

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2011

MERINA
& COMPANY, LLP

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CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

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CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

CITY OFFICIALS AS OF JUNE 30, 2011

<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, 2012
Tom Ellis	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

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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, 2011, 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, 2011, 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 were 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 were 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.



Merina & Company, LLP
West Linn, Oregon
December 15, 2011

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, 2011. 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 \$58,980,063 at June 30, 2011.

During the year, the City's net assets decreased by \$74,042. Although this is a decrease in net assets it is notably less of a decrease than the previous year. This was due to a decrease in expenses along with an increase in overall revenues.

The general fund had an ending fund balance at the end of the year of \$2,464,266. This is equal to 71 percent of total general fund expenditures for the year.

The full faith and credit obligations end of the year balance was \$4,555,000. This decrease of \$180,000 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, 2011 the City's assets exceeded its liability by \$58,980,063. Cash and Investments represent 13% of total assets. Long lived capital assets including land, buildings, streets, equipment, and vehicles comprise 87% 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 73% of the City's liabilities. Remaining liabilities are payments to vendors, governments, and accrued personnel costs.

City of Happy Valley - Net Assets

	Total 2011	Total 2010
Assets:		
Current and Other Assets	\$ 8,778,935	\$ 8,222,487
Long Term Debt	125,077	132,895
Capital Assets	56,345,828	56,880,829
Total Assets	<u>65,249,840</u>	<u>65,236,211</u>
Liabilities:		
Current and Other Liabilities	1,871,371	1,591,472
Non-Current Liabilities	4,398,406	4,590,634
Total Liabilities	<u>6,269,777</u>	<u>6,182,106</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	51,755,194	52,107,967
Unrestricted	7,224,869	6,946,138
Total Net Assets	<u>\$ 58,980,063</u>	<u>\$ 59,054,105</u>

City of Happy Valley Changes in Net Assets

	Total 2011	Total 2010
Revenues:		
Program Revenues:		
Charges for Services	\$ 1,655,075	\$ 1,609,088
General Revenues:		
Property Taxes-Perm Rate	1,078,611	1,045,159
Property Taxes-Levy	2,191,594	2,144,034
Other Taxes	602,531	475,910
Intergovernmental	587,554	542,842
Other Revenue	739,887	655,234
Total Revenues	6,855,252	6,472,267
 Expenses:		
General Government	5,845,840	6,813,644
Building Inspection Program	449,107	459,832
Parks Development	104,307	97,482
Storm Drainage	22,219	1,900
Streets	315,636	614,011
Interest on long term debt	192,185	199,728
Total Expenses	6,929,294	8,186,597
 Change in Net Assets	-74,042	-1,714,330
 Beginning Net Assets	59,054,105	60,768,435
 Ending Net Assets	\$ 58,980,063	\$ 59,054,105

The City's total revenues were \$6,855,252 and Net Assets decreased by \$74,042. This decrease is significantly lower than the decrease of \$1,714,330 in the previous year. The 2010-11 year saw increased gas tax revenues due to implementation of the 2009 Transportation Package, increased traffic fines recognized, and a considerable decrease in expenses compared to the previous year. The expense decrease was due to a decrease in materials and services spending along with new streets added to the City's inventory to offset the effect of depreciation expense.

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 manage the effect of decreased revenues.
- Development in the East Happy Valley expansion area has not occurred due to the state of the economy. 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 once the economy turns around.

- 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 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.
- Clackamas County voters approved the creation of a Library District. The City worked with Clackamas County to relocate the library currently servicing the City to a location within the City boundaries. 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 \$6,942,395 in 2011. Governmental fund balances totaled \$7,111,077 at June 30, 2011. A summary of changes in governmental fund balances follows:

City of Happy Valley - Changes in Governmental Fund Balances

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Change</u>
General Fund	\$ 2,464,266	\$ 2,150,173	\$ 314,093
Street Fund	652,521	392,218	260,303
Building Fund	604,874	626,623	-21,749
System Development Fund	1,206,826	1,355,701	-148,875
Road Improvement Fund	697,037	639,372	57,665
Public Safety Fund	1,411,051	1,577,636	-166,585

One factor contributing to the increases in the General Fund and Street Fund balances was the change in presentation based on GASB Statement No. 54 implementation. The City had three funds which no longer met the definition of special revenue funds under GASB 54. The three funds were combined into the funds of origin in order to be in compliance for presentation in the Basic Financial Statements. Those three funds were Reserve for Replacement, Pension Reserve, and Debt Service. The Pension Reserve and Debt Service Funds were rolled entirely into the General Fund whereas the Reserve for Replacement Fund was split between the General Fund and the Street Fund. The General Fund increase was also due to an increase in Traffic Fines collected. A factor other than GASB 54 implementation causing the increase in the Street Fund balance was an increase in gas tax revenue collected.

General Fund Budgetary Highlights

The General Fund balance increased \$755,931 from the previous year. Of this increase, \$497,608 is due to the implementation of GASB 54 which requires the inclusion of the Reserve for Replacement and Pension Reserve fund balances. The remaining \$258,323 increase was due to higher Traffic Fine revenue and lower materials and services expenditures. Some General Fund revenues in excess of budget estimates were:

Construction Fees	\$ 64,241
Erosion Control Permit Fees	\$ 11,524
Municipal Court	\$ 27,654
State Revenue Sharing	\$ 18,571
Traffic Fines	\$155,128

Capital Assets

At June 30, 2011, the City had \$56,345,828 invested in capital assets net of depreciation expense. This is a decrease of \$535,001 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, 2011, the City had outstanding debt of \$4,555,000. 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. 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 an abundance of buildable lots with few potential buyers. Development and construction revenue will remain low until this buildable lot supply is decreased. The slight uptick in development and construction revenue in the 2010-11 fiscal year was due to commercial property development. Commercial development is expected to increase in the 2011-12 year.

The 2011-12 budget reflects a continuation of lower expected revenues by foregoing merit increases, postponing hiring, sharing health benefit costs with employees, maintaining a lower amount of materials and services expenditures, and increasing the length of service of assets. These measures are short term solutions and will be readdressed as the financial outlook for the City improves.

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, 2011

ASSETS

Current Assets:

Cash and Investments	\$ 8,288,654
Accounts Receivable	299,640
Property Taxes Receivable	190,641
Total Current Assets	<u>8,778,935</u>

Non-Current Assets:

Bond issuance costs	125,077
Capital Assets - non-depreciable	3,517,932
Capital Assets - depreciable	63,187,146
Less accumulated depreciation	<u>-10,359,250</u>
Total Non-Current Assets	<u>56,470,905</u>

Total Assets	<u>\$ 65,249,840</u>
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LIABILITIES

Current Liabilities:

Accounts Payable	\$ 382,782
Payroll Liabilities	127,711
Other Payables	531,753
Accrued Vacation Payable	109,686
Cable Pegs Fees	383,366
Developer Trust Payable	54,407
Due to Other Governments	89,438
Current portion of long term debt	192,228
Total Current Liabilities	<u>1,871,371</u>

Non-Current Liabilities:

Bonds Payable	4,365,000
Premium on bonds payable	33,406
Total Non-Current Liabilities	<u>4,398,406</u>

Total Liabilities	<u>6,269,777</u>
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NET ASSETS:

Invested in Capital Assets, Net of Related Debt	51,755,194
Unrestricted	<u>7,224,869</u>
Total Net Assets	<u>\$ 58,980,063</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, 2011

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities			
General Government	\$ 5,845,840	\$ 1,090,411	\$ (4,755,429)
Building	449,108	419,030	(30,078)
Parks	104,307	16,063	(88,244)
Storm Drainage	22,219	29,579	7,360
Streets	315,636	99,992	(215,644)
Interest on long term debt	192,185	-	(192,185)
Total Governmental Activities	\$ 6,929,295	\$ 1,655,075	\$ (5,274,220)
General Revenues			
			3,270,206
			602,531
			587,554
			739,887
			5,200,178
			-74,042
			59,054,105
			\$ 58,980,063

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, 2011

	GENERAL FUND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES	STREET FUND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES	BUILDING FUND
ASSETS			
Cash and Investments	\$ 3,374,600	\$ 597,236	\$ 756,729
Accounts Receivable	232,859	66,781	0
Property Taxes Receivable	62,592	0	0
Total Assets	\$ 3,670,051	\$ 664,017	\$ 756,729
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 47,091	\$ 9,357	\$ 141,074
Payroll and Payroll Taxes Payable	114,673	2,139	10,781
Construction Fees	524,979	0	0
Retainage	6,774	0	0
Cable Pegs Fees	383,366	0	0
Deferred Taxes	56,703	0	0
Developer Trust Payable	54,407	0	0
Due to Other Governments	17,792	0	0
Total Liabilities	1,205,785	11,496	151,855
Fund Balances:			
Fund Balance By Category			
Restricted	0	441,838	604,874
Assigned	497,608	210,683	0
Unassigned	1,966,658	0	0
Total Fund Balances	2,464,266	652,521	604,874
Total Liabilities and Fund Balances	\$ 3,670,051	\$ 664,017	\$ 756,729

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

SYSTEM DEVELOPMENT FUND	ROAD IMPROVEMENT FUND	PUBLIC SAFETY FUND	TOTAL
\$ 1,278,557	\$ 697,037	\$ 1,584,495	\$ 8,288,654
0	0	0	299,640
0	0	128,049	190,641
<u>\$ 1,278,557</u>	<u>\$ 697,037</u>	<u>\$ 1,712,544</u>	<u>\$ 8,778,935</u>

\$ 85	\$ 0	\$ 185,175	\$ 382,782
0	0	118	127,711
0	0	0	524,979
0	0	0	6,774
0	0	0	383,366
0	0	116,200	172,903
0	0	0	54,407
71,646	0	0	89,438
<u>71,731</u>	<u>0</u>	<u>301,493</u>	<u>1,742,360</u>

1,206,826	697,037	1,411,051	4,361,626
0	0	0	708,291
0	0	0	1,966,658
<u>1,206,826</u>	<u>697,037</u>	<u>1,411,051</u>	<u>7,036,575</u>
<u>\$ 1,278,557</u>	<u>\$ 697,037</u>	<u>\$ 1,712,544</u>	<u>\$ 8,778,935</u>

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

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

June 30, 2011

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

Fund Balances	\$	7,036,575
<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		56,345,828
<p>Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.</p>		
Accrued Vacation		-109,686
<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	\$	-4,590,634
Long term debt issuance costs		<u>125,077</u>
Net Adjustment		-4,465,557
<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>172,903</u>
Total Net Assets	\$	<u><u>58,980,063</u></u>

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

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CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	GENERAL FUND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES	STREET FUND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES	BUILDING FUND
REVENUES			
Property Taxes	\$ 1,081,836	\$ 0	\$ 0
Gas Tax Revenue	0	602,531	0
Licenses and Permits	1,106,474	0	419,030
System Development Charges	0	0	0
Intergovernmental Revenues	573,855	0	13,699
Other Revenue	648,324	5,591	16,070
	<u>3,410,489</u>	<u>608,122</u>	<u>448,799</u>
EXPENDITURES			
Personal Services	2,282,624	162,052	431,863
Materials & Services	698,755	90,214	17,245
Debt Service	374,413	0	0
Capital Outlay	83,504	26,345	0
	<u>3,439,296</u>	<u>278,611</u>	<u>449,108</u>
Excess of Revenues Over, -Under Expenditures	-28,807	329,511	-309
Other Financing Sources, -Uses			
Transfers In	342,900	0	0
Transfers Out	0	-69,208	-21,440
	<u>342,900</u>	<u>-69,208</u>	<u>-21,440</u>
Net Change in Fund Balance	314,093	260,303	-21,749
Beginning Fund Balance	<u>2,150,173</u>	<u>392,218</u>	<u>626,623</u>
Ending Fund Balance	<u>\$ 2,464,266</u>	<u>\$ 652,521</u>	<u>\$ 604,874</u>

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

<u>SYSTEM DEVELOPMENT FUND</u>	<u>ROAD IMPROVEMENT FUND</u>	<u>PUBLIC SAFETY FUND</u>	<u>TOTAL</u>
\$ 0	\$ 0	\$ 2,198,041	\$ 3,279,877
0	0	0	602,531
0	99,992	0	1,625,496
29,579	0	0	29,579
0	0	0	587,554
3,163	894	65,845	739,887
<u>32,742</u>	<u>100,886</u>	<u>2,263,886</u>	<u>6,864,924</u>
0	0	24,365	2,900,904
0	0	2,166,835	2,973,049
0	0	0	374,413
<u>181,617</u>	<u>30,240</u>	<u>0</u>	<u>321,706</u>
<u>181,617</u>	<u>30,240</u>	<u>2,191,200</u>	<u>6,570,072</u>
-148,875	70,646	72,686	294,852
0	0	0	342,900
<u>0</u>	<u>-12,981</u>	<u>-239,271</u>	<u>-342,900</u>
<u>0</u>	<u>-12,981</u>	<u>-239,271</u>	<u>0</u>
-148,875	57,665	-166,585	294,852
<u>1,355,701</u>	<u>639,372</u>	<u>1,577,636</u>	<u>6,741,723</u>
<u>\$ 1,206,826</u>	<u>\$ 697,037</u>	<u>\$ 1,411,051</u>	<u>\$ 7,036,575</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, 2011

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 \$ 294,852

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	\$	1,100,656	
Fixed Asset Deletions		-50,236	
Depreciation Expense		-1,585,421	
Net Adjustment		-535,001	-535,001

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 1,368

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		180,000	
Amortization of LTD Issuance Costs		-7,818	
Amortization of LTD Premium		2,228	
Net Adjustment		174,410	174,410

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		-9,671	
Change in Net Assets		-74,042	\$ -74,042

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.

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.

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 categories previously mentioned.

2. CASH AND INVESTMENTS

Cash and Investments consisted of:

Deposits with Financial Institutions:	
Petty Cash	\$ 735
Demand Deposits	456,600
Cash with County	19,570
Investments	<u>7,811,749</u>
 Total Cash and Investments	 <u>\$ 8,288,654</u>

DEPOSITS - Deposits with financial institutions include bank demand deposits. The total bank balance per the bank statement is \$445,894. 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.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

INVESTMENTS - Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, bankers' acceptances, repurchase agreements, commercial paper rated A-1 by Fitch Ratings and Standard & Poor's Corporation or P1 by Moody's Commercial Paper Record (A-2/P-2 if Oregon commercial paper) and the state treasurer's 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, 2011.

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, 2011. 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>
Categorized Investments:				
Obligations of the U.S. Agencies	\$ 1,500,000	\$ 0	\$ 1,500,000	\$ 0
State Treasurer's Local Government Investment Pool	<u>6,311,749</u>	<u>6,311,749</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 7,811,749</u>	<u>\$ 6,311,749</u>	<u>\$ 1,500,000</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.

CONCENTRATION OF RISK – At June 30, 2011, the City had 80% 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, 2011, the City had 20% 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.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

3. CAPITAL ASSETS

The changes in fixed assets for the fiscal year ended June 30, 2011 are as follows:

	Governmental Activities Capital Assets			
	June 30, 2010	Additions	Disposals	June 30, 2011
Capital Assets, not being depreciated				
Land and Improvements	\$ 3,372,747	\$ 0	\$ 0	\$ 3,372,747
Construction in Progress	0	145,185	0	145,185
Totals, capital assets not being depreciated	3,372,747	145,185	0	3,517,932
Capital Assets, being depreciated				
Buildings	10,147,092	0	-32,043	10,179,135
Vehicles	383,338	21,595	-3,500	408,433
Other Equipment	388,095	13,179	0	401,274
Park Improvements	2,274,249	0	0	2,274,249
Park Equipment	38,960	0	-14,693	53,653
Streets	49,050,177	920,697	0	49,970,874
Totals, capital assets being depreciated	62,281,911	955,471	-50,236	63,287,618
Less: Accumulated Depreciation for:				
Buildings	-367,625	-209,470	32,043	-545,052
Vehicles	-122,414	-43,340	3,301	-162,453
Other Equipment	-80,582	-28,789	0	-109,371
Park Improvements	-661,775	-105,053	0	-766,828
Park Equipment	-24,334	-2,125	10,548	-15,911
Streets	-7,517,099	-1,242,536	0	-8,759,635
Total Accumulated Depreciation	-8,773,829	-1,631,313	45,892	-10,359,250
Total capital assets, being depreciated, net	53,508,082	-675,842	-4,344	52,928,368
Total Governmental Activities	\$ 56,880,829	\$ -530,657	\$ -4,344	\$ 56,446,300

Governmental Activities Depreciation Allocation to Functions

Function	Governmental Funds
General Government	\$ 1,355,482
Building	100,656
Parks	57,293
Streets	71,990
Total	\$ 1,585,421

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
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
	\$ 4,555,000	\$ 1,812,976	\$ 6,367,976

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, 2011, was as follows:

	<u>6/30/2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2011</u>	<u>Due within one Year</u>
Bonds Payable					
Full Faith & Credit Obligation, Series 2007, Interest 4%-4.25%	\$ 4,735,000	\$ -	\$ 180,000	\$ 4,555,000	\$ 190,000
Plus deferred amounts:					
Bond Premium	<u>37,862</u>	<u>-</u>	<u>2,228</u>	<u>35,634</u>	<u>2,228</u>
Total bonds payable	<u>4,772,862</u>	<u>-</u>	<u>182,228</u>	<u>4,590,634</u>	<u>192,228</u>
Compensated Absences	<u>111,054</u>	<u>-</u>	<u>1,368</u>	<u>109,686</u>	<u>109,686</u>
 Total Long-term liabilities	 <u>\$ 4,883,916</u>	 <u>\$ -</u>	 <u>\$ 183,596</u>	 <u>\$ 4,700,320</u>	 <u>\$ 301,914</u>

5. COMPENSATED ABSENCES PAYABLE

At June 30, 2011, the City's liability for vacation pay is estimated at \$109,686.

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, 2011 were \$120,498. The City is required to contribute at actuarially determined rates, as adopted by the PERS Board. The current rate effective July 1, 2011 is 14.73% of covered payroll for Tier 1/2 employees and 11.11% 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, 2011, 2010, and 2009 was \$188,889, \$165,568, and \$227,016 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 \$383,366 are currently held in a deferred revenue liability account of the City.

10. RISK MANAGEMENT

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

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

11. IMPLEMENTATION OF GASB STATEMENT NO. 54 – NEW FUND BALANCE

GASB Statement No. 54 requires analysis and presentation of fund balance in five categories. The new fund balance categories are:

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.

Below is a schedule of ending fund balance based on GASB Statement No. 54 implementation:

	General Fund GAAP	Street Fund GAAP	Building Fund	SDC Fund	Road Improv	Public Safety	Total
Fund Balances:							
Restricted							
Street Maint	\$ -	\$ 441,838	\$ -	\$ -	\$ -	\$ -	\$ 441,838
Building							
Inspection	-	-	604,874	-	-	-	604,874
SDC Projects	-	-	-	1,206,826	-	-	1,206,826
Pedestrian							
Improv	-	-	-	-	697,037	-	697,037
Public Safety	-	-	-	-	-	1,411,051	1,411,051
	-	441,838	604,874	1,206,826	697,037	1,411,051	4,361,626
Assigned							
Replacement	437,608	210,683	-	-	-	-	648,291
Pension	60,000	-	-	-	-	-	60,000
	497,608	210,683	-	-	-	-	708,291
Unassigned	1,966,658	-	-	-	-	-	1,966,658
Total Fund Balances	\$ 2,464,266	\$ 652,521	\$ 604,874	\$ 1,206,826	\$ 697,037	\$ 1,411,051	\$ 7,036,575

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

11. IMPLEMENTATION OF GASB STATEMENT NO. 54 – NEW FUND BALANCE (CONTINUED)

GASB Statement No. 54 requires Council action to authorize commitments of fund balance prior to the end of the fiscal year. On June 21, 2011 the Council authorized commitment of fund balance by use of a resolution to both enact and remove.

On June 21, 2011 the Council authorized the City Manager to make assignments of ending fund balance. Assignments of fund balance can be done at any time including after the end of the fiscal year.

GASB Statement No. 54 requires a spending policy as it relates to ending fund balance. The spending policy states in what order fund balance categories are spent. On June 21, 2011 the Council approved the fund balance order of spending as follows:

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.

12. SEPARATION INCENTIVE OFFER

The City authorized a separation incentive for employees over the age of 58. The incentive provided for a one-time payment of one-half month salary based on length of service. There was an additional offer of one week salary to relieve the City of any liability under the ADEA. The incentive was calculated using the following formula: 50% of the employee's current monthly base salary for each year of service up to the half year at the time of separation. Those employees who chose to accept the incentive package would terminate employment either June 30 or December 31, 2011. Staff eligible for the incentive had 45 days from the date they received the incentive package to elect to participate. The amount attributable to the employees who accepted the package is reported as a payroll liability in the current financial statements.

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CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

REQUIRED SUPPLEMENTARY INFORMATION

Other Financial Schedules

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

**COMBINING BALANCE SHEET
GENERAL FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
June 30, 2011**

	GENERAL FUND BUDGETARY BASIS	PENSION RESERVE FUND BUDGETARY BASIS	RESERVE FOR REPLACEMENT BUDGETARY BASIS *	GENERAL FUND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
ASSETS				
Cash and Investments	\$ 2,876,992	\$ 60,000	\$ 437,608	\$ 3,374,600
Accounts Receivable	232,859	0	0	232,859
Property Taxes Receivable	<u>62,592</u>	<u>0</u>	<u>0</u>	<u>62,592</u>
Total Assets	<u>\$ 3,172,443</u>	<u>\$ 60,000</u>	<u>\$ 437,608</u>	<u>\$ 3,670,051</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 47,091	\$ 0	\$ 0	\$ 47,091
Payroll and Payroll Taxes Payable	114,673	0	0	114,673
Construction Fees	524,979	0	0	524,979
Retainage	6,774	0	0	6,774
Cable Pegs Fees	383,366	0	0	383,366
Deferred Taxes	56,703	0	0	56,703
Developer Trust Payable	54,407	0	0	54,407
Due to Other Governments	<u>17,792</u>	<u>0</u>	<u>0</u>	<u>17,792</u>
Total Liabilities	<u>1,205,785</u>	<u>0</u>	<u>0</u>	<u>1,205,785</u>
Fund Balances:				
Fund Balance By Category				
Assigned	0	60,000	437,608	497,608
Unassigned	<u>1,966,658</u>	<u>0</u>	<u>0</u>	<u>1,966,658</u>
Total Fund Balances	<u>1,966,658</u>	<u>60,000</u>	<u>437,608</u>	<u>2,464,266</u>
Total Liabilities and Fund Balances	<u>\$ 3,172,443</u>	<u>\$ 60,000</u>	<u>\$ 437,608</u>	<u>\$ 3,670,051</u>

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

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

**COMBINING BALANCE SHEET
STREET FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
June 30, 2011**

	STREET FUND BUDGETARY BASIS	RESERVE FOR REPLACEMENT BUDGETARY BASIS *	STREET FUND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
ASSETS			
Cash and Investments	\$ 386,553	\$ 210,683	\$ 597,236
Accounts Receivable	66,781	0	66,781
Property Taxes Receivable	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets	<u>\$ 453,334</u>	<u>\$ 210,683</u>	<u>\$ 664,017</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 9,357	\$ 0	\$ 9,357
Payroll and Payroll Taxes Payable	<u>2,139</u>	<u>0</u>	<u>2,139</u>
Total Liabilities	<u>11,496</u>	<u>0</u>	<u>11,496</u>
Fund Balances:			
Fund Balance By Category			
Restricted	441,838	0	441,838
Assigned	<u>0</u>	<u>210,683</u>	<u>210,683</u>
Total Fund Balances	<u>441,838</u>	<u>210,683</u>	<u>652,521</u>
Total Liabilities and Fund Balances	<u>\$ 453,334</u>	<u>\$ 210,683</u>	<u>\$ 664,017</u>

* Portion of this fund is allocated to the COMBINING BALANCE SHEET -
GENERAL 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, 2011**

	GENERAL 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	\$ 1,081,836	\$ 0	\$ 0	\$ 0	\$ 1,081,836
Licenses and Permits	1,106,474	0	0	0	1,106,474
Intergovernmental Revenues	573,855	0	0	0	573,855
Other Revenue	648,324	0	0	0	648,324
Total Revenues	<u>3,410,489</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,410,489</u>
EXPENDITURES					
Personal Services	2,282,624	0	0	0	2,282,624
Materials & Services	683,005	0	15,750	0	698,755
Debt Service	0	0	0	374,413	374,413
Capital Outlay	0	0	83,504	0	83,504
Total Expenditures	<u>2,965,629</u>	<u>0</u>	<u>99,254</u>	<u>374,413</u>	<u>3,439,296</u>
Excess of Revenues Over, -Under Expenditures	444,860	0	-99,254	-374,413	-28,807
Other Financing Sources, -Uses					
Transfers In	342,900	60,000	95,024	374,413	872,337
Transfers Out	-529,437	0	0	0	-529,437
Total Other Financing Sources, - Uses	<u>-186,537</u>	<u>60,000</u>	<u>95,024</u>	<u>374,413</u>	<u>342,900</u>
Net Change in Fund Balance	258,323	60,000	-4,230	0	314,093
Beginning Fund Balance	<u>1,708,335</u>	<u>0</u>	<u>441,838</u>	<u>0</u>	<u>2,150,173</u>
Ending Fund Balance	<u>\$ 1,966,658</u>	<u>\$ 60,000</u>	<u>\$ 437,608</u>	<u>\$ 0</u>	<u>\$ 2,464,266</u>

* Portion of this fund is allocated to the COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - STREET 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, 2011

	STREET BUDGETARY BASIS	RESERVE FOR REPLACEMENT BUDGETARY BASIS *	STREET FUND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
REVENUES			
Gas Tax Revenue	\$ 602,531	\$ 0	\$ 602,531
Other Revenue	5,591	0	5,591
Total Revenues	<u>608,122</u>	<u>0</u>	<u>608,122</u>
EXPENDITURES			
Personal Services	162,052	0	162,052
Materials & Services	90,214	0	90,214
Capital Outlay	26,345	0	26,345
Total Expenditures	<u>278,611</u>	<u>0</u>	<u>278,611</u>
Excess of Revenues Over, -Under Expenditures	329,511	0	329,511
Other Financing Sources, -Uses			
Transfers In	0	85,000	85,000
Transfers Out	-154,208	0	-154,208
Total Other Financing Sources, -Uses	<u>-154,208</u>	<u>85,000</u>	<u>-69,208</u>
Net Change in Fund Balance	175,303	85,000	260,303
Beginning Fund Balance	<u>266,535</u>	<u>125,683</u>	<u>392,218</u>
Ending Fund Balance	<u>\$ 441,838</u>	<u>\$ 210,683</u>	<u>\$ 652,521</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

**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, 2011**

GENERAL FUND - BUDGETARY BASIS

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE -NEGATIVE</u>
REVENUES				
Taxes:				
Property Taxes - Current	\$ 1,064,900	\$ 1,064,900	\$ 1,046,771	\$ -18,129
Property Taxes - Delinquent	25,000	25,000	35,065	10,065
Total Taxes	<u>1,089,900</u>	<u>1,089,900</u>	<u>1,081,836</u>	<u>-8,064</u>
Licenses, Fees, and Permits:				
Franchise Fees	800,000	800,000	749,143	-50,857
Sewer Permit Fee	0	0	0	0
Erosion Control Permit Fee	27,750	27,750	39,274	11,524
Miscellaneous Permits	100	100	950	850
Right of Way Permits	0	0	0	0
Development Fees	75,000	75,000	84,796	9,796
Construction Fees	40,000	40,000	104,241	64,241
Cell Tower Fees	42,600	42,600	41,310	-1,290
Park Reservation Permits	20,000	20,000	16,063	-3,937
SDC-Administration Fees	8,650	8,650	11,130	2,480
Business Licenses	25,000	25,000	30,634	5,634
Animal Control Licenses	10,000	10,000	20,838	10,838
Alarm Permits and Penalties	6,500	6,500	8,095	1,595
Total Licenses, Fees, and Permits	<u>1,055,600</u>	<u>1,055,600</u>	<u>1,106,474</u>	<u>50,874</u>
Intergovernmental:				
Alcohol Tax	150,000	150,000	140,456	-9,544
Cigarette Tax	15,000	15,000	19,367	4,367
State Revenue Sharing	85,000	85,000	103,571	18,571
Park Revenue from NCPRD	225,100	225,100	226,790	1,690
Code Enforcement IGAs	55,000	55,000	54,080	-920
Grants	430,000	430,000	29,591	-400,409
Total Intergovernmental	<u>960,100</u>	<u>960,100</u>	<u>573,855</u>	<u>-386,245</u>
Other Revenue:				
Interest	35,000	35,000	37,423	2,423
Traffic Fines	250,000	250,000	405,128	155,128
Municipal Court	62,000	62,000	89,654	27,654
State Court Assessments	34,600	34,600	30,228	-4,372
Community Events	40,000	40,000	38,854	-1,146
Miscellaneous Revenue	50,000	50,000	47,037	-2,963
Total Other Revenue	<u>471,600</u>	<u>471,600</u>	<u>648,324</u>	<u>176,724</u>
Total Revenues	<u>3,577,200</u>	<u>3,577,200</u>	<u>3,410,489</u>	<u>-166,711</u>

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2011**

<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	\$ 1,512,300	\$ 1,512,300	\$ 1,480,613	\$ 31,687
Employee Benefits	908,340	908,340	802,011	106,329
Total Personal Services	<u>2,420,640</u>	<u>2,420,640</u> (1)	<u>2,282,624</u>	<u>138,016</u>
Materials and Services				
Office Supplies	31,500	31,500	17,508	13,992
Public Works Supplies	31,000	31,000	14,873	16,127
Equipment under \$5,000	22,500	22,500	13,456	9,044
Travel	22,300	22,300	9,213	13,087
Training	14,000	14,000	8,668	5,332
Maps and Printing	1,000	1,000	1,124	-124
Membership and Dues	21,300	21,300	17,395	3,905
Utilities	114,500	114,500	89,015	25,485
Vehicle Operation and Maintenance	45,000	45,000	32,188	12,812
Publication and Subscription	7,700	7,700	10,491	-2,791
Newsletter	50,000	50,000	28,956	21,044
Postage	10,500	10,500	9,508	992
Insurance	60,000	60,000	47,245	12,755
Repairs and Maintenance	133,600	133,600	91,142	42,458
Emergency Supplies	3,500	3,500	1,975	1,525
Miscellaneous Admin.	15,000	15,000	17,666	-2,666
Legal	60,000	60,000	55,377	4,623
Audit	12,500	12,500	10,875	1,625
HR/Recorder Projects	2,000	2,000	0	2,000
Contract Services	226,000	226,000	155,878	70,122
Software	1,000	1,000	0	1,000
Interpreting Services	2,000	2,000	910	1,090
Public Outreach	16,000	16,000	9,403	6,597
Community Events	40,000	40,000	40,139	-139
Total Materials and Services	<u>942,900</u>	<u>942,900</u> (1)	<u>683,005</u>	<u>259,895</u>

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CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2011

GENERAL FUND - BUDGETARY BASIS

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE -NEGATIVE</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	866,884	866,884 (1)	0	866,884
Total Expenditures	4,610,424	4,610,424	2,965,629	1,644,795
Excess of Revenues Over, -Under Expenditures	-1,033,224	-1,033,224	444,860	1,478,084
OTHER FINANCING SOURCES, -USES				
Transfers In	342,900	342,900	342,900	0
Transfers Out To:				
Pension Reserve Fund	-60,000	-60,000	-60,000	0
Reserve for Replacement Fund	-124,676	-124,676	-95,024	29,652
Debt Service Fund	-375,000	-375,000 (1)	-374,413	587
Total Other Financing Sources, -Uses	-216,776	-216,776	-186,537	30,239
Net Change in Fund Balance	-1,250,000	-1,250,000	258,323	1,508,323
Beginning Fund Balance - Budgetary Basis	1,250,000	1,250,000	1,708,335	458,335
Ending Fund Balance - Budgetary Basis	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,966,658</u>	<u>\$ 1,966,658</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, 2011**

<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	\$ 310	\$ -4,690
Gas Tax Revenue	570,000	570,000	602,531	32,531
Miscellaneous Revenue	<u>0</u>	<u>0</u>	<u>5,281</u>	<u>5,281</u>
Total Revenues	<u>575,000</u>	<u>575,000</u>	<u>608,122</u>	<u>33,122</u>
EXPENDITURES				
Personal Services				
Salaries	108,100	108,100	103,433	4,667
Employee Benefits	<u>72,575</u>	<u>72,575</u>	<u>58,619</u>	<u>13,956</u>
Total Personal Services	<u>180,675</u>	<u>180,675</u> (1)	<u>162,052</u>	<u>18,623</u>
Materials and Services				
Office Supplies	500	500	5	495
Equipment under \$5,000	11,000	11,000	2,671	8,329
Travel	500	500	0	500
Training	1,000	1,000	481	519
Membership and Dues	200	200	0	200
Repairs and Maintenance	62,500	62,500	31,989	30,511
Vehicle Expenses	20,000	20,000	16,406	3,594
Contract Services	22,000	22,000	32	21,968
Traffic Control Devices	7,500	7,500	9,819	-2,319
Street Repair Materials	0	0	0	0
Traffic Signs and Striping	<u>40,000</u>	<u>40,000</u>	<u>28,811</u>	<u>11,189</u>
Total Materials and Services	<u>165,200</u>	<u>165,200</u> (1)	<u>90,214</u>	<u>74,986</u>
Capital Outlay				
Street Reconstruction	<u>424,917</u>	<u>424,917</u>	<u>26,345</u>	<u>398,572</u>
Total Capital Outlay	<u>424,917</u>	<u>424,917</u> (1)	<u>26,345</u>	<u>398,572</u>
Total Expenditures	<u>770,792</u>	<u>770,792</u>	<u>278,611</u>	<u>492,181</u>
Excess of Revenues Over, -Under Expenditures	<u>-195,792</u>	<u>-195,792</u>	<u>329,511</u>	<u>525,303</u>
OTHER FINANCING -USES				
Transfers Out To:				
General Fund	-69,208	-69,208	-69,208	0
Reserve for Replacment Fund	<u>-85,000</u>	<u>-85,000</u>	<u>-85,000</u>	<u>0</u>
Total Other Financing Sources -Uses	<u>-154,208</u>	<u>-154,208</u>	<u>-154,208</u>	<u>0</u>
Net Change in Fund Balance	-350,000	-350,000	175,303	525,303
Beginning Fund Balance - Budgetary Basis	<u>350,000</u>	<u>350,000</u>	<u>266,535</u>	<u>-83,465</u>
Ending Fund Balance - Budgetary Basis	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 441,838</u>	<u>\$ 441,838</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, 2011**

	<u>BUILDING FUND</u>			VARIANCE POSITIVE -NEGATIVE
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
REVENUES				
Interest	\$ 3,500	\$ 3,500	\$ 969	\$ -2,531
Permits and Fees	246,448	246,448	419,030	172,582
Construction Excise Tax	9,310	9,310	13,699	4,389
Miscellaneous	<u>0</u>	<u>0</u>	<u>15,101</u>	<u>15,101</u>
Total Revenues	<u>259,258</u>	<u>259,258</u>	<u>448,799</u>	<u>189,541</u>
EXPENDITURES				
Personal Services				
Salaries	292,900	292,900	291,380	1,520
Employee Benefits	<u>149,855</u>	<u>149,855</u>	<u>140,483</u>	<u>9,372</u>
Total Personal Services	<u>442,755</u>	<u>442,755 (1)</u>	<u>431,863</u>	<u>10,892</u>
Materials and Services				
Office Supplies	5,000	5,000	1,323	3,677
Equipment under \$5,000	2,000	2,000	635	1,365
Travel	500	500	53	447
Training	5,000	5,000	4,724	276
Membership and Dues	1,100	1,100	972	128
Utilities	16,800	16,800	5,703	11,097
Vehicle Expenses	4,500	4,500	0	4,500
Publications and Subscriptions	2,100	2,100	1,182	918
Insurance	13,000	13,000	0	13,000
Repairs and Maintenance	6,700	6,700	1,621	5,079
Public Outreach	2,500	2,500	0	2,500
Legal	1,500	1,500	280	1,220
Contract Services	14,300	14,300	752	13,548
Software and Software Contract	<u>1,800</u>	<u>1,800</u>	<u>0</u>	<u>1,800</u>
Total Materials and Services	<u>76,800</u>	<u>76,800 (1)</u>	<u>17,245</u>	<u>59,555</u>
Contingency	<u>243,263</u>	<u>243,263 (1)</u>	<u>0</u>	<u>243,263</u>
Total Expenditures	<u>762,818</u>	<u>762,818</u>	<u>449,108</u>	<u>313,710</u>
Excess of Revenues Over, -Under Expenditures	-503,560	-503,560	-309	-503,251
OTHER FINANCING SOURCES, -USES				
Transfers In:				
Transfers Out To:	0	0	0	0
General Fund	<u>-21,440</u>	<u>-21,440 (1)</u>	<u>-21,440</u>	<u>0</u>
Total Other Financing Sources -Uses	<u>-21,440</u>	<u>-21,440</u>	<u>-21,440</u>	<u>0</u>
Net Change in Fund Balance	-525,000	-525,000	-21,749	-503,251
Beginning Fund Balance	<u>525,000</u>	<u>525,000</u>	<u>626,623</u>	<u>101,623</u>
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 604,874</u>	<u>\$ 604,874</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, 2011

SYSTEM DEVELOPMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 10,000	\$ 10,000	\$ 3,163	\$ -6,837
SDC-Storm Drainage	17,712	17,712	29,579	11,867
Total Revenues	27,712	27,712	32,742	5,030
EXPENDITURES				
Capital Outlay				
SDC Projects-Transportation	165,248	165,248	6,785	158,463
SDC Projects-Storm Drainage	565,104	565,104	22,219	542,885
SDC Projects-Parks	497,360	497,360	152,613	344,747
Total Capital Outlay	1,227,712	1,227,712 (1)	181,617	1,046,095
Total Expenditures	1,227,712	1,227,712	181,617	1,046,095
Net Change in Fund Balance	-1,200,000	-1,200,000	-148,875	1,051,125
Beginning Fund Balance	1,200,000	1,200,000	1,355,701	155,701
Ending Fund Balance	\$ 0	\$ 0	\$ 1,206,826	\$ 1,206,826

(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, 2011**

ROAD IMPROVEMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 10,000	\$ 10,000	\$ 894	\$ -9,106
Privilege Tax	100,000	100,000	99,992	-8
Total Revenues	110,000	110,000	100,886	-9,114
EXPENDITURES				
Materials and Services				
Contract Engineering	10,000	10,000	0	10,000
Total Materials and Services	10,000	10,000 (1)	0	10,000
Capital Outlay				
Bicycle & Ped Pathways	437,019	437,019	30,240	406,779
ODOT Match	200,000	200,000	0	200,000
Total Capital Outlay	637,019	637,019 (1)	30,240	606,779
Total Expenditures	647,019	647,019	30,240	616,779
Excess of Revenues Over, -Under Expenditures	-537,019	-537,019	70,646	607,665
OTHER FINANCING -USES				
Transfers Out To:				
General Fund	-12,981	-12,981	-12,981	0
Total Other Financing Sources -Uses	-12,981	-12,981	-12,981	0
Net Change in Fund Balance	-550,000	-550,000	57,665	607,665
Beginning Fund Balance	550,000	550,000	639,372	89,372
Ending Fund Balance	\$ 0	\$ 0	\$ 697,037	\$ 697,037

(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, 2011

	<u>PUBLIC SAFETY FUND</u>			VARIANCE
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	POSITIVE -NEGATIVE
	<u>BUDGET</u>	<u>BUDGET</u>		<u>-NEGATIVE</u>
REVENUES				
Interest	\$ 40,000	\$ 40,000	\$ 3,403	\$ -36,597
Misc Revenue	0	0	62,442	62,442
Taxes:				
Property Taxes - Current	2,190,100	2,190,100	2,126,616	-63,484
Property Taxes - Delinquent	<u>50,000</u>	<u>50,000</u>	<u>71,425</u>	<u>21,425</u>
Total Revenues	<u>2,280,100</u>	<u>2,280,100</u>	<u>2,263,886</u>	<u>-16,214</u>
EXPENDITURES				
Personal Services				
Salaries	25,700	25,700	18,813	6,887
Employee Benefits	<u>6,400</u>	<u>6,400</u>	<u>5,552</u>	<u>848</u>
Total Personal Services	<u>32,100</u>	<u>32,100</u> (1)	<u>24,365</u>	<u>7,735</u>
Materials and Services				
Office Supplies	3,000	3,000	2,114	886
Equipment under \$5,000	25,000	25,000	24,624	376
Travel	5,000	5,000	4,177	823
Training	10,000	10,000	2,344	7,656
Utilities	15,000	15,000	11,140	3,860
Vehicle Operation and Maintenance	5,000	5,000	1,374	3,626
Repairs and Maintenance	10,000	10,000	7,686	2,314
Emergency Events	5,000	5,000	171	4,829
Public Outreach	20,000	20,000	14,289	5,711
Contract Services	20,000	20,000	13,779	6,221
Contract Police Protection	<u>2,087,305</u>	<u>2,087,305</u>	<u>2,085,137</u>	<u>2,168</u>
Total Materials and Services	<u>2,205,305</u>	<u>2,205,305</u> (1)	<u>2,166,835</u>	<u>38,470</u>
Contingency	<u>1,153,424</u>	<u>1,153,424</u> (1)	<u>0</u>	<u>1,153,424</u>
Total Expenditures	<u>3,390,829</u>	<u>3,390,829</u>	<u>2,191,200</u>	<u>1,199,629</u>
Excess of Revenues Over, -Under Expenditures	<u>-1,110,729</u>	<u>-1,110,729</u>	<u>72,686</u>	<u>1,183,415</u>
OTHER FINANCING -USES				
Transfers Out To:				
General Fund	<u>-239,271</u>	<u>-239,271</u>	<u>-239,271</u>	<u>0</u>
Total Other Financing Sources -Uses	<u>-239,271</u>	<u>-239,271</u>	<u>-239,271</u>	<u>0</u>
Net Change in Fund Balance	-1,350,000	-1,350,000	-166,585	1,183,415
Beginning Fund Balance	<u>1,350,000</u>	<u>1,350,000</u>	<u>1,577,636</u>	<u>227,636</u>
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,411,051</u>	<u>\$ 1,411,051</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, 2011

PENSION RESERVE FUND - BUDGETARY BASIS

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE -NEGATIVE</u>
EXPENDITURES				
Contingency	\$ 60,000	\$ 60,000	\$ 0	\$ 60,000
Total Expenditures	<u>60,000</u>	<u>60,000</u>	<u>0</u>	<u>60,000</u>
Excess of Revenues Over, -Under Expenditures	<u>-60,000</u>	<u>-60,000</u>	<u>0</u>	<u>-60,000</u>
OTHER FINANCING SOURCES				
Transfers In:				
General Fund	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>	<u>0</u>
Total Other Financing Sources -Uses	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>	<u>0</u>
Net Change in Fund Balance	0	0	60,000	60,000
Beginning Fund Balance - Budgetary Basis	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Ending Fund Balance - Budgetary Basis	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 60,000</u>	<u>\$ 60,000</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, 2011

RESERVE FOR REPLACEMENT - BUDGETARY BASIS

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
EXPENDITURES				
Materials and Services				
Equipment under \$5,000	\$ 31,200	\$ 31,200	\$ 1,377	\$ 29,823
Repairs and Maintenance	0	0	12,041	-12,041
Education Benefits	15,000	15,000	2,332	12,668
Total Materials and Services	46,200	46,200 (1)	15,750	30,450
Capital Outlay				
Vehicles	21,000	21,000	21,595	-595
Equipment over \$5,000	100,000	100,000	61,909	38,091
Total Capital Outlay	121,000	121,000 (1)	83,504	37,496
Contingency	417,476	417,476 (1)	0	417,476
Total Expenditures	584,676	584,676	99,254	485,422
OTHER FINANCING SOURCES				
Transfers In				
From General Fund	124,676	124,676	95,024	-29,652
From Street Fund	85,000	85,000	85,000	0
From Building Fund	0	0	0	0
Total Other Financing Sources -Uses	209,676	209,676	180,024	-29,652
Net Change in Fund Balance	-375,000	-375,000	80,770	-515,074
Beginning Fund Balance - Budgetary Basis	375,000	375,000	567,521	192,521
Ending Fund Balance - Budgetary Basis	\$ 0	\$ 0	\$ 648,291	\$ -322,553

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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, 2011

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	\$ 180,000	\$ 180,000	\$ 180,000	\$ 0
Interest Payments	<u>195,000</u>	<u>195,000</u>	<u>194,413</u>	<u>587</u>
Total Debt Services	<u>375,000</u>	<u>375,000</u> (1)	<u>374,413</u>	<u>587</u>
Total Expenditures	<u>375,000</u>	<u>375,000</u>	<u>374,413</u>	<u>587</u>
OTHER FINANCING SOURCES				
Transfers In				
From General Fund	375,000	375,000	374,413	-587
From Building Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources -Uses	<u>375,000</u>	<u>375,000</u>	<u>374,413</u>	<u>-587</u>
Net Change in Fund Balance	0	0	0	0
Beginning Fund Balance - Budgetary Basis	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Ending Fund Balance - Budgetary Basis	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></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, 2011**

TAX YEAR	IMPOSED LEVY OR UNCOL- LECTED AT 7/1/10	DEDUCT DISCOUNTS	ADJUST- MENTS TO ROLLS	ADD INTEREST	CASH COLLEC- TIONS BY COUNTY TREAS- URER	BALANCE UNCOL- LECTED OR UNSEG- REGATED AT 6/30/11
CURRENT:						
2010-2011	\$ 3,379,779	\$ -82,249	\$ -26,283	\$ 1,201	\$ 3,163,897	\$ 108,551
PRIOR YEARS:						
2009-2010	121,483	180	-7,871	3,910	69,943	47,759
2008-2009	52,831	32	-2,311	3,695	29,400	24,847
2007-2008	18,450	-3	-756	2,467	13,626	6,532
2006-2007	5,165	6	-338	813	4,064	1,582
2005-2006 & Prior	2,226	1	-493	-1,572	-1,208	1,370
Total Prior	200,155	216	-11,769	9,313	115,825	82,090
Total	\$ 3,579,934	\$ -82,033	\$ -38,052	\$ 10,514	\$ 3,279,722	\$ 190,641

RECONCILIATION OF REVENUE:

Cash Collections by County Treasurer Above	\$ 3,279,722
Accrual of Receivables:	
June 30, 2010	-17,581
June 30, 2011	17,737
Total Revenue	\$ 3,279,878

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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, 2011 and have issued our report thereon dated December 15, 2011. 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 162-010-0000 through 162-010-0320 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, included the provisions of Oregon Revised Statutes as specified in the Oregon Administrative Rules 162-010-000 through 162-010-320 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 opinions 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.



Merina & Company, LLP
West Linn, Oregon
December 15, 2011