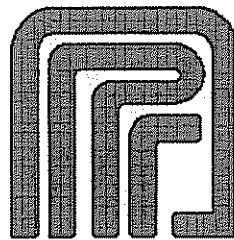


**CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON**

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2006



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

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2006

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CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

CITY OFFICIALS AS OF JUNE 30, 2006

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

All council members receive mail at the address below.

ADMINISTRATIVE

Cathy Daw, City Manager
12915 SE. King Road
Happy Valley, Oregon 97086
(503) 760-3325
(503) 760-9397

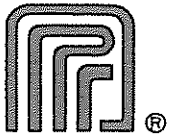
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CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

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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

October 4, 2006

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, 2006, 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, 2006 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, 2006. Please read it in conjunction with the City's financial statements and notes, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total net assets were \$58,770,191 at June 30, 2006.
- During the year, the City's net assets increased by \$6,535,285.
- The general fund reported a fund balance this year of \$2,312,092.

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 statements. *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 are the difference between the City's assets and liabilities and is a way to measure the City's financial health or *position*.

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

The government-wide financial statements 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. Since these statements do not encompass the long-term focus of the government-wide statements a reconciliation is provided which explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

CITY OF HAPPY VALLEY - NET ASSETS

	Total 2006	Total 2005
ASSETS:		
Current and Other Assets	\$ 11,399,283	\$ 8,546,603
Capital Assets	48,222,368	44,338,445
Total Assets	59,621,651	52,885,048
LIABILITIES:		
Current and Other Liabilities	851,460	650,142
Total Liabilities	851,460	650,142
NET ASSETS		
Invested in Capital Assets,		
Net of Related Debt	48,222,368	44,338,445
Unrestricted	10,547,823	7,896,461
Total Net Assets	\$ 58,770,191	\$ 52,234,906

CITY OF HAPPY VALLEY - CHANGES IN NET ASSETS

	Total 2006	Total 2005
REVENUES:		
Program Revenues:		
Charges for Services	\$ 6,265,744	\$ 3,903,213
General Revenues:		
Property Taxes-Perm Rate	586,109	474,340
Property Taxes-Levy	1,137,111	925,638
Other Taxes	367,268	312,783
Intergovernmental	311,452	233,821
Other	748,364	329,964
Total Revenues	<u>9,416,048</u>	<u>6,179,759</u>
EXPENSES:		
General Government	1,523,824	130,869
Street	1,164,901	860,846
Parks Development	20,723	32,388
Storm Drainage	0	0
Building Inspection Program	171,315	161,525
Total Expenses	<u>2,880,763</u>	<u>1,185,628</u>
Change in Net Assets	6,535,285	4,994,131
Beginning Net Assets	52,234,906	7,447,150
Prior Period Adjustment	<u>0</u>	<u>39,793,625</u>
Ending Net Assets	<u>\$ 58,770,191</u>	<u>\$ 52,234,906</u>

The Prior Period Adjustment in 2005 was to account for the recording of the City's infrastructure. With the implementation of GASB 34, the City began accounting for infrastructure in 2004-05.

The City's total revenues were \$9,416,048. The Net Assets increased by \$6,535,285 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	4,519	\$233,632	\$813,244
2005	7,275	\$1,443,486	\$3,552,633

The preliminary population estimate as of July 1, 2006 is 9,210. The population increase and resulting increase in taxes and permit revenues create an increase in net assets. The City, however, cannot depend on this growth for funding. Reserves for the future are necessary because assets may not increase when growth slows.

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

- City Hall facility is too small for the current staff. A new City Hall facility is in the planning stage and construction is estimated to begin in April 2007. The City purchased land on which to build the new City Hall during the 2005-06 fiscal year.

- East Happy Valley expansion will provide 2,500 acres for future growth.
- 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 which expires at the end of the 2006-07 budget year. The levy was put before the voters in November, 2006 and passed, therefore City police services will continue at the present standard until the end of the 2010-11 budget year.
- Annexation is by petition only. In order to diversify our tax base, we must expand boundaries. The City cannot anticipate when that might happen.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$9,409,619 in 2006. Governmental fund balances totaled \$10,554,861 at June 30, 2006. A summary of changes in governmental fund balances follows:

City of Happy Valley - Changes in Governmental Fund Balances

	June 30, 2006	June 30, 2005	Change
General Fund	\$ 2,312,092	\$ 2,576,799	\$ (264,707)
Street Fund	\$ 816,206	\$ 620,514	\$ 195,692
Building Fund	\$ 1,314,706	\$ 1,294,447	\$ 20,259
System Development Fund	\$ 4,162,534	\$ 2,046,702	\$ 2,115,832
Road Improvement Fund	\$ 341,935	\$ 286,862	\$ 55,073
Public Safety Fund	\$ 801,900	\$ 490,607	\$ 311,293
Reserve for Pension Fund	\$ 329,537	\$ 352,681	\$ (23,144)
Reserve for Future Expansion Fund	\$ -	\$ 229,617	\$ (229,617)
New City Hall Fund	\$ 475,951	\$ -	\$ 475,951

GENERAL FUND BUDGETARY HIGHLIGHTS

The fund balance in the General Fund decreased by \$264,707 from the prior year. This decrease was due to the General Fund transfer of \$2 million to the New City Hall Fund. There were General Fund revenue collections in excess of budget estimates for the following:

Property Taxes	\$257,791
Development Fees and Deposits	\$471,353
Franchise Fees	\$105,440
Miscellaneous Permits	\$ 42,870
Business Licenses	\$ 33,281

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

New staff members are budgeted for the 2006-07 fiscal year as growth and new development increase the need for services for the City of Happy Valley.

CAPITAL ASSETS

At June 30, 2006, the City had \$48,222,368 invested in capital assets. This is an increase of \$3,883,923 from the prior year. This increase was due primarily to the purchase of land for the new City Hall project and street

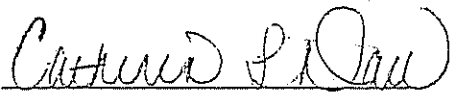
additions. More detailed information about the City's capital assets is presented in the notes to the financial statements.

LONG TERM DEBT

At June 30, 2006, 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 97086.



Catherin Daw
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, 2006

ASSETS

Current Assets:	
Cash and Investments	\$ 11,210,859
Accounts Receivable	128,386
Property Taxes Receivable	<u>60,038</u>
Total Current Assets	11,399,283
Capital Assets, net of depreciation	<u>48,222,368</u>
Total Assets	<u>59,621,651</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	211,202
Payroll Liabilities	110,024
Other Payables	57,911
Accrued Vacation Payable	62,082
Unearned Cable Pegs Fees	234,560
Developer Trust Payable	18,306
Payable to Clackamas County	<u>157,375</u>
Total Liabilities	<u>851,460</u>

NET ASSETS:

Invested in Capital Assets, Net of Related Debt	48,222,368
Unrestricted	<u>10,547,823</u>
Total Net Assets	<u>\$ 58,770,191</u>

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

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

**STATEMENT OF ACTIVITIES
For the year ended June 30, 2006**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	
Governmental Activities				
General Government	\$ 1,523,824	\$ 2,183,616	\$ 0	\$ 659,792
Building	1,164,901	2,004,082	0	839,181
Parks	20,723	1,944,209	0	1,923,486
Storm Drainage	0	133,837	0	133,837
Streets	171,315	0	0	-171,315
Total Governmental Activities	\$ 2,880,763	\$ 6,265,744	\$ 0	3,384,981

General Revenues

Property Taxes	1,723,220
Other Taxes	367,268
Intergovernmental	311,452
Other Revenue	<u>748,364</u>
Total General Revenues	<u>3,150,304</u>
Change in Net Assets	6,535,285
Beginning Net Assets	<u>52,234,906</u>
Ending Net Assets	<u>\$ 58,770,191</u>

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, 2006**

	GENERAL FUND	STREET FUND	BUILDING FUND
ASSETS			
Cash and Investments	\$ 2,650,544	\$ 792,919	\$ 1,454,938
Accounts Receivable	98,200	30,186	0
Property Taxes Receivable	60,038	0	0
Total Assets	<u>\$ 2,808,782</u>	<u>\$ 823,105</u>	<u>\$ 1,454,938</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 56,656	\$ 2,131	\$ 105,140
Payroll and Payroll Taxes Payable	70,164	4,768	35,092
Other Payables	57,911	0	0
Cable Pegs Fees	234,560	0	0
Deferred Taxes	55,044	0	0
Developer Trust Payable	18,306	0	0
Payable to Clackamas County	4,049	0	0
Total Liabilities	<u>496,690</u>	<u>6,899</u>	<u>140,232</u>
Fund Balances:			
Unreserved and Undesignated	<u>2,312,092</u>	<u>816,206</u>	<u>1,314,706</u>
Total Fund Balances	<u>2,312,092</u>	<u>816,206</u>	<u>1,314,706</u>
Total Liabilities and Fund Balances	<u>\$ 2,808,782</u>	<u>\$ 823,105</u>	<u>\$ 1,454,938</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	NEW CITY HALL FUND	TOTAL
\$ 4,329,835	\$ 341,935	\$ 811,023	\$ 329,537	\$ 500,128	\$ 11,210,859
0	0	0	0	0	128,386
0	0	0	0	0	60,038
<u>\$ 4,329,835</u>	<u>\$ 341,935</u>	<u>\$ 811,023</u>	<u>\$ 329,537</u>	<u>\$ 500,128</u>	<u>\$ 11,399,283</u>

\$ 13,975	\$ 0	\$ 9,123	\$ 0	\$ 24,177	\$ 211,202
0	0	0	0	0	110,024
0	0	0	0	0	57,911
0	0	0	0	0	234,560
0	0	0	0	0	55,044
0	0	0	0	0	18,306
153,326	0	0	0	0	157,375
<u>167,301</u>	<u>0</u>	<u>9,123</u>	<u>0</u>	<u>24,177</u>	<u>844,422</u>

<u>4,162,534</u>	<u>341,935</u>	<u>801,900</u>	<u>329,537</u>	<u>475,951</u>	<u>10,554,861</u>
<u>4,162,534</u>	<u>341,935</u>	<u>801,900</u>	<u>329,537</u>	<u>475,951</u>	<u>10,554,861</u>
<u>\$ 4,329,835</u>	<u>\$ 341,935</u>	<u>\$ 811,023</u>	<u>\$ 329,537</u>	<u>\$ 500,128</u>	<u>\$ 11,399,283</u>

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO STATEMENT OF NET ASSETS
June 30, 2006

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

Fund Balances	\$ 10,554,861
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	48,222,368
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	
Accrued Vacation	-62,082
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>55,044</u>
Total Net Assets	<u><u>\$ 58,770,191</u></u>

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

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006**

	GENERAL FUND	STREET FUND	BUILDING FUND	SYSTEM DEVELOPMENT FUND
REVENUES				
Property Taxes	\$ 1,716,791	\$ 0	\$ 0	\$ 0
Gas Tax Revenue	0	367,268	0	0
Licenses and Permits	2,203,496	0	2,004,082	0
System Development Charges	0	0	0	2,058,166
Intergovernmental Revenues	165,905	0	115,547	0
Other Revenue	471,579	25,113	52,077	119,746
Total Revenues	4,557,771	392,381	2,171,706	2,177,912
EXPENDITURES				
Personal Services	1,154,026	134,063	761,724	0
Materials & Services	609,116	29,756	403,177	0
Capital Outlay	120,066	32,870	116,546	62,080
Total Expenditures	1,883,208	196,689	1,281,447	62,080
Excess of Revenues Over, -Under Expenditures	2,674,563	195,692	890,259	2,115,832
Other Financing Sources, -Uses				
Transfers In	229,616	0	0	0
Transfers Out	-3,168,886	0	-870,000	0
Total Other Financing Sources, -Uses	-2,939,270	0	-870,000	0
Net Change in Fund Balance	-264,707	195,692	20,259	2,115,832
Beginning Fund Balance	2,576,799	620,514	1,294,447	2,046,702
Ending Fund Balance	\$ 2,312,092	\$ 816,206	\$ 1,314,706	\$ 4,162,534

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

ROAD IMPROVEMENT FUND	PUBLIC SAFETY FUND	RESERVE FOR PENSION FUND	RESERVE FOR FUTURE EXPANSION FUND	NEW CITY HALL FUND	TOTAL
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,716,791
0	0	0	0	0	367,268
0	0	0	0	0	4,207,578
0	0	0	0	0	2,058,166
30,000	0	0	0	0	311,452
10,703	24,657	11,923	0	32,566	748,364
40,703	24,657	11,923	0	32,566	9,409,619
0	0	35,067	0	0	2,084,880
7,496	836,724	0	0	0	1,886,269
23,661	0	0	0	2,426,615	2,781,838
31,157	836,724	35,067	0	2,426,615	6,752,987
9,546	-812,067	-23,144	0	-2,394,049	2,656,632
45,527	1,123,360	0	0	2,870,000	4,268,503
0	0	0	-229,617	0	-4,268,503
45,527	1,123,360	0	-229,617	2,870,000	0
55,073	311,293	-23,144	-229,617	475,951	2,656,632
286,862	490,607	352,681	229,617	0	7,898,229
\$ 341,935	\$ 801,900	\$ 329,537	\$ 0	\$ 475,951	\$ 10,554,861

**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, 2006**

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	\$	2,656,632
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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.

Capital Asset Additions	\$	5,029,941	
Depreciation Expense		-1,195,342	
Disposal of Assets		<u>49,324</u>	
Net Adjustment			3,883,923

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		-11,699
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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		<u>6,429</u>
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Change in Net Assets	\$	<u><u>6,535,285</u></u>
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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

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 City.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. DESCRIPTION OF FUNDS

The City reports the following major funds:

GENERAL FUND

This fund accounts for all financial resources and expenditures of the City, except those required to be accounted for in another fund. The principal revenue sources are property taxes, intergovernmental revenues, various fees for 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 four-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 was discontinued in the current fiscal year. The total assets were transferred to the General Fund as all revenues from this fund were derived from transfers from the General Fund.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. DESCRIPTION OF FUNDS (CONTINUED)

RESERVE FOR NEW CITY HALL FUND

This fund accounts for purchase of land and construction of a new City Hall. Revenues are derived from transfers from the General Fund and the Building Department Fund.

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 except for the following over-expenditure: General Fund, Transfer out to the Road Improvement Fund in the amount of \$5,527.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. CAPITAL ASSETS

Capital assets are recorded at the original or estimated cost. Donated capital assets are recorded at their estimated fair market value on the date donated. The City defines capital assets as assets with an initial cost of more than \$5,000 and an estimated life in excess of 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.

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. 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 any outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. NET ASSETS (CONTINUED)

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

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

2. CASH AND INVESTMENTS

Cash and Investments consisted of:

Deposits with Financial Institutions:	
Petty Cash	\$ 400
Demand Deposits	1,210
Cash with County	9,419
Investments	<u>11,199,830</u>
Total Cash and Investments	<u>\$ 11,210,859</u>

DEPOSITS - Deposits with financial institutions include bank demand deposits. The total bank balance per the bank statements is \$1,210, all of which is covered by federal depository insurance. The City bank account is a sweep account with the end of day balance invested overnight in repurchase agreements. The repurchase transaction is an obligation of the bank and the underlying security serves as collateral.

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.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

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, 2006.

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, 2006. 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
Categorized Investments:				
Obligations of the U.S. Agencies	\$ 5,426,600	\$ 1,487,600	\$ 3,939,000	\$ -
Repurchase Agreements	340,169	340,169	-	-
State Treasurer's Investment Pool	5,433,061	5,433,061	-	-
Total	\$ 11,199,830	\$ 7,260,830	\$ 3,939,000	\$ -

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 that exceeds 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 Investment Pool is not rated.

CONCENTRATION OF RISK – At June 30, 2006, the City had 48% of total investments in the State Treasurer's Investment Pool. State statutes do not limit the percentage of investments in this instrument. At June 30, 2006, the City had 48% of total investments in obligations of U.S. Agencies. This included one Fannie Mae Discount Note and five Freddie Mac Discount Notes. The maturity date of each note is six months from the date of purchase.

CITY OF HAPPY VALLEY
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

3. CAPITAL ASSETS

The changes in capital assets for the fiscal year ended June 30, 2006 are as follows:

GOVERNMENTAL ACTIVITIES CAPITAL ASSETS				
	June 30, 2005	Additions	Disposals	June 30, 2006
Land and Improvements (non depreciable)	\$ 919,338	\$ 2,353,601	\$ 0	\$ 3,272,939
Buildings	459,797	212,124	0	671,921
Vehicles	121,818	83,945	0	205,763
Other Equipment	128,967	45,613	75,245	99,335
Park Improvements	967,149	48,390	0	1,015,539
Park Equipment	38,960	0	0	38,960
Streets	43,754,872	2,361,513	0	46,116,385
Less: Accumulated Depreciation	<u>-2,052,456</u>	<u>-1,195,342</u>	<u>-49,324</u>	<u>-3,198,474</u>
Total Governmental Activities	<u>\$ 44,338,445</u>	<u>\$ 3,909,844</u>	<u>\$ 25,921</u>	<u>\$ 48,222,368</u>

Governmental Activities Depreciation Allocation to Functions

Function	Governmental Funds
General Government	\$ 219,465
Building	279,112
Parks	639,747
Streets	<u>57,018</u>
Total	<u>\$ 1,195,342</u>

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

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, 2006 were \$67,331. 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 years ending June 30, 2006, and 2005 was \$129,470 and \$77,996 respectively, and was equal to the required contributions for the year.

Schedule of Funding Progress:

Dec. 31 Valuation Date	Value of Assets	Actuarial Liability	Unfunded Actuarial Liability	Funded Percent	Covered Payroll	Funding Excess as a Percent of Covered Payroll
2001	POOLED	POOLED	487,744	POOLED	695,498	70%
2003	POOLED	POOLED	428,183	POOLED	657,800	65%
2004	POOLED	POOLED	637,705	POOLED	829,606	77%

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, 2006, the City's liability reported on the Statement of Net Assets for vacation pay is estimated at \$62,082. Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.

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

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 \$234,560 are currently held as an unearned fees 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.

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, 2006**

GENERAL FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Taxes:				
Property Taxes - Current	\$ 1,442,000	\$ 1,442,000	\$ 1,686,665	\$ 244,665
Property Taxes - Delinquent	17,000	17,000	30,126	13,126
Total Taxes	1,459,000	1,459,000	1,716,791	257,791
Licenses, Fees, and Permits:				
Franchise Fees	355,000	355,000	460,440	105,440
Sewer Permit Fee	10,000	10,000	23,598	13,598
Erosion Control Permit Fee	50,000	50,000	164,404	114,404
Miscellaneous Permits	12,000	12,000	54,870	42,870
Right of Way Permits	25,000	25,000	10,446	-14,554
Development Fees	100,000	100,000	571,353	471,353
Construction Fees	600,000	600,000	787,529	187,529
Cell Tower Fees	24,000	24,000	22,150	-1,850
Park Reservation Permits	17,000	17,000	19,880	2,880
SDC-Administration Fees	15,000	15,000	41,705	26,705
Business Licenses	10,000	10,000	43,281	33,281
Alarm Permits and Penalties	9,000	9,000	3,840	-5,160
Total Licenses, Fees, and Permits	1,227,000	1,227,000	2,203,496	976,496
Intergovernmental:				
Alcohol Tax	60,000	60,000	79,699	19,699
Cigarette Tax	12,000	12,000	12,914	914
State Revenue Sharing	48,000	48,000	51,292	3,292
Grants	180,000	180,000	22,000	-158,000
Total Intergovernmental	300,000	300,000	165,905	-134,095
Other Revenue:				
Interest	15,000	15,000	140,058	125,058
Traffic Fines	103,000	103,000	228,336	125,336
Municipal Court	20,000	20,000	18,683	-1,317
State Court Assessments	42,000	42,000	83,586	41,586
Miscellaneous Revenue	0	0	916	916
Total Other Revenue	180,000	180,000	471,579	291,579
Total Revenues	3,166,000	3,166,000	4,557,771	1,391,771

**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, 2006**

	<u>GENERAL FUND</u>			VARIANCE
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>POSITIVE -NEGATIVE</u>
EXPENDITURES				
Personal Services				
Salaries	\$ 905,600	\$ 905,600	\$ 820,116	\$ 85,484
Employee Benefits	444,970	444,970	333,910	111,060
Total Personal Services	<u>1,350,570</u>	<u>1,350,570 (1)</u>	<u>1,154,026</u>	<u>196,544</u>
Materials and Services				
Office Supplies	33,800	33,800	28,708	5,092
Public Works Supplies	18,000	18,000	13,423	4,577
Travel	8,050	8,050	5,515	2,535
Training	53,700	53,700	11,215	42,485
Maps and Printing	5,000	5,000	3,341	1,659
Membership and Dues	10,600	10,600	8,741	1,859
Utilities	39,100	39,100	28,491	10,609
Vehicle Operation and Maintenance	15,000	15,000	15,423	-423
Vehicle Lease	0	0	0	0
Publication and Subscription	18,000	18,000	15,546	2,454
Newsletter	20,000	20,000	27,679	-7,679
Postage	13,500	13,500	11,771	1,729
Insurance	25,000	25,000	24,510	490
Repairs and Maintenance	48,000	48,000	39,409	8,591
Emergency Weather	15,000	15,000	842	14,158
Community Concept Planning	50,000	50,000	26,364	23,636
Miscellaneous Admin.	10,000	10,000	13,398	-3,398
Legal	140,000	140,000	163,726	-23,726
Audit	6,000	6,000	7,808	-1,808
Judge	30,000	30,000	19,205	10,795
Minutes Clerical	6,000	6,000	1,118	4,882
Contract Services	156,000	156,000	75,534	80,466
Software	30,000	30,000	23,875	6,125
Interpreting Services	200	200	80	120
Traffic Court Turnover-State Assessments	21,000	21,000	41,794	-20,794
Community Events	0	0	1,600	-1,600
Total Materials and Services	<u>771,950</u>	<u>771,950 (1)</u>	<u>609,116</u>	<u>162,834</u>
Capital Outlay				
City Hall	0	0	0	0
Vehicles	15,000	15,000	11,702	3,298
Equipment	130,500	130,500	54,863	75,637
Parks	50,000	50,000	53,501	-3,501
Land and Land Improvements	0	0	0	0
Total Capital Outlay	<u>195,500</u>	<u>195,500 (1)</u>	<u>120,066</u>	<u>75,434</u>
Contingency	<u>387,980</u>	<u>227,980 (1)</u>	<u>0</u>	<u>227,980</u>

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2006**

GENERAL FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE -NEGATIVE</u>
EXPENDITURES (CONTINUED)				
Total Expenditures	<u>2,706,000</u>	<u>2,546,000</u>	<u>1,883,208</u>	<u>662,792</u>
Excess of Revenues Over, -Under Expenditures	460,000	620,000	2,674,563	2,054,563
OTHER FINANCING SOURCES, -USES				
Transfers In	250,000	250,000	229,616	-20,384
Transfers Out To:				
Road Improvement Fund	-40,000	-40,000 (1)	-45,527	-5,527
Public Safety Fund	-970,000	-1,130,000 (1)	-1,123,359	6,641
New City Hall Fund	<u>-2,000,000</u>	<u>-2,000,000 (1)</u>	<u>-2,000,000</u>	<u>0</u>
Net Change in Fund Balance	-2,300,000	-2,300,000	-264,707	2,035,293
Beginning Fund Balance	<u>2,300,000</u>	<u>2,300,000</u>	<u>2,576,799</u>	<u>276,799</u>
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,312,092</u>	<u>\$ 2,312,092</u>

(1) Appropriation Level

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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, 2006**

	<u>STREET FUND</u>			
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE -NEGATIVE</u>
REVENUES				
Interest	\$ 10,000	\$ 10,000	\$ 25,113	\$ 15,113
Gas Tax Revenue	343,000	343,000	367,268	24,268
Total Revenues	353,000	353,000	392,381	39,381
EXPENDITURES				
Personal Services				
Salaries	91,500	91,500	94,638	-3,138
Employee Benefits	45,650	45,650	39,425	6,225
Total Personal Services	137,150	137,150 (1)	134,063	3,087
Materials and Services				
Training	3,000	3,000	110	2,890
Vehicle Expenses	3,500	3,500	12,049	-8,549
Contract Services	105,000	105,000	3,219	101,781
Traffic Control Devices	10,000	10,000	1,255	8,745
Street Repair Materials	15,000	15,000	918	14,082
Traffic Signs and Striping	35,000	35,000	12,205	22,795
Bike and Foot Path Maintenance	4,000	4,000	0	4,000
Contract Street Sweeping	2,500	2,500	0	2,500
Other Materials and Services	1,500	1,500	0	1,500
Total Materials and Services	179,500	179,500 (1)	29,756	149,744
Capital Outlay				
Road Maintenance	381,350	381,350	0	381,350
Equipment	50,000	50,000	32,870	17,130
Sidewalks and Bike Paths	180,000	180,000	0	180,000
Total Capital Outlay	611,350	611,350 (1)	32,870	578,480
Total Expenditures	928,000	928,000	196,689	731,311
Net Change in Fund Balance	-575,000	-575,000	195,692	770,692
Beginning Fund Balance	575,000	575,000	620,514	45,514
Ending Fund Balance	\$ 0	\$ 0	\$ 816,206	\$ 816,206

(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, 2006**

	<u>BUILDING FUND</u>			VARIANCE POSITIVE -NEGATIVE
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
REVENUES				
Interest	\$ 20,000	\$ 20,000	\$ 49,828	\$ 29,828
Permits and Fees	2,632,700	2,632,700	2,004,082	-628,618
State Surcharge	180,000	180,000	115,547	-64,453
Miscellaneous	0	0	2,249	2,249
Total Revenues	<u>2,832,700</u>	<u>2,832,700</u>	<u>2,171,706</u>	<u>-660,994</u>
EXPENDITURES				
Personal Services				
Salaries	668,100	668,100	538,192	129,908
Employee Benefits	<u>336,040</u>	<u>336,040</u>	<u>223,532</u>	<u>112,508</u>
Total Personal Services	<u>1,004,140</u>	<u>1,004,140 (1)</u>	<u>761,724</u>	<u>242,416</u>
Materials and Services				
Office Supplies	35,000	35,000	13,828	21,172
Travel	7,000	7,000	1,032	5,968
Training	18,000	18,000	17,329	671
Membership and Dues	2,500	2,500	434	2,066
Utilities	20,000	20,000	11,136	8,864
Vehicle Expenses	20,000	20,000	6,269	13,731
Publications and Subscriptions	6,500	6,500	1,985	4,515
Postage	6,000	6,000	500	5,500
Insurance	6,000	6,000	361	5,639
Repairs and Maintenance	10,000	10,000	12,593	-2,593
Public Outreach	5,000	5,000	2,600	2,400
Legal	12,500	12,500	153	12,347
Contract Services	1,115,060	1,115,060	1,731	1,113,329
Electrical Programs	150,000	150,000	196,740	-46,740
State Surcharge Fees	150,000	150,000	115,168	34,832
Municipal Lease	80,000	80,000	13,380	66,620
Software and Software Contract	70,000	70,000	7,938	62,062
Miscellaneous	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Materials and Services	<u>1,713,560</u>	<u>1,713,560 (1)</u>	<u>403,177</u>	<u>1,310,383</u>
Capital Outlay				
City Hall	0	0	0	0
Vehicles	60,000	60,000	77,009	-17,009
Equipment	<u>60,000</u>	<u>60,000</u>	<u>39,537</u>	<u>20,463</u>
Total Capital Outlay	<u>120,000</u>	<u>120,000 (1)</u>	<u>116,546</u>	<u>3,454</u>

Continued on page -28-

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2006**

	<u>BUILDING FUND</u>			VARIANCE POSITIVE -NEGATIVE
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
EXPENDITURES (CONTINUED)				
Contingency	<u>425,000</u>	<u>425,000 (1)</u>	<u>0</u>	<u>425,000</u>
Total Expenditures	<u>3,262,700</u>	<u>3,262,700</u>	<u>1,281,447</u>	<u>1,981,253</u>
OTHER FINANCING SOURCES, -USES				
Transfers Out	<u>-870,000</u>	<u>-870,000 (1)</u>	<u>-870,000</u>	<u>0</u>
Net Change in Fund Balance	-1,300,000	-1,300,000	20,259	1,320,259
Beginning Fund Balance	<u>1,300,000</u>	<u>1,300,000</u>	<u>1,294,447</u>	<u>-5,553</u>
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,314,706</u>	<u>\$ 1,314,706</u>
(1) Appropriation Level				

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2006**

SYSTEM DEVELOPMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 25,000	\$ 25,000	\$ 119,746	\$ 94,746
SDC-Storm Drainage	40,000	40,000	133,837	93,837
SDC-Parks	545,000	545,000	1,924,329	1,379,329
Total Revenues	610,000	610,000	2,177,912	1,567,912
EXPENDITURES				
Capital Outlay				
SDC Projects-Transportation	145,000	145,000	20,515	124,485
SDC Projects-Storm Drainage	350,000	350,000	0	350,000
SDC Projects-Parks	1,915,000	1,915,000	41,565	1,873,435
Total Capital Outlay	2,410,000	2,410,000 (1)	62,080	2,347,920
Total Expenditures	2,410,000	2,410,000	62,080	2,347,920
Net Change in Fund Balance	-1,800,000	-1,800,000	2,115,832	3,915,832
Beginning Fund Balance	1,800,000	1,800,000	2,046,702	246,702
Ending Fund Balance	\$ 0	\$ 0	\$ 4,162,534	\$ 4,162,534

(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, 2006**

ROAD IMPROVEMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 4,000	\$ 4,000	\$ 10,703	\$ 6,703
Cooperative Projects	100,000	100,000	30,000	-70,000
Grants	250,000	250,000	0	-250,000
Total Revenues	354,000	354,000	40,703	-313,297
EXPENDITURES				
Materials and Services				
Contract Engineering	100,000	100,000	7,496	92,504
Total Materials and Services	100,000	100,000 (1)	7,496	92,504
Capital Outlay				
Bicycle & Ped Pathways	100,000	100,000	0	100,000
Road Construction	444,000	444,000	23,661	420,339
Total Capital Outlay	544,000	544,000 (1)	23,661	520,339
Total Expenditures	644,000	644,000	31,157	612,843
Excess of Revenues Over, -Under Expenditures	-290,000	-290,000	9,546	299,546
OTHER FINANCING SOURCES, -USES				
Transfers In	40,000	40,000	45,527	5,527
Net Change in Fund Balance	-250,000	-250,000	55,073	305,073
Beginning Fund Balance	250,000	250,000	286,862	36,862
Ending Fund Balance	\$ 0	\$ 0	\$ 341,935	\$ 341,935

(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, 2006**

PUBLIC SAFETY FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 3,000	\$ 3,000	\$ 24,657	\$ 21,657
Total Revenues	3,000	3,000	24,657	21,657
EXPENDITURES				
Materials and Services				
Contract Police Protection	1,173,000	1,333,000	836,724	496,276
Total Materials and Services	1,173,000	1,333,000 (1)	836,724	496,276
Contingency	200,000	200,000 (1)	0	200,000
Total Expenditures	1,373,000	1,533,000	836,724	696,276
Excess of Revenues Over, -Under Expenditures	-1,370,000	-1,530,000	-812,067	717,933
OTHER FINANCING SOURCES, -USES				
Transfers In	970,000	1,130,000	1,123,360	-6,640
Net Change in Fund Balance	-400,000	-400,000	311,293	711,293
Beginning Fund Balance	400,000	400,000	490,607	90,607
Ending Fund Balance	\$ 0	\$ 0	\$ 801,900	\$ 801,900

(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, 2006

RESERVE FOR PENSION FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 3,000	\$ 3,000	\$ 11,923	\$ 8,923
Total Revenues	3,000	3,000	11,923	8,923
EXPENDITURES				
Materials and Services				
Employee Benefits	353,000	353,000	35,067	317,933
Total Materials and Services	353,000	353,000 (1)	35,067	317,933
Total Expenditures	353,000	353,000	35,067	-317,933
Net Change in Fund Balance	-350,000	-350,000	-23,144	326,856
Beginning Fund Balance	350,000	350,000	352,681	2,681
Ending Fund Balance	\$ 0	\$ 0	\$ 329,537	\$ 329,537

(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, 2006**

RESERVE FOR FUTURE EXPANSION FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE -NEGATIVE</u>
OTHER FINANCING SOURCES, -USES				
Transfers Out	-250,000	-250,000 (1)	-229,617	20,383
Net Change in Fund Balance	-250,000	-250,000	-229,617	20,383
Beginning Fund Balance	250,000	250,000	229,617	-20,383
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

(1) Appropriation Level

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2006**

NEW CITY HALL FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES				
Interest	\$ 10,000	\$ 10,000	\$ 32,566	\$ 22,566
Total Revenues	10,000	10,000	32,566	22,566
EXPENDITURES				
Capital Outlay				
City Hall	2,880,000	2,880,000	2,426,615	453,385
Equipment	0	0	0	0
Facility Improvements	0	0	0	0
Total Capital Outlay	2,880,000	2,880,000 (1)	2,426,615	453,385
Total Expenditures	2,880,000	2,880,000	2,426,615	453,385
Excess of Revenues Over, -Under Expenditures	-2,870,000	-2,870,000	-2,394,049	475,951
OTHER FINANCING SOURCES				
Transfers In	2,870,000	2,870,000	2,870,000	0
Net Change in Fund Balance	0	0	475,951	475,951
Beginning Fund Balance	0	0	0	0
Ending Fund Balance	\$ 0	\$ 0	\$ 475,951	\$ 475,951

(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, 2006**

<u>TAX YEAR</u>	<u>IMPOSED LEVY OR UNCOL- LECTED AT 7/1/05</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 6/30/06</u>
CURRENT:						
2005-2006	\$ 1,770,442	\$ -43,077	\$ -2,778	\$ 789	\$ 1,682,647	\$ 42,729
PRIOR YEARS:						
2004-2005	38,502	27	-2,018	1,461	27,158	10,814
2003-2004	11,606	8	-1,084	844	6,184	5,190
2002-2003	2,046	4	-298	244	1,160	836
2001-2002	705	2	-277	102	293	239
2000-2001 & Prior	408	3	-345	-829	-993	230
Total Prior	53,267	44	-4,022	1,822	33,802	17,309
Total	<u>\$ 1,823,709</u>	<u>\$ -43,033</u>	<u>\$ -6,800</u>	<u>\$ 2,611</u>	<u>\$ 1,716,449</u>	<u>\$ 60,038</u>

RECONCILIATION OF REVENUE:

	<u>GENERAL FUND</u>
Cash Collections by County Treasurer Above	\$ 1,716,449
Accrual of Receivables:	
June 30, 2005	-4,652
June 30, 2006	4,994
Total Revenue	<u>\$ 1,716,791</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

October 4, 2006

2005-06 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, 2006, and have issued our report thereon dated October 4, 2006.

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, 2006, 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
2005-2006 AUDITORS' COMMENTS AND DISCLOSURES

INTERNAL CONTROL (CONTINUED)

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

Our audit did not reveal any significant errors or irregularities resulting from this lack of segregation of employee duties and responsibilities.

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, except as noted on page 16.

2005-2006 and 2006-2007 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, 2006.

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.

CITY OF HAPPY VALLEY
2005-2006 AUDITORS' COMMENTS AND DISCLOSURES

OUTSTANDING WARRANTS

The City had no outstanding endorsed warrants at June 30, 2006.

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 2005-2006.

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, 2006, 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, 2006.


PAULY, ROGERS AND CO., P.C.

