



# Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2017



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

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Prepared by

Finance Department  
City of Happy Valley, Oregon

Available online at  
[www.happyvalleyor.gov](http://www.happyvalleyor.gov)

CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

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## **INTRODUCTORY SECTION**



December 4, 2017

To the Mayor, City Council and  
Citizens of the City of Happy Valley:

State law requires that every general purpose local government publish, within six months of the close of each fiscal year, a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2017. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Merina & Company, LLP, Certified Public Accountants, have issued an unqualified (“clean”) opinion on the City’s financial statements for the year ended June 30, 2017. The independent auditor’s report is located at the front of the financial section of this report.

Management’s discussion and analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

### **Profile of the government**

Happy Valley is a community where citizens, civic organizations, businesses and city government work together to ensure that the community retains a hometown identity, high quality of life and natural resources and beauty. It currently occupies 11.56 square miles and serves a population of 19,985. The City is authorized to levy a property tax on real property located within its boundaries. It also is allowed by state statute to extend its city limits by annexation, which it has done from time to time.

The City is a municipality that operates under a council/manager form of government. The elected City Council consists of a Mayor and four Councilors who act as the board of directors. The Council sets policies for city government, enacts ordinances and hires, directs and evaluates the City Manager. In turn, the City Manager is the City’s chief executive officer, responsible for overall management and administration. The Council is required to adopt a formal budget for the fiscal year no later than June 30 preceding the beginning of the fiscal year on July 1. This annual budget serves as the foundation for the City’s financial planning and control.

Municipal services are provided by City employees under direction of the City Manager. The City operates its own municipal court, street operations, planning, engineering, fleet management, and park, and contracts with Clackamas County to provide City police services.

Clackamas Fire District provides fire and emergency services to the community. Water, sewer, and storm water management are provided by a variety of service providers who operate within the City. The City lies within Clackamas County, which is headed by a board of commissioners and based in Oregon City. The City is also part of Metro, the tri-county urban services district based in Portland.

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Telephone: (503) 783-3800 Fax: (503) 658-5174  
happyvalleyor.gov

## **Local economy**

The City's economy is linked with that of the entire Portland Metropolitan area, but is more insulated from economic downturns because of the high education and skill level of its population. Per capita income is the highest of any city in the state of Oregon.

The City is primarily a residential community with a low ratio of heavy industry and retail based commercial activity. The largest employers are Fred Meyer, New Seasons Market and Camp Withycombe military base.

Median household incomes within the City are significantly higher than for the state as a whole. According to the year 2010 census, the City's median family income was \$103,633, the county's was \$64,352, while the state's was \$46,560.

## **Long-term financial planning**

Long-term financial planning is performed on an ongoing basis. The controlling document is the City's five-year financial projection which includes reserves by fund that fall within policy guidelines set by Council and reviewed by the Citizen's Budget Committee as part of the annual budget process.

In regard to the City's long-term debt obligations, the City completely paid off the balance of the Full Faith and Credit Obligation bonds during the fiscal year. Beginning in the 2012-13 fiscal year and continuing through the 2016-17 fiscal year the City transferred enough to the Debt Service Fund for the early repayment of bonds. This will save the City close to \$900k in future interest payments.

Unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) in the General Fund at year end was \$8,706,229. This amount includes reserve and Pedestrian Improvement Projects Fund amounts as they are rolled into the General Fund in accordance with Generally Accepted Accounting Principles. The General Operation, Reserve for Replacement, Debt Service Funds, and Pedestrian Improvement Projects Fund are financed per Council policies. The City's current expenditure levels are tied to development activity which is volatile by nature. The Council requires a certain level of service irrespective of the economic or development climate. It is therefore necessary to have a reserve amount high enough to ensure service quality in the event of an economic downturn. The \$2,198,974 General Operations reserve balance equates to approximately 4 months of expenditures in the General Fund. The Reserve for Replacement Fund ending fund balance of \$4,447,984 is reserved for the purchase and replacement of major assets and facility maintenance expenditures. This allows for a more consistent picture of operating costs in funds as they do not have large fluctuations caused by capital expenditures year to year.

## **City's Credit Ratings**

On November 22, 2017, Moody's Investors Service rated the City 'Aa2' which is stronger than the median rating of Aa3 for US Cities. The notable credit factors include robust financial position, a healthy tax base with affluent income and wealth levels, an extremely small debt burden and a moderate pension liability.

## Major Initiatives

### Growing Community

Following the disincorporation of the City of Damascus, Happy Valley has annexed over 1,000 acres. This is an unprecedented expansion of our city limits. Most impressive, the annexations have all been property owner initiated. In addition to the City's geographic growth, more development continues in the heart of our community. While single-family home permits have decreased in the past year, significant subdivisions have been approved through the land use process and will soon provide more lots available for future homes. New commercial development is also continuing at record pace. Several retail and mixed-use developments are underway along Sunnyside Road and in the Happy Valley Town Center. Clearly, Happy Valley continues to be a desired location for businesses and families to locate. This was evidenced by the 2017 NW Natural Street of Dreams event we hosted this last summer.

### Parks District Withdrawal

In June, the City Council passed an ordinance to withdraw Happy Valley from the North Clackamas Parks and Recreation District (NCPRD). This was a big decision made after several years of conversations aimed at improving the park and recreation services provided to Happy Valley residents. Unfortunately, amicable negotiations regarding the division of assets were not successful. On Monday, October 9<sup>th</sup>, 2017, the City of Happy Valley officially filed a complaint in Circuit Court against Clackamas County and NCPRD. The lawsuit seeks to divide the assets in a matter that is fair given the contributions Happy Valley has made to the district. Making the decision to withdraw was a significant milestone, but much work is ahead.

### Parks and Recreation Master Plan

Immediately following the decision to withdraw from NCPRD, the City embarked on updating its Parks and Recreation Master Plan. This involved considerable amounts of public engagement and a review of the existing parks system. After providing input throughout the process, the Parks Advisory Committee recommended approval of the master plan. I am pleased that the City Council will have a finalized master plan for consideration in December.

### Community Pride and Engagement

As impressive as these major initiatives are, Happy Valley wouldn't be the same close-knit community without family-friendly events. The concert series in the park and the one next to the Library continue to grow in popularity. Our 4<sup>th</sup> of July, National Night Out, Harvest Festival, Tree Lighting Ceremony, and other events continue to draw new families. The Happy Valley Library also continues to be an active place with more children and adults signing up for the summer reading program than any other library in Clackamas County.

## Awards and Acknowledgements

**Comprehensive Annual Financial Reporting Award.** The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2016. This was the second year that the City has achieved this prestigious award. To be awarded a *Certificate of Achievement*, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

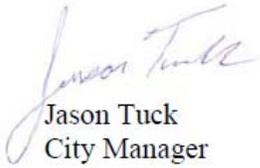
**Distinguished Budget Presentation Award.** The GFOA presented a *Distinguished Budget Presentation Award* to the City for its annual budget for the year beginning July 1, 2016. In order to receive this award, a government unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communication device.

This award is valid for a period of one year only. We believe that our current budget continues to conform to program requirements, and have submitted it to the GFOA to determine its eligibility for another award.

### Acknowledgements

The preparation of this Comprehensive Annual Financial Report was a combined effort of the dedicated Finance staff. We wish to express our appreciation to everyone who contributed to the preparation of this report. Credit is also given to the Mayor, and Councilors for their unfailing support in maintaining the highest standard of professionalism in the management of the City's finances.

Respectfully submitted,



Jason Tuck  
City Manager



Barbara Muller  
Director of Finance



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**City of Happy Valley  
Oregon**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2016**

Executive Director/CEO

# City of Happy Valley Organization Chart

## Population 19,985

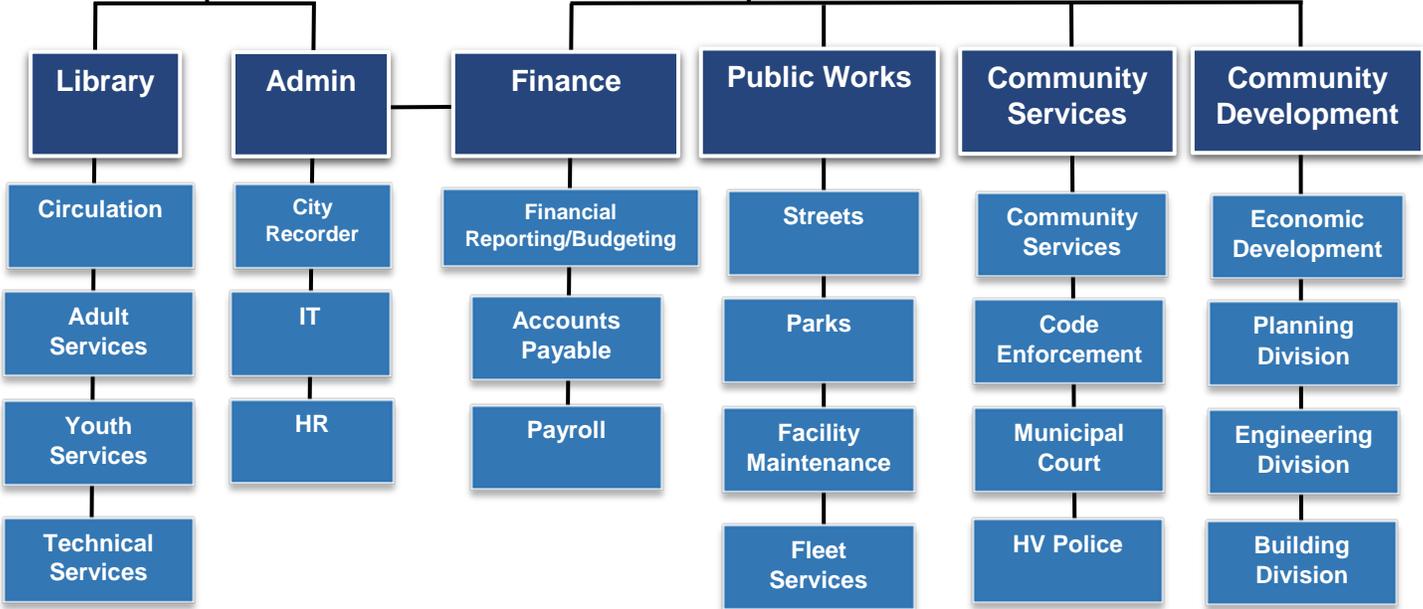
**Citizens of Happy Valley**



**Mayor and Council**

**City Attorney**      **City Manager**      **Municipal Judge**

**Assistant City Manager**



CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

CITY OFFICIALS AS OF JUNE 30, 2017

<u>NAME</u>	<u>TERM EXPIRES</u>
Lori DeRemer – Mayor	December 31, 2018
Tom Ellis – Council President	December 31, 2020
Markley Drake	December 31, 2018
Brett Sherman	December 31, 2018
David Golobay	December 31, 2020

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  
[www.happyvalleyor.gov](http://www.happyvalleyor.gov)

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## **FINANCIAL SECTION**

## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Happy Valley, Oregon, as of and for the year ended June 30, 2017, 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**

The City of Happy Valley, Oregon's 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 respective financial position of the governmental activities and each major fund of the City of Happy Valley, Oregon, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis and schedules of revenue, expenditures and changes in fund balance – actual and budget, as listed in the table of contents under required supplementary information, 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, schedule of the proportionate share of the net pension liability, and schedule of contributions, as listed in the table of contents under required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The schedules of revenue, expenditures and changes in fund balance – actual and budget, as listed in the table of contents under required supplementary information, are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic 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, this 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, other supplementary information, and statistical section 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 relates directly to the underlying accounting and other records used to prepare the basic 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 and statistical sections have 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 them.

### **Reports on Other Legal and Regulatory Requirements**

#### **Other Reporting Required by Oregon Minimum Standards**

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated December 4, 2017, on our consideration of the City of Happy Valley, Oregon's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon

Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

A handwritten signature in black ink, appearing to read "Jorge Noff". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

For Merina & Company, LLP  
West Linn, Oregon  
December 4, 2017

**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, 2017. Please read it in conjunction with the City's financial statements and notes, which follow this section.

**Financial Highlights**

At June 30, 2017 the City's total net position was \$74,113,862 which was an increase of \$4,684,741 over the previous year. The prior year saw net position increase \$6,598,694 of which over \$6 million was attributable to the addition of the Library Fund and associated assets. The addition of the Library assets combined with sustained development activity offset what would have been a decrease in net position based on the prior year net pension liability calculated under GASB Statement No. 68 guidelines. The current year increase is primarily attributable to the \$3.1 million addition of streets to the capital assets which were paid for by developers.

The General Fund ended the fiscal year with a total fund balance of \$9,778,206. Of that balance, \$1,071,977 was either non-spendable or restricted for prepaid expenses and PEG fees. The remaining \$8,706,229 was unrestricted with \$3,688,533 committed and \$5,017,696 unassigned. Committed funds are comprised of general operations reserve to be used to offset the cyclical nature of revenue and maintain agreed upon service levels, dollars set aside for pedestrian improvement projects, and replacement reserves for the purchase of items based on an agreed upon replacement schedule. Unassigned funds are available for general operations.

The funds that were saved up in the Debt Service Fund were used to make a payment of \$3,636,299 to pay off the remaining principal balance and accrued interest of the Full Faith and Credit Obligation Bonds used for the Construction of the City Hall Building. This early payoff of debt saved the City approximately \$900,000 in interest payments.

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

The basic financial statements are followed by the *required supplementary information* and *other supplementary information* which 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 content of each of the statements.

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

**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 City assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All 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 changed from the previous fiscal year. Net position is the difference between the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources and are a way to measure the City's financial health. Over time, increases or decreases in the City's total net position can be indicators as to 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, library, streets, and parks. Property taxes, licenses, permits, 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. Thus, governmental fund statements provide a detailed short-term view to determine whether there are greater 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 other supplementary information to demonstrate compliance with the budget.

**Financial Analysis of the City**

For the year ended June 30, 2017 the City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$74,113,862. Cash and Investments represent 25% of total assets. Long lived capital assets including land, buildings, streets, equipment, and vehicles comprise 74% of total assets. The remaining assets include prepaid items, accounts and property tax receivables.

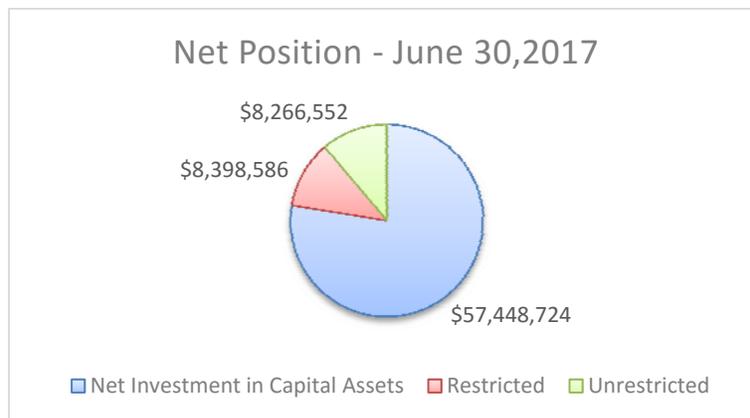
The actuarially determined Net Pension Liability represents 75% of total liabilities. Remaining liabilities are payments to vendors, governments, and accrued personnel costs.

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

**Table 1 – Net Position as of June 30<sup>th</sup>**

	Total 2017	Total 2016
<b>Assets</b>		
Current and Other Assets	\$ 20,089,838	\$ 21,169,164
Capital Assets	<u>57,448,724</u>	<u>55,734,088</u>
Total Assets	<u>77,538,562</u>	<u>76,903,252</u>
Deferred Outflows of Resources	<u>2,665,737</u>	<u>583,208</u>
<b>Liabilities</b>		
Current and Other Liabilities	6,054,535	4,334,061
Non-Current Liabilities	<u>-</u>	<u>3,322,270</u>
Total Liabilities	<u>6,054,535</u>	<u>7,656,331</u>
Deferred Inflows of Resources	<u>35,902</u>	<u>401,008</u>
<b>Net Position</b>		
Net Investment in Capital Assets	57,448,724	52,179,591
Net Position - Restricted	8,398,586	7,554,021
Net Position - Unrestricted	<u>8,266,552</u>	<u>9,695,509</u>
Total Net Position	<u>\$ 74,113,862</u>	<u>\$ 69,429,121</u>

The largest part of net position is the 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. However, there is no related debt as the City paid off the remaining debt on the City Hall Building. Those bonds were the City's only long-term debt. Total net position of the City is positive and has increased from the prior fiscal year.



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

**Table 2 - Changes in Net Position**

	Total 2017	Total 2016
<b>Revenues:</b>		
Program Revenues- Charges for Services	\$ 4,096,467	\$ 4,257,868
General Revenues		
Property Taxes	4,922,420	4,531,874
Gas Tax	1,090,431	1,010,589
ROW Fees	1,572,402	1,090,301
Intergovernmental	1,052,558	845,854
Library District	2,520,489	2,382,949
Other Revenue	4,133,063	4,315,873
Special Item	-	2,925,104
Total Revenues	19,387,830	21,360,412
<b>Expenses:</b>		
General Government	6,568,236	6,589,158
Cultural and Recreation	2,381,909	2,450,253
Public Safety	3,513,955	3,317,382
Highways and Streets	2,132,690	2,253,225
Interest on long term debt	106,299	151,700
Total Expenses	14,703,089	14,761,718
Change in Net Position	4,684,741	6,598,694
Net Position - Beginning	69,429,121	62,830,427
Net Position - Ending	\$ 74,113,862	\$ 69,429,121

The City's total revenues decreased \$1,972,582 to \$19,387,830 over the previous year revenue. However, included in last year's revenue was a one-time Library District payment of nearly \$3 million. Total revenues excluding that payment increased \$952,522. Most of this increase was the result of the new right of way fee revenue which replaced the City's franchise fee. Additionally, property tax revenue increased 9% and the development revenue stayed strong due to sustained growth and continued development activity.

Expenditures decreased slightly over the prior year due to nearly a \$1 million decrease in expenditures related to the Net Pension Liability. Aside from that decrease, expenditures saw steady increases. Net position increased by \$4,684,741 compared to the prior year's increase of \$6,598,694.

Development is cyclical in nature as are the associated revenues. To offset this ebb and flow of resources, the City created a reserve fund with the 2012-13 budget. Additional amounts were transferred to the fund in subsequent budgets. As of June 30, 2017, the General Operations Reserve fund had a fund balance of \$2,198,974.

Streets account for 79% of all city owned capital assets and 73% of depreciation expense. Excluding most new development, many streets within the City do not meet acceptable standards. And although many streets were built within the last 7-10 years, some are already beginning to show signs of wear. Given our low permanent tax rate, the General Fund cannot afford to subsidize street maintenance without sacrificing other operations. The City currently has no adequate revenue source to maintain the inventory

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

of streets, improve streets to acceptable standards, or reserve funds for the inevitable replacement of streets. In 2017, House Bill 2017 was passed and is set to increase the City's revenue for streets which will improve our street maintenance funding shortfall.

City police services are funded through a local option levy and are currently contracted through Clackamas County. A five-year levy was renewed by the voters at a rate of \$1.38 per thousand in May 2015. This rate will provide adequate revenue to support our current service level.

**Financial Analysis of the City's Funds**

Revenues from governmental fund types totaled \$16,246,707 in 2017. Governmental fund balances totaled \$18,520,037 at June 30, 2017. The following is a summary of changes in governmental fund balances:

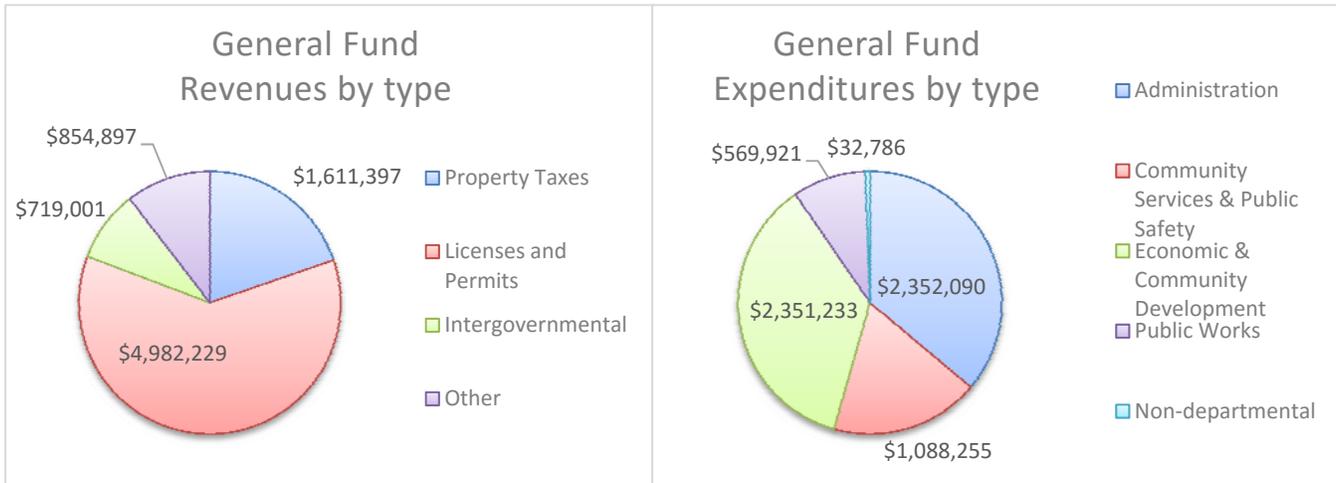
**City of Happy Valley - Changes in Governmental Fund Balances**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Change</u>
General Fund	\$ 9,778,206	\$ 11,559,836	\$ (1,781,630)
Library Fund	3,897,212	3,405,035	492,177
Parks Fund	-	-	-
Street Fund	2,742,264	1,968,175	774,089
System Development Fund	925,741	835,458	90,283
Public Safety Fund	1,176,614	978,492	198,122

The General Fund decrease was due to the debt service payment of \$3.6 million to pay off the City Hall building debt. Without the debt payoff, the General Fund balance would have increased around \$1.5 million. The combination of building, planning and engineering fees surpassed \$3 million for the second year in a row. In addition to extensive development revenue, other General Fund revenues including property taxes increased 7%. The Library Fund balance increased \$492,117 to \$3,405,035 and saw an increase in both revenues and expenditures of 7%. The Library Fund transferred \$2.2 million to the Library Reserve for Replacement Fund to save up for replacement of capital assets. The Parks Fund balance ended the year at zero as it needed a transfer from the General Fund to cover the operating deficit. The Street Fund balance increased \$774,089 as the City did not have a major street project completed during the year. Over half of the Street Fund balance is Committed to fee in lieu of projects set aside. Annual revenue collected in the Street Fund is enough to complete one major resurfacing project and complete a portion of the maintenance based on the pavement quality index. The SDC Fund balance slightly increased as there were no major Storm Drainage SDC projects during the year. The Public Safety Fund increase was the result of higher property tax collections based on increases in assessed values due to annexations and development activity.

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

**General Fund Budgetary Highlights**



The General Fund – Budgetary Basis ending fund balance increased \$962,915 from the previous year. There was a transfer out of \$985,026 to the Debt Service Fund as well as transfers to fund the other reserves. As seen in the chart below General Fund revenues outpaced budget estimates in most categories. Development fees increased consistent with the growth trend we have experienced over the last several years. A new right of way fee was implemented during the fiscal year which replaces the previous franchise fees which increased that revenue source by 39%.

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

<b>Revenue Source</b>	<b>Budget</b>	<b>Actual</b>	<b>Difference</b>
Property Taxes	\$ 1,547,900	\$ 1,611,397	\$ 63,497
ROW Use Fees	1,240,000	1,572,402	332,402
Building Permits and Fees	1,700,000	1,735,331	35,331
Planning Fees	350,000	687,469	337,469
Engineering Fees	400,000	671,389	271,389
State Shared Revenues	450,000	500,284	50,284
Intergovernmental	122,550	218,717	96,167
Traffic Fines	465,000	513,119	48,119
User Related Fees	220,000	315,638	95,638
Miscellaneous Revenue	155,000	285,388	130,388

General Fund expenditures were less than appropriated amounts for each appropriation category. Each department expended between 90-100% of their appropriation. Contract Services was a notable expenditure in each department. As we plan for growth and add additional services, the City used outside consultants and services in lieu of adding additional employees when doing so was financially prudent. Personal services expenditures were also at a high level for each department as PERS costs, benefits and wages all increased. In the Administration department, legal expenditures increased 35% over the prior year. The rise in legal costs was expected as the City works through the planning stages of taking on additional services such as parks and transportation SDC administration as well as general management of growth.

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

<b>Expenditures</b>	<b>Budget</b>	<b>Actual</b>	<b>Difference</b>
Administration	\$ 2,369,400	\$ 2,352,090	\$ 17,310
Community Services & Public Safety	1,189,300	1,088,255	101,045
Economic & Community Developme	2,481,300	2,351,233	130,067
Public Works	627,100	569,921	57,179

**Capital Assets**

At June 30, 2017, the City had \$57,448,724 invested in capital assets net of accumulated depreciation. This is an increase of \$1,714,636 from the previous year. The new boardwalk at happy valley park was added with a cost of \$551,420. The annual street additions totaled \$3,125,413 and total depreciation expense totaled \$2.0 million. Details of the changes in capital assets are disclosed in the notes to the financial statements (Note 3).



**Long Term Debt**

At June 30, 2017, the City no longer has long term debt. 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 was financed using transfers from the General and Building Department Funds. Beginning in the 2012-13 fiscal year and continuing through the 2016-17 fiscal year the City transferred enough to the Debt Service Fund for the early repayment of bonds. The final debt service payment of \$3.6 million was made in March 2017. Detailed information regarding long term debt is presented in the notes to the financial statements (Note 4).

**Economic Factors and Next Year’s Budget**

In June, the City Council passed an ordinance to withdraw Happy Valley from the North Clackamas Parks and Recreation District (NCPRD). Over the course of the next several months, the City will begin conversations on how to best fund parks and recreation services. NCPRD has a permanent tax rate of \$0.54 per \$1,000 of assessed value. In May 2018, the City could ask for voter approval of a parks levy of a similar amount. City staff members will also be exploring the option of a monthly parks fee.

The City continues to review street condition and maintenance levels. An additional funding source will be required to maintain streets at a level consistent with the pavement quality index. City streets are an expensive asset, account for a large percentage of overall city assets, and require maintenance to keep them at an acceptable level. The additional revenue from HB2017 will help the situation but to what extend is yet to be seen.

The strong real estate market is projected to continue for the immediate future and should result in further commercial and residential construction. All phases of the development cycle were active this year creating large revenue totals for planning, engineering, and building fees and permits. Annexations into the city from the Damascus and Carver area added nearly a thousand acres with future development potential. These types of annexations allow Happy Valley to continue development for the next 25 to 30 years. Our reserve funds help to mitigate the effects of the development cycle on our funding for ongoing operations.

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

Following the annexations from the Pleasant Valley and North Carver areas, the City needs to update our Comprehensive Plan to include this new land. This will require a significant amount of outreach with the property owners, other residents, and service providers. Metro awarded the City a \$400,000 grant to assist with this planning effort.

This past year, the City and Clackamas County have been working towards splitting the joint Transportation System Development Charge (TSDC) District. That process was completed with the adoption of a Transportation Capital Improvement Plan and SDC methodology report.

Following the City Council's direction, we have initiated the feasibility study of directly providing retail storm and sewer service. The information we learn from this study will help prepare the City to assume the retail system and provide service to our residents.

Development volatility can make it difficult to effectively project and our budget reflects a cautious but optimistic outlook. The next fiscal year budget contains both increased revenues and increased expenditures based on a higher population, higher service levels, and increased development. Our annual budget process is used in conjunction with our five-year projection process to assess the long term direction of the City. These processes along with ongoing review of revenues and expenditures help ensure our long term organizational sustainability.

**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 transparency and accountability. If you have questions about this report or need clarification of the information please contact the City of Happy Valley Director of Finance at: 16000 SE Misty Drive, Happy Valley, OR 97086, phone number 503-783-3800.

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## **BASIC FINANCIAL STATEMENTS**

**CITY OF HAPPY VALLEY, OREGON**

**Statement of Net Position**

**June 30, 2017**

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**ASSETS**

Cash and Investments	\$ 19,121,177
Prepaid items	152,186
Accounts Receivable	550,352
Property Taxes Receivable	266,123
Capital Assets:	
Land, non-depreciable, and construction in progress	3,805,029
Building, improvements, equipment, and other capital assets (net of accumulated depreciation)	<u>53,643,695</u>

TOTAL ASSETS 77,538,562

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred amount related to pension	<u>2,665,737</u>
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**LIABILITIES**

Accounts Payable	519,957
Accrued Payroll Liabilities	201,935
Developer Deposits	334,883
Intergovernmental Payable	258,719
Net Pension Liability	4,543,686
Compensated Absences	<u>195,355</u>

TOTAL LIABILITIES 6,054,535

**DEFERRED INFLOWS OF RESOURCES**

Deferred amount related to pension	<u>35,902</u>
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**NET POSITION**

Net Investment in Capital Assets	57,448,724
Net Position - Restricted for:	
Prepaid items	152,186
PEG	919,791
Library	3,897,212
Street Maintenance	1,327,042
SDC Projects	925,741
Public Safety	1,176,614
Net Position - Unrestricted	<u>8,266,552</u>

TOTAL NET POSITION \$ 74,113,862

**CITY OF HAPPY VALLEY, OREGON**  
**Statement of Activities**  
**for the year ended June 30, 2017**

<b>FUNCTION/PROGRAM</b>	<b>Expenses</b>	<b>Program Revenues</b>	<b>Net (Expense) Revenue and Changes in Net Position</b>
		<b>Charges for Services</b>	
<b>GOVERNMENTAL ACTIVITIES</b>			
General Government	\$ 6,568,236	\$ 3,409,827	\$ (3,158,409)
Cultural and Recreation	2,381,909	44,019	(2,337,890)
Public Safety	3,513,955	569,509	(2,944,446)
Highways and Streets	2,132,690	73,112	(2,059,578)
Interest on long term debt	106,299	-	(106,299)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 14,703,089</b>	<b>\$ 4,096,467</b>	<b>(10,606,622)</b>

**GENERAL REVENUES**

Property Taxes	4,922,420
Gas Tax	1,090,431
ROW Fees	1,572,402
Library District	2,520,489
Intergovernmental	1,052,558
Other Revenue	4,133,063
<b>TOTAL GENERAL REVENUES</b>	<b>15,291,363</b>
<b>CHANGE IN NET POSITION</b>	<b>4,684,741</b>
<b>NET POSITION - beginning</b>	<b>69,429,121</b>
<b>NET POSITION - ending</b>	<b>\$ 74,113,862</b>

**CITY OF HAPPY VALLEY, OREGON**  
**Balance Sheet**  
**Governmental Funds**  
**for the year ended June 30, 2017**

	General Fund Generally Accepted Accounting Principles	Library Fund Generally Accepted Accounting Principles	Parks Fund Generally Accepted Accounting Principles	Street Fund Generally Accepted Accounting Principles	System Development Fund	Public Safety Fund Generally Accepted Accounting Principles	Total
<b>ASSETS</b>							
Cash and Investments	\$ 10,244,258	\$ 3,970,173	\$ 22,638	\$ 2,637,965	\$ 1,087,386	\$ 1,158,757	\$ 19,121,177
Prepaid items	152,186	-	-	-	-	-	152,186
Accounts Receivable	421,025	-	-	116,243	-	13,084	550,352
Property Taxes Receivable	87,210	-	-	-	-	178,913	266,123
<b>TOTAL ASSETS</b>	<b>\$ 10,904,679</b>	<b>\$ 3,970,173</b>	<b>\$ 22,638</b>	<b>\$ 2,754,208</b>	<b>\$ 1,087,386</b>	<b>\$ 1,350,754</b>	<b>\$ 20,089,838</b>
<b>LIABILITIES</b>							
Accounts Payable	\$ 458,957	\$ 31,976	\$ 18,427	\$ 7,014	\$ 420	\$ 3,163	\$ 519,957
Accrued Payroll Liabilities	151,809	40,985	4,211	4,930	-	-	201,935
Developer Deposits	334,883	-	-	-	-	-	334,883
Intergovernmental Payable	97,494	-	-	-	161,225	-	258,719
<b>TOTAL LIABILITIES</b>	<b>1,043,143</b>	<b>72,961</b>	<b>22,638</b>	<b>11,944</b>	<b>161,645</b>	<b>3,163</b>	<b>1,315,494</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Unavailable revenue - property taxes	83,330	-	-	-	-	170,977	254,307
<b>FUND BALANCES</b>							
Fund Balance By Category							
Nonspendable	152,186	-	-	-	-	-	152,186
Restricted	919,791	3,897,212	-	1,327,042	925,741	1,176,614	8,246,400
Committed	3,688,533	-	-	1,415,222	-	-	5,103,755
Unassigned	5,017,696	-	-	-	-	-	5,017,696
<b>TOTAL FUND BALANCES</b>	<b>9,778,206</b>	<b>3,897,212</b>	<b>-</b>	<b>2,742,264</b>	<b>925,741</b>	<b>1,176,614</b>	<b>18,520,037</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>	<b>\$ 10,904,679</b>	<b>\$ 3,970,173</b>	<b>\$ 22,638</b>	<b>\$ 2,754,208</b>	<b>\$ 1,087,386</b>	<b>\$ 1,350,754</b>	<b>\$ 20,089,838</b>

**CITY OF HAPPY VALLEY, OREGON**  
**Reconciliation of Balance Sheet of Governmental Funds**  
**to Statement of Net Position**  
**for the year ended June 30, 2017**

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

Total Fund Balances - governmental funds	\$ 18,520,037
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	57,448,724
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(4,543,686)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Pension related changes.	2,629,835
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(195,355)
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>254,307</u>
Total Net Position	<u><u>\$ 74,113,862</u></u>

**CITY OF HAPPY VALLEY, OREGON**  
**Statement of Revenues, Expenditures and Changes**  
**In Fund Balances - Governmental Funds**  
**for the year ended June 30, 2017**

	General Fund Generally Accepted Accounting Principles	Library Fund Generally Accepted Accounting Principles	Parks Fund Generally Accepted Accounting Principles	Street Fund Generally Accepted Accounting Principles	System Development Fund	Public Safety Generally Accepted Accounting Principles	Total
<b>REVENUES</b>							
Property Taxes	\$ 1,611,397	\$ -	\$ -	\$ -	\$ -	\$ 3,295,313	\$ 4,906,710
Gas Tax Revenue	-	-	-	1,090,431	-	-	1,090,431
Licenses and Permits	4,982,229	-	-	-	-	-	4,982,229
System Development Charges	-	-	-	-	73,112	-	73,112
Intergovernmental Revenues	719,001	-	263,764	69,793	-	-	1,052,558
Library District Revenue	-	2,520,489	-	-	-	-	2,520,489
Other Revenue	1,064,560	93,690	984	348,232	18,941	94,771	1,621,178
<b>TOTAL REVENUES</b>	<b>8,377,187</b>	<b>2,614,179</b>	<b>264,748</b>	<b>1,508,456</b>	<b>92,053</b>	<b>3,390,084</b>	<b>16,246,707</b>
<b>EXPENDITURES</b>							
Current							
General Government	5,974,827	-	-	-	-	-	5,974,827
Cultural and Recreation	-	1,687,288	286,492	-	-	-	1,973,780
Public Safety	544,127	-	-	-	-	2,890,512	3,434,639
Highways and Streets	-	-	-	539,175	-	-	539,175
Debt Service							
Principal	3,530,000	-	-	-	-	-	3,530,000
Interest	106,299	-	-	-	-	-	106,299
Capital Outlay	840,340	45,114	-	27,722	1,770	-	914,946
<b>TOTAL EXPENDITURES</b>	<b>10,995,593</b>	<b>1,732,402</b>	<b>286,492</b>	<b>566,897</b>	<b>1,770</b>	<b>2,890,512</b>	<b>16,473,666</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(2,618,406)</b>	<b>881,777</b>	<b>(21,744)</b>	<b>941,559</b>	<b>90,283</b>	<b>499,572</b>	<b>(226,959)</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers In	2,678,320	1,850,000	120,644	100,000	-	-	4,748,964
Transfers Out	(1,841,544)	(2,239,600)	(98,900)	(267,470)	-	(301,450)	(4,748,964)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>836,776</b>	<b>(389,600)</b>	<b>21,744</b>	<b>(167,470)</b>	<b>-</b>	<b>(301,450)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(1,781,630)</b>	<b>492,177</b>	<b>-</b>	<b>774,089</b>	<b>90,283</b>	<b>198,122</b>	<b>(226,959)</b>
FUND BALANCES - beginning	11,559,836	3,405,035	-	1,968,175	835,458	978,492	18,746,996
FUND BALANCES - ending	\$ 9,778,206	\$ 3,897,212	\$ -	\$ 2,742,264	\$ 925,741	\$ 1,176,614	\$ 18,520,037

**CITY OF HAPPY VALLEY, OREGON**  
**Reconciliation of Statement of Revenues, Expenditures and Changes In**  
**Fund Balances - Governmental Funds - To Statement of Activities**  
**for the year ended June 30, 2017**

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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 \$ (226,959)

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.

Capital Asset Additions (net of disposals)	\$ 3,602,229	
Depreciation Expense (net of disposals)	<u>(1,887,593)</u>	
Net Adjustment		1,714,636

Governmental funds report City pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense or income.

(348,632)

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.

Compensated Absences	(24,511)
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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.

Long term debt	3,530,000	
Amortization of LTD Premium	<u>24,497</u>	
Net Adjustment		3,554,497

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Unavailable revenue - Property Taxes	<u>15,710</u>
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Change in Net Position	<u><u>\$ 4,684,741</u></u>
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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. These revenues include all development related fees.

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, OREGON**  
NOTES TO THE BASIC FINANCIAL STATEMENTS

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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. The net position balance of \$74,113,862 at June 30, 2017 includes \$57,448,724 invested in capital assets, \$8,398,586 of restricted net position, and \$8,266,552 of unrestricted net position - available for other purposes.

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, OREGON**  
NOTES TO THE BASIC FINANCIAL STATEMENTS

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. DESCRIPTION OF FUNDS

The City reports the following major funds:

GENERAL FUND - GAAP

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.

LIBRARY FUND - GAAP

This fund accounts for the Library district revenues and the Library expenditures. The principal revenue source is the allocated District property taxes.

PARKS FUND - GAAP

This fund accounts for revenue from North Clackamas Parks and Recreation District for the maintenance of Happy Valley Park and related expenditures.

STREET FUND - GAAP

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.

PUBLIC SAFETY FUND - GAAP

This fund accounts for the operations and maintenance of public safety in the City. Revenues in this fund are property taxes derived primarily from the four-year public safety levy passed by the voters of Happy Valley in 2015.

The following funds are shown in the Other Supplementary Information section and are rolled into the above major funds in the Basic Financial Statements in accordance with GASB Statement number 54.

PEDESTRIAN IMPROVEMENT PROJECTS FUND

This fund accounts for pedestrian improvement projects such as bike lanes, pedestrian crossings, pedestrian refuge, sidewalks, and pathways. 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.

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 operations 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 General Fund: Administration, Community Services & Public Safety, Economic & Community Development, Public Works, Non-Departmental, Contingency, and Interfund Transfers. All other funds are appropriated in the following levels: Personal Services, Materials and Services, Capital Outlay, Operating Contingency, and Interfund Transfers.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. CAPITAL ASSETS

Capital assets are recorded at the original or estimated cost. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value. The City defines capital assets as assets with an initial cost of more than \$5,000. 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 financial 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 has only one type of deferred outflow that qualifies for reporting in this category. This is related to the City's pension plan and consists of employer contributions to Oregon Public Employees Retirement System (PERS) after the measurement date.

In addition to liabilities, the statement of financial 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 two items that qualify for reporting in this category. Unavailable revenue from property taxes is reported in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that amount becomes available. The City also reports deferred amounts related to pensions. This amount is deferred and recognized as an inflow of resources in the period when the City's recognizes pension income. Deferred inflows are included in the government-wide Statement of Net Position.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of PERS and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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. This liability is liquidated in the General Fund, Library Fund, Street Fund, and Parks Fund.

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, 2017 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.

Net Position - 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.

Net Position - Unrestricted – consists of all other assets that are not included in the other two categories.

**CITY OF HAPPY VALLEY, OREGON**  
NOTES TO THE BASIC FINANCIAL STATEMENTS

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. NET POSITION (CONTINUED)

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.

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	\$ 3,400
Demand Deposits	1,850,930
Investments	<u>17,266,847</u>
Total Cash and Investments	<u>\$ 19,121,177</u>

DEPOSITS - Deposits with financial institutions include bank demand deposits. The total bank balance per the bank statements is \$1,923,437. 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.

**CITY OF HAPPY VALLEY, OREGON**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS

**2. CASH AND INVESTMENTS (CONTINUED)**

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, 2017.

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, 2017. 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	\$ 17,266,847	\$ 17,266,847	\$ -	\$ -
Total	\$ 17,266,847	\$ 17,266,847	\$ -	\$ -

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, 2017 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, OREGON**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**3. CAPITAL ASSETS**

Changes in capital assets for the fiscal year ended June 30, 2017 are as follows:

	Governmental Activities Capital Assets			
	July 1, 2016	Additions	Disposals	June 30, 2017
Capital Assets, not being depreciated				
Land and Improvements	\$ 3,805,029	\$ -	\$ -	\$ 3,805,029
Totals, capital assets not being depreciated	3,805,029	-	-	3,805,029
Capital Assets, being depreciated				
Buildings	13,368,634	-	-	13,368,634
Vehicles	712,083	-	-	712,083
Other Equipment	987,732	37,612	(5,430)	1,019,914
Park Improvements	3,106,558	551,420	(106,786)	3,551,192
Park Equipment	60,930	-	-	60,930
Streets	52,777,312	3,125,413	-	55,902,725
Totals, capital assets being depreciated	71,013,249	3,714,445	(112,216)	74,615,478
Less: Accumulated Depreciation for:				
Buildings	(1,659,139)	(281,879)	-	(1,941,018)
Vehicles	(425,060)	(56,908)	-	(481,968)
Other Equipment	(354,917)	(103,127)	3,168	(454,876)
Park Improvements	(1,399,083)	(148,945)	69,771	(1,478,257)
Park Equipment	(33,916)	(3,705)	-	(37,621)
Streets	(15,212,075)	(1,365,968)	-	(16,578,043)
Total Accumulated Depreciation	(19,084,190)	(1,960,532)	72,939	(20,971,783)
Total capital assets, being depreciated, net	51,929,059	1,753,913	(39,277)	53,643,695
Total Governmental Activities	\$ 55,734,088	\$ 1,753,913	\$ (39,277)	\$ 57,448,724

**CITY OF HAPPY VALLEY, OREGON**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**3. CAPITAL ASSETS (CONTINUED)**

**Governmental Activities Depreciation Allocation to Functions**

General Government	\$	260,489
Cultural and Recreation		216,092
Public Safety		49,348
Streets		1,434,603
Total	\$	<u>1,960,532</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. The remaining principal of \$3,530,000 was paid off in March 2017 leaving a balance of zero at June 30, 2017.

Long-term liability activity for the fiscal year ending June 30, 2017, was as follows:

	Beginning balance as of June 30, 2016	Additions	Reductions	Ending balance as of June 30, 2017	Due within one Year
Bonds Payable					
Full Faith & Credit Obligation, Series 2007, Interest 4%- 4.25%	\$ 3,530,000	\$ -	\$ 3,530,000	\$ -	\$ -
Plus deferred amounts:					
Bond Premium	24,497	-	24,497	-	-
Total bonds payable	<u>3,554,497</u>	<u>-</u>	<u>3,554,497</u>	<u>-</u>	<u>-</u>
Compensated Absences	<u>170,844</u>	<u>195,355</u>	<u>170,844</u>	<u>195,355</u>	<u>195,355</u>
Total Long-term liabilities	<u>\$ 3,725,341</u>	<u>\$ 195,355</u>	<u>\$ 3,725,341</u>	<u>\$ 195,355</u>	<u>\$ 195,355</u>

**5. COMPENSATED ABSENCES PAYABLE**

At June 30, 2017, the City's liability for compensated absences is estimated at \$195,355. Compensated absences are generally liquidated by the general fund. As compensated absences are due and payable on demand, they are considered due within one year.

**CITY OF HAPPY VALLEY, OREGON**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS

**6. INTERFUND TRANSFERS**

The composition of interfund transfers is as follows:

	General Fund - GAAP	Library Fund - GAAP	Parks Fund - GAAP	Street Fund - GAAP	Public Safety - GAAP	Total Interfund Transfers
Transfers In	\$ 2,678,320	1,850,000	120,644	\$ 100,000	\$ -	\$ 4,748,964
Transfers Out	(1,841,544)	(2,239,600)	(98,900)	(267,470)	(301,450)	(4,748,964)
	<u>\$ 836,776</u>	<u>\$ (389,600)</u>	<u>\$ 21,744</u>	<u>\$ (167,470)</u>	<u>\$ (301,450)</u>	<u>\$ -</u>

Transfers are budgeted and recorded to show legal commitments between funds. The principal purposes of these transfers was to fund the reserve funds to budgeted levels and to share the costs of General Fund administration as calculated in the City’s cost allocation plan.

**7. PENSION PLAN**

**General Information about the Pension Plan**

*Plan description.* The City is a participating employer in the Oregon Public Employee Retirement System (PERS)—a cost-sharing multiple employer defined benefit pension plan administered under ORS 238 and Internal Revenue Service 401(a) by the Public Employees Retirement Board (PERB). PERB issues a publicly available financial report that can be obtained at:

[http://www.oregon.gov/pers/Pages/section/financial\\_reports/financials.aspx](http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx).

**Plan Benefits**

All benefits of the System are established by the legislature pursuant to ORS Chapters 238 and 238A.

**Tier One/Tier Two Retirement Benefit.** Tier One/Tier Two Retirement Benefit plan is closed to new members hired on or after August 29, 2003.

**Pension Benefits**

The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0 percent for police and fire employees, 1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer (age 45 for police and fire members). General Service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier Two members are eligible for full benefits at age 60.

7. PENSION PLAN (CONTINUED)

**Death Benefits**

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

- the member was employed by a PERS employer at the time of death,
- the member died within 120 days after termination of PERS-covered employment,
- the member died as a result of injury sustained while employed in a PERS-covered job, or
- the member was on an official leave of absence from a PERS-covered job at the time of death.

**Disability Benefits**

A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.

**Benefit Changes after Retirement**

Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments.

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2016 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

**OPSRP Pension Program (OPSRP DB)**

**Pension Benefits.** The Pension Program (ORS Chapter 238A) provides benefits to members hired on or after August 29, 2003.

This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

Police and fire: 1.8 percent is multiplied by the number of years of service and the final average salary. Normal for police and fire members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire member for at least five years immediately preceding retirement.

General Service: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

A member of the OPSRP Pension Program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

**Death Benefits**

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.

7. PENSION PLAN (CONTINUED)

**Disability Benefits**

A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

**Benefit Changes after Retirement**

Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2016 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

**IAP Plan Description:**

**OPSRP Individual Account Program (OPSRP IAP)**

**Pension Benefits**

An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

Upon retirement, a member of the OPSRP Individual Account Program (IAP) may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5-, 10-, 15-, 20-year period or an anticipated life span option. Each distribution option has a \$200 minimum distribution limit.

**Death Benefits**

Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution account balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

**Contributions.**

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans. Employer contribution rates during the period were based on the December 31, 2013 actuarial valuation as subsequently modified by 2015 legislated changes in benefit provisions. The rates based on a percentage of payroll, first became effective July 1, 2015. Employer contributions for the year ended June 30, 2017 were \$335,696, excluding amounts to fund employer specific liabilities. The rates in effect for the fiscal year ended June 30, 2017 were 14.40 percent for Tier One/Tier Two, 11.08 percent for OPSRP Pension Program General, and 6 percent for OPSRP Individual Account Program.

**CITY OF HAPPY VALLEY, OREGON**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS

7. PENSION PLAN (CONTINUED)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2017, the City reported a liability of \$4,543,686 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013 rolled forward to June 30, 2015. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating governments, actuarially determined. At June 30, 2016, the City's proportion was 0.0304 percent, which is the same as its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized pension expense of \$348,632. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 150,325	\$ -
Changes in assumptions	969,059	-
Net difference between projected and actual earnings on pension plan investments	897,642	-
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>156,687</u>	<u>35,902</u>
Total (prior post MD contributions)	\$ 2,173,713	\$ 35,902
Contributions subsequent to the MD	<u>492,024</u>	<u>-</u>
Total	<u><u>\$ 2,665,737</u></u>	<u><u>\$ 35,902</u></u>

\$492,024 Reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

FY2018	\$ 389,708
FY2019	389,710
FY2020	718,521
FY2021	553,271
FY2022	<u>86,601</u>
Total	<u><u>\$2,137,811</u></u>

**CITY OF HAPPY VALLEY, OREGON**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS

7. PENSION PLAN (CONTINUED)

**Actuarial assumptions**

The employer contribution rates effective July 1, 2015 through June 30, 2017, were set using the projected unit credit actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years. For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

Valuation Date	December 31, 2014
Measurement Date	June 30, 2016
Experience Study Report	2014, published September 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Inflation Rate	2.50 percent
Long-Term Expected Rate of Return	7.50 percent
Discount Rate	7.50 percent
Projected Salary Increases	3.50 percent overall payroll growth
Cost of Living Adjustments (COLA)	Blend of 2.00% COLA and grade COLA (1.25%/0.15%) in accordance with <i>Moro</i> decision, blend based on service.
Mortality	<p>Health retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation.</p> <p>Active Members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.</p> <p>Disabled retirees: Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 Sex-distinct, generational per Scale BB, disabled mortality table.</p>
At its September 25, 2015 meeting, the PERS Board reduced the assumed rate of return on investments from 7.75 percent to 7.5 percent	

**CITY OF HAPPY VALLEY, OREGON**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS

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7. PENSION PLAN (CONTINUED)

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2014 Experience Study which reviewed experience for the four-year period ending on December 31, 2014.

**Long-Term Expected Rate of Return:**

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2015 the PERS Board reviewed long-term assumptions developed by both Milliman’s capital market assumptions team and the Oregon Investment Council’s (OIC) investment advisors. The table below shows Milliman’s assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC’s description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

<u>Asset Class/Strategy</u>	<u>Assumed Asset Allocation</u>		
	<u>Low Range</u>	<u>High Range</u>	<u>Target</u>
Cash	0.0%	3.0%	0.0%
Debt Securities	15.0%	25.0%	20.0%
Public Equity	32.5%	42.5%	37.5%
Private Equity	16.0%	24.0%	20.0%
Real Estate	9.5%	15.5%	12.5%
Alternative Equity	0.0%	10.0%	10.0%
Opportunity Portfolio	0.0%	3.0%	0.0%
Total			<u>100.0%</u>

**CITY OF HAPPY VALLEY, OREGON**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS

7. PENSION PLAN (CONTINUED)

Asset Class	Target Allocation	Compounded Annual Return (Geometric)
Core Fixed Income	8.00%	4.00%
Short-Term Bonds	8.00%	3.61%
Bank/Leveraged Loans	3.00%	5.42%
High Yield Bonds	1.00%	6.20%
Large/Mid Cap US Equities	15.75%	6.70%
Small Cap US Equities	1.30%	6.99%
Micro Cap US Equities	1.30%	7.01%
Developed Foreign Equities	13.13%	6.73%
Emerging Foreign Equities	4.12%	7.25%
Non-US Small Cap Equities	1.88%	7.22%
Private Equities	17.50%	7.97%
Real Estate (Property)	10.00%	5.84%
Real Estate (REITS)	2.50%	6.69%
Hedge Fund of Funds - Diversified	2.50%	4.64%
Hedge Fund - Event-Driven	0.63%	6.72%
Timber	1.88%	5.85%
Farmland	1.88%	6.37%
Infrastructure	3.75%	7.13%
Commodities	1.88%	4.58%
Total	<u>100.00%</u>	
Assumed Inflation - Mean		2.50%

**Depletion Date Projection**

GASB 68 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 68 will often require that the actuary perform complex projections of future benefit payments and pension plan investments. GASB 68 (paragraph 67) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

7. PENSION PLAN (CONTINUED)

The following circumstances justify an alternative evaluation of sufficiency for PERS:

- PERS has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.
- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100% funded position by the end of the amortization period if future experience follows assumption.
- GASB 68 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan’s funded position.

Based on these circumstances, it is our independent actuary’s opinion that the detailed depletion date projections outlined in GASB 68 would clearly indicate that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.5 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
City's proportionate share of the net pension liability (asset)	\$ 7,336,539	\$ 4,543,686	\$ 2,209,351

**Pension plan fiduciary net position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued OPERS financial report.

**Changes in Plan Provisions During the Measurement Period**

The Oregon Supreme Court on April 30, 2015, ruled that the provisions of Senate Bill 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law was unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually. OPERS will make restoration payments to those benefit recipients.

OPERS members who have accrued benefits before and after the effective periods of the 2013 legislation will have a blended COLA rate when they retire.

7. PENSION PLAN (CONTINUED)

This change in benefit terms were reflected in the current valuation.

**Changes in Plan Provisions Subsequent to Measurement Date**

On July 28, 2017, subsequent to the June 30, 2016 measurement date, the OSPERS Board lowered the assumed rate to 7.2 percent. The current assumed rate is 7.5 percent and has been in effect for member transactions since January 1, 2016. The new rate will take effect January 1, 2018. The effect on the City has not been determined.

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.

10. CABLE PEG FEES

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. The updated agreement effective July 1, 2017, changed the rate to 1%. PEG funds in the amount of \$919,791 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.

**CITY OF HAPPY VALLEY, OREGON**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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**12. FUND BALANCE DETAIL**

	General Fund GAAP	Library Fund GAAP	Street Fund GAAP	System Development Fund	Public Safety Fund GAAP	Total
<b>Fund Balances:</b>						
<b>Nonspendable</b>	\$ 152,186	\$ -	\$ -	\$ -	\$ -	\$ 152,186
<b>Restricted</b>						
PEG	919,791	-	-	-	-	919,791
Library	-	3,897,212	-	-	-	3,897,212
Street Maint	-	-	1,327,042	-	-	1,327,042
SDC Projects	-	-	-	925,741	-	925,741
Public Safety	-	-	-	-	1,176,614	1,176,614
	<u>919,791</u>	<u>3,897,212</u>	<u>1,327,042</u>	<u>925,741</u>	<u>1,176,614</u>	<u>8,246,400</u>
<b>Committed</b>						
Construction Fees	-	-	1,415,222	-	-	1,415,222
General Ops	2,198,974	-	-	-	-	2,198,974
Replacement	713,508	-	-	-	-	713,508
Pedestrian Improvement	776,051	-	-	-	-	776,051
	<u>3,688,533</u>	<u>-</u>	<u>1,415,222</u>	<u>-</u>	<u>-</u>	<u>5,103,755</u>
<b>Unassigned</b>	<u>5,017,696</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,017,696</u>
Total Fund Balances	<u>\$ 9,778,206</u>	<u>\$ 3,897,212</u>	<u>\$ 2,742,264</u>	<u>\$ 925,741</u>	<u>\$ 1,176,614</u>	<u>\$ 18,520,037</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF HAPPY VALLEY, OREGON**  
**Schedules of Revenues, Expenditures and Changes in Fund Balance**  
**Actual and Budget**  
**for the year ended June 30, 2017**

**GENERAL FUND - GAAP BASIS**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>				
Property Taxes	\$ 1,547,900	\$ 1,547,900	\$ 1,611,397	\$ 63,497
Licenses & Permits	3,910,000	3,910,000	4,982,229	1,072,229
Intergovernmental	572,550	572,550	719,001	146,451
Other Revenue	<u>837,000</u>	<u>837,000</u>	<u>1,064,560</u>	<u>227,560</u>
TOTAL REVENUES	<u>6,867,450</u>	<u>6,867,450</u>	<u>8,377,187</u>	<u>1,509,737</u>
<b>EXPENDITURES</b>				
Current:				
General Government	6,905,550	6,905,550	5,974,827	930,723
Public Safety	594,650	594,650	544,127	50,523
Debt Service				
Principal	3,530,000	3,530,000	3,530,000	-
Interest	73,513	73,513	106,299	(32,786)
Capital Outlay	2,055,448	2,055,448	840,340	1,215,108
Contingency	<u>2,133,138</u>	<u>2,133,138</u>	<u>-</u>	<u>2,133,138</u>
TOTAL EXPENDITURES	<u>15,292,299</u>	<u>15,292,299</u>	<u>10,995,593</u>	<u>4,296,706</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(8,424,849)</u>	<u>(8,424,849)</u>	<u>(2,618,406)</u>	<u>5,806,443</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	2,678,320	2,678,320	2,678,320	-
Transfers Out	<u>(1,901,900)</u>	<u>(1,901,900)</u>	<u>(1,841,544)</u>	<u>60,356</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>776,420</u>	<u>776,420</u>	<u>836,776</u>	<u>60,356</u>
NET CHANGE IN FUND BALANCE	(7,648,429)	(7,648,429)	(1,781,630)	5,866,799
FUND BALANCE - beginning	<u>9,847,403</u>	<u>9,847,403</u>	<u>11,559,836</u>	<u>1,712,433</u>
FUND BALANCE - ending	<u>\$ 2,198,974</u>	<u>\$ 2,198,974</u>	<u>\$ 9,778,206</u>	<u>\$ 7,579,232</u>

\* Does not demonstrate compliance at the legal level of budgetary control, see the General Fund - Budgetary Basis schedule for legal level of budgetary control.

**CITY OF HAPPY VALLEY, OREGON**  
**Schedules of Revenues, Expenditures and Changes in Fund Balance**  
**Actual and Budget**  
**for the year ended June 30, 2017**

**LIBRARY FUND - GAAP BASIS**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Intergovernmental	\$ 2,456,265	\$ 2,456,265	\$ 2,520,489	\$ 64,224
Other Revenue	61,500	61,500	93,690	32,190
<b>TOTAL REVENUES</b>	<b>2,517,765</b>	<b>2,517,765</b>	<b>2,614,179</b>	<b>96,414</b>
<b>EXPENDITURES</b>				
Current:				
Cultural and Recreation	1,910,900	1,910,900	1,687,288	223,612
Capital Outlay	55,052	55,052	45,114	9,938
Contingency	1,053,505	1,053,505	-	1,053,505
<b>TOTAL EXPENDITURES</b>	<b>3,019,457</b>	<b>3,019,457</b>	<b>1,732,402</b>	<b>1,287,055</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(501,692)</b>	<b>(501,692)</b>	<b>881,777</b>	<b>1,383,469</b>
<b>OTHER FINANCING SOURCES, (USES)</b>				
Transfers In	1,850,000	1,850,000	1,850,000	-
Transfers Out	(2,239,600)	(2,239,600)	(2,239,600)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(389,600)</b>	<b>(389,600)</b>	<b>(389,600)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(891,292)</b>	<b>(891,292)</b>	<b>492,177</b>	<b>1,383,469</b>
FUND BALANCE - beginning	3,294,292	3,294,292	3,405,035	110,743
FUND BALANCE - ending	<b>\$ 2,403,000</b>	<b>\$ 2,403,000</b>	<b>\$ 3,897,212</b>	<b>\$ 1,494,212</b>

\* Does not demonstrate compliance at the legal level of budgetary control, see the Library Fund - Budgetary Basis schedule for legal level of budgetary control.

**CITY OF HAPPY VALLEY, OREGON**  
**Schedules of Revenues, Expenditures and Changes in Fund Balance**  
**Actual and Budget**  
**for the year ended June 30, 2017**

**STREET FUND - GAAP BASIS**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Gas Tax	\$ 1,006,300	\$ 1,006,300	\$ 1,090,431	\$ 84,131
Local Fuel Tax	60,000	60,000	53,268	(6,732)
Intergovernmental	40,000	40,000	69,793	29,793
Other Revenue	2,000	2,000	294,964	292,964
<b>TOTAL REVENUES</b>	<b>1,108,300</b>	<b>1,108,300</b>	<b>1,508,456</b>	<b>400,156</b>
<b>EXPENDITURES</b>				
Current:				
Highways and Streets	589,900	589,900	539,175	50,725
Capital Outlay	986,417	986,417	27,722	958,695
<b>TOTAL EXPENDITURES</b>	<b>1,576,317</b>	<b>1,576,317</b>	<b>566,897</b>	<b>1,009,420</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(468,017)</b>	<b>(468,017)</b>	<b>941,559</b>	<b>1,409,576</b>
<b>OTHER FINANCING SOURCES, (USES)</b>				
Transfers In	100,000	100,000	100,000	-
Transfers Out	(267,470)	(267,470)	(267,470)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(167,470)</b>	<b>(167,470)</b>	<b>(167,470)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(635,487)</b>	<b>(635,487)</b>	<b>774,089</b>	<b>1,409,576</b>
FUND BALANCE - beginning	1,781,432	1,781,432	1,968,175	186,743
FUND BALANCE - ending	<b>\$ 1,145,945</b>	<b>\$ 1,145,945</b>	<b>\$ 2,742,264</b>	<b>\$ 1,596,319</b>

\* Does not demonstrate compliance at the legal level of budgetary control, see the Street Fund - Budgetary Basis schedule for legal level of budgetary control.

**CITY OF HAPPY VALLEY, OREGON**  
**Schedules of Revenues, Expenditures and Changes in Fund Balance**  
**Actual and Budget**  
**for the year ended June 30, 2017**

**SYSTEM DEVELOPMENT FUND - GAAP BASIS**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>				
Miscellaneous Revenue	\$ 6,000	\$ 6,000	\$ 18,941	\$ 12,941
SDC-Storm Drainage	<u>90,000</u>	<u>90,000</u>	<u>73,112</u>	<u>(16,888)</u>
TOTAL REVENUES	<u>96,000</u>	<u>96,000</u>	<u>92,053</u>	<u>(3,947)</u>
<b>EXPENDITURES</b>				
Capital Outlay				
SDC Projects-Storm Drainage	<u>903,815</u>	<u>903,815</u>	<u>1,770</u>	<u>902,045</u>
TOTAL EXPENDITURES	<u>903,815</u>	<u>903,815</u>	<u>1,770</u>	<u>902,045</u>
NET CHANGE IN FUND BALANCE	(807,815)	(807,815)	90,283	898,098
FUND BALANCE - beginning	<u>807,815</u>	<u>807,815</u>	<u>835,458</u>	<u>27,643</u>
FUND BALANCE - ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 925,741</u></u>	<u><u>\$ 925,741</u></u>

**CITY OF HAPPY VALLEY, OREGON**  
**Schedules of Revenues, Expenditures and Changes in Fund Balance**  
**Actual and Budget**  
**for the year ended June 30, 2017**

**PUBLIC SAFETY FUND - GAAP BASIS**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Property Taxes	\$ 3,226,500	\$ 3,226,500	\$ 3,295,313	\$ 68,813
Other Revenue	40,000	40,000	94,771	54,771
TOTAL REVENUES	<u>3,266,500</u>	<u>3,266,500</u>	<u>3,390,084</u>	<u>123,584</u>
<b>EXPENDITURES</b>				
Current:				
Public Safety	2,891,190	2,891,190	2,890,512	678
Contingency	961,375	961,375	-	961,375
TOTAL EXPENDITURES	<u>3,852,565</u>	<u>3,852,565</u>	<u>2,890,512</u>	<u>962,053</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(586,065)</u>	<u>(586,065)</u>	<u>499,572</u>	<u>1,085,637</u>
<b>OTHER FINANCING (USES)</b>				
Transfers In	30,000	30,000	-	30,000
Transfers Out	(331,450)	(331,450)	(301,450)	(30,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(301,450)</u>	<u>(301,450)</u>	<u>(301,450)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(887,515)	(887,515)	198,122	1,085,637
FUND BALANCE - beginning	<u>979,515</u>	<u>979,515</u>	<u>978,492</u>	<u>(1,023)</u>
FUND BALANCE - ending	<u>\$ 92,000</u>	<u>\$ 92,000</u>	<u>\$ 1,176,614</u>	<u>\$ 1,084,614</u>

\* Does not demonstrate compliance at the legal level of budgetary control, see the Public Safety Fund - Budgetary Basis schedule for legal level of budgetary control.

**CITY OF HAPPY VALLEY, OREGON**  
**Required Supplementary Information**  
**For the fiscal year ended June 30, 2017**

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**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

Year Ended June 30,	(a) Employer's proportion of the net pension liability (NPL)	(b) Employer's proportionate share of the net pension liability (NPL)	(c) COHV covered payroll	(b/c) NPL as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2017	0.03026638%	\$ 4,543,686	\$ 3,819,380	119%	81%
2016	0.03043509%	1,747,419	2,488,209	70%	92%
2015	0.02631811%	(596,556)	2,380,983	-25%	104%
2014	0.02631811%	1,343,052	2,121,164	63%	92%

The amounts presented for each fiscal year were actuarial determined at 12/31 and rolled forward to the measurement date.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

**SCHEDULE OF CONTRIBUTIONS**

	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered payroll	Contributions as a percent of covered payroll
2017	\$ 492,024	\$ 492,024	\$ -	\$ 4,224,767	12%
2016	399,079	399,079	-	3,819,380	10%
2015	310,009	310,009	-	2,488,209	12%
2014	309,867	309,867	-	2,380,983	13%

The amounts presented for each fiscal year were actuarial determined at 12/31 and rolled forward to the measurement date.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

### **Changes in Benefit Terms**

The Oregon Supreme Court on April 30, 2015, ruled that the provisions of Senate Bill 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law was unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually. OPERS will make restoration payments to those benefit recipients.

OPERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire.

This is a change in benefit terms was not included in the net pension liability (asset) proportionate shares provided by OPERS for the years ending June 30, 2015 and June 30, 2014.

### **Changes of Assumptions**

Details and a comprehensive list of changes in methods and assumptions can be found in the 2012, 2014, and 2016 Experience Study for the System, which were published on September 18, 2013, September 23, 2015, and July 26, 2017.

These reports can be found at: <http://www.oregon.gov/PERS/Pages/Financials/Actuarial-Presentations-and-Reports.aspx>.

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## **OTHER SUPPLEMENTARY INFORMATION**

**CITY OF HAPPY VALLEY, OREGON**  
**Combining Balance Sheet**  
**General Fund - Generally Accepted Accounting Principles**  
**June 30, 2017**

	General Fund Budgetary Basis	Pedestrian Improvement Projects Fund Budgetary Basis	General Ops Reserve Fund Budgetary Basis	Reserve For Replacement Budgetary Basis*	General Fund Generally Accepted Accounting Principles
<b>ASSETS</b>					
Cash and Investments	\$ 5,653,880	\$ 786,051	\$ 2,198,974	\$ 1,605,353	\$ 10,244,258
Prepaid Items	152,186	-	-	-	152,186
Accounts Receivable	376,728	-	-	44,297	421,025
Property Taxes Receivable	87,210	-	-	-	87,210
<b>TOTAL ASSETS</b>	<u>\$ 6,270,004</u>	<u>\$ 786,051</u>	<u>\$ 2,198,974</u>	<u>\$ 1,649,650</u>	<u>\$ 10,904,679</u>
<b>LIABILITIES</b>					
Accounts Payable	\$ 432,606	\$ 10,000	\$ -	\$ 16,351	\$ 458,957
Payroll and Taxes Payable	151,809	-	-	-	151,809
Development Deposits	334,883	-	-	-	334,883
Due to Other Governments	97,494	-	-	-	97,494
<b>TOTAL LIABILITIES</b>	<u>1,016,792</u>	<u>10,000</u>	<u>-</u>	<u>16,351</u>	<u>1,043,143</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue - Property Taxes	83,330	-	-	-	83,330
<b>FUND BALANCES</b>					
Fund Balance By Category					
Nonspendable	152,186	-	-	-	152,186
Restricted	-	-	-	919,791	919,791
Committed	-	776,051	2,198,974	713,508	3,688,533
Unassigned	5,017,696	-	-	-	5,017,696
<b>TOTAL FUND BALANCES</b>	<u>5,169,882</u>	<u>776,051</u>	<u>2,198,974</u>	<u>1,633,299</u>	<u>9,778,206</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES</b>	<u>\$ 6,270,004</u>	<u>\$ 786,051</u>	<u>\$ 2,198,974</u>	<u>\$ 1,649,650</u>	<u>\$ 10,904,679</u>

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

**CITY OF HAPPY VALLEY, OREGON**  
**Combining Balance Sheet**  
**Library Fund - Generally Accepted Accounting Principles**  
**June 30, 2017**

	Library Fund Budgetary Basis	Reserve For Replacement Budgetary Basis*	Library Fund Generally Accepted Accounting Principles
<b>ASSETS</b>			
Cash and Investments	\$ 1,548,388	\$ 2,421,785	\$ 3,970,173
Prepaid items	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 1,548,388</b>	<b>\$ 2,421,785</b>	<b>\$ 3,970,173</b>
<b>LIABILITIES</b>			
Accounts Payable	\$ 31,976	\$ -	\$ 31,976
Accrued Payroll	40,985	-	40,985
<b>TOTAL LIABILITIES</b>	<b>72,961</b>	<b>-</b>	<b>72,961</b>
<b>FUND BALANCES</b>			
Fund Balance By Category			
Restricted	1,475,427	2,421,785	3,897,212
<b>TOTAL FUND BALANCES</b>	<b>1,475,427</b>	<b>2,421,785</b>	<b>3,897,212</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,548,388</b>	<b>\$ 2,421,785</b>	<b>\$ 3,970,173</b>

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

**CITY OF HAPPY VALLEY, OREGON**  
**Combining Balance Sheet**  
**Street Fund - Generally Accepted Accounting Principles**  
**June 30, 2017**

	Street Fund Budgetary Basis	Reserve For Replacement Budgetary Basis*	Street Fund Generally Accepted Accounting Principles
<b>ASSETS</b>			
Cash and Investments	\$ 2,307,065	\$ 330,900	\$ 2,637,965
Accounts Receivable	116,243	-	116,243
<b>TOTAL ASSETS</b>	<b>\$ 2,423,308</b>	<b>\$ 330,900</b>	<b>\$ 2,754,208</b>
<b>LIABILITIES</b>			
Accounts Payable	\$ 7,014	\$ -	\$ 7,014
Accrued Payroll	4,930	-	4,930
<b>TOTAL LIABILITIES</b>	<b>11,944</b>	<b>-</b>	<b>11,944</b>
<b>FUND BALANCES</b>			
Fund Balance By Category			
Restricted	996,142	330,900	1,327,042
Committed	1,415,222	-	1,415,222
<b>TOTAL FUND BALANCES</b>	<b>2,411,364</b>	<b>330,900</b>	<b>2,742,264</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,423,308</b>	<b>\$ 330,900</b>	<b>\$ 2,754,208</b>

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

**CITY OF HAPPY VALLEY, OREGON**  
**Combing Balance Sheet**  
**Public Safety Fund - Generally Accepted Accounting Principles**  
**June 30, 2017**

	Public Safety Fund Budgetary Basis	Reserve For Replacement Budgetary Basis*	Public Safety Fund Generally Accepted Accounting Principles
<b>ASSETS</b>			
Cash and Investments	\$ 1,096,757	\$ 62,000	\$ 1,158,757
Accounts Receivable	13,084	-	13,084
Property Taxes Receivable	178,913	-	178,913
<b>TOTAL ASSETS</b>	<b><u>\$ 1,288,754</u></b>	<b><u>\$ 62,000</u></b>	<b><u>\$ 1,350,754</u></b>
<b>LIABILITIES</b>			
Accounts Payable	\$ 3,163	\$ -	\$ 3,163
<b>TOTAL LIABILITIES</b>	<b><u>3,163</u></b>	<b><u>-</u></b>	<b><u>3,163</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue - Property Taxes	170,977	-	170,977
<b>FUND BALANCES</b>			
Fund Balance By Category			
Restricted	1,114,614	62,000	1,176,614
<b>TOTAL FUND BALANCES</b>	<b><u>1,114,614</u></b>	<b><u>62,000</u></b>	<b><u>1,176,614</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>	<b><u>\$ 1,288,754</u></b>	<b><u>\$ 62,000</u></b>	<b><u>\$ 1,350,754</u></b>

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

**CITY OF HAPPY VALLEY, OREGON**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund**  
**Balances - General Fund - Generally Accepted Accounting Principles**  
**for the year ended June 30, 2017**

	General Fund Budgetary Basis	Pedestrian Improvement Projects Fund Budgetary Basis	Gen Ops Reserve Fund Budgetary Basis	Reserve for Replacement Budgetary Basis *	Debt Service Budgetary Basis	General Fund Generally Accepted Accounting Principles
<b>REVENUES</b>						
Property Taxes	\$ 1,611,397	\$ -	\$ -	\$ -	\$ -	\$ 1,611,397
Licenses & Permits	4,982,229	-	-	-	-	4,982,229
Intergovernmental	719,001	-	-	-	-	719,001
Other Revenue	854,897	7,858	-	201,805	-	1,064,560
<b>TOTAL REVENUES</b>	<b>8,167,524</b>	<b>7,858</b>	<b>-</b>	<b>201,805</b>	<b>-</b>	<b>8,377,187</b>
<b>EXPENDITURES</b>						
Current:						
General Government	5,817,372	-	-	157,455	-	5,974,827
Public Safety	544,127	-	-	-	-	544,127
Debt Service						
Principal	-	-	-	-	3,530,000	3,530,000
Interest	32,786	-	-	-	73,513	106,299
Capital Outlay	-	109,875	-	730,465	-	840,340
<b>TOTAL EXPENDITURES</b>	<b>6,394,285</b>	<b>109,875</b>	<b>-</b>	<b>887,920</b>	<b>3,603,513</b>	<b>10,995,593</b>
<b>EXCESS REVENUES OVER (UNDER)</b>						
<b>EXPENDITURES</b>	<b>1,773,239</b>	<b>(102,017)</b>	<b>-</b>	<b>(686,115)</b>	<b>(3,603,513)</b>	<b>(2,618,406)</b>
<b>OTHER FINANCING SOURCES, (USES)</b>						
Transfers In	994,320	100,000	198,974	400,000	985,026	2,678,320
Transfers Out	(1,804,644)	(36,900)	-	-	-	(1,841,544)
<b>TOTAL OTHER FINANCING</b>						
<b>SOURCES (USES)</b>	<b>(810,324)</b>	<b>63,100</b>	<b>198,974</b>	<b>400,000</b>	<b>985,026</b>	<b>836,776</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>962,915</b>	<b>(38,917)</b>	<b>198,974</b>	<b>(286,115)</b>	<b>(2,618,487)</b>	<b>(1,781,630)</b>
FUND BALANCES - beginning	4,206,967	814,968	2,000,000	1,919,414	2,618,487	11,559,836
FUND BALANCES - ending	<u>\$ 5,169,882</u>	<u>776,051</u>	<u>\$ 2,198,974</u>	<u>\$ 1,633,299</u>	<u>\$ -</u>	<u>\$ 9,778,206</u>

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

**CITY OF HAPPY VALLEY, OREGON**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund**  
**Balances - Library Fund - Generally Accepted Accounting Principles**  
**for the year ended June 30, 2017**

	Library Fund Budgetary Basis	Reserve for Replacement Budgetary Basis*	Library Fund Generally Accepted Accounting Principles
<b>REVENUES</b>			
District Revenue	\$ 2,520,489	\$ -	\$ 2,520,489
Other Revenue	93,690	-	93,690
<b>TOTAL REVENUES</b>	<b>2,614,179</b>	<b>-</b>	<b>2,614,179</b>
<b>EXPENDITURES</b>			
Current:			
Cultural and Recreation	1,685,135	2,153	1,687,288
Capital Outlay	-	45,114	45,114
<b>TOTAL EXPENDITURES</b>	<b>1,685,135</b>	<b>47,267</b>	<b>1,732,402</b>
<b>EXCESS OF REVENUES OVER (UNDER)</b> <b>EXPENDITURES</b>	<b>929,044</b>	<b>(47,267)</b>	<b>881,777</b>
<b>OTHER FINANCING SOURCES, (USES)</b>			
Transfers In	-	1,850,000	1,850,000
Transfers Out	(2,239,600)	-	(2,239,600)
<b>TOTAL OTHER FINANCING</b> <b>SOURCES (USES)</b>	<b>(2,239,600)</b>	<b>1,850,000</b>	<b>(389,600)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(1,310,556)</b>	<b>1,802,733</b>	<b>492,177</b>
<b>FUND BALANCES - beginning</b>	<b>2,785,983</b>	<b>619,052</b>	<b>3,405,035</b>
<b>FUND BALANCES - ending</b>	<b>\$ 1,475,427</b>	<b>\$ 2,421,785</b>	<b>\$ 3,897,212</b>

\* 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
- STREET FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

**CITY OF HAPPY VALLEY, OREGON**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund**  
**Balances - Street Fund - Generally Accepted Accounting Principles**  
**for the year ended June 30, 2017**

	Street Fund Budgetary Basis	Reserve for Replacement Budgetary Basis*	Street Fund Generally Accepted Accounting Principles
<b>REVENUES</b>			
Intergovernmental	\$ 69,793	\$ -	\$ 69,793
Gas Tax	1,090,431	-	1,090,431
Local Fuel Tax	53,268	-	53,268
Other Revenue	294,964	-	294,964
<b>TOTAL REVENUES</b>	<b>1,508,456</b>	<b>-</b>	<b>1,508,456</b>
<b>EXPENDITURES</b>			
Current:			
Street	539,175	-	539,175
Capital Outlay	27,722	-	27,722
<b>TOTAL EXPENDITURES</b>	<b>566,897</b>	<b>-</b>	<b>566,897</b>
<b>EXCESS OF REVENUES OVER (UNDER)</b> <b>EXPENDITURES</b>	<b>941,559</b>	<b>-</b>	<b>941,559</b>
<b>OTHER FINANCING SOURCES, (USES)</b>			
Transfers In	-	100,000	100,000
Transfers Out	(267,470)	-	(267,470)
<b>TOTAL OTHER FINANCING</b> <b>SOURCES (USES)</b>	<b>(267,470)</b>	<b>100,000</b>	<b>(167,470)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>674,089</b>	<b>100,000</b>	<b>774,089</b>
<b>FUND BALANCES - beginning</b>	<b>1,737,275</b>	<b>230,900</b>	<b>1,968,175</b>
<b>FUND BALANCES - ending</b>	<b>\$ 2,411,364</b>	<b>\$ 330,900</b>	<b>\$ 2,742,264</b>

\* 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  
- LIBRARY FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

**CITY OF HAPPY VALLEY, OREGON**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund**  
**Balances - Public Safety Fund - Generally Accepted Accounting Principles**  
**for the year ended June 30, 2017**

	Public Safety Fund Budgetary Basis	Reserve for Replacement Budgetary Basis*	Public Safety Fund Generally Accepted Accounting Principles
<b>REVENUES</b>			
Property Taxes	\$ 3,295,313	\$ -	\$ 3,295,313
Other Revenue	94,771	-	94,771
<b>TOTAL REVENUES</b>	<b>3,390,084</b>	<b>-</b>	<b>3,390,084</b>
<b>EXPENDITURES</b>			
Current:			
Public Safety	2,890,512	-	2,890,512
<b>TOTAL EXPENDITURES</b>	<b>2,890,512</b>	<b>-</b>	<b>2,890,512</b>
<b>EXCESS OF REVENUES OVER (UNDED)</b> <b>EXPENDITURES</b>	<b>499,572</b>	<b>-</b>	<b>499,572</b>
<b>OTHER FINANCING SOURCES, (USES)</b>			
Transfers Out	(301,450)	-	(301,450)
<b>TOTAL OTHER FINANCING</b> <b>SOURCES (USES)</b>	<b>(301,450)</b>	<b>-</b>	<b>(301,450)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>198,122</b>	<b>-</b>	<b>198,122</b>
FUND BALANCES - beginning	916,492	62,000	978,492
FUND BALANCES - ending	<u>\$ 1,114,614</u>	<u>\$ 62,000</u>	<u>\$ 1,176,614</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  
- LIBRARY FUND - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

**CITY OF HAPPY VALLEY, OREGON**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Actual and Budget**  
**for the year ended June 30, 2017**

**GENERAL FUND - BUDGETARY BASIS**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Property Taxes	\$ 1,547,900	\$ 1,547,900	\$ 1,611,397	\$ 63,497
Licenses, Fees, and Permits:				
ROW Use Fees	1,240,000	1,240,000	1,572,402	332,402
Building Permits and Fees	1,700,000	1,700,000	1,735,331	35,331
Planning Fees	350,000	350,000	687,469	337,469
Engineering Fees	400,000	400,000	671,389	271,389
User Related Fees	220,000	220,000	315,638	95,638
Total Licenses, Fees, and Permits	3,910,000	3,910,000	4,982,229	1,072,229
Intergovernmental:				
State Shared Revenues	450,000	450,000	500,284	50,284
Intergovernmental	122,550	122,550	218,717	96,167
Total Intergovernmental	572,550	572,550	719,001	146,451
Other Revenue:				
Traffic Fines	465,000	465,000	513,119	48,119
Municipal Court	60,000	60,000	56,390	(3,610)
Miscellaneous Revenue	155,000	155,000	285,388	130,388
Total Other Revenue	680,000	680,000	854,897	174,897
TOTAL REVENUES	6,710,450	6,710,450	8,167,524	1,457,074
<b>EXPENDITURES</b>				
Administration	\$ 2,369,400	\$ 2,369,400	\$ 2,352,090	\$ 17,310
Community Services & Public Safety	1,189,300	1,189,300	1,088,255	101,045
Economic & Community Development	2,481,300	2,481,300	2,351,233	130,067
Public Works	627,100	627,100	569,921	57,179
Non-departmental	100,000	100,000	32,786	67,214
Contingency	2,133,138	2,133,138	-	2,133,138
TOTAL EXPENDITURES	8,900,238	8,900,238	6,394,285	2,505,953
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,189,788)	(2,189,788)	1,773,239	3,963,027
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	994,320	994,320	994,320	-
Transfers Out To:				
Parks Fund	(181,000)	(181,000)	(120,644)	60,356
Pedestrian Improvement Projects Fund	(100,000)	(100,000)	(100,000)	-
Reserve for General Operations Fund	(198,974)	(198,974)	(198,974)	-
Reserve for Replacement Fund	(400,000)	(400,000)	(400,000)	-
Debt Service Fund	(985,026)	(985,026)	(985,026)	-
TOTAL OTHER FINANCING SOURCES (USES)	(870,680)	(870,680)	(810,324)	(60,356)
NET CHANGE IN FUND BALANCE	(3,060,468)	(3,060,468)	962,915	4,023,383
FUND BALANCE - beginning	3,060,468	3,060,468	4,206,967	1,146,499
FUND BALANCE - ending	\$ -	\$ -	\$ 5,169,882	\$ 5,169,882

\* Demonstrates compliance at the legal level of budgetary control.

**CITY OF HAPPY VALLEY, OREGON**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Actual and Budget**  
**for the year ended June 30, 2017**

**LIBRARY FUND - BUDGETARY BASIS**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
User Related Fees	\$ 43,000	\$ 43,000	\$ 44,019	\$ 1,019
District Revenue	2,456,265	2,456,265	2,520,489	64,224
Miscellaneous Revenue	18,500	18,500	49,671	31,171
TOTAL REVENUES	<u>2,517,765</u>	<u>2,517,765</u>	<u>2,614,179</u>	<u>96,414</u>
<b>EXPENDITURES</b>				
Personal Services	1,386,900	1,386,900	1,263,162	123,738
Materials and Services	513,000	513,000	421,973	91,027
Contingency	1,053,505	1,053,505	-	1,053,505
TOTAL EXPENDITURES	<u>2,953,405</u>	<u>2,953,405</u>	<u>1,685,135</u>	<u>1,268,270</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(435,640)</u>	<u>(435,640)</u>	<u>929,044</u>	<u>1,364,684</u>
<b>OTHER FINANCING SOURCES, (USES)</b>				
Transfers Out To:				
General Fund	(389,600)	(389,600)	(389,600)	-
Reserve for Replacement	(1,850,000)	(1,850,000)	(1,850,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,239,600)</u>	<u>(2,239,600)</u>	<u>(2,239,600)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(2,675,240)	(2,675,240)	(1,310,556)	1,364,684
FUND BALANCE - beginning	2,675,240	2,675,240	2,785,983	110,743
FUND BALANCE - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,475,427</u>	<u>\$ 1,475,427</u>

\* Demonstrates compliance at the legal level of budgetary control.

**CITY OF HAPPY VALLEY, OREGON**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Actual and Budget**  
**for the year ended June 30, 2017**

**STREET FUND - BUDGETARY BASIS**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Intergovernmental	\$ 40,000	\$ 40,000	\$ 69,793	\$ 29,793
Gas Tax	1,006,300	1,006,300	1,090,431	84,131
Local Fuel Tax	60,000	60,000	53,268	(6,732)
Miscellaneous Revenue	2,000	2,000	294,964	292,964
TOTAL REVENUES	<u>1,108,300</u>	<u>1,108,300</u>	<u>1,508,456</u>	<u>400,156</u>
<b>EXPENDITURES</b>				
Personal Services	278,000	278,000	273,021	4,979
Materials and Services	281,000	281,000	266,154	14,846
Capital Outlay	686,417	686,417	27,722	658,695
TOTAL EXPENDITURES	<u>1,245,417</u>	<u>1,245,417</u>	<u>566,897</u>	<u>678,520</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(137,117)</u>	<u>(137,117)</u>	<u>941,559</u>	<u>1,078,676</u>
<b>OTHER FINANCING SOURCES, (USES)</b>				
Transfers Out To:				
General Fund	(167,470)	(167,470)	(167,470)	-
Reserve for Replacement	(100,000)	(100,000)	(100,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(267,470)</u>	<u>(267,470)</u>	<u>(267,470)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(404,587)	(404,587)	674,089	1,078,676
FUND BALANCE - beginning	<u>1,550,532</u>	<u>1,550,532</u>	<u>1,737,275</u>	<u>186,743</u>
FUND BALANCE - ending	<u>\$ 1,145,945</u>	<u>\$ 1,145,945</u>	<u>\$ 2,411,364</u>	<u>\$ 1,265,419</u>

\* Demonstrates compliance at the legal level of budgetary control.

**CITY OF HAPPY VALLEY, OREGON**  
**Schedules of Revenues, Expenditures and Changes in Fund Balance**  
**Actual and Budget**  
**for the year ended June 30, 2017**

**PEDESTRIAN IMPROVEMENT PROJECTS FUND - BUDGETARY BASIS**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Miscellaneous Revenue	\$ 2,000	\$ 2,000	\$ 7,858	\$ 5,858
TOTAL REVENUES	<u>2,000</u>	<u>2,000</u>	<u>7,858</u>	<u>5,858</u>
<b>EXPENDITURES</b>				
Materials and Services	10,000	10,000	-	10,000
Capital Outlay	835,500	835,500	109,875	725,625
TOTAL EXPENDITURES	<u>845,500</u>	<u>845,500</u>	<u>109,875</u>	<u>735,625</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(843,500)</u>	<u>(843,500)</u>	<u>(102,017)</u>	<u>741,483</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	100,000	100,000	100,000	-
Transfers Out To: General Fund	<u>(36,900)</u>	<u>(36,900)</u>	<u>(36,900)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>63,100</u>	<u>63,100</u>	<u>63,100</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(780,400)	(780,400)	(38,917)	741,483
FUND BALANCE - beginning	<u>780,400</u>	<u>780,400</u>	<u>814,968</u>	<u>34,568</u>
FUND BALANCE - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 776,051</u>	<u>\$ 776,051</u>

**CITY OF HAPPY VALLEY, OREGON**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Actual and Budget**  
**for the year ended June 30, 2017**

**PUBLIC SAFETY FUND - BUDGETARY BASIS**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Miscellaneous Revenue	\$ 40,000	\$ 40,000	\$ 94,771	\$ 54,771
Property Taxes	3,226,500	3,226,500	3,295,313	68,813
TOTAL REVENUES	<u>3,266,500</u>	<u>3,266,500</u>	<u>3,390,084</u>	<u>123,584</u>
<b>EXPENDITURES</b>				
Materials and Services	2,891,190	2,891,190	2,890,512	678
Contingency	961,375	961,375	-	961,375
TOTAL EXPENDITURES	<u>3,852,565</u>	<u>3,852,565</u>	<u>2,890,512</u>	<u>962,053</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(586,065)</u>	<u>(586,065)</u>	<u>499,572</u>	<u>1,085,637</u>
<b>OTHER FINANCING (USES)</b>				
Transfers Out To:				
General Fund	(301,450)	(301,450)	(301,450)	-
Reserve for Replacement	(30,000)	(30,000)	-	30,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>(331,450)</u>	<u>(331,450)</u>	<u>(301,450)</u>	<u>30,000</u>
NET CHANGE IN FUND BALANCE	(917,515)	(917,515)	198,122	1,115,637
FUND BALANCE - beginning	<u>917,515</u>	<u>917,515</u>	<u>916,492</u>	<u>(1,023)</u>
FUND BALANCE - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,114,614</u>	<u>\$ 1,114,614</u>

\* Demonstrates compliance at the legal level of budgetary control.

**CITY OF HAPPY VALLEY, OREGON**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Actual and Budget**  
**for the year ended June 30, 2017**

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**GENERAL OPERATIONS RESERVE FUND - BUDGETARY BASIS**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers In From:				
General Fund	\$ 198,974	\$ 198,974	\$ 198,974	\$ -
NET CHANGE IN FUND BALANCE	198,974	198,974	198,974	-
FUND BALANCE - beginning	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>	<u>-</u>
FUND BALANCE - ending	<u><u>\$ 2,198,974</u></u>	<u><u>\$ 2,198,974</u></u>	<u><u>\$ 2,198,974</u></u>	<u><u>\$ -</u></u>

**CITY OF HAPPY VALLEY, OREGON**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Actual and Budget**  
**for the year ended June 30, 2017**

**RESERVE FOR REPLACEMENT FUND - BUDGETARY BASIS**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
PEG Fees	\$ 155,000	\$ 155,000	\$ 176,495	\$ 21,495
Miscellaneous Revenue	-	-	25,310	25,310
<b>TOTAL REVENUES</b>	<b>155,000</b>	<b>155,000</b>	<b>201,805</b>	<b>46,805</b>
<b>EXPENDITURES</b>				
Materials and Services	765,000	765,000	159,608	605,392
Capital Outlay	1,575,000	1,575,000	775,579	799,421
<b>TOTAL EXPENDITURES</b>	<b>2,340,000</b>	<b>2,340,000</b>	<b>935,187</b>	<b>1,404,813</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(2,185,000)</b>	<b>(2,185,000)</b>	<b>(733,382)</b>	<b>1,451,618</b>
Transfers In From:				
General Fund	400,000	400,000	400,000	-
Street Fund	100,000	100,000	100,000	-
Library	1,850,000	1,850,000	1,850,000	-
Public Safety Fund	30,000	30,000	-	(30,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>2,380,000</b>	<b>2,380,000</b>	<b>2,350,000</b>	<b>(30,000)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>195,000</b>	<b>195,000</b>	<b>1,616,618</b>	<b>1,374,813</b>
<b>FUND BALANCE - beginning</b>	<b>2,300,000</b>	<b>2,300,000</b>	<b>2,831,366</b>	<b>531,366</b>
<b>FUND BALANCE - ending</b>	<b>\$ 2,495,000</b>	<b>\$ 2,495,000</b>	<b>\$ 4,447,984</b>	<b>\$ 1,952,984</b>

**CITY OF HAPPY VALLEY, OREGON**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Actual and Budget**  
**for the year ended June 30, 2017**

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**RESERVE FOR DEBT SERVICE FUND - BUDGETARY BASIS**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>EXPENDITURES</b>				
Debt Service				
Principal Payments	\$ 3,530,000	\$ 3,530,000	\$ 3,530,000	\$ -
Interest Payments	<u>73,513</u>	<u>73,513</u>	<u>73,513</u>	<u>-</u>
Total Debt Services	<u>3,603,513</u>	<u>3,603,513</u>	<u>3,603,513</u>	<u>-</u>
TOTAL EXPENDITURES	<u>3,603,513</u>	<u>3,603,513</u>	<u>3,603,513</u>	<u>-</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers In				
From General Fund	<u>985,026</u>	<u>985,026</u>	<u>985,026</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(2,618,487)	(2,618,487)	(2,618,487)	-
FUND BALANCE - beginning	<u>2,618,487</u>	<u>2,618,487</u>	<u>2,618,487</u>	<u>-</u>
FUND BALANCE - ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

## **STATISTICAL SECTION**

# STATISTICAL SECTION

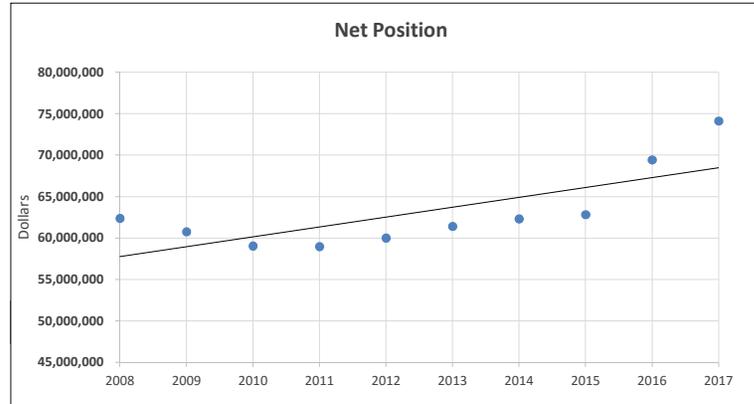
This part of the Government's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

<b>Table of Contents</b>	<b>Page</b>
Financial Trends	62 - 66
<i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	
Revenue Capacity	67 - 69
<i>These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.</i>	
Debt Capacity	70 - 74
<i>This schedule presents information to help the reader assess the affordability of the government's current level of outstanding debt and the government's ability to issue additional debt in the future.</i>	
Operating Information	75 - 79
<i>This schedule contains servicedata to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i>	

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**CITY OF HAPPY VALLEY, OREGON**  
**Net Position by Component**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities										
Net investment in capital assets	\$ 50,638,277	\$ 53,377,979	\$ 52,107,967	\$ 51,755,194	\$ 51,692,187	\$ 50,887,724	\$ 50,075,936	\$ 50,101,809	\$ 52,179,591	\$ 57,448,724
Net position - restricted	-	-	-	-	3,968,439	3,169,038	3,357,477	3,520,302	7,554,021	8,398,586
Net position - unrestricted	11,748,377	7,390,456	6,946,138	7,224,869	4,349,283	7,362,168	8,885,486	9,208,316	9,695,509	8,266,552
Total governmental activities net position	<u>\$ 62,386,654</u>	<u>\$ 60,768,435</u>	<u>\$ 59,054,105</u>	<u>\$ 58,980,063</u>	<u>\$ 60,009,909</u>	<u>\$ 61,418,930</u>	<u>\$ 62,318,899</u>	<u>\$ 62,830,427</u>	<u>\$ 69,429,121</u>	<u>\$ 74,113,862</u>



**CITY OF HAPPY VALLEY, OREGON**  
**Changes in Net Position**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses										
Governmental Activities:										
General government	\$ 5,707,405	\$ 7,136,560	\$ 7,273,476	\$ 6,294,948	\$ 5,643,667	\$ 7,446,207	\$ 8,447,692	\$ 8,427,337	\$ 6,589,158	\$ 6,568,236
Cultural and Recreation	2,054,712	126,200	97,482	104,307	228,276	255,454	281,561	285,790	2,450,253	2,381,909
Public Safety	-	-	-	-	-	-	-	-	3,317,382	3,513,955
Highways and Streets	28,668	311,208	615,911	337,855	921,974	1,097,307	770,717	767,425	2,253,225	2,132,690
Interest of long term debt	181,666	205,360	199,728	192,185	184,322	176,141	167,642	158,717	151,700	106,299
Total Expenses	<u>7,972,451</u>	<u>7,779,328</u>	<u>8,186,597</u>	<u>6,929,295</u>	<u>6,978,239</u>	<u>8,975,109</u>	<u>9,667,612</u>	<u>9,639,269</u>	<u>14,761,718</u>	<u>14,703,089</u>
Program Revenues										
Governmental Activities:										
Charges for services										
General government	\$ 2,165,381	\$ 1,830,442	\$ 1,440,118	\$ 1,509,441	\$ 2,266,446	\$ 2,684,628	\$ 3,498,523	\$ 2,485,750	\$ 3,485,268	\$ 3,409,827
Cultural and Recreation	22,651	71,006	36,668	16,063	28,499	-	-	-	42,554	44,019
Public Safety	-	-	-	-	-	-	-	-	579,912	569,509
Highways and Streets	119,936	156,529	132,302	129,571	190,065	324,176	206,470	67,584	150,134	73,112
Total Program Revenues	<u>2,307,968</u>	<u>2,057,977</u>	<u>1,609,088</u>	<u>1,655,075</u>	<u>2,485,010</u>	<u>3,008,804</u>	<u>3,704,993</u>	<u>2,553,334</u>	<u>4,257,868</u>	<u>4,096,467</u>
Net (Expense)/Revenue										
Governmental Activities	<u>\$ (5,664,483)</u>	<u>\$ (5,721,351)</u>	<u>\$ (6,577,509)</u>	<u>\$ (5,274,220)</u>	<u>\$ (4,493,229)</u>	<u>\$ (5,966,305)</u>	<u>\$ (5,962,619)</u>	<u>\$ (7,085,935)</u>	<u>\$ (10,503,850)</u>	<u>\$ (10,606,622)</u>
General Revenues										
Governmental Activities:										
Property Taxes	2,633,223	\$ 3,014,825	\$ 3,189,193	\$ 3,270,206	3,378,350	3,437,933	3,724,620	4,063,743	4,531,874	4,922,420
Other Taxes	428,381	422,485	475,910	602,531	774,660	803,621	875,088	1,934,097	2,100,890	2,662,833
Intergovernmental-unrestrictec	559,998	567,585	542,842	587,554	653,180	790,718	851,229	847,935	845,854	1,052,558
Other Revenue	1,036,599	749,804	655,234	739,887	716,885	855,677	1,411,651	1,784,873	6,698,822	6,653,552
Gain (loss) on sale of capital assets	531,948	-	-	-	-	-	-	-	-	-
Special Item	-	-	-	-	-	-	-	-	2,925,104	-
Total general revenues, transfers, and special item	<u>\$ 5,190,149</u>	<u>\$ 4,754,699</u>	<u>\$ 4,863,179</u>	<u>\$ 5,200,178</u>	<u>\$ 5,523,075</u>	<u>\$ 5,887,949</u>	<u>\$ 6,862,588</u>	<u>\$ 8,630,648</u>	<u>\$ 17,102,544</u>	<u>\$ 15,291,363</u>
Change in Net Position	<u>\$ (474,334)</u>	<u>\$ (966,652)</u>	<u>\$ (1,714,330)</u>	<u>\$ (74,042)</u>	<u>\$ 1,029,846</u>	<u>\$ (78,356)</u>	<u>\$ 899,969</u>	<u>\$ 1,544,713</u>	<u>\$ 6,598,694</u>	<u>\$ 4,684,741</u>

CITY OF HAPPY VALLEY, OREGON  
Fund Balances of Governmental Funds  
Last Ten Fiscal Years  
(modified accrual basis of accounting)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Fund										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,744	\$ 20,963	\$ 46,655	\$ 20,054	\$ 152,186
Restricted	-	-	-	-	604,874	501,707	574,984	526,381	677,784	919,791
Committed	-	-	-	-	-	2,645,793	3,413,463	5,132,372	5,860,117	3,688,533
Assigned	-	-	-	497,608	537,122	-	-	-	-	-
Unassigned	815,253	786,385	1,708,335	1,966,658	3,319,453	4,307,735	5,048,990	3,059,652	4,186,913	5,017,696
Total general fund	<u>\$ 815,253</u>	<u>\$ 786,385</u>	<u>\$ 1,708,335</u>	<u>\$ 2,464,266</u>	<u>\$ 4,461,449</u>	<u>\$ 7,477,979</u>	<u>\$ 9,058,400</u>	<u>\$ 8,765,060</u>	<u>\$ 10,744,868</u>	<u>\$ 9,778,206</u>
All other governmental funds										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ 4,361,626	\$ 3,466,732	\$ 2,571,310	\$ 2,810,133	\$ 2,795,863	\$ 7,326,609
Committed	-	-	-	-	-	(1,809,583)	(439,251)	313,914	1,145,945	1,415,222
Assigned	-	-	-	-	210,683	-	-	-	-	-
Unassigned	10,981,135	10,778,340	5,479,053	4,775,065	-	-	-	-	-	-
Total all other governmental funds	<u>\$ 10,981,135</u>	<u>\$ 10,778,340</u>	<u>\$ 5,479,053</u>	<u>\$ 4,775,065</u>	<u>\$ 4,572,309</u>	<u>\$ 1,657,149</u>	<u>\$ 2,132,059</u>	<u>\$ 3,124,047</u>	<u>\$ 3,941,808</u>	<u>\$ 8,741,831</u>

CITY OF HAPPY VALLEY, OREGON  
Changes in Fund Balances of Governmental Funds  
Last Ten Fiscal Years  
(modified accrual basis of accounting)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>REVENUES</b>										
Property taxes	\$ 2,595,325	\$ 2,961,417	\$ 3,173,950	\$ 3,279,877	\$ 3,344,880	\$ 3,434,415	\$ 3,732,944	\$ 4,052,038	\$ 4,506,549	\$ 4,906,710
Gas Tax	428,381	422,485	475,910	602,531	774,660	803,621	875,088	930,226	1,010,589	1,090,431
Licenses and permits	2,263,718	1,934,931	1,560,507	1,625,496	2,402,384	2,794,665	3,611,799	3,489,621	4,575,569	4,982,229
System Development Charges	44,250	123,046	48,581	29,579	82,626	214,139	93,194	67,584	150,134	73,112
Intergovernmental	559,998	567,585	542,842	587,554	653,180	790,718	851,229	847,935	845,854	1,052,558
Other Revenue	1,036,599	749,804	655,234	739,887	716,885	855,677	1,035,281	1,059,457	3,580,331	4,141,667
Total Revenues	<u>6,928,271</u>	<u>6,759,268</u>	<u>6,457,024</u>	<u>6,864,924</u>	<u>7,974,615</u>	<u>8,893,235</u>	<u>10,199,535</u>	<u>10,446,861</u>	<u>14,669,026</u>	<u>16,246,707</u>
<b>EXPENDITURES</b>										
Current:										
General Government	*	*	*	*	*	*	*	*	5,403,850	5,974,827
Cultural and Recreation	*	*	*	*	*	*	*	*	1,907,849	1,973,780
Public Safety	*	*	*	*	*	*	*	*	3,160,695	3,434,639
Highways and Streets	*	*	*	*	*	*	*	*	427,049	539,175
Personal Services	2,573,378	2,824,943	2,952,546	2,900,904	2,875,971	3,200,252	3,622,454	3,981,299	-	-
Materials & Services	2,202,367	3,134,640	3,184,748	2,973,049	3,083,355	3,445,210	3,864,569	4,460,263	-	-
Debt Service:										
Principal	-	90,000	175,000	180,000	190,000	195,000	205,000	215,000	220,000	3,530,000
Interest and fiscal charges	183,894	207,588	201,956	194,413	186,550	178,369	169,869	160,944	151,700	106,299
Capital Outlay	10,130,390	4,879,434	386,439	321,706	551,212	1,152,157	654,784	904,928	434,262	914,946
Total Expenditures	<u>15,090,029</u>	<u>11,136,605</u>	<u>6,900,689</u>	<u>6,570,072</u>	<u>6,887,088</u>	<u>8,170,988</u>	<u>8,516,676</u>	<u>9,722,434</u>	<u>11,705,405</u>	<u>16,473,666</u>
Excess (Deficiency) of Revenues over Expenditures	(8,161,758)	(4,377,337)	(443,665)	294,852	1,087,527	722,247	1,682,859	724,427	2,963,621	(226,959)
<b>OTHER FINANCING SOURCES (USES)</b>										
Transfers in	1,796,143	1,142,440	2,061,390	342,900	884,083	2,652,413	1,925,079	6,143,938	2,929,855	4,748,964
Transfers out	(1,796,143)	(1,142,440)	(2,061,390)	(342,900)	(884,083)	(2,652,413)	(1,925,079)	(6,143,938)	(2,929,855)	(4,748,964)
Bond Proceeds	5,044,546	-	-	-	-	-	-	-	-	-
Proceeds from Land Sale	2,885,549	-	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>7,930,095</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Special Item	-	-	-	-	-	-	-	-	2,925,104	-
Net change in fund balances	<u>\$ (231,663)</u>	<u>\$ (4,377,337)</u>	<u>\$ (443,665)</u>	<u>\$ 294,852</u>	<u>\$ 1,087,527</u>	<u>\$ 722,247</u>	<u>\$ 1,682,859</u>	<u>\$ 724,427</u>	<u>\$ 5,888,725</u>	<u>\$ (226,959)</u>
Debt service as a percentage of noncapital expenditures	2.72%	4.68%	5.58%	6.85%	7.06%	4.98%	4.80%	4.60%	4.69%	28.25%

\* = Reported using Personal Services and Materials & Services categories

**CITY OF HAPPY VALLEY, OREGON**

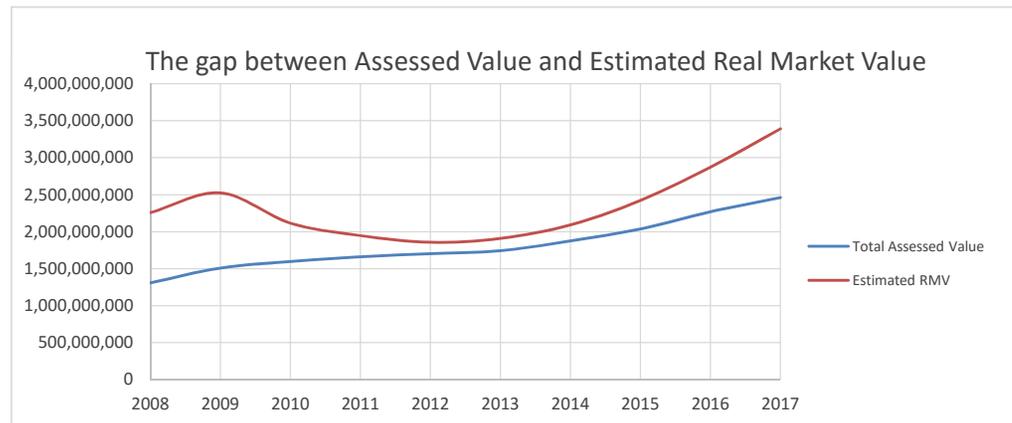
**Assessed Value and Estimated Value of Taxable Property**

**Last Ten Fiscal Years**

Fiscal Year Ended June 30	Assessed Value					Total direct tax rate	RMV	Assessed value as percentage of RMV
	Real property	Personal property	Manuf'd structure	Public utility	Total assessed value		Estimated real market value (RMV)	
2008	1,279,795,614	5,357,440	1,092,109	22,157,590	1,308,402,753	2.05	2,257,260,873	58.00
2009	1,473,382,597	9,569,639	1,150,881	24,327,080	1,508,430,197	2.05	2,525,081,387	59.70
2010	1,548,398,234	8,249,070	1,072,634	39,468,140	1,597,188,078	2.05	2,116,716,946	75.46
2011	1,610,806,718	8,698,169	1,046,052	40,575,700	1,661,126,639	2.05	1,947,677,381	85.30
2012	1,651,831,555	7,806,424	1,052,525	42,239,100	1,702,929,604	2.05	1,857,342,675	91.70
2013	1,694,660,433	6,990,997	1,174,223	40,380,600	1,743,206,253	2.05	1,909,870,958	91.30
2014	1,825,265,969	7,350,321	1,181,489	41,387,160	1,875,184,939	2.05	2,092,293,811	89.60
2015	1,983,949,205	7,168,002	1,652,341	45,110,200	2,037,879,748	2.05	2,423,646,555	84.10
2016	2,207,472,001	8,319,410	2,198,711	51,660,000	2,269,650,122	2.05	2,874,727,083	66.91
2017	2,398,435,939	8,482,412	2,283,394	53,606,800	2,462,808,545	2.05	3,392,208,454	72.60

Source: Clackamas County Assessor's Office

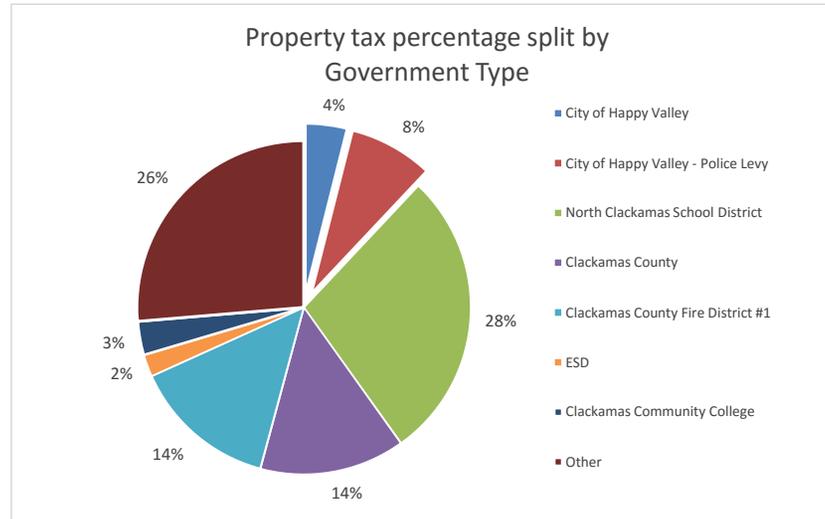
Note: Property is generally assessed as of July 1st of each fiscal year



**CITY OF HAPPY VALLEY, OREGON**  
**Property Tax Rates - Direct and Overlapping Governments**  
**Last Ten Fiscal Years**

Fiscal Year	City direct rates			Overlapping Rates							Total Direct and Overlapping
	General Operating	Police Levy	Total Direct Rate	School District	Clackamas County	Clackamas County Fire Dist #1	Education Service District	Clackamas Community College	Other		
2008	0.671	1.38	2.05	4.62	2.40	2.30	0.3620	0.5476	2.9772	15.27	
2009	0.671	1.38	2.05	4.60	2.40	2.31	0.3611	0.5463	4.2478	16.52	
2010	0.671	1.38	2.05	4.57	2.40	2.30	0.3620	0.5450	4.1581	16.39	
2011	0.671	1.38	2.05	4.57	2.40	2.30	0.3619	0.5449	4.7140	16.94	
2012	0.671	1.38	2.05	4.59	2.40	2.30	0.3624	0.5459	4.6982	16.95	
2013	0.671	1.38	2.05	4.58	2.40	2.30	0.3623	0.5455	5.1748	17.42	
2014	0.671	1.38	2.05	4.82	2.40	2.38	0.3676	0.5560	4.4411	17.02	
2015	0.671	1.38	2.05	4.87	2.40	2.40	0.3687	0.5582	4.2772	16.93	
2016	0.671	1.38	2.05	4.87	2.40	2.40	0.3687	0.5582	4.4282	17.08	
2017	0.671	1.38	2.05	4.80	2.40	2.40	0.3687	0.5582	4.4936	17.08	

Source: Clackamas County Assessor's Office



CITY OF HAPPY VALLEY, OREGON  
Principal Property Taxpayers  
Current Year and Nine Years Ago

Rank	Taxpayer	2016-17		2007-08			
		Taxable Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Taxable Assessed Valuation	Rank	Percentage of Total Assessed Valuation
1	ROIC Oregon LLC	\$36,007,912	1	1.46%	6,402,976	4	0.49%
2	Sunrise Terrace Apartments LLC	26,921,724	2	1.09%			
3	TADC LLC	22,478,433	3	0.91%	4,853,154	6	
4	Comcast Corporation	15,226,500	4	0.62%			0.00%
5	Portland General Electric Co	14,146,000	5	0.57%	6,995,000	3	0.53%
6	Happy Valley Retirement Residence	13,383,529	6	0.54%			
7	Northwest Natural Gas Co	12,219,000	7	0.50%	8,009,200	1	0.61%
8	Eagle Landing Holdings LLC	8,020,459	8	0.33%	4,899,617	5	0.37%
9	Fred Meyer Stores Inc	5,464,015	9	0.22%			
10	Providence Health & Services- OR	5,445,722	10	0.22%	3,847,640	8	
	Misty Apartment LLC				7,746,057	2	0.59%
	Pleasant Valley Development LLC				4,621,080	7	0.35%
	DR Horton Inc - Portland				3,276,830	9	0.25%
	NNP - Taralon LLC				2,655,769		0.20%
		<u>\$ 159,313,294</u>		<u>6.47%</u>	<u>\$ 53,307,323</u>		<u>3.41%</u>

Source: Clackamas County Assessor's Office

**CITY OF HAPPY VALLEY, OREGON**  
**Property Tax Levies and Collections**  
**Last Ten Fiscal Years**

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<b>Fiscal Year Ended <u>June 30</u></b>	<b>Total Tax Levy for <u>Fiscal Year</u></b>	<b><u>Collected within the Fiscal Year of the Levy</u></b>		<b><u>Collections in Subsequent Years</u></b>	<b><u>Total Collections to Date</u></b>	
		<b><u>Amount Collected</u></b>	<b><u>Percentage of Levy</u></b>		<b><u>Amount Collected</u></b>	<b><u>Percentage of Levy</u></b>
2008	2,699,731	2,538,635	94.03%	54,227	2,592,862	96.04%
2009	3,092,721	2,880,037	93.12%	74,628	2,954,665	95.54%
2010	3,271,293	3,064,203	93.67%	108,798	3,173,001	97.00%
2011	3,379,779	3,163,897	93.61%	115,825	3,279,722	97.04%
2012	3,456,635	3,248,651	93.98%	97,334	3,345,985	96.80%
2013	3,532,604	3,331,232	94.30%	102,808	3,434,040	97.21%
2014	3,819,691	3,621,704	94.82%	108,282	3,729,986	97.65%
2015	4,167,327	3,958,522	94.99%	98,655	4,057,177	97.36%
2016	4,649,509	4,422,885	95.13%	101,790	4,524,675	97.32%
2017	5,057,268	4,821,368	95.34%	96,597	4,917,965	97.25%

Source: Annual financial statements of the City of Happy Valley

**CITY OF HAPPY VALLEY, OREGON**

**Ratios of Outstanding Debt by Type**

**Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Full Faith and Credit Obligation Bonds (1)</b>	<b>Total Outstanding Debt</b>	<b>Ratio of Debt to Assessed Value</b>	<b>Population</b>	<b>Debt per Capita</b>
	<b>Governmental Activities</b>				
2008	5,042,318	5,042,318	0.39%	11,455	440
2009	4,950,090	4,950,090	0.33%	11,465	351
2010	4,772,862	4,772,862	0.30%	14,100	333
2011	4,590,634	4,590,634	0.28%	14,337	307
2012	4,398,406	4,398,406	0.26%	14,965	282
2013	4,201,178	4,201,178	0.24%	15,575	255
2014	3,993,951	3,993,951	0.21%	16,480	228
2015	3,776,724	3,776,724	0.19%	17,510	204
2016	3,554,497	3,554,497	0.16%	18,535	178
2017	-	-	0.00%	19,985	-

(1) Presented net of original issuance discounts and premiums

**CITY OF HAPPY VALLEY, OREGON**  
**Direct and Overlapping Governmental Activities Debt**  
**As of June 30, 2017**

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<u>Government Unit:</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Amount Applicable to Primary Government</u>
Direct:			
City of Happy Valley	\$ -	N/A	\$ -
Overlapping:			
Clackamas Community College	\$ 102,608,913	7.09%	\$ 7,274,972
Clackamas County	155,330,136	5.30%	8,232,497
Clackamas County ESD	22,820,637	5.46%	1,246,007
Clackamas County RFPD	26,870,000	12.75%	3,425,925
North Clackamas School District	609,115,622	17.83%	108,605,315
Metro	183,510,000	1.28%	2,348,928
Mt Hood Community College	23,235,000	0.17%	39,500
Centennial School District	22,251,858	1.75%	389,408
Subtotal, overlapping debt			<u>131,562,551</u>
City of Happy Valley direct debt			-
Total direct and overlapping debt			<u>\$ 131,562,551</u>

Sources: Oregon State Treasury Department, Debt Management Division

Note: Overlapping governments are those that coincide, at least in part, with geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the property taxpayers of the City of Happy Valley. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the property taxpayers should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

**CITY OF HAPPY VALLEY, OREGON**  
**Ratios of Debt Outstanding**  
**Last Ten Fiscal Years**

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<b>Fiscal Year Ended June 30</b>	<b>Full Faith and Credit Obligation Bonds (2)</b>	<b>Less: Amounts Available in Debt Service Fund (3)</b>	<b>Total</b>	<b>Percentage of Estimated Actual Taxable Value of Property (1)</b>	<b>Per Capita</b>
2008	5,042,318	0	5,042,318	0.22%	440
2009	4,950,090	0	4,950,090	0.20%	351
2010	4,772,862	0	4,772,862	0.23%	333
2011	4,590,634	0	4,590,634	0.24%	307
2012	4,398,406	0	4,398,406	0.24%	282
2013	4,201,178	0	4,201,178	0.22%	255
2014	3,993,951	376,131	3,617,820	0.17%	207
2015	3,776,724	1,990,187	1,786,537	0.07%	96
2016	3,554,497	2,618,487	936,010	0.03%	47
2017	0	0	0	0.00%	0

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements

- (1) See the Schedule of Assessed Value and the Estimated Actual Value of Taxable Property on page 67 for property value data.
- (2) Presented net of original issuance discounts and premiums
- (3) This is the amount available to make debt service principal payments

CITY OF HAPPY VALLEY, OREGON

Legal Debt Margin Information

Last Ten Fiscal Years

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Debt maximum limitation	\$ 67,717,826	\$ 75,752,442	\$ 63,501,508	\$ 58,430,321	\$ 55,720,280
Debt applicable to maximum limit	-	-	-	-	-
Legal debt margin available	<u>67,717,826</u>	<u>75,752,442</u>	<u>63,501,508</u>	<u>58,430,321</u>	<u>55,720,280</u>
Debt applicable to the maximum limit as a percentage of debt limitation	0%	0%	0%	0%	0%
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Debt maximum limitation	\$ 57,296,129	\$ 62,768,814	\$ 72,709,397	\$ 86,241,812	\$ 101,766,254
Debt applicable to maximum limit	-	-	-	-	-
Legal debt margin available	<u>57,296,129</u>	<u>62,768,814</u>	<u>72,709,397</u>	<u>86,241,812</u>	<u>101,766,254</u>
Debt applicable to the maximum limit as a percentage of debt limitation	0%	0%	0%	0%	0%

Legal debt margin calculation for the fiscal year ended June 30, 2015:

Total property real market value	\$ 3,392,208,454
	3%
Debt maximum limitation	<u>101,766,254</u>
Amount of debt applicable to debt limit:	
Total bonded debt outstanding	-
Less debt excluded from debt limit:	
Full faith and credit obligations	-
Net amount of debt applicable to limit	<u>-</u>
Legal debt margin - amount available for future indebtedness	<u>\$ 101,766,254</u>
Percentage of City's indebtedness to total allowed	0%

(1) Pursuant to Oregon Revised Statutes 287.004, outstanding general obligation debt is limited to three percent of real market value.

Source: Clackamas County Department of Assessment and Taxation

**CITY OF HAPPY VALLEY, OREGON**

**Legal Debt Margin Information**

**Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Special</b>	<b>Debt Service</b>		<b>Coverage</b>
	<b>Assessment Collections</b>	<b>Principal</b>	<b>Interest</b>	
2008	\$ -	\$ -	\$ -	-
2009	-	-	-	-
2010	-	-	-	-
2011	-	-	-	-
2012	-	-	-	-
2013	-	-	-	-
2014	-	-	-	-
2015	-	-	-	-
2016	-	-	-	-
2017	-	-	-	-

(1) No special assessment debt has been issued in the prior ten years.

Source: Annual financial statements of the City of Happy Valley

**CITY OF HAPPY VALLEY, OREGON**  
**Demographic and Economic Statistics**  
**Last Ten Fiscal Years**

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<b>Fiscal Year</b>	<b>Population(1)</b>	<b>Median Age(2)</b>	<b>Household Income</b>	<b>Per Capita Income (2)</b>	<b>HV Schools plus CCHS Enrollment (3)</b>	<b>Unemployment Rate(4)</b>
2008	11,455	37.1	*	*	4,950	7.8
2009	11,465	33.9	100,555	39,141	4,945	10.0
2010	14,100	33.4	103,633	35,823	5,592	9.3
2011	14,337	34.4	100,647	35,823	6,014	8.2
2012	14,965	36.0	96,655	35,823	6,434	7.5
2013	15,575	37.1	92,773	36,978	6,516	6.0
2014	16,480	36.8	100,438	37,813	6,585	5.5
2015	17,510	37.0	100,508	40,613	6,859	5.2
2016	18,535	36.8	94,900	38,593	6,495	4.3
2017	19,985	37	101,250	38,358	6,877	3.9

\* Information unavailable at this time.

- Sources: (1) Portland Population Research Center.  
(2) U.S. Census Bureau.  
(3) North Clackamas School District.  
(4) State Department of Labor unemployment rate for the County (not seasonally adjusted).

**CITY OF HAPPY VALLEY**

**Principal Employers**

**Current year and nine years ago**

<u>Employer</u>	<u>2017</u>			<u>2008</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Fred Meyer	279	1	8.96%			
New Seasons Market	189	2	6.07%	*		
Camp Withycombe	100	3	3.21%	*		
City of Happy Valley	86	4	2.76%	*		
Providence Medical Group Happy Val	68	5	2.18%	*		
McDonald's	50	6	1.61%	*		
Abundent Life Church	50	7	1.61%	*		
Applebee's Neighborhood Grill	42	8	1.35%	*		
Glenmoore	38	9	1.22%	*		
Premier Sport and Fitness	35	10	1.12%	*		
	<u>585</u>		<u>20.01%</u>	<u>0</u>		<u>0.00%</u>

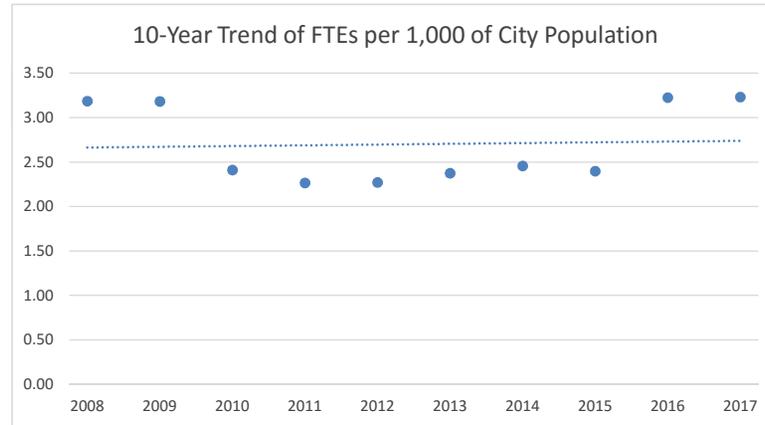
\* Historical number of employees information unavailable for this fiscal year nine years ago.

Source: City business licenses

**CITY OF HAPPY VALLEY, OREGON**  
**Full-Time Equivalent Employees by Function**  
**Last Ten Fiscal Years**

Function	Full-time Equivalent Employees as of June 30									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Administration	5.5	7	6	9	7.5	6	7	7	9	10
Community Services and Public Safety	8	8.5	9	8.5	10	10.5	10.5	10	11	11
Economic and Community Development	16	12	10	8	8.5	11.5	14	16	18	20
Public Works / Parks / Streets	7	9	9	7	8	9	9	9	9	9
Library	0	0	0	0	0	0	0	0	12.8	14.6
<b>Total FTE's</b>	<b>36.5</b>	<b>36.5</b>	<b>34</b>	<b>32.5</b>	<b>34</b>	<b>37</b>	<b>40.5</b>	<b>42</b>	<b>59.8</b>	<b>64.6</b>
Public Safety - Police Officers (contracted)	9.15	11.15	11.15	11.15	11.15	11.5	11.5	11.5	12	12
City Population	11,455	11,465	14,100	14,337	14,965	15,575	16,480	17,510	18,535	19,985
FTE's per 1,000 of population	3.19	3.18	2.41	2.27	2.27	2.38	2.46	2.40	3.23	3.23

Sources: Various city departments



CITY OF HAPPY VALLEY, OREGON  
 Operating Indicators by Function  
 Last Ten Fiscal Years

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental Activities										
Economic and Community Development										
Building										
Residential Building permits issued	163	60	91	110	158	276	350	274	418	190
Commercial Building permits issued	*	*	*	0	16	2	2	5	14	9
Planning										
Planning Permits	*	*	*	*	128	147	174	226	261	260
Engineering										
Erosion Control Permits	*	*	*	*	*	*	*	*	*	15
Site Development Permits	*	*	*	*	*	*	*	*	*	16
Right of Way Permits	*	*	*	*	*	*	*	*	*	116
Public Works:										
Street Sweeping:										
Number of miles swept	*	*	*	*	2,500	3,000	2,200	2,500	1,800	1,592
Volume of material removed (cubic yards)	*	*	*	*	285	379	757	900	900	762
Winter Storms:										
Sand applied (cubic yards)	*	*	*	*	*	26	78	8	100	206
Sand picked up after storms	*	*	*	*	*	16	50	4	60	180
Magnesium chloride/De-icing (gallons)	*	*	*	*	4,125	2,100	7,500	900	2,750	8,735
Landscape Maintenance:										
Fertilizers (lbs)	*	*	*	*	*	150	1,110	2,239	0	0
Herbicides (ounces)	*	*	*	*	*	56	190	135	480	934
Park Reservations:										
Reservations coordinated	*	*	*	*	153	172	214	210	225	255
Number of people served	*	*	*	*	*	6,078	8,218	9,207	9,722	10,315
Trees planted	*	*	*	*	*	*	3,150	925	92	1,000
Services performed on fleet vehicles	*	*	*	*	*	80	146	170	190	190
Crack seal applied on roadways (tons)	*	*	*	*	4.25	2.25	6.60	4.50	13.75	7.50
Signs cleaned and adjusted	*	*	*	*	*	*	869	920	1,148	50
Community Services										
Passports issued	*	*	803	1,935	1,339	1,690	1,882	2,316	2,592	3,377
Public Safety:										
Code Enforcement / Animal Control Cases	920	1,356	1,543	1,855	2,023	2,768	2,453	2,108	3,168	3,042
Parking citations	106	171	131	293	547	637	389	306	461	585
Number dispatched calls for service	2,715	2,918	2,871	3,110	3,159	3,251	3,471	3,517	4,361	4,466
Number of traffic violations	1,908	2,288	1,878	2,199	2,158	1,849	2,145	2,588	3,079	2,623
Number of "other" self initiated activities	1,087	2,709	2,151	2,497	2,158	1,801	1,396	1,521	1,982	2,901
Number of traffic stops	2,643	3,936	3,374	3,643	3,301	3,582	3,887	4,111	4,545	3,949
Library										
Circulation	597,390	584,645	574,645	642,790	654,150	707,958	762,069	800,944	793,476	787,888
Number of Reference Inquiries	13,392	14,162	16,420	19,580	19,580	17,930	17,452	17,868	27,219	26,889
Number of Youth Programs	104	61	63	62	87	214	225	299	401	398
Youth Program Attendance	3,305	2,673	2,425	2,887	4,145	7,581	9,807	14,127	16,163	19,051
Number of Adult Programs	0	0	0	0	3	48	91	180	197	241
Adult Program Attendance	0	0	0	0	331	587	877	2,103	2,892	3,730

Source: Various City departments  
 \* Information unavailable at this time.

**CITY OF HAPPY VALLEY**  
**Capital Asset Statistics by Function**  
**Last ten fiscal years**

Function / Program	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General Government:										
City-owned building facilities	4	4	4	4	4	4	4	4	4	3
Public Safety:										
Number of police stations	1	1	1	1	1	1	1	1	1	0
Public Works:										
Miles of streets	139.74	138.42	135.82	134.48	133.8	129.1	126.9	126.38	122.76	118.1
Number of Vehicles	38	37	36	36	36	36	36	35	35	35
Recreation and Parks										
Acres of parks and open spaces	103	103	103	103	103	103	103	103	103	103

Sources: Various city departments

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *OREGON STATE REGULATION***

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *OREGON STATE REGULATION***

Honorable Mayor and City Council  
City of Happy Valley, Oregon

We have audited the basic financial statements of the City of Happy Valley, Oregon, as of and for the year ended June 30, 2017 and have issued our report thereon dated December 4, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minimum Standards of Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State.

**Compliance**

As part of obtaining reasonable assurance about whether the 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 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:

- 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.

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. 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 162-10-330 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

**OAR 162-10-0230 Internal Control**

In planning and performing our audit, we considered the City of Happy Valley, Oregon's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion

on the effectiveness of the City of Happy Valley, Oregon's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Happy Valley, Oregon's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Minimum Standards of Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State, in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



For Merina & Company, LLP  
West Linn, Oregon  
December 4, 2017