



Annual Financial Report
For the Year Ended June 30, 2012

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2012

Cover photo is of Happy Valley's Mt. Scott Trail.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
INTRODUCTORY SECTION:	
City Officials	i
FINANCIAL SECTION:	
Independent Auditor's Report	1
Management's Discussion and Analysis	3
FINANCIAL STATEMENTS AND SCHEDULES:	
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet—Governmental Funds	10
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Assets	11
Statement of Revenues, Expenditures and Changes in Fund Balances—Governmental Funds	12
Reconciliation of Statements of Revenues, Expenditures and Changes In Fund Balances Governmental Funds – to the Statement of Activities	13
Notes to Basic Financial Statements	14
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Revenues, Expenditures and Changes in Fund Balance—Actual and Budget	
General Fund – Budgetary Basis	27
Pension Reserve Fund – Budgetary Basis	29
Debt Service Fund – Budgetary Basis	30
Street Fund – Budgetary Basis	31
Public Safety Fund – Budgetary Basis	32
Reserve for Replacement Fund – Budgetary Basis	33
System Development Fund	34
Pedestrian Improvement Projects Fund	35
OTHER SUPPLEMENTARY INFORMATION:	
Combining Schedules:	
General Fund – Generally Accepted Accounting Principles Combining Balance Sheet	36
Street Fund – Generally Accepted Accounting Principles Combining Balance Sheet	37
Public Safety Fund – Generally Accepted Accounting Principles Combining Balance Sheet	38
General Fund – Generally Accepted Accounting Principles Combining Schedule of Revenues, Expenditures and Changes in Fund Balance	39
Street Fund – Generally Accepted Accounting Principles Combining Schedule of Revenues, Expenditures and Changes in Fund Balance	40
Public Safety Fund – Generally Accepted Accounting Principles Combining Schedule of Revenues, Expenditures and Changes in Fund Balance	41
Schedule of Property Tax Transactions and Balances of Taxes Uncollected – General Fund	42
INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATION	43

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

CITY OFFICIALS AS OF JUNE 30, 2012

<u>NAME</u>	<u>TERM EXPIRES</u>
Lori DeRemer – Mayor	December 31, 2014
Markley Drake – Council President	December 31, 2014
Tom Andrusko	December 31, 2014
Michael Morrow	December 31, 2015
Tom Ellis	December 31, 2015

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

THIS PAGE INTENTIONALLY LEFT BLANK

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of City of Happy Valley, Oregon, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Happy Valley, Oregon'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.

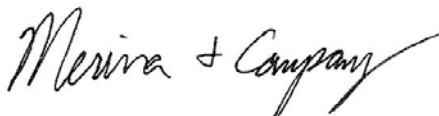
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Happy Valley, Oregon, as of June 30, 2012, and the respective changes in financial position thereof 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 management's discussion and analysis 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 required supplementary information, as listed in the table of contents, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Happy Valley, Oregon's financial statements as a whole. The introductory section and other supplementary information are presented for purposes of additional analysis and are 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. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

Merina & Company, LLP
West Linn, Oregon
December 20, 2012

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The management of the City of Happy Valley presents this analysis of the City's financial activities for the fiscal year ended June 30, 2012. 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 \$60,009,909 at June 30, 2012.

During the year, the City's net assets increased by \$1,029,846. This is an increase in net assets and is significant compared to the decrease of \$74,042 in the previous year. The amount of construction within the City during the fiscal year increased and the trend indicates it will continue through the 2012-13 fiscal year. This upturn was a significant portion of the increased revenues in the General Fund.

The general fund had a fund balance at the end of the year of \$4,461,449. This is equal to 120 percent of total general fund expenditures for the year. The fund balance is divided into contingency, general operations reserve, replacement reserve, and unassigned. Contingency to fund unexpected requirements, general operations reserve to offset the countercyclical nature of revenue and maintain agreed upon service levels, replacement reserve to fund major purchases, and unassigned which the amount is remaining after the reserves.

The full faith and credit obligations end of the year balance was \$4,365,000. This decrease of \$190,000 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, 2012 the City's assets exceeded its liability by \$60,009,909. Cash and Investments represent 15% of total assets. Long lived capital assets including land, buildings, streets, equipment, and vehicles comprise 84% of total assets. The remaining assets include accounts and property tax receivables.

Repayment of full faith and credit obligations issued for construction of the city hall facility equals 64% of the City's liabilities. Remaining liabilities are payments to vendors, governments, and accrued personnel costs.

City of Happy Valley - Net Assets

	Total 2012	Total 2011
Assets:		
Current and Other Assets	\$ 10,671,851	\$ 8,778,935
Bond Issuance Costs	117,259	125,077
Capital Assets	<u>56,090,593</u>	<u>56,345,828</u>
Total Assets	<u>66,879,703</u>	<u>65,249,840</u>
Liabilities:		
Current and Other Liabilities	2,668,616	1,871,371
Non-Current Liabilities	<u>4,201,178</u>	<u>4,398,406</u>
Total Liabilities	<u>6,869,794</u>	<u>6,269,777</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	51,692,187	51,755,194
Restricted	3,968,439	4,361,626
Unrestricted	<u>4,349,283</u>	<u>2,863,243</u>
Total Net Assets	<u>\$ 60,009,909</u>	<u>\$ 58,980,063</u>

Changes in Net Assets

	Total 2012	Total 2011
Revenues:		
Program Revenues:		
Charges for Services	\$ 2,485,010	\$ 1,655,075
General Revenues:		
Property Taxes-Perm Rate	1,152,061	1,078,611
Property Taxes-Levy	2,226,289	2,191,594
Other Taxes	774,660	602,531
Intergovernmental	653,180	587,554
Other Revenue	<u>716,885</u>	<u>739,887</u>
Total Revenues	<u>8,008,085</u>	<u>6,855,252</u>
Expenses:		
General Government	5,288,728	5,845,840
Building Inspection Program	354,939	449,107
Parks Development	228,276	104,307
Storm Drainage	233,290	22,219
Streets	688,684	315,636
Interest on long term debt	<u>184,322</u>	<u>192,185</u>
Total Expenses	<u>6,978,239</u>	<u>6,929,294</u>
Change in Net Assets	1,029,846	(74,042)
Beginning Net Assets	<u>58,980,063</u>	<u>59,054,105</u>
Ending Net Assets	<u>\$ 60,009,909</u>	<u>\$ 58,980,063</u>

The City's total revenues were \$8,008,085 and Net Assets increased by \$1,029,846. This increase is significantly higher than the decrease of \$74,042 in the previous year. The 2011-12 year saw increased gas tax revenues due to a full year of the 2009 Transportation Package, increased building permits issued, and an increase in construction fees paid for future development related projects. There were also new streets added to the City's inventory to offset the effect of depreciation expense.

The City of Happy Valley faces many challenges:

- There was an increase in development and building in the City. This increased fees paid to the City but this revenue source continues to be cyclical in nature. The City created a reserve fund with the 2012-13 budget process as a countercyclical offset.
- Street inventory increases as land within the City is developed. Streets account for 75% of the capital assets owned by the City and 83% of the depreciation expense for the City. The City needs to prepare for the eventual replacement of streets based on the depreciation schedule. This is not possible given the City's low permanent tax rate.
- Many of the streets within the City (excluding 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 the local option levy in November 2010 to continue services within the City. The term of the levy is 2011 – 2015.
- The Public Safety Fund balance has decreased over the last three years. The reasons for this decrease have been evaluated and adjustments to reverse this trend will be addressed during the five year projection process.
- Development in the East Happy Valley expansion area still has not occurred. The City believes the expansion of 172nd Avenue between Sunnyside Road and Highway 212 and the area being ready for development creates the potential for increased revenues sometime within the next five years.
- In order to diversify the tax base, the City is working to expand its boundaries but cannot anticipate when that might happen.

Financial Analysis of the City's Funds

Revenues from governmental fund types totaled \$7,974,615 in 2012. Governmental fund balances totaled \$8,124,102 at June 30, 2012. A summary of changes in governmental fund balances follows:

City of Happy Valley - Changes in Governmental Fund Balances

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Change</u>
General Fund	\$ 4,461,449	\$ 3,069,140	\$ 1,392,309
Street Fund	897,628	652,521	245,107
System Development Fund	1,034,953	1,206,826	(171,873)
Pedestrian Impr Proj Fund	585,577	697,037	(111,460)
Public Safety Fund	1,144,495	1,411,051	(266,556)

The General Fund increase was due to an increase in fees related to development, construction, and building and intergovernmental revenues. The Street Fund revenue increase was due to the effect of a full year of the implementation of the 2009 Transportation Package. The Public Safety Fund balance decrease was due to both lower property tax revenues because of the real market property value decline and higher expenditures for police services to accommodate service levels.

General Fund Budgetary Highlights

The General Fund balance increased \$1,392,309 from the previous year. Over \$1.1 million of this increase is due to increased licenses and permits related to the increase in development and building within the City. The remaining \$297,762 increase was due to slightly higher property tax revenue, higher traffic fines, and increased intergovernmental revenues. Intergovernmental revenues in the General Fund increased due to an increase in population which increases the City's apportionment of state shared revenues. Some General Fund revenues were in excess of budget estimates by the following amounts:

Franchise Fees	\$ 74,542
Erosion Control Permit Fees	\$ 35,288
Building Permits and Fees	\$ 672,553
State Revenue Sharing	\$ 90,918
Traffic Fines	\$ 67,393
Miscellaneous Revenue	\$ 120,683

Capital Assets

At June 30, 2012, the City had \$56,090,593 invested in capital assets net of depreciation expense. This is a decrease of \$255,235 from the previous year. This decrease is the effect of a lack of significant capital asset additions to offset depreciation expense. Details of the changes in the City's capital assets are presented in the notes to the financial statements.

Long Term Debt

At June 30, 2012, the City had outstanding debt of \$4,365,000. 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 continues to be the state of the construction market. There has been an overall improvement in this market with increased interest in commercial development as well as residential building. An increase in building will decrease the number of developed buildable lots and as a result, future development and construction revenues will increase.

The 2012-13 budget reflects a cautiously optimistic view with increased revenues and slightly increased expenditures. The City moved forward with hiring based on increased workload and the increase in revenue. We continue to maintain a watchful eye on all expenditures and reassess policies during the five year projection process and the budget process. We review both revenues and expenditures on an ongoing basis and make changes based on the economic outlook and what we are experiencing.

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.

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

BASIC FINANCIAL STATEMENTS

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

STATEMENT OF NET ASSETS
June 30, 2012

ASSETS

Current Assets:

Cash and Investments	\$ 10,123,852
Accounts Receivable	324,993
Property Taxes Receivable	223,006
Total Current Assets	<u>10,671,851</u>

Non-Current Assets:

Bond issuance costs	117,259
Capital Assets - non-depreciable	3,372,747
Capital Assets - depreciable	64,735,415
Less accumulated depreciation	<u>(12,017,569)</u>
Total Non-Current Assets	<u>56,207,852</u>

Total Assets	<u>\$ 66,879,703</u>
--------------	----------------------

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 271,714
Payroll Liabilities	65,139
Other Payables	1,128,668
Accrued Vacation Payable	130,012
Cable Pegs Fees	475,967
Developer Trust Payable	168,542
Due to Other Governments	231,346
Current portion of long term debt	197,228
Total Current Liabilities	<u>2,668,616</u>

Non-Current Liabilities:

Bonds Payable	4,170,000
Premium on bonds payable	31,178
Total Non-Current Liabilities	<u>4,201,178</u>

Total Liabilities	<u>6,869,794</u>
-------------------	------------------

NET ASSETS:

Invested in Capital Assets, Net of Related Debt	51,692,187
Restricted	3,968,439
Unrestricted	<u>4,349,283</u>
Total Net Assets	<u>\$ 60,009,909</u>

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

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

STATEMENT OF ACTIVITIES
For the year ended June 30, 2012

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities			
General Government	\$ 5,288,728	\$ 1,179,696	\$ (4,109,032)
Building	354,939	1,086,750	731,811
Parks	228,276	28,499	(199,777)
Storm Drainage	233,290	82,626	(150,664)
Streets	688,684	107,439	(581,245)
Interest on long term debt	184,322	-	(184,322)
Total Governmental Activities	\$ 6,978,239	\$ 2,485,010	(4,493,229)

General Revenues	
Property Taxes	3,378,350
Other Taxes	774,660
Intergovernmental	653,180
Other Revenue	716,885
Total General Revenues	5,523,075
Change in Net Assets	1,029,846
Beginning Net Assets	58,980,063
Ending Net Assets	\$ 60,009,909

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, 2012

	General Fund Generally Accepted Accounting Principles	Street Fund Generally Accepted Accounting Principles	System Development Fund
ASSETS			
Cash and Investments	\$ 6,372,496	\$ 838,134	\$ 1,191,053
Accounts Receivable	225,831	71,461	27,701
Property Taxes Receivable	73,186	-	-
Total Assets	<u>\$ 6,671,513</u>	<u>\$ 909,595</u>	<u>\$ 1,218,754</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 237,109	\$ 11,967	\$ 19,423
Payroll and Payroll Taxes Payable	65,139	-	-
Construction Fees	1,128,668	-	-
Cable Pegs Fees	475,967	-	-
Deferred Taxes	67,671	-	-
Developer Trust Payable	168,542	-	-
Due to Other Governments	66,968	-	164,378
Total Liabilities	<u>2,210,064</u>	<u>11,967</u>	<u>183,801</u>
Fund Balances:			
Fund Balance By Category			
Restricted	604,874	601,945	1,034,953
Assigned	537,122	295,683	-
Unassigned	3,319,453	-	-
Total Fund Balances	<u>4,461,449</u>	<u>897,628</u>	<u>1,034,953</u>
Total Liabilities and Fund Balances	<u>\$ 6,671,513</u>	<u>\$ 909,595</u>	<u>\$ 1,218,754</u>

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

Pedestrian Improvement Project Fund	Public Safety Fund Generally Accepted Accounting Principles	Total
\$ 585,577	\$ 1,136,592	\$ 10,123,852
-	-	324,993
-	149,820	223,006
<u>\$ 585,577</u>	<u>\$ 1,286,412</u>	<u>\$ 10,671,851</u>

\$ -	\$ 3,215	\$ 271,714
-	-	65,139
-	-	1,128,668
-	-	475,967
-	138,702	206,373
-	-	168,542
-	-	231,346
-	141,917	2,547,749

585,577	1,141,090	3,968,439
-	3,405	836,210
-	-	3,319,453
<u>585,577</u>	<u>1,144,495</u>	<u>8,124,102</u>
<u>\$ 585,577</u>	<u>\$ 1,286,412</u>	<u>\$ 10,671,851</u>

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

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

June 30, 2012

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

Fund Balances		\$ 8,124,102
<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		56,090,593
<p>Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.</p>		
Accrued Vacation		(130,012)
<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	\$ (4,398,406)	
Long term debt issuance costs	117,259	
Net Adjustment	<u> </u>	(4,281,147)
<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>206,373</u>
Total Net Assets		<u><u>\$ 60,009,909</u></u>

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

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended June 30, 2012

	General Fund Generally Accepted Accounting Principles	Street Fund Generally Accepted Accounting Principles	System Development Fund
REVENUES			
Property Taxes	\$ 1,140,904	\$ -	\$ -
Gas Tax Revenue	-	774,660	-
Licenses and Permits	2,294,945	-	-
System Development Charges	-	-	82,626
Intergovernmental Revenues	653,180	-	-
Other Revenue	652,304	15,963	5,752
	<u>4,741,333</u>	<u>790,623</u>	<u>88,378</u>
EXPENDITURES			
Personal Services	2,552,781	309,147	-
Materials & Services	762,318	97,588	-
Debt Service	376,550	-	-
Capital Outlay	16,503	66,113	260,251
	<u>3,708,152</u>	<u>472,848</u>	<u>260,251</u>
Excess of Revenues Over, (Under) Expenditures	1,033,181	317,775	(171,873)
Other Financing Sources, (Uses)			
Transfers In	795,678	85,000	-
Transfers Out	(436,550)	(157,668)	-
	<u>359,128</u>	<u>(72,668)</u>	<u>-</u>
Net Change in Fund Balance	1,392,309	245,107	(171,873)
Beginning Fund Balance	<u>3,069,140</u>	<u>652,521</u>	<u>1,206,826</u>
Ending Fund Balance	<u>\$ 4,461,449</u>	<u>\$ 897,628</u>	<u>\$ 1,034,953</u>

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

Pedestrian Improvement Project Fund	Public Safety Generally Accepted Accounting Principles	Total
\$ -	\$ 2,203,976	\$ 3,344,880
-	-	774,660
107,439	-	2,402,384
-	-	82,626
-	-	653,180
<u>3,076</u>	<u>39,790</u>	<u>716,885</u>
<u>110,515</u>	<u>2,243,766</u>	<u>7,974,615</u>
-	14,043	2,875,971
-	2,223,449	3,083,355
-	-	376,550
<u>208,345</u>	<u>-</u>	<u>551,212</u>
<u>208,345</u>	<u>2,237,492</u>	<u>6,887,088</u>
(97,830)	6,274	1,087,527
-	3,405	884,083
<u>(13,630)</u>	<u>(276,235)</u>	<u>(884,083)</u>
<u>(13,630)</u>	<u>(272,830)</u>	<u>-</u>
(111,460)	(266,556)	1,087,527
<u>697,037</u>	<u>1,411,051</u>	<u>7,036,575</u>
<u>\$ 585,577</u>	<u>\$ 1,144,495</u>	<u>\$ 8,124,102</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, 2012

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 \$ 1,087,527

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

Fixed Asset Additions	\$ 1,555,555	
Fixed Asset Deletions	(150,087)	
Depreciation Expense	(1,660,703)	
Net Adjustment		(255,235)

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 (20,326)

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	190,000	
Amortization of LTD Issuance Costs	(7,818)	
Amortization of LTD Premium	2,228	
Net Adjustment		184,410

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		<u>33,470</u>
Change in Net Assets		<u><u>\$ 1,029,846</u></u>

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.

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.

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)

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.

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.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. DESCRIPTION OF FUNDS (CONTINUED)

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.

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.

PEDESTRIAN IMPROVEMENT PROJECTS FUND

This fund accounts for pedestrian improvement projects such as bike lanes, pedestrian crossings, pedestrian refuge, sidewalks, and pathways. Revenues in this fund are collections from other entities, 1.5% privilege tax collected by Portland General Electric which began in 2004, and 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 future pension liability for the City. Revenues are derived from transfers from the General Fund.

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 Public Safety Fund.

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.

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 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.

Budget/GAAP Reporting Differences Financial position, results of operations, and changes in fund balance/net assets are reported on the basis of accounting principles generally accepted in the United States of America. The budgetary statements provided as part of the required supplementary information elsewhere in this report are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The budgetary basis of accounting is essentially the same as accounting principles generally accepted in the United States of America with some exceptions. Those exceptions include capital outlay expenditures are expensed when purchased, depreciation and amortization are not calculated, property taxes are recorded as revenue when received, and debt is expensed as paid instead of when incurred.

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. Currently the City does not own any intangible assets as defined by GASB Statement No. 51. Intangible assets can include water rights, rights of way, and internal software development. Donated capital assets are recorded at their estimated fair market value on the date of donation. 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 two categories.

On the **Balance Sheet – Governmental Funds**, assets in excess of liabilities are reported as fund balances and are segregated into separate classifications indicating the extent to which the City is bound to honor constraints on the specific purposes for which those funds can be spent.

Non-spendable fund balance – The portion that cannot be spent because of form and/or legally or contractually required to remain intact.

Restricted fund balance – Constraints imposed by creditors, grantors, contributors, or laws and regulations of other governments. Constraints also imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – Constraints imposed by City Council in the form of a resolution and requires resolution to remove.

Assigned fund balance – Constraints imposed by City Council who grants that authority to the City Manager. The form used to assign fund balance is a memorandum.

Unassigned fund balance – Fund balance not categorized in one of the other classifications. Only the general fund should report a positive unassigned fund balance amount. For other funds a negative fund balance should be reported if more resources are used than are available in the fund.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

K. NET ASSETS (CONTINUED)

The City had no Non-spendable or Committed fund balances at June 30, 2012.

The City will use restricted resources first then unrestricted resources as necessary. When only unrestricted resources are available for use the City will use committed resources, then assigned, and then unassigned resources as required.

2. CASH AND INVESTMENTS

Cash and Investments consisted of:

Deposits with Financial Institutions:	
Petty Cash	\$ 835
Demand Deposits	742,676
Cash with County	15,244
Investments	<u>9,365,097</u>
 Total Cash and Investments	 <u><u>\$ 10,123,852</u></u>

DEPOSITS - Deposits with financial institutions include bank demand deposits. The total bank balance per the bank statements is \$761,105. Of the current year bank balance, all is covered by federal depository insurance and are held at financial institutions on the list of qualified depositories found on the State of Oregon Treasurer's website. The accounts are non-interest bearing demand deposit accounts.

INVESTMENTS - 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, 2012.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

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, 2012. 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):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in months)</u>		
		<u>Less than 3</u>	<u>3-18</u>	<u>18-59</u>
State Treasurer’s Local Government Investment Pool	\$ 9,365,097	\$ 9,365,097	\$ -	\$ -
Total	<u>\$ 9,365,097</u>	<u>\$ 9,365,097</u>	<u>\$ -</u>	<u>\$ -</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.

CONCENTRATION OF RISK – At June 30, 2012, the City had 100% of total investments in the State Treasurer’s Local Government Investment Pool. State statutes do not limit the percentage of investments in this instrument.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

3. CAPITAL ASSETS

Changes in fixed assets for the fiscal year ended June 30, 2012 are as follows:

	Governmental Activities Capital Assets			
	June 30, 2011	Additions	Disposals	June 30, 2012
Capital Assets, not being depreciated				
Land and Improvements	\$ 3,372,747	\$ -	\$ -	\$ 3,372,747
Construction in Progress	145,185	-	(145,185)	-
Totals, capital assets not being depreciated	<u>3,517,932</u>	<u>-</u>	<u>(145,185)</u>	<u>3,372,747</u>
Capital Assets, being depreciated				
Buildings	10,115,049	-	(7,286)	10,107,763
Vehicles	401,433	10,803	-	412,236
Other Equipment	401,274	5,700	-	406,974
Park Improvements	2,274,249	145,457	-	2,419,706
Park Equipment	24,267	-	-	24,267
Streets	49,970,874	1,393,595	-	51,364,469
Totals, capital assets being depreciated	<u>63,187,146</u>	<u>1,555,555</u>	<u>(7,286)</u>	<u>64,735,415</u>
Less: Accumulated Depreciation for:				
Buildings	(545,052)	(208,425)	2,384	(751,093)
Vehicles	(162,453)	(39,618)	-	(202,071)
Other Equipment	(109,371)	(29,694)	-	(139,065)
Park Improvements	(766,828)	(109,092)	-	(875,920)
Park Equipment	(15,911)	(2,125)	-	(18,036)
Streets	(8,759,635)	(1,271,749)	-	(10,031,384)
Total Accumulated Depreciation	<u>(10,359,250)</u>	<u>(1,660,703)</u>	<u>2,384</u>	<u>(12,017,569)</u>
Total capital assets, being depreciated, net	<u>52,827,896</u>	<u>(105,148)</u>	<u>(4,902)</u>	<u>52,717,846</u>
Total Governmental Activities	<u>\$ 56,345,828</u>	<u>\$ (105,148)</u>	<u>\$ (150,087)</u>	<u>\$ 56,090,593</u>

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

3. CAPITAL ASSETS (CONTINUED)

Governmental Activities Depreciation Allocation to Functions

General Government	\$ 1,302,242
Building	84,529
Parks	54,364
Streets	219,568
	<hr/>
Total	<u><u>\$ 1,660,703</u></u>

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
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
	<hr/> <u>\$ 4,365,000</u>	<hr/> <u>\$ 1,626,426</u>	<hr/> <u>\$ 5,991,426</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, 2012, was as follows:

	<u>6/30/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2012</u>	<u>Due within one Year</u>
Bonds Payable					
Full Faith & Credit Obligation, Series 2007, Interest 4%-4.25%	\$ 4,555,000	-	\$ 190,000	\$ 4,365,000	\$ 195,000
Plus deferred amounts:					
Bond Premium	35,634	-	2,228	33,406	2,228
Total bonds payable	<u>4,590,634</u>	<u>-</u>	<u>192,228</u>	<u>4,398,406</u>	<u>197,228</u>
Compensated Absences	<u>109,686</u>	<u>20,326</u>	<u>-</u>	<u>130,012</u>	<u>130,012</u>
Total Long-term liabilities	<u>\$ 4,700,320</u>	<u>\$ 20,326</u>	<u>\$ 192,228</u>	<u>\$ 4,528,418</u>	<u>\$ 327,240</u>

5. INTERFUND TRANSFERS

The composition of interfund transfers is as follows:

	<u>General Fund - GAAP</u>	<u>Street Fund - GAAP</u>	<u>Public Safety Fund - GAAP</u>	<u>Pedestrian Improvement Projects</u>	<u>Total Interfund Transfers</u>
Transfers In	\$ 795,678	\$ 85,000	\$ 3,405	-	\$ 884,083
Transfers Out	(436,550)	(157,668)	(276,235)	(13,630)	(884,083)
	<u>\$ 359,128</u>	<u>\$ (72,668)</u>	<u>\$ (272,830)</u>	<u>\$ (13,630)</u>	<u>\$ -</u>

Transfers are budgeted and recorded to show legal commitments between funds.

6. COMPENSATED ABSENCES PAYABLE

At June 30, 2012, the City's liability for vacation pay is estimated at \$130,012.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

7. 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, 2012 were \$111,239. The City is required to contribute at actuarially determined rates, as adopted by the PERS Board. The current rate effective July 1, 2012 is 14.73% of covered payroll for Tier 1/2 employees and 11.11% for OPSRP employees.

Annual Pension Cost

The City's contribution to the plan for the years ending June 30, 2012, 2011, and 2010 was \$238,305, \$188,889, and \$165,568 respectively, and was equal to the required contributions for the year.

8. 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.

9. 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.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

10. 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 \$475,967 are currently held in a deferred revenue liability account of the City.

11. 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.

12. FUND BALANCE DETAIL

	General Fund GAAP	Street Fund GAAP	SDC Fund	Pedestrian Improv Proj	Public Safety GAAP	Total
Fund Balances:						
Restricted						
Street Maint	\$ -	\$ 601,945	\$ -	\$ -	\$ -	\$ 601,945
Building Inspection	604,874	-	-	-	-	604,874
SDC Projects	-	-	1,034,953	-	-	1,034,953
Ped Improvements	-	-	-	585,577	-	585,577
Public Safety	-	-	-	-	1,141,090	1,141,090
	<u>604,874</u>	<u>601,945</u>	<u>1,034,953</u>	<u>585,577</u>	<u>1,141,090</u>	<u>3,968,439</u>
Assigned						
Replacement	417,122	295,683	-	-	3,405	716,210
Pension	120,000	-	-	-	-	120,000
	<u>537,122</u>	<u>295,683</u>	<u>-</u>	<u>-</u>	<u>3,405</u>	<u>836,210</u>
Unassigned	<u>3,319,453</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,319,453</u>
Total Fund Balances	<u>\$ 4,461,449</u>	<u>\$ 897,628</u>	<u>\$ 1,034,953</u>	<u>\$ 585,577</u>	<u>\$ 1,144,495</u>	<u>\$ 8,124,102</u>

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

REQUIRED SUPPLEMENTARY INFORMATION

**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, 2012**

<u>GENERAL FUND - BUDGETARY BASIS*</u>				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Taxes:				
Property Taxes - Current	\$ 1,073,374	\$ 1,073,374	\$ 1,110,435	\$ 37,061
Property Taxes - Delinquent	30,000	30,000	30,469	469
Total Taxes	1,103,374	1,103,374	1,140,904	37,530
Licenses, Fees, and Permits:				
Franchise Fees	740,295	740,295	814,837	74,542
Erosion Control Permit Fee	27,112	27,112	62,400	35,288
Building Permits and Fees	388,265	388,265	1,060,818	672,553
Miscellaneous Permits	15,931	15,931	33,984	18,053
Development Fees	92,500	92,500	115,227	22,727
Construction Fees	53,200	53,200	36,633	(16,567)
Cell Tower Fees	43,878	43,878	39,534	(4,344)
Photo Passport Fee	20,000	20,000	40,701	20,701
Park Reservation Permits	20,000	20,000	28,499	8,499
Business Licenses	25,750	25,750	32,614	6,864
Animal Control Licenses	10,300	10,300	17,933	7,633
Alarm Permits and Penalties	8,000	8,000	11,765	3,765
Total Licenses, Fees, and Permits	1,445,231	1,445,231	2,294,945	849,714
Intergovernmental:				
State Shared Revenues	245,200	245,200	336,118	90,918
Revenue from Park District	231,853	231,853	233,014	1,161
Inter-City Revenues	56,650	56,650	58,116	1,466
Building Permit Related	13,589	13,589	25,932	12,343
Total Intergovernmental	547,292	547,292	653,180	105,888
Other Revenue:				
Traffic Fines	300,000	300,000	367,393	67,393
Municipal Court	120,988	120,988	77,412	(43,576)
Community Events	40,000	40,000	38,251	(1,749)
Miscellaneous Revenue	48,565	48,565	169,248	120,683
Total Other Revenue	509,553	509,553	652,304	142,751
Total Revenues	3,605,450	3,605,450	4,741,333	1,135,883

*For GAAP basis combine the General Fund with the Building Fund, Pension Reserve Fund, a portion of the Reserve for Replacement Fund, and Debt Service Fund

Continued on page -28-

**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, 2012**

<u>GENERAL FUND - BUDGETARY BASIS*</u>				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
EXPENDITURES				
Personal Services				
Salaries	\$ 1,708,300	\$ 1,708,300	\$ 1,642,925	\$ 65,375
Employee Benefits	1,110,490	1,110,490	909,856	200,634
Total Personal Services	<u>2,818,790</u>	<u>2,818,790 (1)</u>	<u>2,552,781</u>	<u>266,009</u>
Materials and Services				
Office Supplies	30,284	30,284	21,103	9,181
Public Works Supplies	25,000	25,000	13,494	11,506
Professional Development	68,100	68,100	53,379	14,721
Public Accountability	20,430	20,430	21,098	(668)
Utilities	128,050	128,050	95,949	32,101
Vehicle Operation and Maintenance	45,000	45,000	40,090	4,910
Newsletter	12,000	12,000	25,881	(13,881)
Insurance	50,000	50,000	46,029	3,971
Repairs and Maintenance	120,520	120,520	133,100	(12,580)
General Operating	37,309	37,309	36,236	1,073
Legal	120,000	120,000	31,751	88,249
Contract Services	151,536	151,536	140,323	11,213
Public Outreach	50,570	50,570	51,469	(899)
Public Safety Related	55,328	55,328	26,838	28,490
Total Materials and Services	<u>914,127</u>	<u>914,127 (1)</u>	<u>736,740</u>	<u>177,387</u>
Contingency	<u>1,613,066</u>	<u>1,613,066 (1)</u>	-	<u>1,613,066</u>
Total Expenditures	<u>5,345,983</u>	<u>5,345,983</u>	<u>3,289,521</u>	<u>2,056,462</u>
Excess of Revenues Over, (Under) Expenditures	(1,740,533)	(1,740,533)	1,451,812	3,192,345
OTHER FINANCING SOURCES, (USES)				
Transfers In	337,533	337,533	337,533	-
Transfers Out To:				
Pension Reserve Fund	(60,000)	(60,000) (1)	(60,000)	-
Debt Service Fund	(380,000)	(380,000) (1)	(376,550)	3,450
Net Change in Fund Balance	(1,843,000)	(1,843,000)	1,352,795	3,195,795
Beginning Fund Balance - Budgetary Basis	<u>1,843,000</u>	<u>1,843,000</u>	<u>1,966,658</u>	<u>123,658</u>
Ending Fund Balance - Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,319,453</u>	<u>\$ 3,319,453</u>

*For GAAP basis combine the General Fund with the Building Fund, Pension Reserve Fund, a portion of the Reserve for Replacement Fund, and Debt Service Fund

(1) Appropriation Level

Continued from page - 27 -

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, 2012

PENSION RESERVE FUND - BUDGETARY BASIS*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
EXPENDITURES				
Contingency	\$ 120,000	\$ 120,000 (1)	\$ -	\$ 120,000
Total Expenditures	<u>120,000</u>	<u>120,000</u>	<u>-</u>	<u>120,000</u>
Excess of Revenues Over, (Under) Expenditures	<u>(120,000)</u>	<u>(120,000)</u>	<u>-</u>	<u>(120,000)</u>
OTHER FINANCING SOURCES				
Transfers In:				
General Fund	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>	<u>-</u>
Net Change in Fund Balance	(60,000)	(60,000)	60,000	120,000
Beginning Fund Balance - Budgetary Basis	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>	<u>-</u>
Ending Fund Balance - Budgetary Basis	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 120,000</u></u>	<u><u>\$ 120,000</u></u>

*For GAAP basis combine the Pension Reserve Fund with the General Fund, Building Fund, a portion of the Reserve for Replacement Fund, and Debt Service Fund

(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, 2012

DEBT SERVICE - BUDGETARY BASIS*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
EXPENDITURES				
Debt Service				
Principal Payments	\$ 185,000	\$ 185,000	\$ 190,000	\$ (5,000)
Interest Payments	<u>195,000</u>	<u>195,000</u>	<u>186,550</u>	<u>8,450</u>
Total Debt Services	<u>380,000</u>	<u>380,000</u> (1)	<u>376,550</u>	<u>3,450</u>
Total Expenditures	<u>380,000</u>	<u>380,000</u>	<u>376,550</u>	<u>3,450</u>
OTHER FINANCING SOURCES				
Transfers In				
From General Fund	<u>380,000</u>	<u>380,000</u>	<u>376,550</u>	<u>(3,450)</u>
Net Change in Fund Balance	-	-	-	-
Beginning Fund Balance - Budgetary Basis	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending Fund Balance - Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*For GAAP basis combine the Debt Service Fund with the General Fund, Building Fund, Pension Reserve Fund, and a portion of the Reserve for Replacement Fund

(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, 2012

<u>STREET FUND - BUDGETARY BASIS*</u>				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Interest	\$ 5,000	\$ 5,000	\$ 2,342	\$ (2,658)
Gas Tax Revenue	669,000	669,000	774,660	105,660
Miscellaneous Revenue	-	-	13,621	13,621
Total Revenues	<u>674,000</u>	<u>674,000</u>	<u>790,623</u>	<u>116,623</u>
EXPENDITURES				
Personal Services				
Salaries	190,900	190,900	188,194	2,706
Employee Benefits	150,605	150,605	120,953	29,652
Total Personal Services	<u>341,505</u>	<u>341,505 (1)</u>	<u>309,147</u>	<u>32,358</u>
Materials and Services				
Personal Protective Equipment	1,000	1,000	-	1,000
Professional Development	2,200	2,200	874	1,326
Utilities	11,525	11,525	7,461	4,064
Repairs and Maintenance	115,300	115,300	60,757	54,543
General Operating	12,565	12,565	11,645	920
Vehicle Expenses	21,400	21,400	16,851	4,549
Contract Services	12,000	12,000	-	12,000
Total Materials and Services	<u>175,990</u>	<u>175,990 (1)</u>	<u>97,588</u>	<u>78,402</u>
Capital Outlay				
Street Reconstruction	388,837	388,837	66,113	322,724
Total Capital Outlay	<u>388,837</u>	<u>388,837 (1)</u>	<u>66,113</u>	<u>322,724</u>
Total Expenditures	<u>906,332</u>	<u>906,332</u>	<u>472,848</u>	<u>433,484</u>
Excess of Revenues Over, (Under) Expenditures	<u>(232,332)</u>	<u>(232,332)</u>	<u>317,775</u>	<u>550,107</u>
OTHER FINANCING (USES)				
Transfers Out To:				
General Fund	(72,668)	(72,668) (1)	(72,668)	-
Reserve for Replacment Fund	(85,000)	(85,000) (1)	(85,000)	-
Net Change in Fund Balance	(390,000)	(390,000)	160,107	550,107
Beginning Fund Balance - Budgetary Basis	<u>390,000</u>	<u>390,000</u>	<u>441,838</u>	<u>51,838</u>
Ending Fund Balance - Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 601,945</u>	<u>\$ 601,945</u>

*For GAAP basis combine the Street Fund with a portion of the Reserve for Replacement Fund

(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, 2012**

<u>PUBLIC SAFETY FUND*</u>				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Interest	\$ 25,000	\$ 25,000	\$ 7,078	\$ (17,922)
Misc Revenue	20,000	20,000	32,712	12,712
Taxes:				
Property Taxes - Current	2,212,000	2,212,000	2,142,114	(69,886)
Property Taxes - Delinquent	53,250	53,250	61,862	8,612
Total Revenues	<u>2,310,250</u>	<u>2,310,250</u>	<u>2,243,766</u>	<u>(66,484)</u>
EXPENDITURES				
Personal Services				
Salaries	25,700	25,700	10,316	15,384
Employee Benefits	7,100	7,100	3,727	3,373
Total Personal Services	<u>32,800</u>	<u>32,800 (1)</u>	<u>14,043</u>	<u>18,757</u>
Materials and Services				
Office Supplies	3,200	3,200	2,501	699
Travel	5,000	5,000	5,486	(486)
Training	5,000	5,000	2,322	2,678
Utilities	15,000	15,000	13,717	1,283
Vehicle Operation and Maintenance	2,500	2,500	3,451	(951)
Repairs and Maintenance	22,500	22,500	7,074	15,426
Public Outreach	15,000	15,000	10,202	4,798
Legal	5,000	5,000	2,175	2,825
Contract Services	15,000	15,000	12,260	2,740
Contract Police Protection	2,247,357	2,247,357	2,164,261	83,096
Total Materials and Services	<u>2,335,557</u>	<u>2,335,557 (1)</u>	<u>2,223,449</u>	<u>112,108</u>
Contingency	940,658	940,658 (1)	-	940,658
Total Expenditures	<u>3,309,015</u>	<u>3,309,015</u>	<u>2,237,492</u>	<u>1,071,523</u>
Excess of Revenues Over, (Under) Expenditures	<u>(998,765)</u>	<u>(998,765)</u>	<u>6,274</u>	<u>1,005,039</u>
OTHER FINANCING (USES)				
Transfers Out To:				
General Fund	(251,235)	(251,235) (1)	(251,235)	-
Reserve for Replacement	(25,000)	(25,000) (1)	(25,000)	-
Net Change in Fund Balance	(1,275,000)	(1,275,000)	(269,961)	1,005,039
Beginning Fund Balance	1,275,000	1,275,000	1,411,051	136,051
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,141,090</u>	<u>\$ 1,141,090</u>

*For GAAP basis combine the Public Safety Fund with a portion of the Reserve for Replacement Fund

(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, 2012

RESERVE FOR REPLACEMENT - BUDGETARY BASIS

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
EXPENDITURES				
Materials and Services				
Equipment under \$5,000	\$ 15,400	\$ 15,400	\$ 16,523	\$ (1,123)
Repairs and Maintenance	20,000	20,000	9,055	10,945
Education Benefits	15,000	15,000	-	15,000
Total Materials and Services	<u>50,400</u>	<u>50,400</u> (1)	<u>25,578</u>	<u>24,822</u>
Capital Outlay				
Vehicles	21,000	21,000	-	21,000
Equipment over \$5,000	15,000	15,000	16,503	(1,503)
Total Capital Outlay	<u>36,000</u>	<u>36,000</u> (1)	<u>16,503</u>	<u>19,497</u>
Contingency	<u>673,600</u>	<u>673,600</u> (1)	<u>-</u>	<u>673,600</u>
Total Expenditures	<u>760,000</u>	<u>760,000</u>	<u>42,081</u>	<u>717,919</u>
OTHER FINANCING SOURCES				
Transfers In				
From Street Fund	85,000	85,000	85,000	-
From Public Safety Fund	25,000	25,000	25,000	-
Net Change in Fund Balance	(650,000)	(650,000)	67,919	(717,919)
Beginning Fund Balance - Budgetary Basis	<u>650,000</u>	<u>650,000</u>	<u>648,291</u>	<u>(1,709)</u>
Ending Fund Balance - Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 716,210</u>	<u>\$ (719,628)</u>

*For GAAP basis combine a portion of the Reserve for Replacement Fund with the General Fund, Street Fund, and Public Safety Fund
(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, 2012

SYSTEM DEVELOPMENT FUND

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Interest	\$ 5,000	\$ 5,000	\$ 5,752	\$ 752
SDC-Storm Drainage	24,372	24,372	82,626	58,254
Total Revenues	<u>29,372</u>	<u>29,372</u>	<u>88,378</u>	<u>59,006</u>
EXPENDITURES				
Capital Outlay				
SDC Projects-Transportation	160,153	160,153	7,491	152,662
SDC Projects-Storm Drainage	585,959	585,959	233,290	352,669
SDC Projects-Parks	383,260	383,260	19,470	363,790
Total Capital Outlay	<u>1,129,372</u>	<u>1,129,372 (1)</u>	<u>260,251</u>	<u>869,121</u>
Total Expenditures	<u>1,129,372</u>	<u>1,129,372</u>	<u>260,251</u>	<u>869,121</u>
Net Change in Fund Balance	(1,100,000)	(1,100,000)	(171,873)	928,127
Beginning Fund Balance	<u>1,100,000</u>	<u>1,100,000</u>	<u>1,206,826</u>	<u>106,826</u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,034,953</u>	<u>\$ 1,034,953</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, 2012

PEDESTRIAN IMPROVEMENT PROJECTS FUND

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Interest	\$ 9,000	\$ 9,000	\$ 3,076	\$ (5,924)
Privilege Tax	100,000	100,000	107,439	7,439
Total Revenues	109,000	109,000	110,515	1,515
EXPENDITURES				
Materials and Services				
Contract Engineering	10,700	10,700	-	10,700
Total Materials and Services	10,700	10,700 (1)	-	10,700
Capital Outlay				
Bicycle & Ped Pathways	421,689	421,689	8,345	413,344
ODOT Match	200,000	200,000	200,000	-
Total Capital Outlay	621,689	621,689 (1)	208,345	413,344
Total Expenditures	632,389	632,389	208,345	424,044
Excess of Revenues Over, (Under) Expenditures	(523,389)	(523,389)	(97,830)	425,559
OTHER FINANCING (USES)				
Transfers Out To:				
General Fund	(13,630)	(13,630) (1)	(13,630)	-
Net Change in Fund Balance	(537,019)	(537,019)	(111,460)	425,559
Beginning Fund Balance	537,019	537,019	697,037	160,018
Ending Fund Balance	\$ -	\$ -	\$ 585,577	\$ 585,577

(1) Appropriation Level

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

OTHER SUPPLEMENTARY INFORMATION

Other Financial Schedules

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

**COMBINING BALANCE SHEET
GENERAL FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
June 30, 2012**

	General Fund Budgetary Basis	Building Fund Budgetary Basis	Pension Reserve Fund Budgetary Basis	Reserve For Replacement Budgetary Basis*	General Fund Generally Accepted Accounting Principles
ASSETS					
Cash and Investments	\$ 5,212,602	\$ 604,874	\$ 120,000	\$ 435,020	\$ 6,372,496
Accounts Receivable	225,831	-	-	-	225,831
Property Taxes Receivable	73,186	-	-	-	73,186
Total Assets	\$ 5,511,619	\$ 604,874	\$ 120,000	\$ 435,020	\$ 6,671,513
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 219,211	\$ -	\$ -	\$ 17,898	\$ 237,109
Payroll and Taxes Payable	65,139	-	-	-	65,139
Construction Fees	1,128,668	-	-	-	1,128,668
Cable Pegs Fees	475,967	-	-	-	475,967
Deferred Taxes	67,671	-	-	-	67,671
Development Deposits	168,542	-	-	-	168,542
Due to Other Governments	66,968	-	-	-	66,968
Total Liabilities	2,192,166	-	-	17,898	2,210,064
Fund Balances:					
Fund Balance By Category					
Restricted	-	604,874	-	-	604,874
Assigned	-	-	120,000	417,122	537,122
Unassigned	3,319,453	-	-	-	3,319,453
Total Fund Balances	3,319,453	604,874	120,000	417,122	4,461,449
Total Liabilities and Fund Balances	\$ 5,511,619	\$ 604,874	\$ 120,000	\$ 435,020	\$ 6,671,513

* Portion of this fund is allocated to the COMBINING BALANCE SHEET -
PUBLIC SAFETY FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
STREET FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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

**COMBINING BALANCE SHEET
STREET FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
June 30, 2012**

	Street Fund Budgetary Basis	Reserve For Replacement Budgetary Basis*	Street Fund Generally Accepted Accounting Principles
ASSETS			
Cash and Investments	\$ 542,451	\$ 295,683	\$ 838,134
Accounts Receivable	71,461	-	71,461
Total Assets	\$ 613,912	\$ 295,683	\$ 909,595
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 11,967	\$ -	\$ 11,967
Total Liabilities	11,967	-	11,967
Fund Balances:			
Fund Balance By Category			
Restricted	601,945	-	601,945
Assigned	-	295,683	295,683
Total Fund Balances	601,945	295,683	897,628
Total Liabilities and Fund Balances	\$ 613,912	\$ 295,683	\$ 909,595

* Portion of this fund is allocated to the COMBINING BALANCE SHEET -
GENERAL FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
PUBLIC SAFETY FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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

**COMBINING BALANCE SHEET
PUBLIC SAFETY FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
June 30, 2012**

	Public Safety Fund Budgetary Basis	Reserve For Replacement Budgetary Basis*	Public Safety Fund Generally Accepted Accounting Principles
ASSETS			
Cash and Investments	\$ 1,133,187	\$ 3,405	\$ 1,136,592
Property Taxes Receivable	149,820	-	149,820
Total Assets	\$ 1,283,007	\$ 3,405	\$ 1,286,412
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 3,215	\$ -	\$ 3,215
Deferred Taxes	138,702	-	138,702
Total Liabilities	141,917	-	141,917
Fund Balances:			
Fund Balance By Category			
Restricted	1,141,090	-	1,141,090
Assigned	-	3,405	3,405
Total Fund Balances	1,141,090	3,405	1,144,495
Total Liabilities and Fund Balances	\$ 1,283,007	\$ 3,405	\$ 1,286,412

* Portion of this fund is allocated to the COMBINING BALANCE SHEET -
GENERAL FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
STREET FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - GENERAL FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**
For the Year Ended June 30, 2012

	General Fund Budgetary Basis	Building Fund Budgetary Basis	Pension Reserve Fund Budgetary Basis	Reserve for Replacement Budgetary Basis *	Debt Service Budgetary Basis	General Fund Generally Accepted Accounting Principles
REVENUES						
Property Taxes	\$ 1,140,904	\$ -	\$ -	\$ -	\$ -	\$ 1,140,904
Licenses & Permits	2,294,945	-	-	-	-	2,294,945
Intergovernmental	653,180	-	-	-	-	653,180
Other Revenue	652,304	-	-	-	-	652,304
Total Revenues	4,741,333	-	-	-	-	4,741,333
EXPENDITURES						
Personal Services	2,552,781	-	-	-	-	2,552,781
Materials & Services	736,740	-	-	25,578	-	762,318
Debt Service	-	-	-	-	376,550	376,550
Capital Outlay	-	-	-	16,503	-	16,503
Total Expenditures	3,289,521	-	-	42,081	376,550	3,708,152
Excess of Revenues Over, (Under) Expenditures	1,451,812	-	-	(42,081)	(376,550)	1,033,181
Other Financing Sources, (Uses)						
Transfers In	337,533	-	60,000	21,595	376,550	795,678
Transfers Out	(436,550)	-	-	-	-	(436,550)
Total Other Financing Sources, (Uses)	(99,017)	-	60,000	21,595	376,550	359,128
Net Change in Fund Balance	1,352,795	-	60,000	(20,486)	-	1,392,309
Beginning Fund Balance	1,966,658	604,874	60,000	437,608	-	3,069,140
Ending Fund Balance	\$ 3,319,453	\$ 604,874	\$ 120,000	\$ 417,122	\$ -	\$ 4,461,449

* Portion of this fund is allocated to the COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

- STREET FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

- PUBLIC SAFETY FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - STREET FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**
For the Year Ended June 30, 2012

	Street Fund Budgetary Basis	Reserve for Replacement Budgetary Basis*	Street Fund Generally Accepted Accounting Principles
REVENUES			
Gas Tax Revenue	\$ 774,660	\$ -	\$ 774,660
Other Revenue	15,963	-	15,963
Total Revenues	<u>790,623</u>	<u>-</u>	<u>790,623</u>
EXPENDITURES			
Personal Services	309,147	-	309,147
Materials & Services	97,588	-	97,588
Capital Outlay	66,113	-	66,113
Total Expenditures	<u>472,848</u>	<u>-</u>	<u>472,848</u>
Excess of Revenues Over, (Under) Expenditures	317,775	-	317,775
Other Financing Sources, (Uses)			
Transfers In	-	85,000	85,000
Transfers Out	(157,668)	-	(157,668)
Total Other Financing Sources, (Uses)	<u>(157,668)</u>	<u>85,000</u>	<u>(72,668)</u>
Net Change in Fund Balance	160,107	85,000	245,107
Beginning Fund Balance	<u>441,838</u>	<u>210,683</u>	<u>652,521</u>
Ending Fund Balance	<u><u>\$ 601,945</u></u>	<u><u>\$ 295,683</u></u>	<u><u>\$ 897,628</u></u>

* Portion of this fund is allocated to the COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
- GENERAL FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
- PUBLIC SAFETY FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - PUBLIC SAFETY FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**
For the Year Ended June 30, 2012

	Public Safety Fund Budgetary Basis	Reserve for Replacement Budgetary Basis*	Public Safety Fund Generally Accepted Accounting Principles
REVENUES			
Property Taxes	\$ 2,203,976	\$ -	\$ 2,203,976
Other Revenue	39,790	-	39,790
Total Revenues	<u>2,243,766</u>	<u>-</u>	<u>2,243,766</u>
EXPENDITURES			
Personal Services	14,043	-	14,043
Materials & Services	2,223,449	-	2,223,449
Total Expenditures	<u>2,237,492</u>	<u>-</u>	<u>2,237,492</u>
Excess of Revenues Over, (Under) Expenditures	6,274	-	6,274
Other Financing Sources, (Uses)			
Transfers In	-	3,405	3,405
Transfers Out	(276,235)	-	(276,235)
Total Other Financing Sources, (Uses)	<u>(276,235)</u>	<u>3,405</u>	<u>(272,830)</u>
Net Change in Fund Balance	(269,961)	3,405	(266,556)
Beginning Fund Balance	<u>1,411,051</u>	<u>-</u>	<u>1,411,051</u>
Ending Fund Balance	<u>\$ 1,141,090</u>	<u>\$ 3,405</u>	<u>\$ 1,144,495</u>

* Portion of this fund is allocated to the COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
- GENERAL FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
- STREET FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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, 2012

<u>Tax Year</u>	<u>Imposed Levy or Uncollected At 7/1/11</u>	<u>Deduct Discounts</u>	<u>Adjustments To Rolls</u>	<u>Add Interest</u>	<u>Cash Collections</u>	<u>Uncollected at 6/30/12</u>
CURRENT:						
2011-2012	\$ 3,456,635	\$ (84,780)	\$ (11,266)	\$ 1,079	\$ 3,248,651	\$ 113,017
PRIOR YEARS:						
2010-2011	108,551	413	7,520	3,263	62,188	57,559
2009-2010	47,758	372	(1,071)	2,800	15,457	34,402
2008-2009	24,847	2	(445)	3,017	16,199	11,222
2007-2008	6,532	-	(168)	1,210	5,658	1,916
2006-2007 & Prior	2,952	-	(146)	(84)	(2,168)	4,890
Total Prior	190,640	787	5,690	10,206	97,334	109,989
Total	<u>\$ 3,647,275</u>	<u>\$ (83,993)</u>	<u>\$ (5,576)</u>	<u>\$ 11,285</u>	<u>\$ 3,345,985</u>	<u>\$ 223,006</u>

RECONCILIATION OF REVENUE:

Cash Collections by County Treasurer Above	\$ 3,345,985
Accrual of Receivables:	
June 30, 2011	(17,738)
June 30, 2012	<u>16,633</u>
Total Revenue	<u>\$ 3,344,880</u>

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATION

**INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATION**

We have audited the basic financial statements of City of Happy Valley, Oregon, as of and for the year ended June 30, 2012 and have issued our report thereon dated December 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations.

Compliance

As part of obtaining reasonable assurance about whether City of Happy Valley, Oregon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in the Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

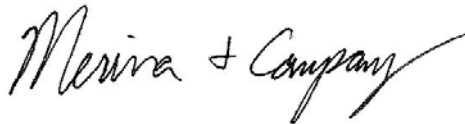
- Deposits of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions, and repayments.
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Highway revenues used for public highways, roads, and streets.
- Authorized investment of surplus funds. (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, and 279C).
- Accountability for collecting or receiving money by elected officials. The City does not have any elected officials collecting or receiving money.

In connection with our testing, nothing came to our attention that caused us to believe the City of Happy Valley, Oregon was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in the Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

OAR 162-10-0230 Internal Control

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

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

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

Merina & Company, LLP
West Linn, Oregon
December 20, 2012