104,976</u>	<u>6,078</u>	<u>0</u>	<u>111,054</u>	<u>111,054</u>
 Total Long-term liabilities	 <u><u>\$ 5,055,066</u></u>	 <u><u>\$ 6,078</u></u>	 <u><u>\$ 177,228</u></u>	 <u><u>\$ 4,883,916</u></u>	 <u><u>\$ 293,282</u></u>

5. COMPENSATED ABSENCES PAYABLE

At June 30, 2010, the City's liability for vacation pay is estimated at \$111,054.

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. PERS 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. PERS 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, 2010 were \$105,174. The City is required to contribute at actuarially determined rates, as adopted by the PERS Board. The current rate effective July 1, 2010 is 9.61% of covered payroll for Tier 1/2 employees and 8.94% 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, 2010, 2009, and 2008 was \$165,568, \$227,016, and \$195,244 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 reduced 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 \$280,078 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.

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CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

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, 2010

<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	\$ 1,022,600	\$ 1,022,600	\$ 1,007,194	\$ -15,406
Property Taxes - Delinquent	12,000	12,000	32,935	20,935
Total Taxes	1,034,600	1,034,600	1,040,129	5,529
Licenses, Fees, and Permits:				
Franchise Fees	770,400	770,400	824,763	54,363
Sewer Permit Fee	5,000	5,000	4,158	-842
Erosion Control Permit Fee	10,000	10,000	22,677	12,677
Miscellaneous Permits	500	500	1,080	580
Right of Way Permits	8,000	8,000	11,865	3,865
Development Fees	75,000	75,000	76,849	1,849
Construction Fees	140,000	140,000	43,098	-96,902
Cell Tower Fees	42,600	42,600	35,613	-6,987
Park Reservation Permits	25,000	25,000	20,139	-4,861
SDC-Administration Fees	15,000	15,000	10,209	-4,791
Business Licenses	38,000	38,000	27,452	-10,548
Animal Control Licenses	5,000	5,000	16,748	11,748
Alarm Permits and Penalties	5,500	5,500	5,890	390
Total Licenses, Fees, and Permits	1,140,000	1,140,000	1,100,541	-39,459
Intergovernmental:				
Alcohol Tax	135,000	135,000	129,360	-5,640
Cigarette Tax	15,000	15,000	16,776	1,776
State Revenue Sharing	70,000	70,000	98,862	28,862
Park Revenue from NCPRD	238,000	238,000	238,545	545
Code Enforcement IGAs	45,000	45,000	53,040	8,040
Grants	380,000	380,000	0	-380,000
Total Intergovernmental	883,000	883,000	536,583	-346,417
Other Revenue:				
Interest	30,000	30,000	37,177	7,177
Traffic Fines	230,000	230,000	288,867	58,867
Municipal Court	117,500	117,500	78,478	-39,022
State Court Assessments	34,600	34,600	30,338	-4,262
Community Events	40,000	40,000	50,385	10,385
Miscellaneous Revenue	50,000	50,000	74,464	24,464
Total Other Revenue	502,100	502,100	559,709	57,609
Total Revenues	3,559,700	3,559,700	3,236,962	-322,738

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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, 2010**

	<u>GENERAL FUND</u>			VARIANCE POSITIVE -NEGATIVE
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
EXPENDITURES				
Personal Services				
Salaries	\$ 1,607,200	\$ 1,607,200	\$ 1,412,981	\$ 194,219
Employee Benefits	<u>1,014,600</u>	<u>1,014,600</u>	<u>695,366</u>	<u>319,234</u>
Total Personal Services	<u>2,621,800</u>	<u>2,621,800</u> (1)	<u>2,108,347</u>	<u>513,453</u>
Materials and Services				
Office Supplies	45,500	45,500	23,728	21,772
Public Works Supplies	52,000	52,000	23,086	28,914
Equipment under \$5,000	57,850	57,850	22,237	35,613
Travel	17,600	17,600	10,575	7,025
Training	33,500	33,500	10,070	23,430
Maps and Printing	5,000	5,000	2,543	2,457
Membership and Dues	18,000	18,000	21,034	-3,034
Utilities	152,600	152,600	93,329	59,271
Vehicle Operation and Maintenance	71,000	71,000	41,697	29,303
Publication and Subscription	19,200	19,200	6,440	12,760
Newsletter	60,000	60,000	55,884	4,116
Postage	11,000	11,000	9,702	1,298
Insurance	65,000	65,000	49,860	15,140
Repairs and Maintenance	133,000	133,000	142,633	-9,633
Emergency Supplies	33,500	33,500	925	32,575
Miscellaneous Admin.	30,000	30,000	20,243	9,757
Legal	100,000	100,000	92,617	7,383
Audit	12,000	12,000	13,400	-1,400
HR/Recorder Projects	8,000	8,000	642	7,358
Contract Services	256,000	256,000	204,060	51,940
Software	5,000	5,000	516	4,484
Interpreting Services	2,000	2,000	949	1,051
Public Outreach	38,000	38,000	11,031	26,969
Community Events	<u>40,000</u>	<u>40,000</u>	<u>28,936</u>	<u>11,064</u>
Total Materials and Services	<u>1,265,750</u>	<u>1,265,750</u> (1)	<u>886,137</u>	<u>379,613</u>

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, 2010

	<u>GENERAL FUND</u>			VARIANCE POSITIVE -NEGATIVE
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
EXPENDITURES (CONTINUED)				
Capital Outlay				
Land/Land Improvements	380,000	380,000	0	380,000
Total Capital Outlay	380,000	380,000 (1)	0	380,000
Contingency	762,583	762,583 (1)	0	762,583
Total Expenditures	5,030,133	5,030,133	2,994,484	2,035,649
Excess of Revenues Over, -Under Expenditures	-1,470,433	-1,470,433	242,478	1,712,911
OTHER FINANCING SOURCES, -USES				
Transfers In	1,500,000	1,500,000	1,348,931	-151,069
Transfers Out To:				
Building Department	-125,503	-125,503	-125,503	0
Reserve for Replacement Fund	-523,388	-523,388	-167,000	356,388
Debt Service Fund	-380,676	-380,676 (1)	-376,956	3,720
Net Change in Fund Balance	-1,000,000	-1,000,000	921,950	1,921,950
Beginning Fund Balance	1,000,000	1,000,000	786,385	-213,615
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,708,335</u>	<u>\$ 1,708,335</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, 2010**

	<u>STREET FUND</u>			VARIANCE
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 10,000	\$ 10,000	\$ 4,759	\$ -5,241
Gas Tax Revenue	480,000	480,000	475,910	-4,090
Total Revenues	<u>490,000</u>	<u>490,000</u>	<u>480,669</u>	<u>-9,331</u>
EXPENDITURES				
Personal Services				
Salaries	176,500	176,500	164,449	12,051
Employee Benefits	104,700	104,700	82,452	22,248
Total Personal Services	<u>281,200</u>	<u>281,200</u> (1)	<u>246,901</u>	<u>34,299</u>
Materials and Services				
Office Supplies	1,500	1,500	84	1,416
Equipment under \$5,000	23,175	23,175	18,608	4,567
Travel	2,000	2,000	0	2,000
Training	2,000	2,000	720	1,280
Membership and Dues	1,100	1,100	0	1,100
Repairs and Maintenance	0	0	2,258	-2,258
Vehicle Expenses	15,000	15,000	15,930	-930
Contract Services	66,500	66,500	27,069	39,431
Traffic Control Devices	10,000	10,000	9,700	300
Street Repair Materials	25,000	25,000	11,992	13,008
Traffic Signs and Striping	40,000	40,000	36,766	3,234
Total Materials and Services	<u>186,275</u>	<u>186,275</u> (1)	<u>123,127</u>	<u>63,148</u>
Capital Outlay				
Street Reconstruction	249,200	249,200	187,318	61,882
Total Capital Outlay	<u>249,200</u>	<u>249,200</u> (1)	<u>187,318</u>	<u>61,882</u>
Total Expenditures	<u>716,675</u>	<u>716,675</u>	<u>557,346</u>	<u>159,329</u>
Excess of Revenues Over, -Under Expenditures	<u>-226,675</u>	<u>-226,675</u>	<u>-76,677</u>	<u>149,998</u>
OTHER FINANCING -USES				
Transfers Out To:				
Reserve for Replacment Fund	-223,325	-223,325	-43,000	-180,325
Net Change in Fund Balance	-450,000	-450,000	-119,677	-30,327
Beginning Fund Balance	450,000	450,000	386,212	-63,788
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 266,535</u>	<u>\$ -94,115</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, 2010**

	<u>BUILDING FUND</u>			VARIANCE
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 3,500	\$ 3,500	\$ 8,802	\$ 5,302
Permits and Fees	323,696	323,696	359,716	36,020
Construction Excise Tax	4,900	4,900	6,259	1,359
Miscellaneous	<u>0</u>	<u>0</u>	<u>26,804</u>	<u>26,804</u>
Total Revenues	<u>332,096</u>	<u>332,096</u>	<u>401,581</u>	<u>69,485</u>
EXPENDITURES				
Personal Services				
Salaries	410,800	410,800	280,415	130,385
Employee Benefits	<u>204,600</u>	<u>204,600</u>	<u>159,746</u>	<u>44,854</u>
Total Personal Services	<u>615,400</u>	<u>615,400 (1)</u>	<u>440,161</u>	<u>175,239</u>
Materials and Services				
Office Supplies	6,000	6,000	1,603	4,397
Equipment under \$5,000	2,000	2,000	550	1,450
Travel	1,500	1,500	0	1,500
Training	6,000	6,000	234	5,766
Membership and Dues	1,100	1,100	630	470
Utilities	24,000	24,000	9,881	14,119
Vehicle Expenses	4,500	4,500	1,384	3,116
Publications and Subscriptions	3,000	3,000	1,931	1,069
Insurance	13,000	13,000	0	13,000
Repairs and Maintenance	6,700	6,700	1,647	5,053
Public Outreach	2,500	2,500	75	2,425
Legal	1,500	1,500	425	1,075
Contract Services	14,300	14,300	1,010	13,290
Software and Software Contract	<u>1,800</u>	<u>1,800</u>	<u>301</u>	<u>1,499</u>
Total Materials and Services	<u>87,900</u>	<u>87,900 (1)</u>	<u>19,671</u>	<u>68,229</u>
Contingency	<u>278,494</u>	<u>278,494 (1)</u>	<u>0</u>	<u>278,494</u>
Total Expenditures	<u>981,794</u>	<u>981,794</u>	<u>459,832</u>	<u>521,962</u>
Excess of Revenues Over, -Under Expenditures	-649,698	-649,698	-58,251	-591,447
OTHER FINANCING SOURCES, -USES				
Transfers In:	125,503	125,503	125,503	0
Transfers Out To:				
Reserve for Replacment Fund	<u>-805</u>	<u>-805 (1)</u>	<u>0</u>	<u>805</u>
Net Change in Fund Balance	-525,000	-525,000	67,252	-590,642
Beginning Fund Balance	<u>525,000</u>	<u>525,000</u>	<u>559,371</u>	<u>34,371</u>
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 626,623</u>	<u>\$ 626,623</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, 2010

SYSTEM DEVELOPMENT FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 30,000	\$ 30,000	\$ 21,377	\$ -8,623
SDC-Storm Drainage	30,000	30,000	32,052	2,052
SDC-Parks	<u>0</u>	<u>0</u>	<u>16,529</u>	<u>16,529</u>
Total Revenues	<u>60,000</u>	<u>60,000</u>	<u>69,958</u>	<u>9,958</u>
EXPENDITURES				
Capital Outlay				
SDC Projects-Transportation	175,344	175,344	20,000	155,344
SDC Projects-Storm Drainage	576,200	576,200	1,900	574,300
SDC Projects-Parks	<u>508,456</u>	<u>508,456</u>	<u>2,500</u>	<u>505,956</u>
Total Capital Outlay	<u>1,260,000</u>	<u>1,260,000</u> (1)	<u>24,400</u>	<u>1,235,600</u>
Total Expenditures	<u>1,260,000</u>	<u>1,260,000</u>	<u>24,400</u>	<u>1,235,600</u>
Net Change in Fund Balance	-1,200,000	-1,200,000	45,558	1,245,558
Beginning Fund Balance	<u>1,200,000</u>	<u>1,200,000</u>	<u>1,310,143</u>	<u>110,143</u>
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,355,701</u>	<u>\$ 1,355,701</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, 2010

ROAD IMPROVEMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 10,000	\$ 10,000	\$ 8,314	\$ -1,686
Privilege Tax	80,000	80,000	100,250	20,250
Total Revenues	<u>90,000</u>	<u>90,000</u>	<u>108,564</u>	<u>18,564</u>
EXPENDITURES				
Personal Services				
Salaries	22,800	22,800	20,702	2,098
Employee Benefits	11,200	11,200	11,963	-763
Total Personal Services	<u>34,000</u>	<u>34,000</u> (1)	<u>32,665</u>	<u>1,335</u>
Materials and Services				
Contract Engineering	10,000	10,000	4,000	6,000
Total Materials and Services	<u>10,000</u>	<u>10,000</u> (1)	<u>4,000</u>	<u>6,000</u>
Capital Outlay				
Bicycle & Ped Pathways	596,000	596,000	0	596,000
Total Capital Outlay	<u>596,000</u>	<u>596,000</u> (1)	<u>0</u>	<u>596,000</u>
Total Expenditures	<u>640,000</u>	<u>640,000</u>	<u>36,665</u>	<u>603,335</u>
Net Change in Fund Balance	-550,000	-550,000	71,899	621,899
Beginning Fund Balance	<u>550,000</u>	<u>550,000</u>	<u>567,473</u>	<u>17,473</u>
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 639,372</u>	<u>\$ 639,372</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, 2010

	<u>PUBLIC SAFETY FUND</u>			VARIANCE
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 40,000	\$ 40,000	\$ 25,469	\$ -14,531
Taxes:				
Property Taxes - Current	2,103,400	2,103,400	2,066,265	-37,135
Property Taxes - Delinquent	<u>23,000</u>	<u>23,000</u>	<u>67,556</u>	<u>44,556</u>
Total Revenues	<u>2,166,400</u>	<u>2,166,400</u>	<u>2,159,290</u>	<u>-7,110</u>
EXPENDITURES				
Personal Services				
Salaries	135,700	135,700	86,049	49,651
Employee Benefits	<u>69,000</u>	<u>69,000</u>	<u>38,423</u>	<u>30,577</u>
Total Personal Services	<u>204,700</u>	<u>204,700</u> (1)	<u>124,472</u>	<u>80,228</u>
Materials and Services				
Office Supplies	5,000	5,000	4,678	322
Equipment under \$5,000	50,000	50,000	31,622	18,378
Travel	5,000	5,000	5,980	-980
Training	20,000	20,000	10,025	9,975
Utilities	50,000	50,000	12,572	37,428
Vehicle Operation and Maintenance	5,000	5,000	164	4,836
Repairs and Maintenance	10,000	10,000	9,965	35
Emergency Events	5,000	5,000	0	5,000
Public Outreach	2,000	2,000	15,438	-13,438
Contract Services	25,000	25,000	17,923	7,077
Contract Police Protection	<u>2,236,488</u>	<u>2,236,488</u>	<u>2,031,106</u>	<u>205,382</u>
Total Materials and Services	<u>2,413,488</u>	<u>2,413,488</u> (1)	<u>2,139,473</u>	<u>274,015</u>
Contingency	<u>915,212</u>	<u>915,212</u> (1)	<u>0</u>	<u>915,212</u>
Total Expenditures	<u>3,533,400</u>	<u>3,533,400</u>	<u>2,263,945</u>	<u>1,269,455</u>
Net Change in Fund Balance	-1,367,000	-1,367,000	-104,655	1,262,345
Beginning Fund Balance	<u>1,367,000</u>	<u>1,367,000</u>	<u>1,682,291</u>	<u>315,291</u>
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,577,636</u>	<u>\$ 1,577,636</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, 2010

RESERVE FOR REPLACEMENT

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE POSITIVE -NEGATIVE
EXPENDITURES				
Materials and Services				
Equipment under \$5,000	71,500	71,500	11,779	59,721
Repairs and Maintenance	200,000	200,000	0	200,000
Education Benefits	15,000	15,000	2,561	12,439
	<u>286,500</u>	<u>286,500</u>	<u>14,340</u>	<u>272,160</u>
Total Materials and Services		(1)		
Capital Outlay				
Artwork	100,000	100,000	0	100,000
Vehicles	126,000	126,000	85,028	40,972
Equipment over \$5,000	225,000	225,000	52,968	172,032
Facility Improvements	61,000	61,000	36,725	24,275
	<u>512,000</u>	<u>512,000</u>	<u>174,721</u>	<u>337,279</u>
Total Capital Outlay		(1)		
Contingency	528,518	528,518	0	528,518
	<u>1,327,018</u>	<u>1,327,018</u>	<u>189,061</u>	<u>1,137,957</u>
Total Expenditures				
OTHER FINANCING SOURCES				
Transfers In				
From General Fund	523,388	523,388	167,000	-356,388
From Street Fund	223,325	223,325	43,000	-180,325
From Building Fund	805	805	0	-805
	<u>-579,500</u>	<u>-579,500</u>	<u>20,939</u>	<u>-1,675,475</u>
Net Change in Fund Balance				
Beginning Fund Balance	579,500	579,500	546,582	-32,918
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 567,521</u>	<u>\$ -1,708,393</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, 2010

	<u>DEBT SERVICE</u>			
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE POSITIVE -NEGATIVE
EXPENDITURES				
Debt Service				
Principal Payments	175,000	175,000	175,000	0
Interest Payments	<u>205,676</u>	<u>205,676</u>	<u>201,956</u>	<u>3,720</u>
Total Debt Services	<u>380,676</u>	<u>380,676</u> (1)	<u>376,956</u>	<u>3,720</u>
Total Expenditures	<u>380,676</u>	<u>380,676</u>	<u>376,956</u>	<u>3,720</u>
OTHER FINANCING SOURCES				
Transfers In				
From General Fund	<u>380,676</u>	<u>380,676</u>	<u>376,956</u>	<u>-3,720</u>
Net Change in Fund Balance	0	0	0	0
Beginning Fund Balance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</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, 2010

NEW CITY HALL FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE -NEGATIVE</u>
OTHER FINANCING USES				
Transfers Out To:				
General Fund	<u>-1,500,000</u>	<u>-1,500,000</u>	<u>-1,348,931</u>	<u>151,069</u>
Net Change in Fund Balance	-1,500,000	-1,500,000	-1,348,931	151,069
Beginning Fund Balance	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,348,931</u>	<u>-151,069</u>
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

(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 PROPERTY TAX TRANSACTIONS AND BALANCES
OF TAXES UNCOLLECTED - GENERAL FUND
For the Year Ended June 30, 2010

TAX YEAR	IMPOSED LEVY OR UNCOL- LECTED AT 7/1/09	DEDUCT DISCOUNTS	ADJUST- MENTS TO ROLLS	ADD INTEREST	CASH COLLEC- TIONS BY COUNTY TREAS- URER	BALANCE UNCOL- LECTED OR UNSEG- REGATED AT 6/30/10
CURRENT:						
2009-2010	\$ 3,271,293	\$ -78,688	\$ -7,350	\$ 431	\$ 3,064,203	\$ 121,483
PRIOR YEARS:						
2008-2009	132,754	50	-2,305	3,693	81,361	52,831
2007-2008	35,407	16	-644	2,010	18,339	18,450
2006-2007	11,201	8	-396	1,188	6,836	5,165
2005-2006	2,905	5	-337	438	2,094	917
2004-2005 & Prior	1,704	5	-320	88	168	1,309
Total Prior	183,971	84	-4,002	7,417	108,798	78,672
Total	<u>\$ 3,455,264</u>	<u>\$ -78,604</u>	<u>\$ -11,352</u>	<u>\$ 7,848</u>	<u>\$ 3,173,001</u>	<u>\$ 200,155</u>

RECONCILIATION OF REVENUE:

Cash Collections by County Treasurer Above	\$ 3,173,001
Accrual of Receivables:	
June 30, 2009	-16,639
June 30, 2010	<u>17,581</u>
Total Revenue	<u>\$ 3,173,943</u>

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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
June 30, 2010

Introduction

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

Internal Accounting Control

We have audited the financial statements of the City of Happy Valley, Oregon, (the City), for the year ended June 30, 2010 and have issued our report thereon dated December 23, 2010.

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 internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operations of policies and procedures may deteriorate.

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

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

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not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as 2009-1, "Capital Assets and Depreciation", in a separately issued letter to management dated December 23, 2010 to be significant deficiencies in internal control over financial reporting.

The City's response to the findings identified in our audit is described in the separately issued letter to management dated December 23, 2010. We did not audit the City's response and, accordingly, we express no opinion on it.

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

In connection with our audit:

Accounting Records

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

Collateral

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

Indebtedness

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

Budgets

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

Insurance and Fidelity Bonds

We reviewed policies relating to insurance and fidelity bond coverage and ascertained that such policies appeared to be in force. We are not competent by training to state whether the insurance policies covering City-owned property in force at June 30, 2010 are adequate.

Programs Funded from Outside Sources

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

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Highway Funds

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

Investments

The City's investments for the year ended June 30, 2010 were tested and appear to be in compliance with Oregon Revised Statutes Chapter 295 with regard to legal restrictions pertaining to the investment of public funds.

Public Contracts and Purchasing

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

Independently Elected Officials

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

Merina & Company

Merina & Company, LLP
West Linn, Oregon
December 23, 2010

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