

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF BEAVERTON, OREGON
STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments	\$88,835,533	\$35,769,655	\$124,605,188
Property taxes receivable	1,966,224		1,966,224
Court fines receivable	2,532,861		2,532,861
Right of way fees, accounts and other receivables, net	2,440,352	4,758,323	7,198,675
Due from other governments	1,333,113	209,766	1,542,879
Grants receivable	698,463		698,463
Accrued interest receivable	229,560	86,196	315,756
Internal balances	1,042,938	(1,042,938)	
Inventory	102,436	173,970	276,406
Other assets	94,400		94,400
Investments in joint ventures		20,217,482	20,217,482
Capital assets			
Land, intangible assets, construction in progress	20,910,200	18,942,245	39,852,445
Depreciable intangible assets (net of amortization)	1,170,772	93,058	1,263,830
Buildings and improvements (net of depreciation)	34,089,825	73,028	34,162,853
Machinery and equipment (net of depreciation)	5,813,586	2,611,709	8,425,295
Infrastructure (net of depreciation)	98,619,606	169,184,907	267,804,513
TOTAL ASSETS	259,879,869	251,077,401	510,957,270
Deferred Outflows of Resources:			
Deferred amount from pension	34,349,061	3,010,255	37,359,316
Liabilities:			
Accounts payable	3,532,646	2,952,942	6,485,588
Accrued salaries and payroll taxes	2,726,351	271,179	2,997,530
Accrued interest payable	425,070	23,004	448,074
Other accrued liabilities	505,334	78,097	583,431
Due to other governments	636,699	3,679,990	4,316,689
Deposits and retainages payable	1,198,871	67,170	1,266,041
Long-term liabilities:			
Portion due within one year:			
Bonds, contracts, loan payable, net	2,699,519	603,043	3,302,562
Compensated absences	594,853	66,095	660,948
Portion due in more than one year:			
Bonds, contracts, loan payable, line of credit, net	41,738,712	6,631,852	48,370,564
Compensated absences	3,302,230	380,247	3,682,477
Net other postemployment benefits obligation	4,004,920	422,443	4,427,363
Net pension liability	66,914,097	5,864,162	72,778,259
TOTAL LIABILITIES	128,279,302	21,040,224	149,319,526
Deferred Inflows of Resources:			
Deferred amount from pension	4,001,136	350,648	4,351,784
Net Position:			
Net Investment in capital assets	153,754,955	187,319,801	341,074,756
Restricted for:			
Construction		13,703,595	13,703,595
Debt service	421,397	68,321	489,718
Highways and streets	16,385,391		16,385,391
Education	1,762,387		1,762,387
Other purposes	4,451,764		4,451,764
Unrestricted (deficit)	(14,827,402)	31,605,067	16,777,665
TOTAL NET POSITION	\$161,948,492	\$232,696,784	\$394,645,276

The notes to the basic financial statements are an integral part of this statement.

CITY OF BEAVERTON, OREGON
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$38,232,521	\$9,433,303	\$1,339,454		(\$27,459,764)		(\$27,459,764)
Public safety	32,564,955	6,009,900	975,516		(25,579,539)		(25,579,539)
Highways and streets	10,836,814	93,709	6,032,502	\$3,614,147	(1,096,456)		(1,096,456)
Education	9,893,084	204,667	5,629,614		(4,058,803)		(4,058,803)
Cultural and recreation	1,025,135		3,070		(1,022,065)		(1,022,065)
Interest on long-term debt	745,611				(745,611)		(745,611)
Total governmental activities	93,298,120	15,741,579	13,980,156	3,614,147	(59,962,238)		(59,962,238)
Business-type activities:							
Water	9,899,339	12,581,709		694,169		\$3,376,539	3,376,539
Sewer	5,339,405	5,072,218		261,402		(5,785)	(5,785)
Storm drain	5,706,747	5,387,945		1,163,357		844,555	844,555
Total business-type activities	20,945,491	23,041,872		2,118,928		4,215,309	4,215,309
Total government	\$114,243,611	\$38,783,451	\$13,980,156	\$5,733,075	(59,962,238)	4,215,309	(55,746,929)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					39,807,575		39,807,575
Property taxes, levied for debt service					1,739,224		1,739,224
City tax levied for lodging and marijuana					873,006		873,006
Intergovernmental revenues, unrestricted					3,327,083		3,327,083
Right of way fee revenues					8,526,616		8,526,616
Right of way fee revenues, allocated for debt service					1,084,060		1,084,060
Unrestricted investment earnings					600,708	334,342	935,050
Other revenues					1,562,736	153,959	1,716,695
Total general revenues					57,521,008	488,301	58,009,309
Change in net position					(2,441,230)	4,703,610	2,262,380
Net position--Beginning					164,389,722	227,993,174	392,382,896
Net position--Ending					\$161,948,492	\$232,696,784	\$394,645,276

The notes to the basic financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

MAJOR FUNDS

General Fund

This fund accounts for the financial operations of the City which are not accounted for in any other fund. Principal sources of revenue are property taxes, licenses and permits, right of way fees, state shared revenues and charges for administrative services provided to other funds. Primary expenditures are for police protection, court, engineering and planning services, and general administration such as human resources, finance, city attorney and mayor's office. This fund consists of three budgetary funds (General Fund, State Revenue Sharing Fund, and Beaverton Arts Commission Fund).

Street Fund

Accounts for receipts of revenues from county gasoline tax and state gasoline taxes apportioned from the State of Oregon, and expenditures as specified under Article IX, Section 3 of the Constitution of the State of Oregon.

Library Fund

Accounts for receipts and expenditures of revenues from a county library special levy, property taxes levied, and donations and expenditures for operation of the City library. This fund consists of two budgetary funds (Library Fund and Library Donation Fund).

Capital Development Fund

Accounts for the acquisition and construction of designated capital facilities. Major sources of revenue are bond sale proceeds and transfers from other funds.

OTHER GOVERNMENTAL FUNDS

Other Governmental Funds include Community Development Block Grant Fund, Building Fund, Transient Lodging Tax (TLT) Fund, Transportation Development Tax Fund, Transportation Systems Development Fund, General Obligation Debt Service Fund, Special Revenue Debt Service Fund, Capital Projects Fund, Assessment Debt Service Fund, Beaverton Urban Redevelopment Agency (BURA) General Fund, BURA Debt Service Fund and BURA Capital Projects Fund.

CITY OF BEAVERTON, OREGON
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2017

	General Fund	Street Fund	Library Fund	Capital Development Fund	Other Governmental Funds	Total
Assets:						
Cash and investments	\$20,101,142	\$4,083,524	\$2,037,106	\$36,384,513	\$21,609,591	\$84,215,876
Property taxes receivable	1,620,539		140,531		205,154	1,966,224
Court fines receivable	2,532,861					2,532,861
Right of way/other receivables, net	1,471,068	30,162			526,614	2,027,844
Accrued interest receivable	71,064	9,897	7,450	39,484	52,500	180,395
Due from other funds	119,956					119,956
Due from other governments	404,661	522,216			406,236	1,333,113
Grants receivable	408,935				289,528	698,463
TOTAL ASSETS	\$26,730,226	\$4,645,799	\$2,185,087	\$36,423,997	\$23,089,623	\$93,074,732
Liabilities, Deferred Inflows of Resources, and Fund Balances:						
Liabilities:						
Accounts payable	\$596,694	\$483,485	\$134,714	\$139,020	\$1,882,795	\$3,236,708
Accrued salaries and payroll taxes	1,091,703	57,534	151,350		90,263	1,390,850
Interest payable					10,049	10,049
Due to other funds					119,956	119,956
Due to other governments	570,879				65,820	636,699
Deposits and retainages payable	1,183,783			12,611	2,477	1,198,871
Total Liabilities	3,443,059	541,019	286,064	151,631	2,171,360	6,593,133
Deferred inflows of resources:						
Unavailable revenue - municipal court fines	1,965,716					1,965,716
Unavailable revenue - property taxes	1,495,566		129,186		187,903	1,812,655
Unavailable revenue - transportation development tax					510,900	510,900
Unavailable revenue - assessment liens, and interest	71,064	9,897	7,450	39,484	66,908	194,803
Total Deferred Inflows of Resources	3,532,346	9,897	136,636	39,484	765,711	4,484,074
Fund balances:						
Restricted		4,094,883	1,762,387	34,667,297	18,439,155	58,963,722
Committed	933,063			1,565,585	1,713,397	4,212,045
Assigned	8,893,805					8,893,805
Unassigned	9,927,953					9,927,953
Total Fund Balances	19,754,821	4,094,883	1,762,387	36,232,882	20,152,552	81,997,525
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$26,730,226	\$4,645,799	\$2,185,087	\$36,423,997	\$23,089,623	\$93,074,732

The notes to the basic financial statements are an integral part of this statement.

CITY OF BEAVERTON, OREGON
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
June 30, 2017

Total fund balances - governmental funds		\$81,997,525
<p>Capital assets used in governmental activities are not financial resources, therefore, are not reported in the governmental funds' balance sheet:</p>		
Acquisition cost	\$217,690,986	
Accumulated depreciation	<u>(59,362,786)</u>	158,328,200
<p>Assets not available to pay for current-period expenditures and, therefore are not recognized in the governmental funds.</p>		
Contract and interest receivable from land sale		279,673
Investments are reported at fair market value in the Statement of Net Assets		(96,373)
<p>Deferred revenues collected in subsequent years are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the governmental funds' balance sheet:</p>		
Property tax revenue		1,812,654
Court fine revenue		1,965,717
Transportation development tax revenue		510,900
<p>Deferred assessment liens and investment income revenues are collected in subsequent periods and are not available for current year's operation. However, on a full accrual basis of accounting, they are reported as revenues.</p>		
		194,803
<p>Internal service funds are used by management to charge the costs of services to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.</p>		
		3,880,791
<p>Long-term liabilities, including bonds/loan payable, accrued interest, payroll and pension liabilities are not due in the current period and, therefore, are not reported in the funds' balance sheet.</p>		
Bonds, contracts, loans payable, net	(\$44,438,231)	
Accrued interest payable	(415,020)	
Accrued payroll liability, taxes and benefits liabilities	(4,682,019)	
Other postemployment benefits obligation	(3,679,963)	
Net pension activity:		
Net pension liability	(61,687,756)	
Deferred outflows after measurement date	31,666,218	
Deferred inflows of assumed and actual investment earnings, difference in contributions and experience rate and change in proportionate share	<u>(3,688,627)</u>	
		<u>(86,925,398)</u>
Total net position - governmental activities		<u><u>\$161,948,492</u></u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF BEAVERTON, OREGON
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2017

	General Fund	Street Fund	Library Fund	Capital Development Fund	Other Governmental Funds	Total
Revenues:						
Taxes	\$33,710,763		\$2,997,910		\$5,687,875	\$42,396,548
Intergovernmental	2,885,971	\$6,032,502	5,562,841		872,653	15,353,967
Federal grants	858,903		39,433		1,248,876	2,147,212
State and private grants	251,063					251,063
Fees, licenses, and permits	3,314,282				5,571,614	8,885,896
Right of way fees	7,926,616	600,000			1,084,060	9,610,676
Fines and forfeits	4,814,484		204,114			5,018,598
Interest on investments and assessments	189,954	39,477	18,458	\$119,768	176,675	544,332
Charges for services	3,862,104	93,709				3,955,813
Miscellaneous and cash-in-lieu	2,190,184	32,730	81,222	37,161	1,144,509	3,485,806
TOTAL REVENUES	60,004,324	6,798,418	8,903,978	156,929	15,786,262	91,649,911
Expenditures:						
Current:						
General government	26,760,488			398,068	6,098,538	33,257,094
Public safety	29,210,066					29,210,066
Highways and streets		6,453,383			1,339,052	7,792,435
Education			8,621,976			8,621,976
Cultural	921,368					921,368
Debt service:						
Principal	134,927				2,929,533	3,064,460
Interest	35,404				346,112	381,516
Capital Outlay				917,084	3,057,969	3,975,053
TOTAL EXPENDITURES	57,062,253	6,453,383	8,621,976	1,315,152	13,771,204	87,223,968
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,942,071	345,035	282,002	(1,158,223)	2,015,058	4,425,943
Other financing sources (uses):						
Proceeds, bond sale				33,845,000		33,845,000
Premium, bond sale				1,154,828		1,154,828
Proceeds, line of credit					2,921,900	2,921,900
Transfers in				2,148,763	1,171,523	3,320,286
Transfers out	(2,537,587)	(285,237)			(497,462)	(3,320,286)
TOTAL OTHER FINANCING SOURCES (USES)	(2,537,587)	(285,237)		37,148,591	3,595,961	37,921,728
NET CHANGE IN FUND BALANCES	404,484	59,798	282,002	35,990,368	5,611,019	42,347,671
FUND BALANCES, Beginning of year	19,350,337	4,035,085	1,480,385	242,514	14,541,533	39,649,854
FUND BALANCES - End of year	<u>\$19,754,821</u>	<u>\$4,094,883</u>	<u>\$1,762,387</u>	<u>\$36,232,882</u>	<u>\$20,152,552</u>	<u>\$81,997,525</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF BEAVERTON, OREGON
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2017

Net change in fund balances - total governmental funds \$42,347,671

Amounts reported for governmental activities in the Statement of Activities
are different because:

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

Expenditures for capital assets	\$2,458,461	
Less current year depreciation	<u>(4,606,377)</u>	(2,147,916)

The net effect of transactions involving capital assets, i.e., gain/loss on sales, donations. These transactions are not reported in the governmental funds. (846,334)

Governmental funds defer revenues that do not provide current financial resources. However, the Statement of Activities recognizes such revenues at their net realizable value when earned, regardless of when received. 909,725

Investments are reported at fair market value in the Statement of Activities, however, the governmental funds report investments at amortized cost and do not recognize the increase/decrease in interest income. (96,373)

Repayments and proceeds of long-term debt are reported as expenditures and revenues in governmental funds. However, it is reported as a decrease/increase in liabilities in the Statement of Net Assets. (34,768,969)

Some expenses, such as accrued interest expense on long-term debt and amortization of premiums and discounts are reported in the Statement of Activities. However, they do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (330,790)

Other post employment benefit obligations and accrued payroll liabilities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (812,056)

Pension expense does not require the use of current financial resources, and, therefore, is not reported in governmental funds. (6,190,874)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet services, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities. (505,314)

Change in net position of governmental activities (\$2,441,230)

The notes to the basic financial statements are an integral part of this statement.

PROPRIETARY FUND FINANCIAL STATEMENTS

MAJOR BUSINESS-TYPE FUNDS

These funds are used to finance and account for the acquisition, operation and maintenance of water, sewer, and storm drain facilities which are supported by user charges.

Water Fund - accounts for the City's water utility operations, debt service and construction. This fund consists of three budgetary funds (Water Operating Fund, Water Debt Service Fund, and Water Construction Fund) that are combined as one enterprise fund in accordance with accounting principles generally accepted in the United States of America.

Sewer Fund - accounts for the City's sewer utility operations.

Storm Drain Fund - accounts for storm drainage connection fees and a user fee charged to property owners to finance maintenance of the City drainage system.

GOVERNMENTAL ACTIVITIES – INTERNAL SERVICE FUNDS

The Internal Service Funds are used to account for services provided by the City of Beaverton for other departments within the City. Internal Service Funds include: Reprographics, Garage, Information Systems, Geographic Information Systems, Operations Administration, and Insurance.

**CITY OF BEAVERTON, OREGON
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 June 30, 2017**

	Business -Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water Fund	Sewer Fund	Storm Drain Fund	Totals	
Assets:					
Current assets:					
Cash and investments	\$14,811,267	\$10,438,006	\$10,520,382	\$35,769,655	\$4,716,030
Accounts receivable, net	1,796,043	2,313,906	622,751	4,732,700	170,133
Other receivables	25,624			25,624	
Accrued interest receivable	37,298	24,068	24,830	86,196	11,867
Due from other governments	65,627	136,495	7,644	209,766	
Inventory of materials and supplies	147,220	10,923	15,827	173,970	102,436
Total current assets	16,883,079	12,923,398	11,191,434	40,997,911	5,000,466
Noncurrent assets:					
Other assets					94,400
Investments in joint venture - JWC	15,019,277			15,019,277	
Investments in joint venture - Barney	5,198,205			5,198,205	
Capital assets, net	80,910,208	52,346,386	57,648,352	190,904,946	2,275,789
Total noncurrent assets	101,127,690	52,346,386	57,648,352	211,122,428	2,370,189
TOTAL ASSETS	118,010,769	65,269,784	68,839,786	252,120,339	7,370,655
Deferred outflows of resources:					
Deferred amount on pensions	1,066,476	787,003	1,156,776	3,010,255	2,682,843
Liabilities:					
Current liabilities:					
Accounts payable	2,533,337	339,070	80,535	2,952,942	295,939
Accrued salaries and payroll taxes	98,665	58,065	114,449	271,179	220,091
Accrued interest payable	23,004			23,004	
Other accrued liabilities	10,926	67,171		78,097	505,334
Deposits and retainage payable	67,170			67,170	
Due to other governments		3,446,136	233,854	3,679,990	
Contract payable, net	23,043			23,043	
Bonds payable, net	580,000			580,000	
Total current liabilities	3,336,145	3,910,442	428,838	7,675,425	1,021,364
Long-term liabilities:					
Contract payable, net	499,207			499,207	
Bonds payable, net	5,035,000			5,035,000	
Loans Payable - IFA	1,097,645			1,097,645	
Compensated absences	164,137	82,474	199,731	446,342	330,474
Net pension liability	2,077,561	1,533,132	2,253,469	5,864,162	5,226,341
Net other postemployment benefits	164,788	101,628	156,027	422,443	324,957
Total long-term liabilities	9,038,338	1,717,234	2,609,227	13,364,799	5,881,772
TOTAL LIABILITIES	12,374,483	5,627,676	3,038,065	21,040,224	6,903,136
Deferred inflows of resources:					
Deferred amount on pensions	124,228	91,674	134,746	350,648	312,509
Net Position:					
Net investment in capital assets	77,325,063	52,346,386	57,648,352	187,319,801	2,275,789
Restricted for construction	992,721	5,131,978	7,578,896	13,703,595	
Restricted for debt service	68,321			68,321	
Unrestricted	28,192,429	2,859,073	1,596,503	32,648,005	562,064
TOTAL NET POSITION	\$106,578,534	\$60,337,437	\$66,823,751	233,739,722	\$2,837,853
				(1,042,938)	
				\$232,696,784	

Adjustment to reflect the consolidation of internal service fund activities (1,042,938)
 Net position of business-type activities \$232,696,784

The notes to the basic financial statements are an integral part of this statement.

CITY OF BEAVERTON, OREGON
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2017

	Business-Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water Fund	Sewer Fund	Storm Drain Fund	Totals	
Operating revenues:					
Charges for services	\$12,397,824	\$4,953,595	\$5,333,203	\$22,684,622	\$18,020,328
Installation fees	10,134			10,134	
Erosion control fees			42,775	42,775	
Miscellaneous revenues	232,190	135,154	49,685	417,029	761,835
TOTAL OPERATING REVENUES	12,640,148	5,088,749	5,425,663	23,154,560	18,782,163
Operating expenses:					
Personal services	2,267,519	1,377,063	2,303,015	5,947,597	4,777,280
Water purchases	1,288,362			1,288,362	
Administration charges from General Fund	356,391	322,548	403,310	1,082,249	
Right of way fee payment	619,246	1,191,268	331,980	2,142,494	
Insurance claims					10,036,920
Contract charges					747,282
Supplies, repairs, and services	2,383,132	1,042,190	1,286,472	4,711,794	3,567,129
Depreciation and amortization	1,926,307	1,359,120	1,333,350	4,618,777	352,793
TOTAL OPERATING EXPENSES	8,840,957	5,292,189	5,658,127	19,791,273	19,481,404
OPERATING INCOME (LOSS)	3,799,191	(203,440)	(232,464)	3,363,287	(699,241)
Nonoperating revenues (expenses):					
Interest on investments	144,322	95,697	94,323	334,342	40,306
Gain on sale of capital assets	29,206	9,880	2,185	41,271	
Debt Service fees	(61,400)			(61,400)	
Interest expense	(216,481)			(216,481)	
Net loss from joint ventures	(722,716)			(722,716)	
TOTAL NONOPERATING REVENUES (EXPENSES)	(827,069)	105,577	96,508	(624,984)	40,306
INCOME BEFORE CONTRIBUTIONS	2,972,122	(97,863)	(135,956)	2,738,303	(658,935)
Capital contributions:					
Systems development charge revenue:	176,990	112,880	267,454	557,324	
Private developer contributions	517,179	148,522	895,903	1,561,604	
TOTAL CAPITAL CONTRIBUTIONS	694,169	261,402	1,163,357	2,118,928	
CHANGE IN NET POSITION	3,666,291	163,539	1,027,401	4,857,231	(658,935)
TOTAL NET POSITION - BEGINNING	102,912,243	60,173,898	65,796,350	228,882,491	
TOTAL NET POSITION - as previously reported					3,569,388
Adj. for taxes on compensated absences (Note III.G.)					(72,600)
TOTAL NET POSITION - AS RESTATED					3,496,788
TOTAL NET POSITION - ENDING	\$106,578,534	\$60,337,437	\$66,823,751	\$233,739,722	\$2,837,853
Change in net position, above				\$4,857,231	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				(153,621)	
Change in net position of business-type activities				<u>\$4,703,610</u>	

The notes to the basic financial statements are an integral part of this statement

CITY OF BEAVERTON, OREGON
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2017

	Business-Type Activities - Enterprise Funds			Totals	Governmental Activities Internal Service Funds
	Water Fund	Sewer Fund	Storm Drain Fund		
Cash flows from operating activities:					
Cash receipts from customers and miscellaneous revenue	\$12,693,686	\$4,196,270	\$5,394,021	\$22,283,977	\$602,706
Cash receipts from interfund services provided to other funds	121,745	93,061	5,017	219,823	18,020,327
Cash payments to suppliers and for insurance claims	(2,940,275)	(407,541)	(614,623)	(3,962,439)	(13,851,323)
Cash payments to employees	(1,829,320)	(1,450,658)	(2,057,440)	(5,337,418)	(4,187,821)
Payments for overhead allocation and interfund services used	(1,770,528)	(2,178,519)	(1,430,141)	(5,379,188)	(526,237)
NET CASH FROM OPERATING ACTIVITIES	<u>6,275,308</u>	<u>252,613</u>	<u>1,296,834</u>	<u>7,824,755</u>	<u>57,652</u>
Cash flows from capital and related financing activities:					
Interest expense	(186,705)			(186,705)	
Purchase of equity in joint venture	(693,118)			(693,118)	
Acquisition of capital assets	(5,050,527)	(988,202)	(469,873)	(6,508,602)	(543,095)
Loan Proceeds - IFA loan	1,097,645			1,097,645	
Debt Service Fees	(61,400)			(61,400)	
Principal paid on bonds and contracts	(788,444)			(788,444)	
Bond proceeds - 2016 bond refunding issue	5,615,000			5,615,000	
Principal paid on refunded 2006 bonds	(6,040,000)			(6,040,000)	
Proceeds from disposition of capital assets	29,206	9,880	2,185	41,271	
Systems development charge revenues	176,990	112,880	267,454	557,324	
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(5,901,353)</u>	<u>(865,442)</u>	<u>(200,234)</u>	<u>(6,967,029)</u>	<u>(543,095)</u>
Cash flows from investing activities:					
Interest received	126,346	83,601	82,105	292,052	34,848
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	500,301	(529,228)	1,178,705	1,149,778	(450,595)
CASH AND INVESTMENTS - Beginning of year	<u>14,310,966</u>	<u>10,967,234</u>	<u>9,341,677</u>	<u>34,619,877</u>	<u>5,166,625</u>
CASH AND INVESTMENTS - End of year	<u>\$14,811,267</u>	<u>\$10,438,006</u>	<u>\$10,520,382</u>	<u>\$35,769,655</u>	<u>\$4,716,030</u>

The notes to the basic financial statements are an integral part of this statement

CITY OF BEAVERTON, OREGON
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS, Continued
For the Fiscal Year Ended June 30, 2017

	Business-Type Activities - Enterprise Funds			Totals	Governmental
	Water Fund	Sewer Fund	Storm Drain Fund		Internal Service Funds
Reconciliation of operating income to net cash from operating activities:					
Operating income (loss)	\$3,799,191	(\$203,440)	(\$232,464)	\$3,363,287	(\$699,241)
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation and amortization	1,926,307	1,359,120	1,333,350	4,618,777	352,793
Pension expense	396,365	19,958	230,060	646,383	550,372
Change in assets and liabilities:					
Accounts receivable	139,676	(71,117)	(29,478)	39,081	(159,129)
Due from other governments	(11,877)	(136,495)		(148,372)	
Other receivables and other assets	(20,065)	84		(19,981)	
Inventory of materials and supplies	(6,869)	(8,292)	(5,676)	(20,837)	(18,680)
Accounts payable	(24,117)	(22,978)	(42,197)	(89,292)	(7,550)
Due to other governments	32,897	(590,557)	27,724	(529,936)	
Accrued salaries and payroll taxes	(26,539)	(45,748)	(30,334)	(102,621)	(63,914)
Other accrued liabilities	675			675	
Compensated absences	16,130	(38,898)	57,310	34,542	72,133
Other postemployment benefits obligation	53,534	(9,024)	(11,461)	33,049	30,868
TOTAL ADJUSTMENTS	2,476,117	456,053	1,529,298	4,461,468	756,893
NET CASH FROM OPERATING ACTIVITIES	\$6,275,308	\$252,613	\$1,296,834	\$7,824,755	\$57,652
Schedule of non-cash transactions:					
Reduction in investments in joint ventures due to net loss in joint venture operations	(\$722,716)			(\$722,716)	
Contributions of infrastructure by developers	\$494,176	\$138,555	\$217,012	\$849,743	
Easements and rights-of-way conveyed to the City	\$23,004	\$9,967	\$678,891	\$711,862	

The notes to the basic financial statements are an integral part of this statement

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF BEAVERTON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Beaverton (City), 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 principles. The more significant of the City's accounting policies are described below.

A. Financial Reporting Entity

The accompanying financial statements present the City of Beaverton, Oregon (the primary government) and its component unit, the Beaverton Urban Redevelopment Agency (Agency). The component unit is blended and reported as if it is part of the City.

The City of Beaverton, Oregon, was incorporated in 1893 and operates under the provisions of its own charter and applicable State law, with a Mayor-Council form of government. The Mayor is the Chief Executive of the City and chairs City Council meetings. The Mayor does not vote, except in the event of a tie. The Mayor may veto an ordinance or other legislative enactment; the Council may override the veto by a four-fifths vote. The City Council (the "Council") is comprised of five members. The Mayor serves a four-year term. The five Council members are part-time elected officials who exercise the legislative powers of the City and determine matters of policy. The City Finance Director, other officers, and department directors are appointed by the Mayor.

The City of Beaverton provides a full range of municipal services to the community which includes police protection, traffic control and improvement, street maintenance and improvement, water, sewer and storm drain service, planning and zoning regulation, building inspection and regulation, library, municipal court and other services. Fire protection services are provided by Tualatin Valley Fire and Rescue and park services are provided by Tualatin Hills Park and Recreation District.

Blended Component Unit – The Beaverton Urban Redevelopment Agency is a legally separate public body created by ordinance of the City in March 2010 and approved by the voters in November 2011. The Agency's governing body is substantively the same governing body of the City as the governing board consists of members of the City Council, Mayor and three citizens. Additionally, the City's management has operational responsibility for the Agency as it manages the activities of the Agency in essentially the same manner in which it manages the City's own operations.

The Agency receives funds through tax increment financing pursuant to Oregon Revised Statutes (ORS) 457.420 through 457.450. Separate financial statements for the Agency can be obtained from the finance department of the City of Beaverton, 12725 SW Millikan Way, Beaverton, Oregon 97005.

The accounts of the City and its component unit are organized on the basis of funds. Fund accounting is designed to demonstrate legal compliance and aid financial management by segregating government functions and activities. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund balances (net position), revenues, expenditures (expenses) and deferred inflows/outflows of resources.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (Statement of Net Position and Statement of Activities) report information on all activities of the City and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by

CITY OF BEAVERTON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2017

taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or business-type activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include 1) fees, fines, and charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items not included among program revenues are reported instead as general revenues.

Fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise (business-type) funds are reported as separate columns in the fund financial statements. Nonmajor funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the other supplemental information.

C. Measurement Focus and Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements and the proprietary funds financial statements are presented on the full accrual basis of accounting with an economic resource measurement focus. An economic resource focus concentrates on an entity or fund's net position. All transactions and events that affect the total economic resources (net position) during the period are reported. These funds use the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied, and court fines revenues are recognized when fines are assessed and become due. Grants and similar items are recognized as revenue as soon as all eligible and reimbursable expenditures are incurred.

Interfund activity consists of transfers, services provided and/or used, reimbursements, advances, and loans. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule include interfund services provided and/or used. Interfund services provided and/or used are accounted for as revenues and expenses since the elimination of such revenues and expenses would distort the direct costs and program revenues reported for the various functions.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's ongoing operations. The operating revenues of the City's enterprise funds include but are not limited to, charges to customers for water, sewer and storm drain service. Significant operating expenses include personnel, materials and services, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues, expenses and contributions.

The governmental fund financial statements are accounted for using a current financial resources measurement focus, whereby only current assets, liabilities and deferred inflows of resources generally are included in the Balance Sheet, and the Statement of Revenues, Expenditures, and Changes in Fund Balances presents increases and decreases in those items. These funds use the modified accrual basis of accounting whereby revenues are recognized when they become measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

CITY OF BEAVERTON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2017

Expenditures are recorded when a related fund liability is incurred, except for interfund transactions which are recorded on the accrual basis and interest on general long-term debt which is recorded as due. Significant governmental funds revenues which were subject to accrual at June 30, 2017 under the modified accrual basis of accounting were as follows: property taxes, municipal court fines, state, county, and local shared revenues which are collected within 60 days subsequent to year end.

In the government-wide financial statements, however, with a full accrual basis of accounting, all expenses affecting the economic resource status of the government must be recognized. Thus, the expense and related accrued liability for long term portions of debt, compensated absences, pension and other post-employment benefits are included. Also in the government-wide financial statements, certain indirect costs have been included as part of the program expenses for the various functional activities.

Other receipts become measurable and available when cash is received and recognized as revenue at that time, except for revenues for grants and shared revenues which are recorded when the qualifying expenditures have been incurred and all other grant requirements have been met.

Deferred inflow of resources arises in the governmental funds' balance sheet when potential revenue does not meet both the measurable and available criteria for recognition in the current period. This deferred inflow of resources consists primarily of uncollected property taxes and municipal court fines not deemed available to finance operations of the current period. In the government-wide Statement of Activities, with a full accrual basis of accounting, revenue is recognized as soon as it is earned regardless of its availability.

Deferred outflow of resources arises in the statement of activities when consumption of resources that results in either a net decrease in assets or a net increase in liabilities are related to a future period.

In the government-wide Statement of Net Position, deferred outflows of resources and deferred inflows of resources relating to pensions and bonds payables are recognized.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. This reconciliation is part of the basic financial statements.

The City reports the following major governmental funds:

- **General Fund**
This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Principal sources of revenue are property taxes, franchise fees, state and county shared revenues and fines and forfeitures. Primary expenditures are for general government, planning and development, engineering services, and public safety. The General Fund includes two other budgetary funds (State Revenue Sharing Fund and Beaverton Arts Commission Fund).

- **Street Fund (Special Revenue Fund)**
Accounts for receipts and expenditures of revenues from county and state motor fuel taxes apportioned from the State of Oregon, and restricted for expenditures as specified under Article IX, Section 3 of the Constitution of the State of Oregon.

CITY OF BEAVERTON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2017

- **Library Fund (Special Revenue Fund)**
Accounts for receipts and expenditures of revenues from a county library special levy, property taxes levied and donations received and restricted for operation of the City library. This fund consists of two budgetary funds (Library Fund and Library Donation Fund).
- **Capital Development Fund (Capital Projects Fund)**
Accounts for the acquisition and construction of major capital facilities. Bond sale proceeds and transfers from other funds are major sources of funds.

The City reports the following major proprietary funds:

- **Water Fund (this fund consists of three budgetary funds, Water Operating Fund, Water Debt Service Fund, and Water Construction Fund)**
- **Sewer Fund**
- **Storm Drain Fund**

These funds account for the operations, maintenance, debt service and capital construction projects for water, sewer and stormwater which are funded mostly through monthly user fees, system development fees, other extra capacity revenues and bond sale proceeds.

Additionally, the City reports nonmajor funds within the governmental fund type as follows:

- **Special Revenue Funds** to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes.
- **Debt Service Funds** to account for the accumulation of resources and payment of principal and interest on general obligation, special revenue debt service, local improvement districts, and other long-term debt of governmental funds.
- **Capital Projects Fund** to account for the construction of capital improvement projects.

Additionally, the City reports the following fund type:

- **Internal service funds** account for those activities and services furnished internally to other organizational units within the City on a cost reimbursement basis. Charges are made to the various departments to support these activities. The City's internal service funds include Reprographics, Garage, Information Systems, Geographic Information Systems, Public Works Administration, and Insurance. The aggregate of all internal service funds are reflected in the proprietary fund financial statements.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

1. Cash and Investments

The City reports cash and investments at fair value in a common pool. Interest earned on the pooled cash and investments is allocated monthly based on each fund's average cash balance as a proportion of the City's total pooled cash and investments.

2. Receivables

Property taxes receivable and court fines receivable of the governmental fund types, which have been collected within 60 days subsequent to year end, are considered measurable and available and therefore are recognized as revenues. The remaining balances of the receivable are offset by deferred inflow of

CITY OF BEAVERTON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2017

resources and, accordingly, have not been recorded as revenue in the fund financial statements. Court fines receivables are turned over to an external collection agency after approximately 180 days, and the receivable balance reflects historical collection rate. The court fines receivable is partially offset by the amount collected on behalf of the State of Oregon and Washington County that are shown as due to other governments in the liabilities section. Property taxes become a lien against the property as of July 1 each year, and are payable in three installments on November 15, February 15, and May 15. Property taxes are levied on November 15. Taxes unpaid and outstanding as of May 16 are considered delinquent.

Assessment liens receivable are recorded as other governmental fund receivables at the time property owners are assessed for property improvements. The receivable balances that have not been collected within 60 days subsequent to year end are offset by deferred inflow of resources and accordingly, have not been recorded as revenue in the fund financial statements. Assessment interest receivable is recorded as earned; the assessment interest revenue is recognized when it becomes measurable and available.

Receivables of the proprietary fund types are recorded as revenue when earned, including services earned but not billed. The enterprise fund receivables relate to billings for residential and commercial customers that utilize the City's water, sewer and storm drain services. Receivables in enterprise funds are stated net of an allowance for uncollectibles.

3. Inventory of Materials and Supplies

Inventory in the proprietary fund types, determined by physical count, are recorded at cost (first-in, first-out basis) and are charged to expense as used (consumption method).

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure (e.g., streets and roads, bridges, sidewalks, water reservoirs, water, sewer and storm lines, and similar items), and intangible assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund statements. The City has elected to include its costs of rights of way acquired subsequent to July 1, 1980 as part of infrastructure. The City has also elected not to report infrastructure acquired prior to July 1, 1980. The threshold for capitalized equipment and improvements is \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. Upon disposal of such assets, the accounts are relieved of the related costs and accumulated depreciation, and resulting gains or losses are reflected in income. Estimated useful lives used in computing depreciation are:

<u>Assets</u>	<u>Years</u>
Equipment and Software	2-10
Heating and Cooling System	40
Buildings and improvements	50
Infrastructure, utilities	50-65
Infrastructure, street	40-75
Intangible Water Rights	40

CITY OF BEAVERTON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2017

Interest costs in the enterprise funds are capitalized as part of the costs of capital assets during the period of construction based on the weighted average borrowing costs incurred. In fiscal year 2016-17, \$37,658 interest expense was capitalized.

5. *Investments in Joint Ventures*

Investments in joint ventures with other governmental units are reported at cost plus or minus the City's share of operating income or loss (Note II. E).

6. *Intangible Assets*

Intangible assets consist of water rights, easements, and internally developed software. Some water rights and all internally developed software are amortized on the straight-line method over the estimated useful lives.

7. *Compensated Absences*

Earned but unpaid compensatory time is recorded as an expense in the proprietary fund types and government-wide statements. In the Statement of Net Position, the current portion of the compensated absences balance is separately reported as amount due within one year in the long term liability section. There is no liability for unpaid accumulated sick leave since the City has a policy to not pay any amounts when employees retire or are terminated.

8. *Long-Term Debt*

In the government-wide financial statements and also in the proprietary fund type statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities. Bond premiums and discounts are amortized using the straight-line method, which approximates the effective interest method, over the related debt repayment period. Unamortized bond discount costs or premiums are offset against bonds payable. Bond issuance costs are expensed when incurred, in accordance with GASB 65. Additionally, any resulting difference from a current refunding or advance refunding is shown as a deferred outflow or inflow of resources and is recognized as a component of interest expense in a straight-line method over the remaining life of the old debt or new debt, whichever is shorter.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF BEAVERTON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2017

9. Pension Liability

In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oregon Public Employees Retirement System (OPERS) and additions to/deductions from OPERS' fiduciary net position have been determined on the same basis as they are reported by OPERS.

10. Fund Balance

In the fund financial statements, the fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable fund balance is the portion of net resources that cannot be spent because they are either (a) in a nonspendable form or (b) legally or contractually required to be maintained intact. Fund balance is reported as restricted when the constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Fund balance is reported as committed when the City Council passes a resolution that places specific constraints on how the resources may be used. The Council action that imposed the limitation would need to occur no later than the close of the reporting period. The City Council can modify or rescind the legislative action at any time through passage of an additional resolution.

The net resources that are constrained by the City's intent to use them are reported as assigned fund balance. Intent is expressed when the City Council approves which resources should be set aside for specific purposes during the adoption of the annual budget. The City's Finance Director uses that information to determine whether those resources should be classified as assigned in the City's fund financial statements. The City's assigned fund balance category also reflects the appropriation of a portion of existing fund balance to eliminate a projected deficit in the subsequent year's adopted budget, as well as the encumbered amounts that represents commitments of the City's resources. Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been restricted, committed, or assigned within the General Fund.

The City does not have an established policy on the spending order of restricted or unrestricted fund balances. As a result, it is assumed that restricted resources are spent first when expenditures are incurred; when unrestricted resources are spent, the order of spending is committed, assigned, and unassigned fund balance when available.

11. Net Position

Net position whose use is restricted for construction, debt service or by other agreement is segregated on the government-wide Statement of Net Position and the Proprietary Fund Statement of Net Position. When both restricted and unrestricted net positions are available, the City will apply restricted resources as appropriate, then unrestricted as necessary.

12. Use of Estimates

CITY OF BEAVERTON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2017

The preparation of basic financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the basic financial statements and reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

II. DETAILED NOTES ON ALL FUNDS

A. Pooled Deposits and Investments

The City maintains a cash and investment pool that is available for use by all funds. Governmental activities and business-type activities portions of this pool are displayed on the government-wide Statement of Net Position as “Cash and Investments”. Oregon Revised Statutes (ORS) authorize the City to invest in obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, bankers' acceptances guaranteed by an Oregon financial institution, repurchase agreements, State of Oregon Treasury Local Government Investment Pool, various interest bearing bonds of Oregon municipalities, certificates of deposit, and certain commercial paper among others. In addition, the City's investments are governed by a written investment policy, which is approved by the Oregon Short-Term Fund Board and adopted by the City Council. The policy specifies the City's investment objectives, required diversification, certain limitations, security safekeeping, and reporting requirements.

Cash and investments are comprised of the following at June 30, 2017:

Cash on hand	\$49,116
Cash with fiscal agent	146,890
Deposits with financial institutions	8,664,335
Investments	115,744,847
	\$124,605,188

The City participates in an external investment pool (State of Oregon Treasury Local Government Investment Pool). The Pool is not registered with the U.S. Securities and Exchange Commission as an investment company. The State's investment policies are governed by the ORS and the Oregon Investment Council (OIC). The State Treasurer is the investment officer for the OIC and is responsible for all funds in the State Treasury. These funds are invested exercising reasonable care, skill and caution. Investments in the Pool are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board, which establishes diversification percentages and specifies the types and maturities of investments. That portion of the external investment pool which belongs to local government participants is reported in an Investment Trust Fund in the State's Comprehensive Annual Financial Report. A copy of the State's Comprehensive Annual Financial Report may be obtained at the Oregon State Treasury, 350 Winter St. N.E., Salem, Oregon 97310-0840.

The City's position in the Pool at June 30, 2017 is stated at cost which approximates the fair value.

CITY OF BEAVERTON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2017

Deposits with Financial Institutions

The City's deposits with financial institutions are insured up to levels defined by Federal laws, the Federal Depository Insurance Corporation (FDIC) and National Credit Union Administration (NCUA). Deposits with financial institutions are comprised of time deposits and bank demand deposits totaling \$10,443,657. Of these time deposits and bank demand deposits, \$1,471,732 was covered by FDIC insurance and \$500,000 was covered by NCUA insurance. For the \$8,471,925 deposits in excess of FDIC and NCUA insurance, the ORS require that deposit accounts in excess of the deposit insurance limits are only maintained at financial institutions included on a list of qualified depositories as determined by the Office of the State Treasurer. The City was in compliance with the ORS requirement.

Interest Rate Risk

As a means of managing its exposure to fair value loss arising from increasing interest rates and to allow investment maturities to coincide with projected needs, the City's investment policy does not allow direct investment in securities maturing more than five years from the date of purchase. The only exception to the five year maturity maximum is reserve or program monies may be invested in securities exceeding five years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

The City's fair market value of investments as of June 30, 2017 are summarized below:

	Fair Market Value	Less than 12 Months	12-18 Months	Greater than 18 Months
US Treasury	\$41,882,484	\$9,991,075	\$9,975,390	\$21,916,019
Federal Agencies	31,768,760	2,999,736		28,769,024
Corporate Bonds	5,955,180			5,955,180
State of Oregon Local Government Investment Pool	36,138,423	36,138,423		
Total Investments	\$115,744,847	\$49,129,234	\$9,975,390	\$56,640,223

Credit Risk

The City's investment policy limits the type of investments to no more than 25% in commercial paper, corporate indebtedness, time deposit open accounts, certificates of deposit and savings accounts; 20% in Oregon, California, Idaho and Washington municipal obligations and 10% in bankers acceptances and repurchase agreements. There are no portfolio limits to United States treasury obligations and United States government agency securities.

The minimum allowable credit rating criteria the City's investment policy authorizes for issuers of commercial paper is limited to those rated A1/P1 or better by Standard & Poor's (S&P) and Moody's Investors Service. Corporate indebtedness must have a minimum long term debt rating of AA- by S&P or a Aa3 rating by Moody's Investors Service. Oregon municipal obligations must have a long-term rating of A or an equivalent rating or better and California, Idaho and Washington municipal obligations must have a long-term rating of AA or an equivalent rating or better. Short-term municipal debt must be rated on the settlement date in the highest category by a nationally recognized statistical rating organization. Institutions issuing a banker's acceptance agreement shall have a short term rating of at least A-1 by S&P or P-1 by Moody's Investors. As of June 30, 2017, the City's investments in United States treasury obligations, government agency securities and Apple, Inc. corporate bonds are rated AA+ by S&P. The City's investments in Microsoft Corporation and Coca-Cola Company corporate bonds are rated AAA and AA-

CITY OF BEAVERTON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2017

respectively by S&P. All investments are in compliance with the City's investment policy. The State of Oregon Investment Pool is not rated.

Concentration of Credit Risk

<u>Issuer</u>	<u>Fair Market Value</u>	<u>Percent of Holdings</u>
FFCB	\$2,999,736	2.59%
FHLB	4,949,210	4.28%
FHLMC	13,911,632	12.01%
FNMA	9,908,182	8.56%
Corporate Bonds	5,955,180	5.15%
US Treasury	41,882,484	36.19%
Oregon Short-Term Fund (LGIP)	36,138,423	31.22%
	<u>\$115,744,847</u>	<u>100.00%</u>

Fair Value Measurement

The City categorizes its fair value hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy as follows:

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and,
- Level 3: Investments reflect prices based upon unobservable sources.

The City reports investments at fair market value. U.S. agency obligations are Level 1 investments. The City's corporate bonds are Level 2 investments. Investments in LGIP are not subject to level designation.

B. Receivables

Receivables as of year end for the City's individual major and nonmajor funds, and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts are presented on the face of the governmental and proprietary fund financial statements. The property tax receivables not expected to be collected within one year are \$1,320,539 in the General Fund, \$120,531 in the Library Fund, and \$172,154 in the nonmajor governmental funds. The court fine receivable not expected to be collected within one year is \$2,042,501. Of this amount \$1,662,800 is the City's revenue and \$379,701 is due to other governments. In the nonmajor governmental funds, \$471,360 of the transportation development tax receivable is not expected to be collected within one year.

Governmental funds report deferred inflow of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

Due from other funds in the General Fund and due to other funds in the nonmajor governmental funds are made to cover for the negative cash balance in the Community Development Block Grant Fund that operates on a reimbursement basis.

CITY OF BEAVERTON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2017

C. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2017 was as follows:

Description	Beginning Balance 6/30/16	Increases	Decreases	Ending Balance 6/30/17
Non-depreciable Capital Assets				
Land	\$16,235,047	\$510,000	(\$1,037,329)	\$15,707,718
Intangible assets - easements, ROW	1,937,152	190,995		2,128,147
Incomplete internally developed sftwr	313,470	168,095	(175,594)	305,971
Construction in progress	1,053,327	1,715,037		2,768,364
Total capital assets not being depreciated	19,538,996	2,584,127	(1,212,923)	20,910,200
Depreciable Capital Assets:				
Intangible assets, internally dev sftwr	2,035,308	301,546		2,336,854
Buildings and improvements	50,076,790			50,076,790
Machinery and equipment	17,019,560	776,650	(454,425)	17,341,785
Infrastructure - street	131,966,117	215,821		132,181,938
Total depreciable capital assets	201,097,775	1,294,017	(454,425)	201,937,367
Less accumulated depreciation for:				
Intangible assets, internally dev sftwr	(934,398)	(231,684)		(1,166,082)
Buildings and improvements	(14,878,921)	(1,108,044)		(15,986,965)
Machinery and equipment	(10,905,516)	(1,077,108)	454,425	(11,528,199)
Infrastructure - street	(31,020,000)	(2,542,332)		(33,562,332)
Total accumulated depreciation	(57,738,835)	(4,959,168)	454,425	(62,243,578)
Total capital assets being depreciated, net	143,358,940	(3,665,151)	-	139,693,789
Governmental activities capital assets, net	\$162,897,936	(\$1,081,024)	(\$1,212,923)	\$160,603,989

Depreciation expense for governmental activities is charged to functions as follows:

General government	\$926,219
Public safety	422,136
Highways and streets	2,729,688
Education	444,716
Cultural and recreation	83,616
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	<u>352,793</u>
Total depreciation for governmental activities	<u><u>\$4,959,168</u></u>

CITY OF BEAVERTON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2017

Capital asset activity for business-type activities for the year ended June 30, 2017 was as follows:

<u>Description</u>	<u>Beginning Balance 6/30/16</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance 6/30/17</u>
Non-depreciable Capital Assets:				
Land	\$2,678,202			\$2,678,202
Intangible assets	6,591,253	\$711,862		7,303,115
Construction - Work in Progress	4,448,356	4,516,452	(\$3,880)	8,960,928
Total capital assets not being depreciated	<u>13,717,811</u>	<u>5,228,314</u>	<u>(3,880)</u>	<u>18,942,245</u>
Depreciable Capital Assets:				
Buildings and improvements	538,221			538,221
Intangible Water Rights	838,941			838,941
Machinery and equipment	6,285,735	416,196	(134,550)	6,567,381
Infrastructure - utilities	227,397,234	2,703,579		230,100,813
Total depreciable capital assets	<u>235,060,131</u>	<u>3,119,775</u>	<u>(134,550)</u>	<u>238,045,356</u>
Less accumulated depreciation and amortization for:				
Buildings and improvements	(458,295)	(6,898)		(465,193)
Intangible Water Rights	(724,542)	(21,341)		(745,883)
Machinery and equipment	(3,611,232)	(478,990)	134,550	(3,955,672)
Infrastructure - utilities	(56,804,358)	(4,111,548)		(60,915,906)
Total accumulated depreciation	<u>(61,598,427)</u>	<u>(4,618,777)</u>	<u>134,550</u>	<u>(66,082,654)</u>
Total capital assets being depreciated, net	<u>173,461,704</u>	<u>(1,499,002)</u>		<u>171,962,702</u>
Business-type activities capital assets, net	<u>\$187,179,515</u>	<u>\$3,729,312</u>	<u>(\$3,880)</u>	<u>\$190,904,947</u>

Depreciation and amortization expense for business-type activities is charged to functions as follows:

Water	\$1,926,307
Sewer	1,359,120
Storm water	1,333,350
Total depreciation and amortization for business-type activities	<u>\$4,618,777</u>

D. Interfund Transfers and Loans

Transfers between funds provide support for various City programs in accordance with budgetary authorizations and resources for payment of debt services. General Fund transfers to the Capital Development fund include architectural design services for the Beaverton Arts Center (\$1,500,000); Canyon Road improvements and bike network projects (\$164,511); property acquisition (\$300,000) and library fountain improvements (\$20,494). General Fund transfer to nonmajor governmental fund is for sidewalk improvements (\$552,582). Street Fund transfers to the Capital Development fund is for Canyon Road improvements and bike network projects (\$163,758); transfers to the nonmajor funds is for sidewalk and

CITY OF BEAVERTON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2017

pathway improvements (\$121,479). The transfer between nonmajor governmental funds was to fund street extension projects and funding from BURA General Fund to BURA Debt Service Fund for loan payments.

Interfund transfers for the fiscal year ended June 30, 2017, consisted of the following:

<u>Transfers Out</u>	<u>Transfers In</u>		<u>Total</u>
	<u>Capital Development Fund</u>	<u>Nonmajor Governmental Funds</u>	
Governmental Funds:			
General Fund	\$1,985,005	\$552,582	\$2,537,587
Street Fund	163,758	121,479	285,237
Nonmajor Governmental Funds		497,462	497,462
Total Transfers in/out	<u>\$2,148,763</u>	<u>\$1,171,523</u>	<u>\$3,320,286</u>

E. Investments in Joint Ventures

	<u>Joint Water Commission</u>	<u>Barney Reservoir</u>	<u>Total</u>
Investment in joint ventures at June 30, 2016	\$14,781,213	\$5,355,303	\$20,136,516
Investment	803,682		803,682
Loss for the year	(565,618)	(157,098)	(722,716)
Investment in joint ventures at June 30, 2017	<u>\$15,019,277</u>	<u>\$5,198,205</u>	<u>\$20,217,482</u>

Joint Water Commission

In April 1979, the City purchased an interest in the Joint Water Commission (“JWC”) to provide joint operations for the supply, pumping, treatment, and transmission of potable water. This agreement was established between the City of Hillsboro, the City of Forest Grove, and the City of Beaverton. Effective July 1994, the JWC expanded its membership to include Tualatin Valley Water District (“TVWD”). The JWC is governed by three members from each entity. The City of Beaverton currently has a 25% ownership of JWC facilities.

Barney Reservoir Joint Ownership Commission

The Barney Reservoir Joint Ownership Commission (“BRJOC”) was formed to own, operate, and expand the J.W. Barney Reservoir (a dam on the Trask River in the coastal mountains). The BRJOC is governed by one member from each entity. The City of Beaverton currently has a 21.5% ownership (4,300 acre feet) of the Barney Reservoir.

The investments in the joint ventures are reported at cost in the Water Fund, and the City’s share of the annual net income or loss of the Joint Water and Barney Reservoir Joint Ventures is used to adjust the ending balance of the City’s equity interest in the joint venture. Financial statements for both commissions may be obtained from the City of Hillsboro, Finance Department at 150 East Main St., Fifth Floor, Hillsboro, Oregon 97123.

CITY OF BEAVERTON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2017

F. Lease Obligations

Governmental Activities Operating Lease

Since May of 2010, the City leased 7,032 square feet of office space in a commercial building in Murray Scholls Town Center for the branch library that opened in June 2010. Over time, community demand for library services at the branch library has exceeded expectations. During fiscal year 2015 the City negotiated a new lease to add square footage to a total of 10,418 square feet to the branch library operation to meet the increasing community need. The term of the new lease agreement is from May 1, 2015 to January 31, 2026 with an option to extend for two (2) additional periods of five (5) years each. The cost for the lease was \$172,016 for the year ended June 30, 2017, and the minimum lease payment for the future years are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2018	\$175,460
2019	178,968
2020	182,544
2021	186,200
2022	189,924
2023 - 2026	<u>660,496</u>
TOTAL	<u><u>\$1,573,592</u></u>

G. Long-term debt

Governmental Activities Long-term Loan Payable

In December of 2005, the City assumed a long-term loan payable of \$601,747 from the previous owner of the Beaverton Central Heating and Cooling Plant as a part of the agreement of the asset transfer that took place in FY 2004-05, and this loan was paid off during 2017. In June of 2007, the City borrowed an additional \$1,000,000 to finance the construction costs of the Plant expansion. The loan was issued from the State of Oregon Department of Energy through a Small Scale Energy Loan Program. The principal and interest payments of the remaining loan will be made with the revenues received from customers of the Plant. Future maturities are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$78,336	\$28,352
2019	83,854	22,835
2020	89,759	16,930
2021	96,080	10,608
2022	102,841	3,842
TOTALS	<u><u>\$450,870</u></u>	<u><u>\$82,567</u></u>

General Obligation Bonds

The City issues general obligation (GO) bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Principal and interest payments are paid solely from property tax revenues.

CITY OF BEAVERTON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2017

2005 GO Refunding Bonds

The original amount of GO bonds issued in 1999 for a new library facility was \$21,895,000, and on August 16, 2005, the City issued \$13,575,000 GO refunding bonds to advance refund the callable portion of the 1999 bonds. The following is the City's debt service requirements for the 2005 refunding GO bonds and the stated interest rates for respective maturity years:

<u>Year Ending June 30</u>	<u>Interest Rates</u>	<u>Governmental Activities</u>	
		<u>Principal</u>	<u>Interest</u>
2018	5.00%	\$1,480,000	\$124,000
2019	5.00%	1,000,000	50,000
		2,480,000	174,000
Unamortized discount		(5,447)	
TOTALS		<u>\$2,474,553</u>	<u>\$174,000</u>

2017 GO Bonds

On February 8, 2017 the City issued \$33,845,000 in general obligation bonds to pay for the capital costs of constructing and equipping an earthquake-resistant public safety center on property already owned by the City. The following is the City's debt service requirements for the 2017 GO bonds and the stated interest rates for respective maturity years:

<u>Year Ending June 30</u>	<u>Interest Rates</u>	<u>Governmental Activities</u>	
		<u>Principal</u>	<u>Interest</u>
2018		-	\$1,485,511
2019		-	1,130,621
2020	3.00%	\$815,000	1,130,621
2021	3.00%	900,000	1,106,171
2022	3.00%	995,000	1,079,171
2023-2027	3.00-5.00%	6,690,000	4,730,806
2028-2032	3.00%	10,180,000	3,196,106
2033-2037	3.00-3.20%	14,265,000	1,413,749
		33,845,000	
Unamortized Premium		1,130,769	
TOTALS		<u>\$34,975,769</u>	<u>\$15,272,757</u>

Special Revenue Bonds – Governmental

In October 2013, the City issued \$7,000,000 Special Revenue Bonds and placed \$5,700,000 in the Capital Development Fund to construct improvements to the Beaverton Building at The Round at Beaverton Central. The remaining \$1,300,000 was used as a reimbursement to the General Fund for a portion of the purchase of the building. The City purchased the Beaverton Building in April 2012 in the amount of \$8,841,109 (\$8,041,109 from the General Fund and \$800,000 from the Capital Development Fund), and it became the new City Hall in August 2014.

The Special Revenue Bonds will be payable solely from franchise fees, and the following is the City's debt service requirements to maturity:

CITY OF BEAVERTON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2017

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$1,014,488	\$69,569
2019	1,038,173	45,885
2020	1,062,410	21,648
2021	359,620	1,732
TOTALS	<u><u>\$3,474,691</u></u>	<u><u>\$138,834</u></u>

Beaverton Urban Renewal Agency (BURA) Non-Revolving Multi-Draw Line of Credit

In 2017 the City Council and BURA Board authorized a special revenue non-revolving line of credit not to exceed \$19 million to provide financing for projects within the central Beaverton Urban Renewal Redevelopment District. The Letter of Credit is in the form of an Urban Renewal Note Series 2017 and a City of Beaverton Revenue Bond Series 2017, as was sold in a negotiated sale to Key Government Finance, Incorporated. This debt is also commonly referred to as the Non-Revolving Multi-Draw Line of Credit, and the Borrower is listed as the Beaverton Urban Redevelopment Agency.

The new bonds will be backed by BURA tax increment payments and also by the City's non-property tax revenue including franchise fees, fines, forfeitures or any other non-property tax revenues that the City pledges to payment of the special revenue bonds. Interest rate on the outstanding line of credit balance is a variable rate tied to the London Interbank Offered Rate (LIBOR) plus 1.90%. As of June 30, 2017, the LIBOR rate was 1.24214%. The interest rate for the unused portion of the line of credit is 25 basis points (.25%).

As of June 30, 2017, the line of credit activity is as follows:

<u>Maximum Draw</u>	<u>Draw Date</u>	<u>Principal Draw</u>	<u>Remaining Draw Available</u>
\$19,000,000	03/29/2017	(\$2,921,900)	\$16,078,100

Land purchase contract payable

In October, 2015 the City entered into a four year land purchase contract to purchase a piece of property (0.48 acres) located at the southwest corner of SW Millikan Way and SW Rose Biggi Avenue in the amount of \$385,000. The property is in close proximity to City Hall and has many potential short and long-term uses. Future maturities are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$71,675	\$4,006
2019	68,774	3,439
TOTALS	<u><u>\$140,449</u></u>	<u><u>\$7,445</u></u>

Revenue Bonds – Enterprise Funds

The City issues revenue bonds to finance major construction projects for business-type activities. During fiscal year 2017, the City issued \$5,615,000 Water Revenue and Refunding Bonds, Series 2016 for the purpose of refunding in full the Water Revenue Bonds, Series 2006. The refunding was done to take advantage of the lower interest rate, but there was no economic gain or loss from the refunding. Over the life of the 2016 Bond refunding issue, the City will save \$675,977 in interest expense over the 2006 Bonds. Outstanding revenue bonds as of June 30, 2017 include only the 2016 water bonds.

CITY OF BEAVERTON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2017

The City covenants in the Master Water Bond Ordinance to charge rates and fees in connection with the operation of the water system which, when combined with other gross revenues, are adequate to generate net revenues in each fiscal year at least equal to 1.20 times annual debt service due in that fiscal year for senior lien debt and outstanding bonds. If the net revenues fail to meet this level, the City is required to promptly increase its rates and fees or reduce expenses to a level so that net revenues are projected to meet the required level. As of June 30, 2017 the City was in compliance with these requirements. The following is the City's debt service requirements on the outstanding water revenue bonds:

Year Ending June 30	Series 2016	
	Principal	Interest
2018	\$580,000	\$103,316
2019	590,000	92,644
2020	600,000	81,788
2021	610,000	70,748
2022	625,000	59,524
2023-2026	2,610,000	121,164
TOTALS	\$5,615,000	\$529,184

Contracts Payable

The City has two contracts payable with the U.S. Department of the Interior, Bureau of Reclamation for water rights at Scoggins Dam. The first contract is for 2,500 acre feet of water rights and the second contract is for 1,500 acre feet of water rights. Both contracts are due and payable in annual installments and bear interest at 3.5%. Because the imputed interest rate of 11% is greater than the 3.5% stated interest rate, there is an unamortized discount amount being amortized against the annual interest expense. The ending balance of both contracts at June 30, 2017 totals \$522,250 (net of \$237,397 unamortized discount).

Business-type Activities	Interest Rate	Balance
U.S. Department of Interior, Bureau of Reclamation - contract payable Scoggins Dam	3.5%	\$759,647

Debt service requirements to maturity on contracts payable are as follows:

Year Ending June 30	Business-type Activities	
	Principal	Interest
2018	\$38,521	\$26,588
2019	39,870	25,240
2020	41,266	23,844
2021	42,710	22,400
2022	44,204	20,905
2023-2027	245,343	80,204
2028-2032	159,156	43,094
2033-2036	148,577	13,224
	759,647	255,499
Unamortized discount	(237,397)	
TOTALS	\$522,250	\$255,499

CITY OF BEAVERTON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2017

Safe Drinking Water Revolving Loan

The City was awarded a Safe Drinking Water Revolving Loan from the State of Oregon Infrastructure Finance Agency (IFA) for up to \$5,000,000 of which \$750,000 is forgivable 90 days after the project completion date. The loan interest rate is 2.90% and the funding source for the loan is a mixture of State and Federal funds. During FY 16-17, the City's draw on the loan was from the State for \$1,097,645. The repayment commencement date of the loan is ninety (90) days after the project completion date. The maturity date of the loan will be nineteen (19) years after the repayment commencement date.

Changes in Long-term Liabilities and Compensated Absences

Long-term liability and compensated absences activity for the year ended June 30, 2017, was as follows:

Bonds and Obligations Payable and Compensated Absences	Beginning Balance 06/30/2016	Additions	Reductions	Ending Balance 06/30/2017	Due Within One Year
<u>Governmental Activities:</u>					
General obligation bonds	\$4,001,832	\$34,999,828	(\$1,551,338)	\$37,450,322	\$1,535,020
Special revenue bonds	4,466,035		(991,344)	3,474,691	1,014,488
Line of credit (BURA)		2,921,900		2,921,900	N/A
Loan payable, Sec. 108	405,000		(405,000)	-	
Loan payable, State Energy	585,797		(134,927)	450,870	78,336
Umrein land sale contract	231,936		(91,487)	140,449	71,675
Compensated absences	3,455,369	4,273,783	(3,832,069)	3,897,083	594,853
Governmental activities long term liabilities and compensated absences	<u>\$13,145,969</u>	<u>\$42,195,511</u>	<u>(\$7,006,165)</u>	<u>\$48,335,315</u>	<u>\$3,294,372</u>
<u>Business-Type Activities:</u>					
Revenue bonds	\$6,785,018	\$5,615,000	(\$6,785,018)	\$5,615,000	\$580,000
Loans payable - IFA		1,097,645		1,097,645	N/A
Contracts payable	544,151		(21,901)	522,250	23,043
Compensated absences	411,800	509,337	(474,795)	446,342	66,095
Business-type activities long term liabilities and compensated absences	<u>\$7,740,969</u>	<u>\$7,221,982</u>	<u>(\$7,281,714)</u>	<u>\$7,681,237</u>	<u>\$669,138</u>

Internal service funds predominantly serve the governmental funds. Accordingly, at year end, \$330,474 of internal service funds compensated absences is included in the governmental activities. The liability for compensated absences are liquidated within each individual budgetary fund. Also, for the governmental activities, State Energy loan payables are liquidated by the General Fund; general obligation bonds and special revenue bonds are liquidated by debt service funds.

CITY OF BEAVERTON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2017

H. Fund Balance

The fund balance for governmental funds as of June 30, 2017 are as follows:

	<u>General Fund</u>	<u>Street Fund</u>	<u>Library Fund</u>	<u>Capital Development Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Nonspendable:</u>						
<u>Restricted:</u>						
Capital projects				\$34,667,297	\$11,768,459	\$46,435,756
Road maintenance		\$4,094,883				4,094,883
Education			\$1,762,387			1,762,387
Debt service					421,397	421,397
Urban area economic development					3,135,920	3,135,920
Building inspections						
Other purposes					3,113,379	3,113,379
		<u>4,094,883</u>	<u>1,762,387</u>	<u>34,667,297</u>	<u>18,439,155</u>	<u>58,963,722</u>
<u>Committed to:</u>						
Equipment replacement	\$933,063					933,063
Street lighting					321,179	321,179
Capital projects				1,565,585	1,018,740	2,584,325
Other purposes					373,478	373,478
	<u>933,063</u>	<u>-</u>	<u>-</u>	<u>1,565,585</u>	<u>1,713,397</u>	<u>4,212,045</u>
<u>Assigned to:</u>						
Multi-year projects	574,733					574,733
Compensated absences	2,811,101					2,811,101
Appropriated fund balance	5,507,971					5,507,971
	<u>8,893,805</u>					<u>8,893,805</u>
<u>Unassigned:</u>						
	<u>9,927,953</u>					<u>9,927,953</u>
Total Fund Balances	<u>\$19,754,821</u>	<u>\$4,094,883</u>	<u>\$1,762,387</u>	<u>\$36,232,882</u>	<u>\$20,152,552</u>	<u>\$81,997,525</u>

I. Tax Abatements

For the fiscal year ended June 30, 2017, the City provided tax abatements through three programs – City of Beaverton Annexation Rebate Program, Enterprise Zone (ORS 285C.175) and Nonprofit Corporation Low Income Housing Program (ORS 307.541):

- The Annexation Rebate Program is administered through the City and provides a property tax abatement incentive for the annexation of property to the City of Beaverton for development. The rebate is part of an annexation agreement approved by the City Council and is available to significant future tax payers as an annexation incentive. The rebate is limited to the amount of city operating tax levy, not including debt service. The total amount of tax rebates for FY 16-17 was \$216,348.
- The Enterprise Zone (E-Z) Program, administered by the State of Oregon, serves as an economic development incentive for investment in buildings, machinery and equipment mostly for the industrial or warehousing sectors. A minimal amount of job creation is also required. Depending on the wages and

CITY OF BEAVERTON, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2017

benefits offered, the tax exemption can extend past the normal period of three years and run as long as five years. The amount of exemption is limited to the value of the new property improvements for equipment or machinery. The amount of tax exemptions extends to all taxing jurisdictions including the City of Beaverton and the Beaverton Urban Redevelopment Agency (BURA). See ORS 285C.050 to 285C.2580 for eligibility information. Under this program, the estimated tax abatement for the fiscal year was \$45,000 for the City and \$2,000 for BURA.

- The Low Income Property Tax Exemption program is authorized by Oregon Statute (ORS 307.4580 to 307.548) and City Ordinance (Beaverton Code 3.20) and is designed to make rental housing units affordable for income-restricted tenants. The City's Community Development Department recommends applications for the tax exemption to the Oregon Department of Housing and Community Services. When approved the Washington County Department of Assessment and Taxation creates a record of the exemption for each eligible property. The exemption lasts as long as the property complies with the city's ordinance and statutes. The amount of tax exemptions extends to all taxing jurisdictions including the City of Beaverton and the Beaverton Urban Redevelopment Agency (BURA). Under this program, the estimated tax exemption for the fiscal year was \$58,000 for the City and \$3,000 for BURA.

III. OTHER INFORMATION

A. Participation in Public Employees' Retirement System

1. Pension Plan

The City contributes to the Oregon Public Employees Retirement System (OPERS). OPERS is a cost-sharing multiple-employer defined benefit plan that provides statewide defined benefit and defined contribution retirement plans for units of state government, political subdivisions, community colleges and school districts. The system provides retirement and disability benefits, post-employment healthcare benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

2. Description of benefit terms:

Plan Benefits – Employees of the City are provided with pensions through OPERS. All benefits of OPERS are established by the legislature pursuant to ORS Chapters 238 and 238A. The authority to establish and amend the benefit provisions of the plan rests with the Oregon Legislature. OPERS produces an independently audited CAFR that can be obtained at <http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx>.

Benefits provided under Chapter 238-Tier One/Tier Two - Tier One/Tier Two Retirement Benefit plan is closed to new members hired on or after August 29, 2003.

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

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years

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of age before ceasing employment with a participating employer (age 45 for police and fire members). General service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

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

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

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

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

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. Senate Bill 861, signed into law in October 2013, limited the post-retirement COLA on benefits. The Oregon Supreme Court on April 30, 2015, overturned certain elements of the law as they were deemed unconstitutional (*Everice Moro et al v. State of Oregon et al*). As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually. PERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire.

Benefits provided under Chapter 238A – OPSRP. OPSRP pension program provides benefits to members hired on or after August 29, 2003. This portion of the OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

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

General Service - 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit. A member of the OPSRP pension program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches

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normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

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

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

Benefit Changes After Retirement - Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

3. Actuarial Valuations

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

Actuarial Methods and Assumptions Used in Developing Total Pension Liability

Valuation Date	December 31, 2014 rolled forward to June 30, 2016.
Measurement Date	June 30, 2016
Experience Study Report	2014, published September 2015
Amortization Method	Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years.
Asset Valuation Method	Market value of assets
Actuarial Assumptions:	
Inflation Rate	2.50 percent

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Long-term expected rate of return	7.50 percent
Discount rate	7.50 percent
Projected Salary Increases	3.50 percent overall payroll growth; salaries for individuals are assumed to grow at 3.50 percent plus assumed rates of merit/longevity increases based on service.
Mortality	<p>Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation.</p> <p>Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.</p> <p>Disabled retirees: Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 Sex distinct, generational per Scale BB, disabled mortality table.</p>

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

Discount Rate - The discount rate used to measure the total pension liability was 7.50 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

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

Asset Class	Target	Compound Annual Return (Geometric)
Core Fixed Income	8.00%	4.00%
Short-Term Bonds	8.00	3.61
Bank/Leveraged Loan	3.00	5.42

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High Yield Bonds	1.00%	6.20%
Large/Mid Cap US Equities	15.75	6.70
Small Cap US Equities	1.31	6.99
Micro Cap US Equities	1.31	7.01
Developed Foreign Equities	13.13	6.73
Emerging Foreign Equities	4.12	7.25
Non-US Small Cap Equities	1.88	7.22
Private Equity	17.50	7.97
Real Estate (Property)	10.00	5.84
Real Estate (REITS)	2.50	6.69
Hedge Fund of Funds-Diversified	2.50	4.64
Hedge Fund – Event-driven	.63	6.72
Timber	1.88	5.85
Farmland	1.88	6.37
Infrastructure	3.75	7.13
Commodities	1.88	4.58
Assumed Inflation – Mean		2.50

4. Contributions

OPERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the OPERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

Employer contribution rates during the period were based on the December 31, 2013 actuarial valuation, as subsequently modified by 2013 legislated changes in benefit provisions. The rates based on a percentage of payroll, first became effective July 1, 2015.

The City's contributions for the year ended June 30, 2017 were \$4,546,255. The rates in effect for the fiscal year ended June 30, 2017 were: (1) Tier1/Tier 2 – 14.23%, and (2) OPSRP general service – 7.37%, and (3) OPSRP Police – 11.48%. These contribution rates do not include the rates for Retirement Health Insurance Accounts or 6% employee contribution to individual Account Program (IAP).

5. Pension Assets/Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions

At June 30, 2017, the City reported a liability of \$72,778,259 for its proportionate share of the plan pension liability. The net pension liability was measured as of June 30, 2016. The City's proportionate share was based on a projection of the City's long term share of contributions to the pension plan relative to the projected contributions of all participating members of the cost sharing pool, actuarially determined. At June 30, 2017 the City's proportion was 0.48479016 percent.

For the year ended June 30, 2017, the City recognized net pension expense of \$11,995,238 for the defined benefit portion of the pension plan. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$2,407,823	
Change of assumptions	15,521,854	
Net difference between projected and actual earnings		
on pension plan investments	14,377,930	
Changes in proportionate share	505,454	\$2,049,062
Differences between employer contributions and employer's proportionate share of system contributions		2,302,722
	32,813,061	4,351,784
Contributions subsequent to the measurement date	4,546,255	
	\$37,359,316	\$4,351,784

Deferred outflows of resources related to pensions of \$4,546,255 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Deferred Outflow of Resources (prior to post- measurement date contributions)
2018	\$4,768,657
2019	4,768,657
2020	10,152,423
2021	7,753,728
2022	1,017,812
	\$28,461,277

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of net pension liability/(asset)	\$117,512,622	\$72,778,259	\$35,388,159

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7. Changes in Plan Provisions Subsequent to Measurement Date

On July 28, 2017 meeting, the PERS Board lowered the assumed investment rate of return from 7.5% to 7.2% effective January 1, 2018. This rate will be used for the determination of contribution rates beginning July 1, 2019. The Board revises the assumed rate based on the long-term projection of investment returns that can be expected from the asset allocations of the Oregon Investment Council and related capital market expectations. An estimate of the resulting change is not readily available at this time.

8. Defined Contribution Plan

OPSRP Individual Account Program (OPSRP IAP)

Pension Benefits

Participants in OPERS defined benefit pension plans also participate in their defined contribution plan. An Individual Account Program (IAP) member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the member completed 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

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

Death Benefits

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

Contributions

The City has chosen to pay the employees contributions to the plan. Six percent of covered payroll is paid for general service and police employees. For FY 16-17 the City paid \$2,384,912.

B. Retirement Health Insurance Account (RHIA)

Plan Description – As a member of Oregon Public Employees Retirement System (OPERS), the City contributes to the Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing, multiple-employer, defined benefit, other post employment benefit plan administered by OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premium of eligible retirees. Oregon Revised Statutes (ORS) 238.420 establishes this trust fund. Authority to establish and amend the benefit provision of RHIA resides with the Oregon Legislature. The plan is closed to new entrants after January 1, 2004.

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OPERS issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to OPERS, PO Box 23700, Tigard, Oregon, 97281-37400.

RHIA Funding Policy – Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that an amount equal to \$60 or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the RHIA established by the employer and any monthly cost in excess of \$60 shall be paid by the eligible retired member in the manner provide in OPRS 238.410. To be eligible to receive this monthly payment toward the premium cost the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement, or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) received both Medicare Parts A and B coverage, and (3) enroll in the PERS-sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

Participating employers are contractually required to contribute to RHIA at a rate assessed each year by OPERS. The City currently contributes 0.53% of annual covered Tier 1 and Tier 2 payroll and 0.45% of OPSRP payroll. The OPERS Board of Trustees sets the employer contribution rates based on the annual required contribution of employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The City’s contributions to RHIA for the fiscal years ended June 30, 2017, 2016 and 2015 were approximately \$194,851, \$194,434 and \$191,324 respectively, which equal the required contributions for that year.

C. Other Post Employment Benefits (OPEB)

1. Plan Description

The City is required by Oregon Revised Statute 243.303 to provide retirees (if they elect) with group health and dental insurance coverage from the date of retirement age to age 65 at the same rates as provided to current City employees. The Government Accounting Standards Board Statement Number 45 is applicable to the City due to the resulting implicit rate subsidy. This single-employer “plan” is not a stand-alone plan and there are no separately issued financial statements. The City does not provide any explicit employee benefits.

2. Funding Policy

The City collects insurance premiums from participating retirees each month. The premium payments are then deposited into the City’s self-insurance fund. The City then includes the retirees’ payments along with its payment of current employee premiums to the insurance carriers at the established amounts for each coverage type. As of the actuarial report date July 1, 2016, 23 retirees and 9 spouses were participating in the plan and on average over the last fifteen years, 35.03% of the retirees elected to participate in the plan. The premium rates are established each year through negotiation with the various insurance carriers.

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3. Annual OPEB Cost and Net OPEB Obligation

The City’s annual OPEB cost is calculated based on the Annual Required Contribution (ARC) of the City, an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represent a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of 10 years. The following schedule shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan and the changes in the City OPEB obligation to the plan:

Annual Required Contribution (ARC)	\$902,331
Interest on prior year net OPEB contribution	144,114
Adjustment to ARC	<u>(495,099)</u>
Annual OPEB cost	551,346
Implicit benefit payments	<u>(241,535)</u>
Increase in net OPEB obligation	309,811
Net OPEB obligation – beginning of year	<u>4,117,552</u>
Net OPEB obligation – end of year	<u><u>\$4,427,363</u></u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal years 2015 – 2017 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percent of Annual OPEB Cost Contributions	Net OPEB Obligation
06/30/2015	\$661,058	37%	\$3,910,295
06/30/2016	382,056	46%	4,117,551
06/30/2017	551,346	44%	4,427,363

4. Funding Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation, the plan was zero percent funded as the plan is operated on a pay-as-you-go basis. The actuarial accrued liability for benefits was \$4,872,079 and also equaled the unfunded actuarial accrued liability (UAAL). The annual payroll of active employees covered by the plan (covered payroll) was \$39.2 million and the ratio of the UAAL to the covered payroll was 12.4%.

The plan’s actuarial valuation involves estimates of amounts and assumptions about the probability of events far into the future, such as, future employment, mortality and healthcare cost trends. Amounts determined about the funding status of the plan and the annual required contributions are subject to periodic revision as actual results for each period are compared with past expectations and new assumptions are made about the future.

5. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the health benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs

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between the City and plan members. The actuarial methods and assumptions include techniques that are designed to reduce the effects of short-term volatility in actuarial results consistent with the long term perspective of the calculations.

In the July 1, 2016 valuation, the actuarial cost method was changed from Projected Unit Credit to Entry Age Normal to comply with new GASB accounting standards. The investment return for the City was assumed to be 3.5% to reflect the long-term annual investment returns for the Oregon Local Government Investment Pool and comparable investment vehicles. Other actuarial assumptions include a 2.50% inflation component; health care cost increases of 7.00% in the first year (July 1, 2017 premiums compared with July 1, 2016 premiums). In future years, the medical and vision cost trend varies between 7.50% and 5.00% due to the timing of the excise tax scheduled to affect health care benefits beginning in 2020. The trend then settles to an ultimate rate of 5.00%. Dental costs will increase 4.50% in all future years. The UAAL is being amortized as a level dollar amount over a rolling period of 10 years.

D. Risk Management

The City is exposed to various risks of loss related to torts, theft or damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. Significant real and personal property exposures are covered by insurance for loss from all perils, including earthquake and flood damage. General and automobile liability exposures are insured up to \$10,000,000 per occurrence, and are subject to a \$125,000 aggregate deductible. The City retains the first \$650,000 for police and other classifications per workers' compensation claim and transfers the excess exposure through commercial insurance. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

Liabilities include an amount for claims that have been incurred but not reported (IBNR). At June 30, 2017, \$144,334 and \$361,000 of those liabilities are outstanding in the General Liability Program and in the Workers' Compensation Program, respectively. Changes in the City's claims liability for the years ended June 30, 2016 and 2017 are as follows:

	Balance <u>July 1</u>	Changes in <u>Estimates</u>	Claim <u>Payments</u>	Balance <u>June 30</u>
2015-2016	\$505,334	\$549,638	(\$549,638)	\$505,334
2016-2017	505,334	659,022	(659,022)	505,334

E. Commitments and Contingencies

Workers' compensation, general liability, auto, unemployment and dental claims covered by the City's Insurance Fund (Internal Service Fund) are reviewed, and losses are accrued based on the judgment of City management. In the opinion of City management, the ultimate disposition of these claims will not have a material adverse effect on the financial position or results of operations of the Internal Service Funds.

The City is the defendant in several legal actions currently pending. Although their outcome cannot be determined, it is the opinion of management that settlement of these matters will not have a material effect on the financial position and results of operations of the City.

The City has active construction projects as of June 30, 2017 which represent multi-year contracts. As of June 30, 2017, the amount of uncompleted contracts for various projects totals \$3,454,433.

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F. Transactions with Clean Water Services of Washington County

In April 1976, the City entered into a contract with the Clean Water Services (CWS) of Washington County whereby the City acts as a collection agent for CWS for sewer service charges and sewer connection charges inside the City's limits. The City, in 1990, also entered into a contract with CWS to collect storm drain charges. In accordance with the agreements, the City collects all charges on behalf of CWS and remits all applicable collections to CWS, except for 16.40% of sewer service charges, 3.983% of sewer connection charges collected, and 75% of applicable surface water (storm drain) charges collected. During fiscal year 2017, the City paid \$23,026,661 to CWS and retained \$7,671,740 as charges for services revenues and \$114,427 as sewer systems development charge revenues included in the Business-type activities.

G. Restatement

For the year ended June 30, 2017, the City recorded one prior period adjustment to the beginning net position in the internal service funds in the amount of \$72,600. In previous years, internal service funds did not report payroll tax on compensated absences in its statements. Because the adjustment was made between the internal service funds and governmental funds, both of which are within the governmental activity, there was no net effect to the net position at the government wide level.