

Annual Financial Report
For the Year Ended June 30, 2013

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2013

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

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CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

CITY OFFICIALS AS OF JUNE 30, 2013

<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

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INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Member 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 the City of Happy, Oregon as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Happy Valley, Oregon's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of City of Happy Valley, Oregon, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 13 to the financial statements, the City adopted the new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Other Information

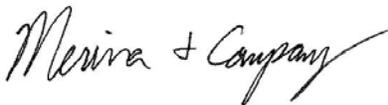
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Happy Valley, Oregon's basic financial statements. The introductory section and other supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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.

Other Reporting Required by Oregon Revised Statutes

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated December 20, 2013, on our consideration of the City of Happy Valley, Oregon's internal control over financial reporting and on tests of its compliance with the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-320. 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.



Merina & Company, LLP
West Linn, Oregon
December 20, 2013

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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, 2013. Please read it in conjunction with the City's financial statements and notes, which follow this section.

Financial Highlights

At June 30, 2013 the City's total net position was \$61,418,930 which was an increase of \$1,409,021 over the previous year. This increase is comparable to the increase of \$1,029,846 in the previous year. This increase was due to a prior period adjustment. The prior period adjustment was associated with the implementation of GASB Statement No. 65 Items Previously Reported as Assets and Liabilities. Implementation of the statement changed our reporting of bond issuance costs, intergovernmental revenues, and certain construction related fees. These amounts were removed from the Statement of Net Position and their cumulative effect shown as a Prior Period Adjustment on the Statement of Activities. Since the revenues and expenses were incurred in prior periods the adjustment was required and resulted in an increase in net position of \$1,487,377.

The General Fund ended the fiscal year with a total fund balance of \$7,477,979. Of that balance, \$524,451 was restricted for prepaid expenses as well as franchise fees. The remaining \$6,953,528 was unrestricted with \$2,645,793 committed and \$4,307,735 unassigned. Committed funds are comprised of general operations reserve to be used to offset the countercyclical nature of revenue and maintain agreed upon service levels, pension reserve to be used to offset higher than expected changes in pension costs, construction related fees, and replacement reserves to be used to purchase items based on an agreed upon replacement schedule. Unassigned fund balance are available for the general operations of the City.

The full faith and credit obligations end of the year balance was \$4,170,000. This decrease of \$195,000 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 position includes all of the City's assets and liabilities. All of the current year 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 position and how it has changed. Net position is the difference between the City's assets and liabilities and are a way to measure the City's financial health. Over time, increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the City, one must consider additional non-financial factors such as the City's tax base, local and statewide economic and legislative climate, as well as other factors.

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, 2013 the City’s assets exceeded its liabilities by \$61,418,930. Cash and Investments represent 17% of total assets. Long lived capital assets including land, buildings, streets, equipment, and vehicles comprise 82% of total assets. The remaining assets include prepaid items, accounts and property tax receivables.

Repayment of full faith and credit obligations issued for construction of the city hall facility equals 75% of the City’s liabilities. Remaining liabilities are payments to vendors, governments, and accrued personnel costs.

City of Happy Valley - Net Position

	Total 2013	Total 2012
Assets:		
Current and Other Assets	\$ 11,943,970	\$ 10,671,851
Bond Issuance Costs		117,259
Capital Assets	55,088,902	56,090,593
Total Assets	67,032,872	66,879,703
Liabilities:		
Current and Other Liabilities	1,619,991	2,668,616
Non-Current Liabilities	3,993,951	4,201,178
Total Liabilities	5,613,942	6,869,794
Net position:		
Net Investment in Capital Assets	50,887,724	51,692,187
Restricted	3,169,038	3,968,439
Unrestricted	7,362,168	4,349,283
Total Net Position	\$ 61,418,930	\$ 60,009,909

The largest part of net position is investment in capital assets less any outstanding debt used to acquire the assets. The City uses capital assets to provide services to citizens but those capital assets are not available for future spending. The resources needed to repay related debt must come from a source other than the capital assets themselves. The City did not issue general obligation debt, which allows for the imposition of a tax for debt repayment, so we must have a revenue source adequate to fund our debt as well as the general operations. Total net position of the City is positive and has increased from the prior fiscal year.

Changes in Net Position

Revenues:	Total 2013	Total 2012
Program Revenues - Charges for Service	\$ 3,008,804	\$ 2,485,010
General Revenues:		
Property Taxes	3,437,933	3,378,350
Other Taxes	803,621	774,660
Intergovernmental	790,718	653,180
Other Revenue	855,677	716,885
Total Revenues	8,896,753	8,008,085
Expenses:		
General Government	7,446,207	5,643,667
Parks	255,454	228,276
Storm Drainage	146,494	233,290
Streets	950,813	688,684
Interest on long term debt	176,141	184,322
Total Expenses	8,975,109	6,978,239
Change in Net position	(78,356)	1,029,846
Beginning Net position	60,009,909	58,980,063
Prior Period Adjustment	1,487,377	
Ending Net position	\$ 61,418,930	\$ 60,009,909

The City's total revenues were \$8,896,753, net position decreased by \$78,356, and there was a prior period adjustment of \$1,487,377. The prior period adjustment was due to implementation of GASB Statement 65 which required a change in the reporting of bond expense and required us to review our methodology for reporting certain intergovernmental revenues and construction related fees. This resulted in an overall increase in net position of \$1,409,021 which is higher than the increase of \$1,029,846 in the previous year.

The City's development and building is cyclical in nature as are the revenues associated with these activities. To offset this, a reserve fund was created with the 2012-13 budget and additional funding appropriated in the 2013-14 budget.

Our street inventory increases as land within the City is developed. City streets account for 75% of all capital assets owned by the City and 83% of the accumulated depreciation. Excluding new development, there are many streets within the City that do not meet acceptable standards. And even though many streets in the City were built within the last 5 to 10 years, some are showing signs of wear. Given the City's low permanent tax rate the General Fund cannot subsidize street maintenance and there is currently no adequate revenue source to improve streets to acceptable standards or prepare for the eventual replacement of streets.

Police services are funded through a local option levy and contracted through Clackamas County. A local option levy passed in November 2010 will continue services through 2015. A committee was convened to determine desired level of service and required amount of funding to prepare for the levy ballot in November 2014.

In an effort to diversify our tax base, the City worked with the Clackamas County Board of Commissioners (BCC) to identify an area of interest for expanding our border. The effort culminated in fall 2013 with BCC approval of an urban growth management agreement.

Financial Analysis of the City’s Funds

Revenues from governmental fund types totaled \$8,893,235 in 2013. Governmental fund balances totaled \$10,450,985 at June 30, 2013. A summary of changes in governmental fund balances follows:

City of Happy Valley - Changes in Governmental Fund Balances

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Prior Period Adj</u>	<u>Change</u>
General Fund	\$ 7,477,979	\$ 4,461,449	1,604,636	\$ 1,411,894
Street Fund	694,963	897,628	-	(202,665)
System Development Fund	778,312	1,034,953	-	(256,641)
Pedestrian Impr Proj Fund	628,618	585,577	-	43,041
Public Safety Fund	871,113	1,144,495	-	(273,382)

The General Fund increase was due to an increase in development, construction, and building as well as higher intergovernmental revenues resulting from agreements with other jurisdictions for services. The Street Fund decrease was due to an increased number of street maintenance projects completed. The revenue collected in the Street Fund is adequate to complete one major resurfacing project per year along with street maintenance per the pavement quality index. The Public Safety Fund decrease is due to the difference between tax revenue collected and service provided. This difference is being evaluated as part of the committee convened to review desired level of service and the required tax level to provide that level of service.

General Fund Budgetary Highlights

Some General Fund revenues were in excess of budget estimates by the following amounts:

<u>Revenue Source</u>	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Building Permits and Fees	\$ 816,500	\$ 1,460,960	\$ 644,460
State Revenue Sharing	306,000	359,869	53,869
Traffic Fines	280,000	418,103	138,103
User Related Fees	139,000	204,762	65,762
Engineering Fees	60,000	121,694	61,694
Miscellaneous Revenue	60,000	264,323	204,323

The General Fund – Budgetary Basis ending fund balance increased \$1,023,369 from the previous year. The increase is due to increased licenses and permits related to the increase in development and building

as well as 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. The prior period adjustment increased the ending fund balance by \$1,604,636 relating to the reclassification of construction related fees and franchise fees.

Capital Assets

At June 30, 2013, the City had \$55,088,902 invested in capital assets net of depreciation expense. This is a decrease of \$1,001,691 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, 2013, the City had outstanding debt of \$4,170,000. 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 City had two significant items affecting the City resolved in the fall of 2013. The City was awarded grant funding to allow for construction of bike lanes and half street improvements along 122/129 Avenue. Without this funding source the upgrade to the road would not have been possible. We also attained approval of our urban growth management agreement from Clackamas County. This ensures our area of annexation around the current borders and gives us the ability to diversify our tax base to include more commercial and industrial properties. This diversification will offset the high percentage of residential properties within the City.

The improvement in the housing market has continued and as a result we have seen increased commercial and residential construction within the City. The increase in building reduces the number of currently developed lots and will require undeveloped areas to be planned and developed. That process will generate planning and engineering fees and ultimately, building permit fees. We believe this development cycle will continue for the next 20 to 25 years.

The 2013-14 budget reflects a conservatively optimistic view. It shows both increased revenues and increased expenditures based on higher service levels due to increased development. The annual budget process and five year projection process help us assess the long term direction of the City. These processes along with the ongoing review of revenues and expenditures ensures we remain sustainable over time. Our review process is ongoing so we can make changes based on the economic outlook as well as 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 Director of Finance and IT at: 16000 SE Misty Drive, Happy Valley, OR 97086, phone number 503-783-3800.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

BASIC FINANCIAL STATEMENTS

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

STATEMENT OF NET POSITION
June 30, 2013

ASSETS:

Cash and Investments	\$ 11,316,665
Prepaid items	22,744
Accounts Receivable	377,662
Property Taxes Receivable	226,899
Capital Assets:	
Land, non-depreciable, and construction in progress	3,435,117
Building, improvements, equipment, and other capital assets (net of accumulated depreciation)	<u>51,653,785</u>
Total Assets	<u>67,032,872</u>

LIABILITIES:

Accounts Payable	418,932
Accrued Payroll Liabilities	121,217
Developer Deposits	187,161
Intergovernmental Payable	555,784
Compensated Absences	129,670
Noncurrent liabilities:	
Bond Related - Due within one year	207,227
Bond Related - noncurrent	<u>3,993,951</u>
Total Liabilities	<u>5,613,942</u>

NET POSITION:

Net Investment in Capital Assets	50,887,724
Restricted	3,169,038
Unrestricted	<u>7,362,168</u>
Total Net Position	<u>\$ 61,418,930</u>

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

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

STATEMENT OF ACTIVITIES
For the year ended June 30, 2013

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities			
General Government	\$ 7,446,207	\$ 2,684,628	\$ (4,761,579)
Parks	255,454	-	(255,454)
Storm Drainage	146,494	214,139	67,645
Streets	950,813	110,037	(840,776)
Interest on long term debt	176,141	-	(176,141)
Total Governmental Activities	\$ 8,975,109	\$ 3,008,804	(5,966,305)
General Revenues			
			3,437,933
			803,621
			790,718
			855,677
		Total General Revenues	5,887,949
		Change in Net Position	(78,356)
		Beginning Net Position	60,009,909
		Prior Period Adjustment	1,487,377
		Ending Net Position	\$ 61,418,930

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

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

**BALANCE SHEET
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013**

	General Fund Generally Accepted Accounting Principles	Street Fund Generally Accepted Accounting Principles	System Development Fund	Pedestrian Improvement Project Fund	Public Safety Fund Generally Accepted Accounting Principles	Total
ASSETS:						
Cash and Investments	\$ 7,876,110	\$ 638,828	\$ 1,322,650	\$ 628,618	\$ 850,459	\$ 11,316,665
Prepaid items	22,744	-	-	-	-	22,744
Accounts Receivable	269,733	97,215	-	-	10,714	377,662
Property Taxes Receivable	74,492	-	-	-	152,407	226,899
Total Assets	\$ 8,243,079	\$ 736,043	\$ 1,322,650	\$ 628,618	\$ 1,013,580	\$ 11,943,970
LIABILITIES:						
Accounts Payable	\$ 401,273	\$ 6,668	\$ 9,591	\$ -	\$ 1,400	\$ 418,932
Accrued Payroll Liabilities	86,805	34,412	-	-	-	121,217
Developer Deposits	187,161	-	-	-	-	187,161
Intergovernmental Payable	21,037	-	534,747	-	-	555,784
Total Liabilities	696,276	41,080	544,338	-	1,400	1,283,094
DEFERRED INFLOWS OF RESOURCES:						
Unavailable revenue - property taxes	68,824	-	-	-	141,067	209,891
FUND BALANCES:						
Fund Balance By Category						
Nonspendable	22,744	-	-	-	-	22,744
Restricted	501,707	381,049	778,312	628,618	856,608	3,146,294
Committed	2,645,793	313,914	-	-	14,505	2,974,212
Unassigned	4,307,735	-	-	-	-	4,307,735
Total Fund Balances	7,477,979	694,963	778,312	628,618	871,113	10,450,985
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 8,243,079	\$ 736,043	\$ 1,322,650	\$ 628,618	\$ 1,013,580	\$ 11,943,970

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

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
For the Year Ended June 30, 2013

Explanation of certain differences between the balance sheet - governmental funds
and the statement of net position.

Total Fund Balances - Governmental Funds	\$ 10,450,985
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	55,088,902
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(129,670)
Long-term liabilities including bonds payable, are not due and payable in the current period and are not reported in the funds. The premium paid when the bonds were issued was expensed in the governmental funds however it is amortized over the life of the bonds.	(4,201,178)
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds.	
Unavailable revenue - property taxes	<u>209,891</u>
Total Net Position	<u><u>\$ 61,418,930</u></u>

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

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013**

	General Fund Generally Accepted Accounting Principles	Street Fund Generally Accepted Accounting Principles	System Development Fund	Pedestrian Improvement Project Fund	Public Safety Generally Accepted Accounting Principles	Total
REVENUES						
Property Taxes	\$ 1,131,299	\$ -	\$ -	\$ -	\$ 2,303,116	\$ 3,434,415
Gas Tax Revenue	-	803,621	-	-	-	803,621
Licenses and Permits	2,684,628	-	-	110,037	-	2,794,665
System Development Charges	-	-	214,139	-	-	214,139
Intergovernmental Revenues	790,718	-	-	-	-	790,718
Other Revenue	764,745	67,856	9,858	6,316	6,902	855,677
	<u>5,371,390</u>	<u>871,477</u>	<u>223,997</u>	<u>116,353</u>	<u>2,310,018</u>	<u>8,893,235</u>
Total Revenues						
EXPENDITURES:						
Personal Services	2,868,529	331,723	-	-	-	3,200,252
Materials & Services	929,407	148,801	-	-	2,367,002	3,445,210
Debt Service	373,369	-	-	-	-	373,369
Capital Outlay	134,461	505,474	480,638	31,584	-	1,152,157
	<u>4,305,766</u>	<u>985,998</u>	<u>480,638</u>	<u>31,584</u>	<u>2,367,002</u>	<u>8,170,988</u>
Total Expenditures						
Excess of Revenues Over, (Under) Expenditures	1,065,624	(114,521)	(256,641)	84,769	(56,984)	722,247
OTHER FINANCING SOURCES, (USES):						
Transfers In	2,556,313	85,000	-	-	11,100	2,652,413
Transfers Out	(2,210,043)	(173,144)	-	(41,728)	(227,498)	(2,652,413)
	<u>346,270</u>	<u>(88,144)</u>	<u>-</u>	<u>(41,728)</u>	<u>(216,398)</u>	<u>-</u>
Total Other Financing Sources, (Uses)						
Net Change in Fund Balance	1,411,894	(202,665)	(256,641)	43,041	(273,382)	722,247
Beginning Fund Balance	4,461,449	897,628	1,034,953	585,577	1,144,495	8,124,102
Prior Period Adjustment	1,604,636	-	-	-	-	1,604,636
	<u>\$ 7,477,979</u>	<u>\$ 694,963</u>	<u>\$ 778,312</u>	<u>\$ 628,618</u>	<u>\$ 871,113</u>	<u>\$ 10,450,985</u>
Ending Fund Balance						

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

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, 2013

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

Net Change in Fund Balances - Governmental Funds	\$	722,247
<p>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 depreciation exceeded capital outlay in the current period.</p>		
Fixed Asset Additions	\$ 680,222	
Depreciation Expense	<u>(1,681,913)</u>	
Net Adjustment		(1,001,691)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated Absences		342
<p>Repayment of long term debt principal is an expenditure in governmental funds. It is not an expense but a reduction of long-term liabilities on the Statement of Net Position. The premium paid when the debt was issued is amortized over the life of the debt on the Statement of Activities.</p>		
Long term debt	195,000	
Amortization of LTD Premium	<u>2,228</u>	
Net Adjustment		197,228
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Unavailable revenue - Property Taxes		<u>3,518</u>
Change in Net Position	\$	<u><u>(78,356)</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 Position and Statements of Activities display information about the reporting government as a whole.

The Statement of Net Position and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows, liabilities, and deferred inflows 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 City'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

In the process of aggregating data for the Statement of Net Position 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 report only the net effect on assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

NET POSITION

GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* reports equity as Net Position rather than Net Assets. The net position balance of \$61,418,930 at June 30, 2013 includes \$50,887,724 invested in capital assets, \$3,169,038 of restricted net position, and \$7,362,168 of unrestricted net position - available for other purposes. Of the \$3,169,038 restricted net position, \$381,049 is restricted by enabling legislation. Restricted Net Position detail includes restricted fund balance and non-spendable fund balance listed in Note 12.

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.

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 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 from the four-year law enforcement levy passed by the voters of Happy Valley in 2010.

Under GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, governmental funds that are supported by transfers from other funds do not meet the definition of a governmental fund for GAAP purposes. In accordance with GASB Statement No. 54 the following funds are combined with the General Fund, Street Fund and Public Safety Fund:

RESERVE FOR PENSION FUND

This fund sets aside funds to be expended in the future to offset the volatility of the City's pension liability. Revenues are derived from transfers from the General Fund.

RESERVE FOR GENERAL OPERATIONS FUND

This fund holds amounts to be expended in the future to offset the cyclical nature of resources used to provide the general operations of the City. Revenues are derived from transfers from the General Fund.

RESERVE FOR REPLACEMENT FUND

This fund accounts for the future purchase of large dollar items, both maintenance and capital, according to the replacement schedule which is reviewed annually. 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 Position. 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 Inflows - Unavailable 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. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information 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 Oregon Local Budget Law. 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 position 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 *Accounting and Financial Reporting for Intangible Assets*. Intangible assets can include water rights, rights of way, and internal software development. 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. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expenditure) until then. The City does not currently have any deferred outflows of resources.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and as such will not be recognized as an inflow of resources (revenue) until that time. The City has one type of deferred inflow which arises under a modified accrual basis of accounting that qualifies for reporting in this category. The item is shown as unavailable revenue and reported in the governmental funds balance sheet as Unavailable Revenue - Property Taxes. This amount will be recognized as an inflow of resources in the period the amount becomes available.

H. LONG-TERM DEBT

In the government-wide financial statements long-term debt is reported as a liability in the Statement of Net Position. Bond premiums 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.

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.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. RETIREMENT PLAN

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

J. VESTED COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned unused compensated absences 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. Unused compensated absence 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 or retirement.

K. 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.

L. PREPAID ITEMS

Certain payments to vendors reflect costs that will benefit periods beyond June 30, 2013 and as such are recorded as prepaid items. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

M. NET POSITION

Net position is classified in the following three categories:

Net investment in capital assets – 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 position – consists of all other assets that are not included in the other two categories.

On the **Balance Sheet – Governmental Funds**, fund balances 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.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. NET POSITION (CONTINUED)

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.

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	664,593
Investments	<u>10,651,237</u>
 Total Cash and Investments	 <u>\$ 11,316,665</u>

DEPOSITS - Deposits with financial institutions include bank demand deposits. The total bank balance per the bank statements is \$740,119. 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, 2013.

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, 2013. There were no known violations of legal or contractual provisions for deposits and investments during the fiscal year.

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

Investment Type	Fair Value	Investment Maturities (in months)		
		Less than 3	3-18	18-59
State Treasurer’s Local Government Investment Pool	\$ 10,651,237	\$ 10,651,237	\$ -	\$ -
Total	<u>\$ 10,651,237</u>	<u>\$ 10,651,237</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, 2013, 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, 2013 are as follows:

	Governmental Activities Capital Assets			
	June 30, 2012	Additions	Disposals	June 30, 2013
Capital Assets, not being depreciated				
Land and Improvements	\$ 3,372,747	\$ 62,370	\$ -	\$ 3,435,117
Totals, capital assets not being depreciated	<u>3,372,747</u>	<u>62,370</u>	<u>-</u>	<u>3,435,117</u>
Capital Assets, being depreciated				
Buildings	10,107,763	-	-	10,107,763
Vehicles	412,236	91,884	-	504,120
Other Equipment	406,974	98,166	-	505,140
Park Improvements	2,419,706	240,880	-	2,660,586
Park Equipment	24,267	21,698	-	45,965
Streets	51,364,469	165,224	-	51,529,693
Totals, capital assets being depreciated	<u>64,735,415</u>	<u>617,852</u>	<u>-</u>	<u>65,353,267</u>
Less: Accumulated Depreciation for:				
Buildings	(751,093)	(208,425)	-	(959,518)
Vehicles	(202,071)	(43,056)	-	(245,127)
Other Equipment	(139,065)	(35,223)	-	(174,288)
Park Improvements	(875,920)	(109,901)	-	(985,821)
Park Equipment	(18,036)	(2,125)	-	(20,161)
Streets	(10,031,384)	(1,283,183)	-	(11,314,567)
Total Accumulated Depreciation	<u>(12,017,569)</u>	<u>(1,681,913)</u>	<u>-</u>	<u>(13,699,482)</u>
Total capital assets, being depreciated, net	<u>52,717,846</u>	<u>(1,064,061)</u>	<u>-</u>	<u>51,653,785</u>
Total Governmental Activities	<u>\$ 56,090,593</u>	<u>\$ (1,001,691)</u>	<u>\$ -</u>	<u>\$ 55,088,902</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	\$ 1,428,409
Parks	47,871
Streets	<u>205,633</u>
Total	<u><u>\$ 1,681,913</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	Principal	Interest	Total
30			
2014	205,000	169,869	374,869
2015	215,000	160,944	375,944
2016	220,000	151,700	371,700
2017	230,000	142,138	372,138
2018	240,000	132,450	372,450
2019	250,000	122,650	372,650
2020	260,000	112,288	372,288
2021	270,000	101,356	371,356
2022	285,000	89,909	374,909
2023	295,000	77,947	372,947
2024	310,000	65,469	375,469
2025	325,000	52,169	377,169
2026	340,000	38,038	378,038
2027	355,000	23,269	378,269
2028	370,000	7,863	377,863
	<u><u>\$ 4,170,000</u></u>	<u><u>\$ 1,448,057</u></u>	<u><u>\$ 5,618,057</u></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, 2013, was as follows:

	<u>06/30/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/13</u>	<u>Due within one Year</u>
Bonds Payable					
Full Faith & Credit Obligation, Series 2007, Interest 4%-4.25%	\$ 4,365,000	\$ -	\$ 195,000	\$ 4,170,000	\$ 205,000
Plus deferred amounts:					
Bond Premium	33,406	-	2,228	31,178	2,228
Total bonds payable	<u>4,398,406</u>	<u>-</u>	<u>197,228</u>	<u>4,201,178</u>	<u>207,228</u>
Compensated Absences	<u>130,012</u>	<u>129,670</u>	<u>130,012</u>	<u>129,670</u>	<u>129,670</u>
Total Long-term liabilities	<u>\$ 4,528,418</u>	<u>\$ 129,670</u>	<u>\$ 327,240</u>	<u>\$ 4,330,848</u>	<u>\$ 336,898</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	\$ 2,556,313	\$ 85,000	\$ 11,100	\$ -	\$ 2,652,413
Transfers Out	<u>(2,210,043)</u>	<u>(173,144)</u>	<u>(227,498)</u>	<u>(41,728)</u>	<u>(2,652,413)</u>
	<u>\$ 346,270</u>	<u>\$ (88,144)</u>	<u>\$ (216,398)</u>	<u>\$ (41,728)</u>	<u>\$ -</u>

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

6. COMPENSATED ABSENCES PAYABLE

At June 30, 2013, the City's liability for compensated absences is estimated at \$129,670.

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, 2013 were \$114,935. 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, 2013, 2012, and 2011 was \$245,631, \$238,305, and \$188,889 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 \$501,707 are currently held as Restricted Fund Balance.

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 Project	Public Safety GAAP	Total
Fund Balances:						
Nonspendable	\$ 22,744	\$ -	\$ -	\$ -	\$ -	\$ 22,744
Restricted						
PEG	501,707	-	-	-	-	501,707
Street Maint	-	381,049	-	-	-	381,049
SDC Projects	-	-	778,312	-	-	778,312
Ped Improvements	-	-	-	628,618	-	628,618
Public Safety	-	-	-	-	856,608	856,608
	<u>501,707</u>	<u>381,049</u>	<u>778,312</u>	<u>628,618</u>	<u>856,608</u>	<u>3,146,294</u>
Committed						
Construction Fees	1,115,272	-	-	-	-	1,115,272
General Ops	1,000,000	-	-	-	-	1,000,000
Replacement	350,521	313,914	-	-	14,505	678,940
Pension	180,000	-	-	-	-	180,000
	<u>2,645,793</u>	<u>313,914</u>	<u>-</u>	<u>-</u>	<u>14,505</u>	<u>2,974,212</u>
Unassigned	<u>4,307,735</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,307,735</u>
Total Fund Balances	<u>\$ 7,477,979</u>	<u>\$ 694,963</u>	<u>\$ 778,312</u>	<u>\$ 628,618</u>	<u>\$ 871,113</u>	<u>\$ 10,450,985</u>

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

13. GASB PRONOUNCEMENTS IMPLEMENTED

The GASB issued Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in June 2011. Implementation is required for statements for periods beginning after December 15, 2011. The purpose of the statement is to standardize the presentation of deferred outflows of resources, deferred inflows of resources, and the effects they have on the City's net position. The City has implemented Statement No. 63 for the period ending June 30, 2013.

During the year ended June 30, 2013 the City also implemented GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. GASB 65 amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets and liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The implementation of GASB 65 resulted in reclassification of the non-current portion of property taxes receivable.

14. SEPARATION INCENTIVE OFFER

The City authorized a separation incentive for Public Works employees over the age of 65. The incentive provided for a split lump sum distribution of two-thirds month salary based on length of service. The incentive was calculated using the following formula: 66 and 2/3% 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 December 31, 2012 or February 1, 2013. 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.

15. PRIOR PERIOD ADJUSTMENT

A prior period adjustment of \$117,259 was made to remove the bond issuance costs from the Statement of Net Position. Under GASB Statement No. 65, bond issuance costs are expensed when incurred and therefore should not be amortized and reported on the Statement of Net Position.

A prior period adjustment of \$1,604,636 was made due to a change in methodology relating to the recognition of revenues for construction fees and PEG fees. Previously, these revenues were being shown as deferred revenues in the liability section of the balance sheet. With the implementation of GASB Statement No. 65 a more in depth review of deferred revenues found these revenues should not be treated as deferred but recognized as revenue when received. The change was made to recognize current period revenues and expenses on the Statement of Activities and the Statement of Revenues, Expenditures and changes in Fund Balances – Governmental Funds. There is also a prior period adjustment on these statements to account for the prior year balances.

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, 2013

<u>GENERAL FUND - BUDGETARY BASIS*</u>				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES:				
Property Taxes	\$ 1,140,000	\$ 1,140,000	\$ 1,131,299	\$ (8,701)
Licenses, Fees, and Permits:				
Franchise Fees	789,000	789,000	768,953	(20,047)
Building Permits and Fees	816,500	816,500	1,460,960	644,460
Planning Fees	95,000	95,000	128,259	33,259
Engineering Fees	60,000	60,000	121,694	61,694
User Related Fees	139,000	139,000	204,762	65,762
Total Licenses, Fees, and Permits	1,899,500	1,899,500	2,684,628	785,128
Intergovernmental:				
State Shared Revenues	306,000	306,000	359,869	53,869
Intergovernmental	379,400	379,400	430,849	51,449
Total Intergovernmental	685,400	685,400	790,718	105,318
Other Revenue:				
Traffic Fines	280,000	280,000	418,103	138,103
Municipal Court	38,000	38,000	82,319	44,319
Miscellaneous Revenue	60,000	60,000	264,323	204,323
Total Other Revenue	378,000	378,000	764,745	386,745
Total Revenues	4,102,900	4,102,900	5,371,390	1,268,490

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

**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, 2013**

<u>GENERAL FUND - BUDGETARY BASIS*</u>				
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
EXPENDITURES:				
Personal Services:				
Salaries	\$ 1,918,100	\$ 1,918,100	\$ 1,909,825	\$ 8,275
Employee Benefits	1,188,370	1,188,370	958,704	229,666
Total Personal Services	<u>3,106,470</u>	<u>3,106,470 (1)</u>	<u>2,868,529</u>	<u>237,941</u>
Materials and Services:				
Supplies	64,100	64,100	47,671	16,429
Professional Development	127,000	127,000	88,414	38,586
Public Accountability	32,000	32,000	16,844	15,156
Utilities	126,200	126,200	96,269	29,931
Vehicle Operation and Maintenance	52,000	52,000	49,440	2,560
Repairs and Maintenance	191,000	191,000	174,536	16,464
Public Outreach	64,000	64,000	58,571	5,429
General Operating	89,000	89,000	84,088	4,912
Legal	90,000	90,000	39,257	50,743
Public Safety Related	42,000	42,000	28,215	13,785
Contract Services	242,000	242,000	142,162	99,838
Total Materials and Services	<u>1,119,300</u>	<u>1,119,300 (1)</u>	<u>825,467</u>	<u>293,833</u>
Contingency	<u>1,215,475</u>	<u>1,215,475 (1)</u>	-	<u>1,215,475</u>
Total Expenditures	<u>5,441,245</u>	<u>5,441,245</u>	<u>3,693,996</u>	<u>1,747,249</u>
Excess of Revenues Over, (Under) Expenditures	(1,338,345)	(1,338,345)	1,677,394	3,015,739
OTHER FINANCING SOURCES, (USES):				
Transfers In	951,145	951,145	951,144	(1)
Transfers Out To:				
Reserve for Pension Fund	(60,000)	(60,000) (1)	(60,000)	-
Reserve for General Operations Fund	(1,000,000)	(1,000,000) (1)	(1,000,000)	-
Reserve for Replacement Fund	(171,800)	(171,800) (1)	(171,800)	-
Debt Service Fund	(381,000)	(381,000) (1)	(373,369)	7,631
Total Other Financing Sources, (Uses)	<u>(661,655)</u>	<u>(661,655)</u>	<u>(654,025)</u>	<u>7,630</u>
Net Change in Fund Balance	(2,000,000)	(2,000,000)	1,023,369	3,023,369
Beginning Fund Balance - Budgetary Basis	2,000,000	2,000,000	3,319,453	1,319,453
Prior Period Adjustment	-	-	1,604,636	1,604,636
Ending Fund Balance - Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,947,458</u>	<u>\$ 5,947,458</u>

(1) Appropriation Level

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

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, 2013

<u>BUILDING DEPT FUND - BUDGETARY BASIS*</u>				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
OTHER FINANCING SOURCES, (USES):				
Transfers Out To:				
General Fund	<u>(604,875)</u>	<u>(604,875) (1)</u>	<u>(604,874)</u>	<u>(1)</u>
Total Other Financing Sources, (Uses)	<u>(604,875)</u>	<u>(604,875)</u>	<u>(604,874)</u>	<u>(1)</u>
Net Change in Fund Balance	(604,875)	(604,875)	(604,874)	(1)
Beginning Fund Balance - Budgetary Basis	<u>604,875</u>	<u>604,875</u>	<u>604,874</u>	<u>(1)</u>
Ending Fund Balance - Budgetary Basis	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (2)</u></u>

(1) Appropriation Level

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

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, 2013

GENERAL OPERATIONS RESERVE FUND - BUDGETARY BASIS*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
OTHER FINANCING SOURCES:				
Transfers In From:				
General Fund	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>
Net Change in Fund Balance	1,000,000	1,000,000	1,000,000	-
Beginning Fund Balance - Budgetary Basis	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending Fund Balance - Budgetary Basis	<u><u>\$ 1,000,000</u></u>	<u><u>\$ 1,000,000</u></u>	<u><u>\$ 1,000,000</u></u>	<u><u>\$ -</u></u>

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

CITY OF HAPPY VALLEY
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2013

PENSION RESERVE FUND - BUDGETARY BASIS*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
EXPENDITURES:				
Contingency	\$ 180,000	\$ 180,000 (1)	\$ -	\$ 180,000
Total Expenditures	<u>180,000</u>	<u>180,000</u>	<u>-</u>	<u>180,000</u>
OTHER FINANCING SOURCES:				
Transfers In From:				
General Fund	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>	<u>-</u>
Net Change in Fund Balance	(120,000)	(120,000)	60,000	180,000
Beginning Fund Balance - Budgetary Basis	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>	<u>-</u>
Ending Fund Balance - Budgetary Basis	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 180,000</u></u>	<u><u>\$ 180,000</u></u>

(1) Appropriation Level

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

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, 2013

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	\$ 186,000	\$ 186,000	\$ 195,000	\$ (9,000)
Interest Payments	<u>195,000</u>	<u>195,000</u>	<u>178,369</u>	<u>16,631</u>
Total Debt Services	<u>381,000</u>	<u>381,000</u> (1)	<u>373,369</u>	<u>7,631</u>
Total Expenditures	<u>381,000</u>	<u>381,000</u>	<u>373,369</u>	<u>7,631</u>
OTHER FINANCING SOURCES:				
Transfers In				
From General Fund	<u>381,000</u>	<u>381,000</u>	<u>373,369</u>	<u>(7,631)</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>

(1) Appropriation Level

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

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, 2013

<u>STREET FUND - BUDGETARY BASIS*</u>				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES:				
Intergovernmental Revenue	\$ 55,350	\$ 55,350	\$ 66,303	\$ 10,953
Gas Tax Revenue	800,000	800,000	803,621	3,621
Miscellaneous Revenue	<u>2,000</u>	<u>2,000</u>	<u>1,553</u>	<u>(447)</u>
Total Revenues	<u>857,350</u>	<u>857,350</u>	<u>871,477</u>	<u>14,127</u>
EXPENDITURES:				
Personal Services				
Salaries	239,900	239,900	211,339	28,561
Employee Benefits	<u>202,360</u>	<u>202,360</u>	<u>120,384</u>	<u>81,976</u>
Total Personal Services	<u>442,260</u>	<u>442,260</u> (1)	<u>331,723</u>	<u>110,537</u>
Materials and Services:				
Supplies	7,000	7,000	6,872	128
Professional Development	5,000	5,000	1,096	3,904
Utilities	10,000	10,000	6,623	3,377
Vehicle Expenses	25,000	25,000	30,312	(5,312)
Repairs and Maintenance	120,000	120,000	86,973	33,027
General Operating	15,000	15,000	15,236	(236)
Contract Services	<u>25,000</u>	<u>25,000</u>	<u>1,689</u>	<u>23,311</u>
Total Materials and Services	<u>207,000</u>	<u>207,000</u> (1)	<u>148,801</u>	<u>58,199</u>
Capital Outlay:				
Street Reconstruction	<u>495,546</u>	<u>495,546</u>	<u>438,705</u>	<u>56,841</u>
Total Capital Outlay	<u>495,546</u>	<u>495,546</u> (1)	<u>438,705</u>	<u>56,841</u>
Total Expenditures	<u>1,144,806</u>	<u>1,144,806</u>	<u>919,229</u>	<u>225,577</u>
Excess of Revenues Over, (Under) Expenditures	<u>(287,456)</u>	<u>(287,456)</u>	<u>(47,752)</u>	<u>239,704</u>
OTHER FINANCING SOURCES, (USES):				
Transfers Out To:				
General Fund	(88,144)	(88,144) (1)	(88,144)	-
Reserve for Replacement Fund	<u>(85,000)</u>	<u>(85,000)</u> (1)	<u>(85,000)</u>	<u>-</u>
Total Other Financing Sources, (Uses)	<u>(173,144)</u>	<u>(173,144)</u>	<u>(173,144)</u>	<u>-</u>
Net Change in Fund Balance	(460,600)	(460,600)	(220,896)	239,704
Beginning Fund Balance - Budgetary Basis	<u>460,600</u>	<u>460,600</u>	<u>601,945</u>	<u>141,345</u>
Ending Fund Balance - Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 381,049</u>	<u>\$ 381,049</u>

(1) Appropriation Level

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

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, 2013

<u>PUBLIC SAFETY FUND - BUDGETARY BASIS*</u>				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES:				
Misc Revenue	\$ 25,000	\$ 25,000	\$ 6,902	\$ (18,098)
Property Taxes - Current	2,300,000	2,300,000	2,303,116	3,116
Total Revenues	<u>2,325,000</u>	<u>2,325,000</u>	<u>2,310,018</u>	<u>(14,982)</u>
EXPENDITURES:				
Materials and Services:				
Office Supplies	5,000	5,000	5,608	(608)
Professional Development	12,000	12,000	4,439	7,561
Utilities	16,000	16,000	14,989	1,011
Vehicle Operation and Maintenance	2,700	2,700	1,451	1,249
Repairs and Maintenance	20,000	20,000	28,062	(8,062)
Public Outreach	15,000	15,000	15,003	(3)
Legal	7,500	7,500	1,600	5,900
Contract Services	18,000	18,000	20,984	(2,984)
Contract Police Protection	2,300,000	2,300,000	2,274,866	25,134
Total Materials and Services	<u>2,396,200</u>	<u>2,396,200 (1)</u>	<u>2,367,002</u>	<u>29,198</u>
Contingency	701,302	701,302 (1)	-	701,302
Total Expenditures	<u>3,097,502</u>	<u>3,097,502</u>	<u>2,367,002</u>	<u>730,500</u>
Excess of Revenues Over, (Under) Expenditures	<u>(772,502)</u>	<u>(772,502)</u>	<u>(56,984)</u>	<u>715,518</u>
OTHER FINANCING (USES):				
Transfers Out To:				
General Fund	(216,398)	(216,398) (1)	(216,398)	-
Reserve for Replacement	(11,100)	(11,100) (1)	(11,100)	-
Total Other Financing Sources, (Uses)	<u>(227,498)</u>	<u>(227,498)</u>	<u>(227,498)</u>	<u>-</u>
Net Change in Fund Balance	(1,000,000)	(1,000,000)	(284,482)	715,518
Beginning Fund Balance - Budgetary Basis	1,000,000	1,000,000	1,141,090	141,090
Ending Fund Balance - Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 856,608</u>	<u>\$ 856,608</u>

(1) Appropriation Level

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

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, 2013

RESERVE FOR REPLACEMENT - BUDGETARY BASIS*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
EXPENDITURES:				
Materials and Services:				
Equipment under \$5,000	\$ 50,000	\$ 50,000	\$ 75,832	\$ (25,832)
Repairs and Maintenance	100,000	100,000	26,778	73,222
Education Benefits	<u>15,000</u>	<u>15,000</u>	<u>1,330</u>	<u>13,670</u>
Total Materials and Services	<u>165,000</u>	<u>165,000</u> (1)	<u>103,940</u>	<u>61,060</u>
Capital Outlay:				
Vehicles	100,000	100,000	25,115	74,885
Equipment over \$5,000	<u>300,000</u>	<u>300,000</u>	<u>176,115</u>	<u>123,885</u>
Total Capital Outlay	<u>400,000</u>	<u>400,000</u> (1)	<u>201,230</u>	<u>198,770</u>
Contingency	<u>328,900</u>	<u>328,900</u> (1)	<u>-</u>	<u>328,900</u>
Total Expenditures	<u>893,900</u>	<u>893,900</u>	<u>305,170</u>	<u>588,730</u>
OTHER FINANCING SOURCES:				
Transfers In From:				
General Fund	171,800	171,800	171,800	-
Street Fund	85,000	85,000	85,000	-
Public Safety Fund	<u>11,100</u>	<u>11,100</u>	<u>11,100</u>	<u>-</u>
Total Other Financing Sources, (Uses)	<u>267,900</u>	<u>267,900</u>	<u>267,900</u>	<u>-</u>
Net Change in Fund Balance	(626,000)	(626,000)	(37,270)	588,730
Beginning Fund Balance - Budgetary Basis	<u>626,000</u>	<u>626,000</u>	<u>716,210</u>	<u>90,210</u>
Ending Fund Balance - Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 678,940</u>	<u>\$ 678,940</u>

(1) Appropriation Level

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

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, 2013

SYSTEM DEVELOPMENT FUND

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES:				
Miscellaneous Revenue	\$ 4,000	\$ 4,000	\$ 9,858	\$ 5,858
SDC-Storm Drainage	24,000	24,000	214,139	190,139
Total Revenues	<u>28,000</u>	<u>28,000</u>	<u>223,997</u>	<u>195,997</u>
EXPENDITURES:				
Capital Outlay:				
SDC Projects-Transportation	146,800	146,800	72,888	73,912
SDC Projects-Storm Drainage	487,900	487,900	146,494	341,406
SDC Projects-Parks	443,300	443,300	261,256	182,044
Total Capital Outlay	<u>1,078,000</u>	<u>1,078,000 (1)</u>	<u>480,638</u>	<u>597,362</u>
Total Expenditures	<u>1,078,000</u>	<u>1,078,000</u>	<u>480,638</u>	<u>597,362</u>
Net Change in Fund Balance	(1,050,000)	(1,050,000)	(256,641)	793,359
Beginning Fund Balance	<u>1,050,000</u>	<u>1,050,000</u>	<u>1,034,953</u>	<u>(15,047)</u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 778,312</u>	<u>\$ 778,312</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, 2013

PEDESTRIAN IMPROVEMENT PROJECTS FUND

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES:				
Miscellaneous Revenue	\$ 2,000	\$ 2,000	\$ 6,316	\$ 4,316
Privilege Tax	<u>105,000</u>	<u>105,000</u>	<u>110,037</u>	<u>5,037</u>
Total Revenues	<u>107,000</u>	<u>107,000</u>	<u>116,353</u>	<u>9,353</u>
EXPENDITURES:				
Materials and Services:				
Contract Engineering	<u>12,000</u>	<u>12,000</u>	<u>-</u>	<u>12,000</u>
Total Materials and Services	<u>12,000</u>	<u>12,000 (1)</u>	<u>-</u>	<u>12,000</u>
Capital Outlay:				
Bicycle & Ped Pathways	<u>483,272</u>	<u>483,272</u>	<u>31,584</u>	<u>451,688</u>
Total Capital Outlay	<u>483,272</u>	<u>483,272 (1)</u>	<u>31,584</u>	<u>451,688</u>
Total Expenditures	<u>495,272</u>	<u>495,272</u>	<u>31,584</u>	<u>463,688</u>
Excess of Revenues Over, (Under) Expenditures	<u>(388,272)</u>	<u>(388,272)</u>	<u>84,769</u>	<u>473,041</u>
OTHER FINANCING SOURCES, (USES):				
Transfers Out To:				
General Fund	<u>(41,728)</u>	<u>(41,728) (1)</u>	<u>(41,728)</u>	<u>-</u>
Net Change in Fund Balance	(430,000)	(430,000)	43,041	473,041
Beginning Fund Balance	<u>430,000</u>	<u>430,000</u>	<u>585,577</u>	<u>155,577</u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 628,618</u>	<u>\$ 628,618</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**

**COMBINING BALANCE SHEET
GENERAL FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
For the Year Ended June 30, 2013**

	General Fund Budgetary Basis	General Ops Reserve Fund Budgetary Basis	Pension Reserve Fund Budgetary Basis	Reserve For Replacement Budgetary Basis*	General Fund Generally Accepted Accounting Principles
ASSETS:					
Cash and Investments	\$ 6,334,304	\$ 1,000,000	\$ 180,000	\$ 361,806	\$ 7,876,110
Prepaid items	22,744	-	-	-	22,744
Accounts Receivable	269,733	-	-	-	269,733
Property Taxes Receivable	74,492	-	-	-	74,492
Total Assets	\$ 6,701,273	\$ 1,000,000	\$ 180,000	\$ 361,806	\$ 8,243,079
LIABILITIES:					
Accounts Payable	\$ 389,988	\$ -	\$ -	\$ 11,285	\$ 401,273
Payroll and Taxes Payable	86,805	-	-	-	86,805
Development Deposits	187,161	-	-	-	187,161
Due to Other Governments	21,037	-	-	-	21,037
Total Liabilities	684,991	-	-	11,285	696,276
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenue - Property Taxes	68,824	-	-	-	68,824
FUND BALANCES:					
Fund Balance By Category					
Nonspendable	22,744	-	-	-	22,744
Restricted	501,707	-	-	-	501,707
Committed	1,115,272	1,000,000	180,000	350,521	2,645,793
Unassigned	4,307,735	-	-	-	4,307,735
Total Fund Balances	5,947,458	1,000,000	180,000	350,521	7,477,979
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 6,701,273	\$ 1,000,000	\$ 180,000	\$ 361,806	\$ 8,243,079

* 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
For the Year Ended June 30, 2013

	Street Fund Budgetary Basis	Reserve For Replacement Budgetary Basis*	Street Fund Generally Accepted Accounting Principles
ASSETS:			
Cash and Investments	\$ 324,914	\$ 313,914	\$ 638,828
Accounts Receivable	97,215	-	97,215
Total Assets	<u>\$ 422,129</u>	<u>\$ 313,914</u>	<u>\$ 736,043</u>
LIABILITIES:			
Accounts Payable	\$ 6,668	\$ -	\$ 6,668
Accrued Payroll	34,412	-	34,412
Total Liabilities	<u>41,080</u>	<u>-</u>	<u>41,080</u>
FUND BALANCES:			
Fund Balance By Category			
Restricted	381,049	-	381,049
Committed	-	313,914	313,914
Total Fund Balances	<u>381,049</u>	<u>313,914</u>	<u>694,963</u>
Total Liabilities and Fund Balances	<u>\$ 422,129</u>	<u>\$ 313,914</u>	<u>\$ 736,043</u>

* 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
For the Year Ended June 30, 2013**

	Public Safety Fund Budgetary Basis	Reserve For Replacement Budgetary Basis*	Public Safety Fund Generally Accepted Accounting Principles
ASSETS:			
Cash and Investments	\$ 835,954	\$ 14,505	\$ 850,459
Accounts Receivable	10,714	-	10,714
Property Taxes Receivable	152,407	-	152,407
Total Assets	\$ 999,075	\$ 14,505	\$ 1,013,580
LIABILITIES:			
Accounts Payable	\$ 1,400	-	\$ 1,400
Total Liabilities	1,400	-	1,400
DEFERRED INFLOWS OF RESOURCES:			
Unavailable Revenue - Property Taxes	141,067	-	141,067
FUND BALANCES:			
Fund Balance By Category			
Restricted	856,608	-	856,608
Committed	-	14,505	14,505
Total Fund Balances	856,608	14,505	871,113
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 999,075	\$ 14,505	\$ 1,013,580

* 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, 2013**

	General Fund Budgetary Basis	Building Dept Fund Budgetary Basis	Gen Ops Reserve 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	\$ 1,131,299	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,131,299
Licenses & Permits	2,684,628	-	-	-	-	-	2,684,628
Intergovernmental	790,718	-	-	-	-	-	790,718
Other Revenue	764,745	-	-	-	-	-	764,745
Total Revenues	5,371,390	-	-	-	-	-	5,371,390
EXPENDITURES:							
Personal Services	2,868,529	-	-	-	-	-	2,868,529
Materials & Services	825,467	-	-	-	103,940	-	929,407
Debt Service	-	-	-	-	-	373,369	373,369
Capital Outlay	-	-	-	-	134,461	-	134,461
Total Expenditures	3,693,996	-	-	-	238,401	373,369	4,305,766
Excess of Revenues Over, (Under) Expenditures	1,677,394	-	-	-	(238,401)	(373,369)	1,065,624
OTHER FINANCING SOURCES, (USES):							
Transfers In	951,144	-	1,000,000	60,000	171,800	373,369	2,556,313
Transfers Out	(1,605,169)	(604,874)	-	-	-	-	(2,210,043)
Total Other Financing Sources, (Uses)	(654,025)	(604,874)	1,000,000	60,000	171,800	373,369	346,270
Net Change in Fund Balance	1,023,369	(604,874)	1,000,000	60,000	(66,601)	-	1,411,894
Beginning Fund Balance	3,319,453	604,874	-	120,000	417,122	-	4,461,449
Prior Period Adjustment	1,604,636	-	-	-	-	-	1,604,636
Ending Fund Balance	\$ 5,947,458	\$ -	\$ 1,000,000	\$ 180,000	\$ 350,521	\$ -	\$ 7,477,979

* 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, 2013

	Street Fund Budgetary Basis	Reserve for Replacement Budgetary Basis*	Street Fund Generally Accepted Accounting Principles
REVENUES:			
Gas Tax Revenue	\$ 803,621	\$ -	\$ 803,621
Other Revenue	67,856	-	67,856
Total Revenues	<u>871,477</u>	<u>-</u>	<u>871,477</u>
EXPENDITURES:			
Personal Services	331,723	-	331,723
Materials & Services	148,801	-	148,801
Capital Outlay	438,705	66,769	505,474
Total Expenditures	<u>919,229</u>	<u>66,769</u>	<u>985,998</u>
Excess of Revenues Over, (Under) Expenditures	(47,752)	(66,769)	(114,521)
OTHER FINANCING SOURCES, (USES):			
Transfers In	-	85,000	85,000
Transfers Out	(173,144)	-	(173,144)
Total Other Financing Sources, (Uses)	<u>(173,144)</u>	<u>85,000</u>	<u>(88,144)</u>
Net Change in Fund Balance	(220,896)	18,231	(202,665)
Beginning Fund Balance	<u>601,945</u>	<u>295,683</u>	<u>897,628</u>
Ending Fund Balance	<u><u>\$ 381,049</u></u>	<u><u>\$ 313,914</u></u>	<u><u>\$ 694,963</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, 2013

	Public Safety Fund Budgetary Basis	Reserve for Replacement Budgetary Basis*	Public Safety Fund Generally Accepted Accounting Principles
REVENUES:			
Property Taxes	\$ 2,303,116	\$ -	\$ 2,303,116
Other Revenue	6,902	-	6,902
Total Revenues	<u>2,310,018</u>	<u>-</u>	<u>2,310,018</u>
EXPENDITURES:			
Materials & Services	2,367,002	-	2,367,002
Total Expenditures	<u>2,367,002</u>	<u>-</u>	<u>2,367,002</u>
Excess of Revenues Over, (Under) Expenditures	(56,984)	-	(56,984)
OTHER FINANCING SOURCES, (USES):			
Transfers In	-	11,100	11,100
Transfers Out	(227,498)	-	(227,498)
Total Other Financing Sources, (Uses)	<u>(227,498)</u>	<u>11,100</u>	<u>(216,398)</u>
Net Change in Fund Balance	(284,482)	11,100	(273,382)
Beginning Fund Balance	<u>1,141,090</u>	<u>3,405</u>	<u>1,144,495</u>
Ending Fund Balance	<u>\$ 856,608</u>	<u>\$ 14,505</u>	<u>\$ 871,113</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, 2013**

Tax Year	Imposed Levy or Uncollected At 7/1/12	Deduct Discounts	Adjustments To Rolls	Add Interest	Cash Collections	Uncollected at 6/30/13
CURRENT:						
2012-2013	\$ 3,532,604	\$ (88,260)	\$ (9,875)	\$ 1,194	\$ 3,331,232	\$ 104,431
PRIOR YEARS:						
2011-2012	113,017	98	(4,336)	3,034	53,620	58,193
2010-2011	57,559	56	(3,013)	2,830	20,299	37,133
2009-2010	34,402	4	(449)	3,633	16,892	20,698
2008-2009	11,222	3	(215)	1,772	9,150	3,632
2007-2008 & Prior	6,806	1	(252)	(896)	2,847	2,812
Total Prior	223,006	162	(8,265)	10,373	102,808	122,468
Total	<u>\$ 3,755,610</u>	<u>\$ (88,098)</u>	<u>\$ (18,140)</u>	<u>\$ 11,567</u>	<u>\$ 3,434,040</u>	<u>\$ 226,899</u>

RECONCILIATION OF REVENUE:

Cash Collections by County Treasurer Above	\$ 3,434,040
Accrual of Receivables:	
June 30, 2012	(16,633)
June 30, 2013	17,008
Total Revenue	<u>\$ 3,434,415</u>

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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 the governmental activities and each major fund of City of Happy Valley, Oregon, as of and for the year ended June 30, 2013 and have issued our report thereon dated December 20, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

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*.

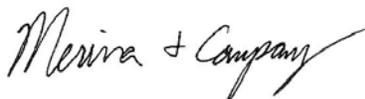
OAR 162-10-0230 Internal Control

Management of City of Happy Valley, Oregon is responsible for establishing and maintaining effective internal control over financial reporting. 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as communicated in a separate letter to management dated December 20, 2013, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

This report is intended solely for the information and use of the 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 20, 2013