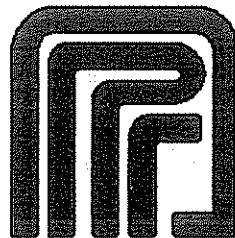


**CITY OF HAPPY VALLEY**  
**CLACKAMAS COUNTY, OREGON**

**FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2005**



**Pauly, Rogers, and Co., P.C.**  
**12700 SW 72<sup>nd</sup> Ave**  
**Tigard, OR 97223**



CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2005

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CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

CITY OFFICIALS AS OF JUNE 30, 2005

<u>NAME</u>	<u>TERM EXPIRES</u>
Eugene Grant – Mayor	December 31, 2005
Rob Wheeler – Council President	December 31, 2008
Jonathan Edwards	December 31, 2006
Chuck Dalich	December 31, 2007
Lori DeRemer	December 31, 2008

All council members receive mail at the address below.

ADMINISTRATIVE

Wanda Kuppler, City Manager  
Cathy Daw, Assistant City Manager  
12915 SE. King Road  
Happy Valley, Oregon 97236-3298  
(503) 760-3325  
(503) 760-9397

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CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

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**PAULY, ROGERS AND CO., P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

- 
- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
  - (503) 620-2632 • FAX (503) 684-7523

November 1, 2005

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Happy Valley, Clackamas County, Oregon, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. The basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of Happy Valley at June 30, 2005 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed on the table of contents, is not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Happy Valley's basic financial statements. The supplementary information, including Budgetary comparison schedules listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Pauly, Rogers and Co., P.C.*  
PAULY, ROGERS AND CO., P.C.

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

This section of the City of Happy Valley's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements and notes, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- The City's total net assets were \$52,234,906 at June 30, 2005.
- During the year, the City's net assets increased by \$4,994,131.
- The general fund reported a fund balance this year of \$2,576,799.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts: *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statement. *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

### **Government-wide Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the City's net assets and how they have changed. Net assets - the difference between the City's assets and liabilities - is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional non-financial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as general government, public safety, planning and building, streets and parks. Property taxes, franchise taxes, permits and fees, and intergovernmental revenues finance most of these activities.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the City's most significant *funds* - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City has the following kinds of funds:

- *Governmental funds* - Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

### **FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

#### **CITY OF HAPPY VALLEY - NET ASSETS**

	Total 2005	Total 2004
ASSETS:		
Current and Other Assets	\$ 8,546,603	\$ 6,917,296
Capital Assets	44,338,445	1,624,544
Total Assets	52,885,048	8,541,840
LIABILITIES:		
Current and Other Liabilities	650,142	1,094,690
Long-Term Liabilities	0	0
Total Liabilities	650,142	1,094,690
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	44,338,445	1,624,544
Unrestricted	7,896,461	5,822,606
Total Net Assets	\$ 52,234,906	\$ 7,447,150

# CITY OF HAPPY VALLEY - CHANGES IN NET ASSETS

	Total 2005	Total 2004
REVENUES:		
Program Revenues:		
Charges for Services	\$ 3,903,213	\$ 2,881,934
General Revenues:		
Property Taxes-Perm Rate	474,340	435,989
Property Taxes-Levy	925,638	789,284
Other Taxes	312,783	267,775
Intergovernmental	233,821	894,734
Other	329,964	271,232
Total Revenues	<u>6,179,759</u>	<u>5,540,948</u>
EXPENSES:		
General Government	130,869	1,564,297
Street	860,846	1,106,012
Parks Development	32,388	133,017
Storm Drainage	0	8,133
Building Inspection Program	161,525	805,489
Total Expenses	<u>1,185,628</u>	<u>3,616,948</u>
Change in Net Assets	4,994,131	1,924,000
Beginning Net Assets	7,447,150	5,523,150
Prior Period Adjustment	<u>39,793,625</u>	<u>0</u>
Ending Net Assets	<u>\$ 52,234,906</u>	<u>\$ 7,447,150</u>

The Prior Period Adjustment is to account for the City's infrastructure. With the implementation of GASB 34, the City should have started accounting for infrastructure in 2003-04, but this was not done until 2004-05.

The City's total revenues were \$6,179,759. The Net Assets increased by \$4,994,131 indicating an increase in the City's financial position. The City of Happy Valley has been recognized as the fastest growing city in the state of Oregon. Key growth indicators are shown below:

Fiscal Year Ending	Population	Taxes Levied	Construction, Development and Building Permit Revenue
1995	2,060	\$148,599	\$308,314
2000	3,965	\$233,632	\$813,244
2005	6,640	\$1,443,486	\$3,552,633

These factors have combined to show a significant increase in net assets. The City, however, cannot depend upon this growth for funding. Reserves for the future, when growth does not increase assets, are necessary.

As a fast growing city, the City of Happy Valley faces many challenges:

- City Hall facility is too small for the current staff. A third modular has been added to the City Hall site. The staff necessary to serve the population has, and will continue to, demonstrate the need for a larger City Hall facility.

- The majority of the roads (excluding the new developments in the City) do not meet current standards. Funds are not available to improve the roads to a higher level of service.
- Police services are contracted through Clackamas County and are funded through a local option levy that expires at the end of the 2006-07 budget year. This levy will again be put before the voters in November, 2006. City police services at the present standard are dependent upon passage of the levy in the future.

## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

Revenues from governmental fund types totaled \$6,174,152 in 2005. Governmental fund balances totaled \$7,898,229 at June 30, 2005. A summary of changes in governmental fund balances follows:

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

	June 30, 2005	June 30, 2004	Change
General Fund	\$ 2,576,799	\$ 2,160,505	\$ 416,294
Street Fund	\$ 620,514	\$ 503,476	\$ 117,038
Building Fund	\$ 1,294,447	\$ 716,047	\$ 578,400
System Development Fund	\$ 2,046,702	\$ 1,575,277	\$ 471,425
Road Improvement Fund	\$ 286,862	\$ 237,910	\$ 48,952
Public Safety Fund	\$ 490,607	\$ 196,626	\$ 293,981
Reserve for Pension Fund	\$ 352,681	\$ 245,112	\$ 107,569
Reserve for Future Expansion Fund	\$ 229,617	\$ 185,755	\$ 43,862

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The fund balance in the General Fund increased by \$416,294 from the prior year. Growth contributed to revenue collections in excess of budget estimates for the following:

Property Taxes	\$179,371
Development Fees and Deposits	\$167,653
Franchise Fees	\$ 54,109
Miscellaneous Permits	\$ 31,971
Business Licenses	\$ 24,991

The City of Happy Valley Municipal Court is completely self-supporting.

New staff members are budgeted for the 2005-06 fiscal year as growth and new development increase the need for services for the City of Happy Valley.

## **CAPITAL ASSETS**

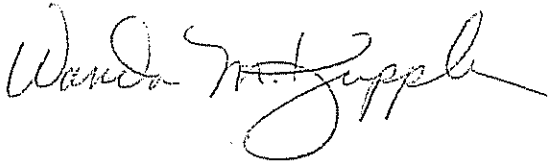
At June 30, 2005, the City had \$44,338,445 invested in capital assets net of depreciation. This is an increase of \$42,713,901 from the prior year. Last year's capital assets did not include the City's street infrastructure. More detailed information about the City's capital assets is presented in the notes to the financial statements.

## **LONG TERM DEBT**

At June 30, 2005, the City did not have outstanding debt.

### CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The City's financial report is designed to provide our taxpayers, with an overview of the City's finances. If you have any questions about this report or need any clarification of information please contact the City of Happy Valley. Our address is: 12915 SE King Road, Happy Valley, OR 97236.

A handwritten signature in cursive script, reading "Wanda M. Kuppler". The signature is written in dark ink and is positioned above a horizontal line.

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Wanda M. Kuppler  
City Manager

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CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

BASIC FINANCIAL STATEMENTS

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CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

STATEMENT OF NET ASSETS  
June 30, 2005

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ASSETS

Current Assets:

Cash and Investments	\$ 8,418,339
Restricted Cash	2,480
Accounts Receivable	72,517
Property Taxes Receivable	<u>53,267</u>

Total Current Assets 8,546,603

Capital Assets, net of depreciation 44,338,445

Total Assets 52,885,048

LIABILITIES

Current Liabilities:

Accounts Payable	218,483
Payroll Liabilities	54,692
Other Payables	3,483
Accrued Vacation Payable	50,383
Cable Pegs Fees	190,465
Developer Trust Payable	2,480
Due to Clackamas County	<u>130,156</u>

Total Liabilities 650,142

NET ASSETS:

Invested in Capital Assets, Net of Related Debt	44,338,445
Unrestricted	<u>7,896,461</u>

Total Net Assets \$ 52,234,906

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

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

**STATEMENT OF ACTIVITIES  
June 30, 2005**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges For Services	Operating Grants and Contributions	
Governmental Activities				
General Government	\$ 130,869	\$ 1,375,356	\$ 0	\$ 1,244,487
Building	860,846	1,416,876	0	556,030
Parks	32,388	1,032,679	0	1,000,291
Storm Drainage	0	78,302	0	78,302
Streets	161,525	0	14,500	-147,025
Total Governmental Activities	1,185,628	3,903,213	14,500	2,732,085
General Revenues				
		Property Taxes		1,399,978
		Other Taxes		312,783
		Intergovernmental		233,821
		Other Revenue		315,464
		Total General Revenues		2,262,046
		Change in Net Assets		4,994,131
		Beginning Net Assets		7,447,150
		Prior Period Adjustment (Note #10)		39,793,625
		Ending Net Assets		\$ 52,234,906

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

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

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2005**

	<u>GENERAL FUND</u>	<u>STREET FUND</u>	<u>BUILDING FUND</u>
<b>ASSETS</b>			
Cash and Investments	\$ 2,823,348	\$ 632,434	\$ 1,350,615
Restricted Cash	2,480	0	0
Accounts Receivable	72,517	0	0
Property Taxes Receivable	53,267	0	0
Total Assets	<u>\$ 2,951,612</u>	<u>\$ 632,434</u>	<u>\$ 1,350,615</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts Payable	75,078	11,920	56,168
Payroll and Payroll Taxes Payable	54,692	0	0
Other Payables	3,483	0	0
Cable Pegs Fees	190,465	0	0
Deferred Taxes	48,615	0	0
Developer Trust Payable	2,480	0	0
Due to Clackamas County	0	0	0
Total Liabilities	<u>374,813</u>	<u>11,920</u>	<u>56,168</u>
<b>Fund Balances:</b>			
Unreserved and Undesignated	<u>2,576,799</u>	<u>620,514</u>	<u>1,294,447</u>
Total Fund Balances	<u>2,576,799</u>	<u>620,514</u>	<u>1,294,447</u>
Total Liabilities and Fund Balances	<u>\$ 2,951,612</u>	<u>\$ 632,434</u>	<u>\$ 1,350,615</u>

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

SYSTEM DEVELOPMENT FUND	ROAD IMPROVEMENT FUND	PUBLIC SAFETY FUND	RESERVE FOR PENSION FUND	RESERVE FOR FUTURE EXPANSION FUND	TOTAL
\$ 2,252,175	\$ 286,862	\$ 490,607	\$ 352,681	\$ 229,617	\$ 8,418,339
0	0	0	0	0	2,480
0	0	0	0	0	72,517
0	0	0	0	0	53,267
<u>\$ 2,252,175</u>	<u>\$ 286,862</u>	<u>\$ 490,607</u>	<u>\$ 352,681</u>	<u>\$ 229,617</u>	<u>\$ 8,546,603</u>
75,317	0	0	0	0	218,483
0	0	0	0	0	54,692
0	0	0	0	0	3,483
0	0	0	0	0	190,465
0	0	0	0	0	48,615
0	0	0	0	0	2,480
130,156	0	0	0	0	130,156
<u>205,473</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>648,374</u>
<u>2,046,702</u>	<u>286,862</u>	<u>490,607</u>	<u>352,681</u>	<u>229,617</u>	<u>7,898,229</u>
<u>2,046,702</u>	<u>286,862</u>	<u>490,607</u>	<u>352,681</u>	<u>229,617</u>	<u>7,898,229</u>
<u>\$ 2,252,175</u>	<u>\$ 286,862</u>	<u>\$ 490,607</u>	<u>\$ 352,681</u>	<u>\$ 229,617</u>	<u>\$ 8,546,603</u>

CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO STATEMENT OF NET ASSETS  
June 30, 2005

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

Fund Balances	\$ 7,898,229
The cost of capital assets (land, buildings, improvements, machinery and equipment, infrastructure, and construction in progress) is reported as an expenditure in governmental funds. The statement of net assets includes those capital assets among the assets of the City as a whole.	
Net Capital Assets	44,338,445
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	
Accrued Vacation	-50,383
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	
Deferred Property Tax Revenue	<u>48,615</u>
Total Net Assets	<u>\$ 52,234,906</u>

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



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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2005**

	<u>GENERAL FUND</u>	<u>STREET FUND</u>	<u>BUILDING FUND</u>
<b>REVENUES</b>			
Property Taxes	\$ 1,394,371	\$ 0	\$ 0
Gas Tax Revenue	0	312,783	0
Licenses and Permits	1,405,202	0	1,416,876
System Development Charges	0	0	0
Intergovernmental Revenues	111,440	0	82,961
Other Revenue	206,848	12,665	24,163
	<u>3,117,861</u>	<u>325,448</u>	<u>1,524,000</u>
<b>EXPENDITURES</b>			
Personal Services	834,602	106,800	503,834
Materials & Services	527,826	49,335	357,012
Capital Outlay	124,598	52,275	84,754
	<u>1,487,026</u>	<u>208,410</u>	<u>945,600</u>
Excess of Revenues Over, -Under Expenditures	1,630,835	117,038	578,400
Other Financing Sources, -Uses			
Operating Transfers In	0	0	0
Operating Transfers Out	-1,214,541	0	0
	<u>-1,214,541</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balance	416,294	117,038	578,400
Beginning Fund Balance	<u>2,160,505</u>	<u>503,476</u>	<u>716,047</u>
Ending Fund Balance	<u>\$ 2,576,799</u>	<u>\$ 620,514</u>	<u>\$ 1,294,447</u>

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

SYSTEM DEVELOPMENT FUND	ROAD IMPROVEMENT FUND	PUBLIC SAFETY FUND	RESERVE FOR PENSION FUND	RESERVE FOR FUTURE EXPANSION FUND	TOTAL
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,394,371
0	0	0	0	0	312,783
0	0	0	0	0	2,822,078
1,095,635	0	0	0	0	1,095,635
0	39,420	0	0	0	233,821
40,091	5,191	13,167	7,569	5,770	315,464
1,135,726	44,611	13,167	7,569	5,770	6,174,152
0	0	0	0	78,594	1,523,830
0	5,390	644,824	0	33,314	1,617,701
664,301	29,172	0	0	0	955,100
664,301	34,562	644,824	0	111,908	4,096,631
471,425	10,049	-631,657	7,569	-106,138	2,077,521
0	38,903	925,638	100,000	150,000	1,214,541
0	0	0	0	0	-1,214,541
0	38,903	925,638	100,000	150,000	0
471,425	48,952	293,981	107,569	43,862	2,077,521
1,575,277	237,910	196,626	245,112	185,755	5,820,708
\$ 2,046,702	\$ 286,862	\$ 490,607	\$ 352,681	\$ 229,617	\$ 7,898,229

CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS - TO STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2005

---

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

Excess of Revenues over Expenditures \$ 2,077,521

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

Fixed Asset Additions	4,028,490	
Depreciation Expense	<u>-1,108,213</u>	
Net Adjustment		2,920,277

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes in liability balances between years.

Compensated Absences -9,274

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This adjustment combines the net changes in deferred taxes between years.

Property Taxes 5,607

Change in Net Assets \$ 4,994,131

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

CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

---

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Happy Valley, Clackamas County, Oregon have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting policies. The more significant of the City's accounting policies are described below.

A. THE FINANCIAL REPORTING ENTITY

The City of Happy Valley was organized in November of 1965, as a Council-Mayor form of government. From January 1991 to December 2000 the City operated under Ordinance 105 that created the position of City Administrator and the City operated under the Council-Administrator form of government. On November 7, 2000 the voters approved a new charter now referred to as the 2000 Happy Valley Charter. The new charter created the position of City Manager. The new form of government formed by the new charter is the Council-Manager. The City Manager is the administrative head of the city government. Beginning with the November 2002 general election, the mayor will be elected for a 4-year term and 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 as defined by GASB 39.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS (GWFS)

The Statement of Net Assets and Statements of Activities display information about the reporting government as a whole.

The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions."

Program Revenues included in the Statement of Activities derive directly from the program itself or from parties outside the City's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District's general revenues.

CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION  
(CONTINUED)

The City reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Interest of general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. At this time, the City at this time does not have any long-term debt.

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities.

Program Revenues included in the Statement of Activities derive directly from the program itself or from parties outside the City's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the City's general revenues.

FUND FINANCIAL STATEMENTS

The accounts of the City are organized and operated on the basis of fund accounting. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum numbers of funds are maintained consistent with legal and managerial requirements.

GOVERNMENTAL FUND TYPES

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. DESCRIPTION OF FUNDS

The City reports the following major funds:

GENERAL FUND

This fund accounts for all financial resources and expenditures of the City, except those required to be accounted for in another fund. The principal revenue sources are property taxes, intergovernmental revenues, various fees for services provided and interest income.

STREET FUND

This fund accounts for the shared state highway revenues and the expenditures authorized by the Oregon Constitution to be made from those revenues.

BUILDING FUND

This fund accounts for the operations of building permits that are issued under state rules, which are Structural, Mechanical, Electrical, Plumbing and Manufactured Dwelling building permits. Revenue and related expenditures for these permits are accounted for in this fund.

SYSTEMS DEVELOPMENT CHARGE RESERVE FUND

This fund accounts for the City's development of infrastructure and improvements. Expenditures include credits to developers and capital outlay. Revenues are derived primarily from fees collected from developers.

ROAD IMPROVEMENT FUND

This fund accounts for the operations of planned road construction and improvements. Revenues in this fund are derived from collections from other entities or transfers from the General Fund.

PUBLIC SAFETY FUND

This fund accounts for the operations and maintenance of public safety in the City. Revenues in this fund are derived primarily with funds from the five-year law enforcement levy passed by the voters of Happy Valley in 2002.

RESERVE FOR PENSION FUND

This fund accounts for the future pension liability for the City. Revenues are derived primarily from transfers from the General Fund.

RESERVE FOR FUTURE EXPANSION

This fund accounts for planning costs for the future expansion of the City of Happy Valley. Revenues from this fund are derived from transfers from the General Fund.

CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. PROPERTY TAXES RECEIVABLE

In the Government-Wide Financial Statements uncollected property taxes are recorded on the Statement of Net Assets. In the Fund Financial Statements property taxes that are collected within 60 days after year-end are considered measurable and available and, therefore, are recognized as revenue. The remaining balance is recorded as deferred revenue because it is not deemed available to finance operation of the current period. An allowance for doubtful accounts is not deemed necessary, as uncollectible taxes become a lien on the property. Property taxes are levied on all taxable property as of July 1, the beginning of the fiscal year, and become a lien on that date. Property taxes are payable on November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

E. BUDGETS

A budget is prepared and legally adopted for each governmental fund type on the modified accrual basis of accounting in the main program categories required by the Oregon Local Budget Law. The budgets for all budgeted funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

The City begins its budget process early in each fiscal year with the establishment of the budget committee. Recommendations are developed through late winter with the budget committee approving the budget in early spring. Public notices of the budget hearing are published generally in early spring with a public hearing being held approximately three weeks later. The Council may amend the budget prior to adoption, however, budgeted expenditures for each fund may not be increased by more than ten percent. The budget is then adopted, appropriations are made and the tax levy declared no later than June 30th.

Expenditure budgets are appropriated at the following levels for each fund: Personal Services, Materials and Services, Capital Outlay, Operating Contingency, and Interfund Transactions.

Expenditures can not 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. Budget amounts shown in the Basic Financial Statements reflect the original budget. Expenditures of the various funds were within authorized appropriations.

F. CAPITAL ASSETS

Capital assets are recorded at the original or estimated cost. Donated capital assets are recorded at their estimated fair market value on the date donated. The City defines capital assets as assets with an initial cost of more than \$5,000 and an estimated life in excess of two years. Interest incurred during construction, maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.



CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. CAPITAL ASSETS (CONTINUED)

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

G. RETIREMENT PLAN

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

H. VESTED COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All unused vacation pay is accrued when earned in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignation and retirements.

I. 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.

J. NET ASSETS

Net assets comprise the various net earnings from operations, nonoperating revenues, expenses and contributions of capital. Net assets are classified in the following three categories:

Invested in capital assets, net of related debt – consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – consists of external constraints placed on asset use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. There are no restricted assets.

Unrestricted net assets – consists of all other assets that are not included in the other categories previously mentioned.

CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. RESTRICTED CASH

Restricted cash represents amounts held in a developers' trust account. These funds are used to guarantee satisfactory completion of public improvements over a specified period of time, usually two years.

4. CASH AND INVESTMENTS

Cash and Investments (recorded at cost) consisted of:

Deposits with Financial Institutions:	
Petty Cash	\$ 400
Demand Deposits	511,545
Restricted Cash	2,480
Cash with County	8,623
Local Government Investment Pool	<u>7,897,771</u>
Total Cash and Investments	<u>\$ 8,420,819</u>

DEPOSITS - Deposits with financial institutions include bank demand deposits. The total bank balance per the bank statements is \$591,591, of which \$100,000 is covered by federal depository insurance and \$122,898 was fully collateralized with securities held by financial institutions acting as agents for the City and the remainder \$368,693 was uncollateralized. Oregon Revised Statutes require depository institutions to maintain on deposit, with a collateral pool manager, securities having a value not less than 25% of the outstanding certificates of participation issued by the pool manager.

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

The State Treasurer's Local Government Investment Pool is not registered with the U.S. Securities and Exchange Commission as an investment company. The Oregon Revised Statutes and the Oregon Investment Council govern the State's investment policies. The State Treasurer is the investment officer for the Council and is responsible for all funds in the State Treasury. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the Fund are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board (OSTFB), which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The fund was in compliance with all portfolio guidelines at June 30, 2005.

CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

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4. CASH AND INVESTMENTS (CONTINUED)

Amounts in the State Treasurer's Local Government Investment Pool are not required to be collateralized. There is no material difference between the fair value of the District's position in the State Treasurer's Local Investment Pool and the value of the pool shares at June 30, 2005. There were no known violations of legal or contractual provisions for deposits and investments during the fiscal year.

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

	<u>Carrying Value</u>
Uncategorized Investments:	
Local Government Investment Pool	<u>\$ 7,897,771</u>
Total Investments	<u><u>\$ 7,897,771</u></u>

INTEREST RATE RISK – Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted a written investment policy that was submitted to and reviewed by the OSTFB. The City does not have any investments that have a maturity date.

CREDIT RISK – Oregon Revised Statutes does not limit investments as to credit rating for securities purchased from US Government Agencies or USGSE. The State Investment Pool is not rated.

CONCENTRATION OF RISK – At June 30, 2005, the City had 100% of total investments in the State Treasurer's Investment Pool. State statutes do not limit the percentage of investments in this instrument.

CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

**3. CAPITAL ASSETS**

The changes in fixed assets for the fiscal year ended June 30, 2005 are as follows:

GOVERNMENTAL ACTIVITIES CAPITAL ASSETS				
	June 30, 2004	Additions	Disposals	June 30, 2005
Land and Improvements (non depreciable)	\$ 919,338	\$ 0	\$ 0	\$ 919,338
Buildings	375,678	84,119	0	459,797
Vehicles	86,863	34,955	0	121,818
Other Equipment	106,710	22,257	0	128,967
Park Improvements	548,548	418,601	0	967,149
Park Equipment	27,933	11,027	0	38,960
Prior Period Adjustment-Streets	40,297,342	3,457,530	0	43,754,872
Less: Accumulated Depreciation	-944,243	-1,108,213	0	-2,052,456
Total Governmental Activities	\$ 41,418,169	\$ 2,920,276	\$ 0	\$ 44,338,445

**Governmental Activities Depreciation Allocation to Functions**

Function	Governmental Funds
General Government	\$ 122,324
Building	804,638
Parks	30,273
Streets	150,978
Total	\$ 1,108,213

**4. RETIREMENT PLANS**

Plan Description

The City participates in the State of Oregon Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system. All employees of the City who work more than 600 hours each year are covered by the plans after six months of employment. The Public Employers Retirement System is a defined pension plan to which employee and employer contribute. Retirement is allowed at age 58 with full benefits, but retirement is generally available after age 55 with reduced benefits. Compulsory retirement is age 70. Retirement benefits are payable in lump sum or monthly amounts using several payment options. PERS also provides death and disability benefits. Benefits are established by State statute. The Oregon Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700.

CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

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4. RETIREMENT PLANS (CONTINUED)

Funding Policy

Covered employees are required by State statute to contribute 6% of their salary to the plan, beginning in July 2003, the City began paying this amount for the employee. Employee contributions for the year ended June 30, 2005 were \$56,975. The City is required to contribute at actuarially determined rates, as adopted by the PERS Board. The current rate effective July 1, 2003 is 8.33% of covered payroll for Tier One/Two employees and 8.04% for OPSRP employees. The City's contribution to the plan for the year ending June 30, 2005, and 2004 was \$79,996 and \$61,458 respectively, and was equal to the required contributions for the year.

Schedule of Funding Progress:

Dec. 31			Unfunded			Funding
Valuation	Value	Actuarial	Actuarial	Funded	Covered	Excess as
Date	of Assets	Liability	Liability	Percent	Payroll	a Percent
1997	282,589	297,835	15,246	95%	370,400	4%
1999	482,435	479,457	(2,978)	101%	449,956	-1%
2001	POOLED	POOLED	487,744	POOLED	695,498	70%

5. 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.

6. COMPENSATED ABSENCES PAYABLE

At June 30, 2005, the City's liability for vacation pay is \$50,383.

7. PROPERTY TAX LIMITATIONS

The State of Oregon has a constitutional limit on property taxes for schools and nonschool government operations. The limitation provides that property taxes for nonschool 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 reduces 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 exempted from the reductions. The Constitution also sets restrictive voter approval requirements for most tax and many fee increases and new bond issues.

CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

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8. CABLE PEG FEES DEFERRED REVENUE

Cable PEG access is defined as Public, Educational and Governmental access collectively where the general public, schools and governmental institutions have the availability of equipment to create and the editorial control over non-commercial programming. The City has an existing cable franchise agreement that stipulates PEG access capital funds in the amount of 3% dedicated for the development of capital projects related to providing PEG access. PEG funds in the amount of \$190,465 are currently held in a deferred revenue liability account of the City.

9. 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.

10. PRIOR PERIOD ADJUSTMENT

The Statement of Activities includes a prior period adjustment for \$39,793,625. In 2003-04, the City adopted GASB 34 which included the addition of accounting for infrastructure in fixed assets. This was not done in 2003-04. The prior period adjustment is to include prior years infrastructure.

CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

REQUIRED SUPPLEMENTARY INFORMATION

Other Financial Schedules

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**ACTUAL AND BUDGET**  
**For the Year Ended June 30, 2005**

GENERAL FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Taxes:				
Property Taxes - Current	\$ 1,203,000	\$ 1,203,000	\$ 1,368,372	\$ 165,372
Property Taxes - Delinquent	12,000	12,000	25,999	13,999
Total Taxes	1,215,000	1,215,000	1,394,371	179,371
Licenses, Fees, and Permits:				
Franchise Fees	305,000	305,000	359,109	54,109
Sewer Permit Fee	10,000	10,000	18,310	8,310
Miscellaneous Permits	12,000	12,000	43,971	31,971
Right of Way Permits	25,000	25,000	450	-24,550
Development Fees	110,000	110,000	277,653	167,653
Construction Fees	1,000,000	1,000,000	584,932	-415,068
Cell Tower Fees	18,000	18,000	22,340	4,340
Park Reservation Permits	12,000	12,000	15,346	3,346
SDC-Administration Fees	15,000	15,000	31,845	16,845
Business Licenses	20,000	20,000	44,991	24,991
Alarm Permits	5,000	5,000	6,255	1,255
Total Licenses, Fees, and Permits	1,532,000	1,532,000	1,405,202	-126,798
Intergovernmental:				
Alcohol Tax	55,000	55,000	58,033	3,033
Cigarette Tax	10,000	10,000	11,189	1,189
State Revenue Sharing	35,000	35,000	42,218	7,218
Grants	52,000	52,000	0	-52,000
Total Intergovernmental	152,000	152,000	111,440	-40,560
Other Revenue:				
Interest	15,000	15,000	47,757	32,757
Traffic Fines	66,000	66,000	99,729	33,729
Municipal Court	2,500	2,500	19,556	17,056
State Court Assessments	23,000	23,000	37,013	14,013
Miscellaneous Revenue	0	0	2,793	2,793
Total Other Revenue	106,500	106,500	206,848	100,348
Total Revenues	\$ 3,005,500	\$ 3,005,500	\$ 3,117,861	\$ 112,361

Continued on page -24-

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
ACTUAL AND BUDGET  
For the Year Ended June 30, 2005**

<u>GENERAL FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE -NEGATIVE</u>
<b>EXPENDITURES</b>				
Personal Services				
Salaries	\$ 782,830	\$ 782,830	\$ 613,608	\$ 169,222
Employee Benefits	389,090	389,090	220,994	168,096
Total Personal Services	<u>1,171,920</u>	<u>1,171,920 (1)</u>	<u>834,602</u>	<u>337,318</u>
Materials and Services				
Office Supplies	26,600	26,600	24,914	1,686
Public Works Supplies	12,500	12,500	16,226	-3,726
Travel	12,500	12,500	2,469	10,031
Training	12,200	12,200	7,990	4,210
Maps and Printing	6,000	6,000	1,152	4,848
Membership and Dues	9,300	9,300	7,457	1,843
Utilities	45,500	45,500	27,933	17,567
Vehicle Operation and Maintenance	18,000	18,000	15,249	2,751
Vehicle Lease	4,000	4,000	0	4,000
Publication and Subscription	10,500	10,500	7,293	3,207
Newsletter	14,200	14,200	11,834	2,366
Postage	13,500	13,500	8,609	4,891
Insurance	21,000	21,000	18,462	2,538
Repairs and Maintenance	39,000	39,000	31,728	7,272
Emergency Weather	5,000	5,000	577	4,423
Community Concept Planning	50,000	50,000	21,950	28,050
Miscellaneous Admin.	30,000	30,000	31,310	-1,310
Legal	100,000	100,000	157,186	-57,186
Audit	12,000	12,000	4,294	7,706
Judge	22,000	22,000	11,440	10,560
Minutes Clerical	4,000	4,000	0	4,000
Contract Services	299,000	299,000	101,246	197,754
Interpreting Services	200	200	0	200
Traffic Court Turnover-State Assessments	<u>11,500</u>	<u>11,500</u>	<u>18,507</u>	<u>-7,007</u>
Total Materials and Services	<u>778,500</u>	<u>778,500 (1)</u>	<u>527,826</u>	<u>250,674</u>
Capital Outlay				
City Hall	250,000	250,000	17,177	232,823
Vehicles	5,000	5,000	10,864	-5,864
Equipment	103,000	103,000	57,077	45,923
Parks	125,000	125,000	39,480	85,520
Land and Land Improvements	<u>500,000</u>	<u>500,000</u>	<u>0</u>	<u>500,000</u>
Total Capital Outlay	<u>983,000</u>	<u>983,000 (1)</u>	<u>124,598</u>	<u>858,402</u>
Contingency	<u>250,000</u>	<u>165,000 (1)</u>	<u>0</u>	<u>165,000</u>

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Continued on page -25-

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
ACTUAL AND BUDGET  
For the Year Ended June 30, 2005**

	<u>GENERAL FUND</u>			VARIANCE POSITIVE -NEGATIVE
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
EXPENDITURES (CONTINUED)				
Total Expenditures	<u>3,183,420</u>	<u>3,098,420</u>	<u>1,487,026</u>	<u>1,611,394</u>
Excess of Revenues Over, -Under Expenditures	-177,920	-92,920	1,630,835	1,723,755
OTHER FINANCING SOURCES, -USES				
Transfers Out	<u>-1,145,000</u>	<u>-1,230,000 (1)</u>	<u>-1,214,541</u>	<u>15,459</u>
Net Change in Fund Balance	-1,322,920	-1,322,920	416,294	1,739,214
Beginning Fund Balance	<u>1,680,000</u>	<u>1,680,000</u>	<u>2,160,505</u>	<u>480,505</u>
Ending Fund Balance	<u>\$ 357,080</u>	<u>\$ 357,080</u>	<u>\$ 2,576,799</u>	<u>\$ 2,219,719</u>

(1) Appropriation Level

Continued from page -24-

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
ACTUAL AND BUDGET  
For the Year Ended June 30, 2005**

<u>STREET FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE -NEGATIVE</u>
REVENUES				
Interest	\$ 7,500	\$ 7,500	\$ 12,665	\$ 5,165
Gas Tax Revenue	245,000	245,000	312,783	67,783
Total Revenues	252,500	252,500	325,448	72,948
EXPENDITURES				
Personal Services				
Salaries	83,300	83,300	78,029	5,271
Employee Benefits	38,520	38,520	28,771	9,749
Total Personal Services	121,820	121,820 (1)	106,800	15,020
Materials and Services				
Vehicle Expenses	15,000	15,000	15,416	-416
Contract Services	225,680	225,680	15,743	209,937
Traffic Control Devices	15,000	15,000	501	14,499
Street Repair Materials	15,000	15,000	0	15,000
Traffic Signs and Striping	75,000	75,000	15,831	59,169
Bike and Foot Path Maintenance	3,500	3,500	0	3,500
Contract Street Sweeping	0	0	1,844	-1,844
Other Materials and Services	1,500	1,500	0	1,500
Total Materials and Services	350,680	350,680 (1)	49,335	301,345
Capital Outlay				
Road Maintenance	100,000	100,000	27,070	72,930
Equipment	50,000	50,000	22,785	27,215
Sidewalks and Bike Paths	130,000	130,000	2,420	127,580
Total Capital Outlay	280,000	280,000 (1)	52,275	227,725
Total Expenditures	752,500	752,500	208,410	544,090
Net Change in Fund Balance	-500,000	-500,000	117,038	617,038
Beginning Fund Balance	500,000	500,000	503,476	3,476
Ending Fund Balance	\$ 0	\$ 0	\$ 620,514	\$ 620,514

(1) Appropriation Level

CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
ACTUAL AND BUDGET  
For the Year Ended June 30, 2005

<u>BUILDING FUND</u>				
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 7,500	\$ 7,500	\$ 22,733	\$ 15,233
Permits and Fees	2,046,450	2,046,450	1,416,876	-629,574
State Surcharge	99,000	99,000	82,961	-16,039
Miscellaneous	0	0	1,430	1,430
Total Revenues	2,152,950	2,152,950	1,524,000	-628,950
EXPENDITURES				
Personal Services				
Salaries	544,700	544,700	370,792	173,908
Employee Benefits	243,020	243,020	133,042	109,978
Total Personal Services	787,720	787,720 (1)	503,834	283,886
Materials and Services				
Office Supplies	21,000	21,000	11,558	9,442
Travel	5,000	5,000	226	4,774
Training	15,000	15,000	1,974	13,026
Membership and Dues	2,500	2,500	318	2,182
Utilities	12,500	12,500	7,589	4,911
Vehicle Expenses	27,800	27,800	26,941	859
Publications and Subscriptions	6,500	6,500	4,131	2,369
Postage	2,000	2,000	0	2,000
Insurance	6,000	6,000	0	6,000
Repairs and Maintenance	10,000	10,000	13,399	-3,399
Public Outreach	2,000	2,000	1,000	1,000
Legal	10,000	10,000	446	9,554
Contract Services	1,099,060	1,099,060	2,531	1,096,529
Electrical Programs	120,000	120,000	127,249	-7,249
State Surcharge Fees	99,000	99,000	82,961	16,039
Software Contract	60,000	60,000	68,742	-8,742
Miscellaneous	500	500	7,947	-7,447
Total Materials and Services	1,498,860	1,498,860 (1)	357,012	1,141,848
Capital Outlay				
City Hall	200,000	200,000	59,498	140,502
Vehicles	40,000	40,000	17,919	22,081
Equipment	50,000	50,000	7,337	42,663
Total Capital Outlay	290,000	290,000 (1)	84,754	205,246
Contingency	341,370	341,370 (1)	0	341,370
Total Expenditures	2,917,950	2,917,950	945,600	1,972,350
Net Change in Fund Balance	-765,000	-765,000	578,400	1,343,400
Beginning Fund Balance	765,000	765,000	716,047	-48,953
Ending Fund Balance	\$ 0	\$ 0	\$ 1,294,447	\$ 1,294,447
(1) Appropriation Level				

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
ACTUAL AND BUDGET  
For the Year Ended June 30, 2005**

**SYSTEM DEVELOPMENT FUND**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 20,000	\$ 20,000	\$ 40,091	\$ 20,091
SDC-Storm Drainage	40,000	40,000	78,302	38,302
SDC-Parks	600,000	600,000	1,017,333	417,333
Total Revenues	660,000	660,000	1,135,726	475,726
EXPENDITURES				
Capital Outlay				
SDC Projects-Transportation	350,000	350,000	133,675	216,325
SDC Projects-Storm Drainage	290,000	290,000	159,531	130,469
SDC Projects-Parks	1,520,000	1,520,000	371,095	1,148,905
Total Capital Outlay	2,160,000	2,160,000 (1)	664,301	1,495,699
Total Expenditures	2,160,000	2,160,000	664,301	1,495,699
Net Change in Fund Balance	-1,500,000	-1,500,000	471,425	1,971,425
Beginning Fund Balance	1,500,000	1,500,000	1,575,277	75,277
Ending Fund Balance	\$ 0	\$ 0	\$ 2,046,702	\$ 2,046,702

(1) Appropriation Level

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
ACTUAL AND BUDGET  
For the Year Ended June 30, 2005**

ROAD IMPROVEMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
<b>REVENUES</b>				
Interest	\$ 3,000	\$ 3,000	\$ 5,191	\$ 2,191
Cooperative Projects	1,500,000	1,500,000	24,920	-1,475,080
Grants	500,000	500,000	14,500	-485,500
Total Revenues	2,003,000	2,003,000	44,611	-1,958,389
<b>EXPENDITURES</b>				
Materials and Services				
Contract Engineering	750,000	750,000	5,390	744,610
Total Materials and Services	750,000	750,000 (1)	5,390	744,610
Capital Outlay				
Improvements	0	0	11,735	-11,735
Bicycle & Ped Pathways	80,000	80,000	16,765	63,235
Road Construction	1,428,000	1,428,000	672	1,427,328
Total Capital Outlay	1,508,000	1,508,000 (1)	29,172	1,478,828
Total Expenditures	2,258,000	2,258,000	34,562	2,223,438
Excess of Revenues Over, -Under Expenditures	-255,000	-255,000	10,049	265,049
<b>OTHER FINANCING SOURCES, -USES</b>				
Transfers In	35,000	35,000	38,903	3,903
Net Change in Fund Balance	-220,000	-220,000	48,952	268,952
Beginning Fund Balance	220,000	220,000	237,910	17,910
Ending Fund Balance	\$ 0	\$ 0	\$ 286,862	\$ 286,862

(1) Appropriation Level

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
ACTUAL AND BUDGET  
For the Year Ended June 30, 2005**

<u>PUBLIC SAFETY FUND</u>				
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 3,000	\$ 3,000	\$ 13,167	\$ 10,167
Total Revenues	3,000	3,000	13,167	10,167
EXPENDITURES				
Materials and Services				
Contract Police Protection	820,000	905,000	644,824	260,176
Total Materials and Services	820,000	905,000 (1)	644,824	260,176
Contingency	148,000	148,000 (1)	0	148,000
Total Expenditures	968,000	1,053,000	644,824	408,176
Excess of Revenues Over, -Under Expenditures	-965,000	-1,050,000	-631,657	418,343
OTHER FINANCING SOURCES, -USES				
Transfers In	860,000	945,000	925,638	-19,362
Net Change in Fund Balance	-105,000	-105,000	293,981	398,981
Beginning Fund Balance	105,000	105,000	196,626	91,626
Ending Fund Balance	\$ 0	\$ 0	\$ 490,607	\$ 490,607

(1) Appropriation Level



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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
ACTUAL AND BUDGET  
For the Year Ended June 30, 2005**

RESERVE FOR PENSION FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 2,000	\$ 2,000	\$ 7,569	\$ 5,569
Total Revenues	2,000	2,000	7,569	5,569
EXPENDITURES				
Personal Services				
Employee Benefits	347,000	347,000	0	347,000
Total Personal Services	347,000	347,000 (1)	0	347,000
Total Expenditures	347,000	347,000	0	-347,000
Excess of Revenues Over, -Under Expenditures	-345,000	-345,000	7,569	352,569
OTHER FINANCING SOURCES, -USES				
Transfers In	100,000	100,000	100,000	0
Net Change in Fund Balance	-245,000	-245,000	107,569	352,569
Beginning Fund Balance	245,000	245,000	245,112	112
Ending Fund Balance	\$ 0	\$ 0	\$ 352,681	\$ 352,681

(1) Appropriation Level

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
ACTUAL AND BUDGET - BUDGETARY (NON-GAAP) BASIS  
For the Year Ended June 30, 2005**

RESERVE FOR FUTURE EXPANSION FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 2,000	\$ 2,000	\$ 5,770	\$ 3,770
Total Revenues	2,000	2,000	5,770	3,770
EXPENDITURES				
Personal Services				
Salaries	57,300	57,300	56,195	1,105
Employee Benefits	22,700	22,700	22,399	301
Total Personal Services	80,000	80,000 (1)	78,594	1,406
Materials and Services				
Legal	0	0	11,863	-11,863
Contract Planning	282,000	282,000	21,451	260,549
Total Materials and Services	282,000	282,000 (1)	33,314	248,686
Total Expenditures	362,000	362,000	111,908	250,092
Excess of Revenues Over, -Under Expenditures	-360,000	-360,000	-106,138	253,862
OTHER FINANCING SOURCES, -USES				
Transfers In	150,000	150,000	150,000	0
Net Change in Fund Balance	-210,000	-210,000	43,862	253,862
Beginning Fund Balance	210,000	210,000	185,755	-24,245
Ending Fund Balance	\$ 0	\$ 0	\$ 229,617	\$ 229,617

(1) Appropriation Level

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

**SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES  
OF TAXES UNCOLLECTED - GENERAL FUND  
For the Year Ended June 30, 2005**

<u>TAX YEAR</u>	<u>IMPOSED LEVY OR UNCOL- LECTED AT 7/1/04</u>	<u>DEDUCT DISCOUNTS</u>	<u>ADJUST- MENTS TO ROLLS</u>	<u>ADD INTEREST</u>	<u>CASH COLLEC- TIONS BY COUNTY TREAS- URER</u>	<u>BALANCE UNCOL- LECTED OR UNSEG- REGATED AT 6/30/05</u>
CURRENT:						
2004-05	\$ 1,443,486	\$ -34,764	\$ -5,743	\$ 709	\$ 1,365,186	\$ 38,502
PRIOR YEARS:						
2003-2004	38,807	25	-3,465	1,406	25,167	11,606
2002-2003	4,364	-4	-622	290	1,982	2,046
2001-2002	2,114	2	-484	250	1,177	705
2000-2001	688	-1	-105	110	532	160
1999-2000 & Prior	359	-1	-136	-975	-1,001	248
Total Prior	46,332	21	-4,812	1,081	27,857	14,765
Total	<u>\$ 1,489,818</u>	<u>\$ -34,743</u>	<u>\$ -10,555</u>	<u>\$ 1,790</u>	<u>\$ 1,393,043</u>	<u>\$ 53,267</u>

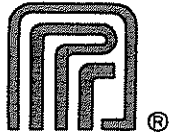
RECONCILIATION OF REVENUE:	<u>GENERAL FUND</u>
Cash Collections by County Treasurer Above	\$ 1,393,043
Accrual of Receivables:	
June 30, 2004	-3,324
June 30, 2005	4,652
Total Revenue	<u>\$ 1,394,371</u>

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CITY OF HAPPY VALLEY  
CLACKAMAS COUNTY, OREGON

AUDITORS' COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS

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**PAULY, ROGERS AND CO., P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

- 
- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
  - (503) 620-2632 • FAX (503) 684-7523

November 1, 2005

#### 2004-2005 AUDITORS' COMMENTS AND DISCLOSURES

The Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosures required in financial reports. The required statements and schedules are set forth in preceding pages of this report. Required comments and disclosures related to our audit of such statements and schedules are set forth as follows.

#### INTERNAL CONTROL

We have audited the basic financial statements of the City of Happy Valley, Oregon, as of and for the year ended June 30, 2005, and have issued our report thereon dated November 1, 2005.

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 audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

The management of the City of Happy Valley is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of basic financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the basic financial statements of the City of Happy Valley for the year ended June 30, 2005, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants.

CITY OF HAPPY VALLEY  
2004-2005 AUDITORS' COMMENTS AND DISCLOSURES

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INTERNAL CONTROL (CONTINUED)

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

ACCOUNTING RECORDS

The City's records and systems were adequate to meet audit requirements.

BUDGET TRANSACTIONS

Expenditures of the various funds appeared to be within authorized appropriations.

2004-2005 and 2005-2006 BUDGETS

The budgets adopted by the City for the current and ensuing fiscal year were examined during the audit. Based on our testing, it appeared that budget preparation and adoption procedures followed by the City were in compliance with the Oregon Local Budget Law.

COLLATERAL SECURING BANK DEPOSITS

Based on our testing, we are not aware of any failure to comply with legal requirements related to the amount and adequacy of collateral pledged by depositories to secure funds of the City.

STATUTORY BONDED DEBT LIMITATION

The City's did not have any bonded debt outstanding at June 30, 2005.

INSURANCE AND FIDELITY BONDS

We are not aware of any failure to comply with legal requirements relating to insurance and fidelity bonds, however, we are not competent by training and experience to comment on the adequacy of insurance coverage. We recommend the City consult appropriate advisers related to these issues.

OUTSTANDING WARRANTS

The City had no outstanding endorsed warrants at June 30, 2005.

PUBLIC CONTRACTS AND PURCHASING

The City's procedures for awarding public contracts were reviewed and, based on our testing, appeared to be in compliance with ORS Chapter 279 during 2004-2005.



CITY OF HAPPY VALLEY  
2004-2005 AUDITORS' COMMENTS AND DISCLOSURES

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INVESTMENTS

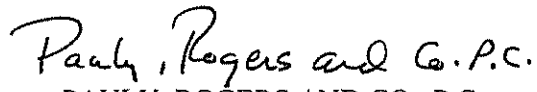
Based on our testing, we are not aware of any failure to comply with legal requirements relating to the investment of public funds.

PROGRAMS FUNDED FROM OUTSIDE SOURCES

We reviewed and tested, to the extent we considered necessary in the circumstances, transactions and reports relative to federal and state grant programs. Since the City did not expend over \$500,000 in federal financial assistance for the year ended June 30, 2005, it was not necessary to perform, nor did we perform, tests in accordance with the Federal Single Audit Act, as amended (U.S. Office of Management and Budget Circular A-133).

HIGHWAY FUNDS

Based on our testing, we are not aware of any failure to comply with programs funded from State Highway funds received during the year ended June 30, 2005.

  
PAULY, ROGERS AND CO., P.C.

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