

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF BEAVERTON, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2009

This discussion and analysis presents the highlights of financial activities and financial position for the City of Beaverton (City). The analysis focuses on the financial activities of the City for the fiscal year ended June 30, 2009 and is based on currently known facts, decisions, and conditions that existed as of the date of the independent auditor's report.

We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found starting on page iii of this report, and the City's financial statements beginning on page 12.

FINANCIAL HIGHLIGHTS

Following are the financial highlights of the City for the fiscal year ended June 30, 2009.

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$359.7 million (net assets). Of this amount, \$51.4 million is unrestricted and may be used to meet the City's ongoing obligations and pay for day to day operations.
- The total net assets increased by \$14.1 million during the fiscal year, and the majority of this increase is due to construction and contributions of infrastructure systems and capital improvements (\$5.8 million for business type and \$7.1 million for the governmental type activities).
- Governmental funds reported combined ending fund balances at year-end of \$35.5 million, an increase of \$2.5 million as compared to last year. Approximately \$33 million is unreserved and undesignated and available to fund ongoing activities.
- The unreserved, undesignated fund balance for the General Fund is approximately \$19.6 million at the end of the current fiscal year, or approximately 50% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis is intended to serve as an introduction to the City's basic financial statements and other required supplementary information. The City's basic financial statements are comprised of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

Government-wide financial statements - The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements include all assets of the City (including infrastructure such as streets, traffic signals, street lights, buildings, bridges, water lines, sanitary sewer lines, storm drain facilities, etc.) as well as all liabilities (including general obligation long-term debt). Additionally, certain eliminations have occurred as prescribed by GASB Statement No. 34 with regards to interfund activities.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change

CITY OF BEAVERTON, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Fiscal Year Ended June 30, 2009

occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash inflows or outflows in a future fiscal period. Examples of such items include earned but uncollected property taxes (future inflow), and earned but unused compensated absences (future outflow).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include the following:

- General administration (City Council, Mayor's Office, Records Management, Human Resources, Finance, City Attorney)
- Municipal court operations
- Building and landscape maintenance
- Engineering services
- Police protection services
- Emergency management services
- Library services
- Planning, zoning and subdivision control regulations
- Building inspections and regulations
- Traffic control and improvements
- Street construction and street maintenance

The business-type activities of the City include the following:

- Water utility
- Sewer utility
- Storm drain utility

The government-wide financial statements can be found on pages 12 and 13 of this report.

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds - Governmental funds are used to account for activities where the emphasis is placed on available financial resources, rather than upon net income determination. Therefore, unlike the government-wide financial statements, governmental fund financial statements focus on the acquisition and use of current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations can be found on pages 15 and 17 in the basic financial statements.

CITY OF BEAVERTON, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Fiscal Year Ended June 30, 2009

The City maintains 14 individual governmental funds. Information for the funds that are considered significant (major) is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances. The City reports four major funds: General Fund, Street Fund, Library Fund and Capital Projects Fund. Data from the remaining governmental funds are combined into a single, aggregated presentation. Summary fund data by fund-type for these nonmajor governmental funds is provided in the form of combining statements on pages 50 and 53 of this report. Individual fund data for each of these nonmajor governmental funds is provided as Supplementary Information in the form of combining statements, pages 51 and 52 and also pages 54 and 55.

The City adopts an annual appropriated budget for all governmental funds. To demonstrate compliance with the budget, budgetary comparison statements have been provided for the General Fund and the major special revenue funds as Required Supplementary Information on pages 45 through 48. Additional schedules that demonstrate the General Fund's budgetary compliance at the legal level are provided on pages 56 and 57. Budgetary comparisons for all other governmental funds have been provided as supplementary information (pages 58 through 67).

The governmental fund financial statements can be found on pages 14 and 16 in the basic financial statements.

Proprietary funds - Proprietary funds are used to account for activities where the emphasis is placed on net income determination. The City maintains two different types of proprietary funds - enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements.

The City uses enterprise funds to account for its water utility, sewer utility and storm drain utility. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for reprographics services, fleet services, information system services, geographic information systems services, public works administration services, and insurance, risk and benefits services.

Because internal service funds predominantly benefit governmental rather than business-type functions, their assets and liabilities have been included with governmental activities in the government-wide financial statements.

The enterprise funds, all of which are considered to be major funds of the City, are reported separately as proprietary fund financial statements in the basic financial statements pages 18 through 21. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided as other supplementary information in the form of combining statements, pages 68 through 70 of this report.

The City also adopts an annual appropriated budget for all proprietary funds. To demonstrate compliance with the budget, budgetary comparison statements for all proprietary funds have been provided as Supplementary Information pages 71 through 82.

Notes to the basic financial statements - The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. They are an integral part of the basic financial statements and should be read in conjunction with them (pages 22 through 44).

Required Supplementary Information (RSI) - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The RSI schedules include budgetary

CITY OF BEAVERTON, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Fiscal Year Ended June 30, 2009

comparisons for the general fund and major special revenue funds, and budget to GAAP reconciliation schedules for these funds. The last schedule is the Public Employees Retirement System Schedule of Funding Progress which has information about the City's progress in funding its obligation to provide pension benefits to its employees.

Supplementary Information - The combining statements and schedules referred to earlier, on pages 50 through 85, including the schedules of property tax and bonded debt transactions follow the required supplementary information in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$359.7 million at the close of FY 2008-09.

Summary of Net Assets

	Governmental Activities		Business Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Cash and Investments	\$41,965,689	\$39,837,521	\$29,304,759	\$31,112,108	\$71,270,448	\$70,949,629
Other Assets	5,582,511	4,700,284	30,941,402	30,315,628	36,523,913	35,015,912
Capital Assets	155,289,260	151,975,269	152,902,745	145,793,272 *	308,192,005	297,768,541
Total Assets	202,837,460	196,513,074	213,148,906	207,221,008	415,986,366	403,734,082
Other Liabilities	7,965,207	7,955,826	4,416,597	4,202,639	12,381,804	12,158,465
Long-Term Liabilities	21,852,026	22,284,401	22,039,290	23,689,238	43,891,316	45,973,639
Total Liabilities	29,817,233	30,240,227	26,455,887	27,891,877	56,273,120	58,132,104
Net Assets						
Invested in Capital Assets,						
Net of debt	134,523,236	129,806,283	144,853,657	137,224,282 *	279,376,893	267,030,565
Restricted	11,662,440	11,700,392	17,267,310	18,264,596	28,929,750	29,964,988
Unrestricted	26,834,551	24,766,172	24,572,052	23,840,253	51,406,603	48,606,425
Total Net Assets	\$173,020,227	\$166,272,847	\$186,693,019	\$179,329,131	\$359,713,246	\$345,601,978

* Adjustment made in 2008 to include intangible assets - water rights, net

The largest portion of the City's net assets reflects its investment of \$279.4 million or 77.7% in capital assets (e.g., land, buildings, improvements, equipment, and infrastructure, net of accumulated depreciation and related debt). The City uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, \$28.9 million or approximately 8% represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets totaling \$51.4 million or approximately 14.3% may be used to meet the City's ongoing obligations to citizens and creditors.

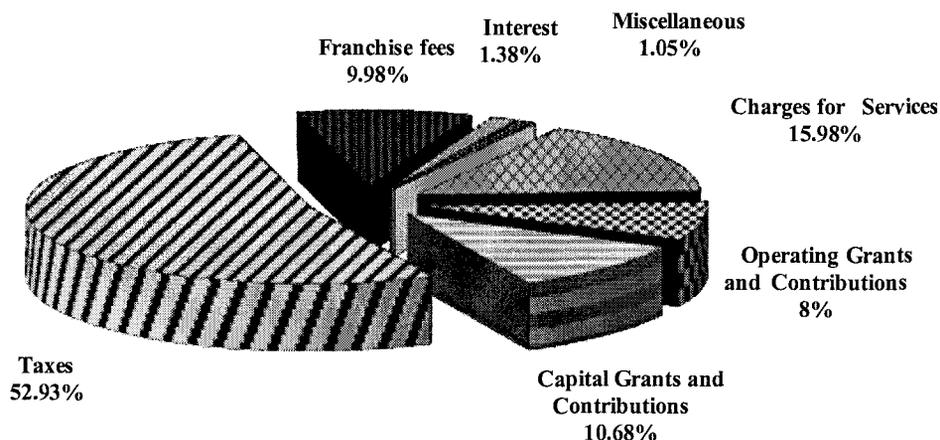
CITY OF BEAVERTON, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Fiscal Year Ended June 30, 2009

Summary of Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
<i>Program revenues:</i>						
Charges for services	\$10,636,135	\$11,031,966	\$16,642,800	\$16,189,819	\$27,278,935	\$27,221,785
Operating grants and contributions	5,321,107	5,377,349			5,321,107	5,377,349
Capital grants and contributions	7,107,177	9,195,310	5,757,891	10,139,537	12,865,068	19,334,847
<i>General revenues:</i>						
Taxes	35,232,340	34,461,501			35,232,340	34,461,501
Franchise revenues	6,643,075	6,565,366			6,643,075	6,565,366
Interest	920,975	1,664,255	731,084	1,355,501	1,652,059	3,019,756
Other	700,980	656,996	69,695	19,734	770,675	676,730
Total revenues	66,561,789	68,952,743	23,201,470	27,704,591	89,763,259	96,657,334
Expenses						
General government	21,507,864	20,255,832			21,507,864	20,255,832
Public safety	21,949,125	20,083,344			21,949,125	20,083,344
Highways and streets	8,396,409	8,428,343			8,396,409	8,428,343
Education	6,764,157	6,171,277			6,764,157	6,171,277
Cultural and recreation	291,468	200,901			291,468	200,901
Interest on long-term debt	905,386	931,319			905,386	931,319
Water utility			8,549,039	7,971,184	8,549,039	7,971,184
Sewer utility			3,828,142	3,377,965	3,828,142	3,377,965
Storm drain utility			3,460,401	3,429,873	3,460,401	3,429,873
Total expenses	59,814,409	56,071,016	15,837,582	14,779,022	75,651,991	70,850,038
Increase in net assets	6,747,380	12,881,727	7,363,888	12,925,569	14,111,268	25,807,296
Beginning net assets	166,272,847	153,391,120	179,329,131	166,403,562	345,601,978	319,794,682
Ending net assets	\$173,020,227	\$166,272,847	\$186,693,019	\$179,329,131	\$359,713,246	\$345,601,978

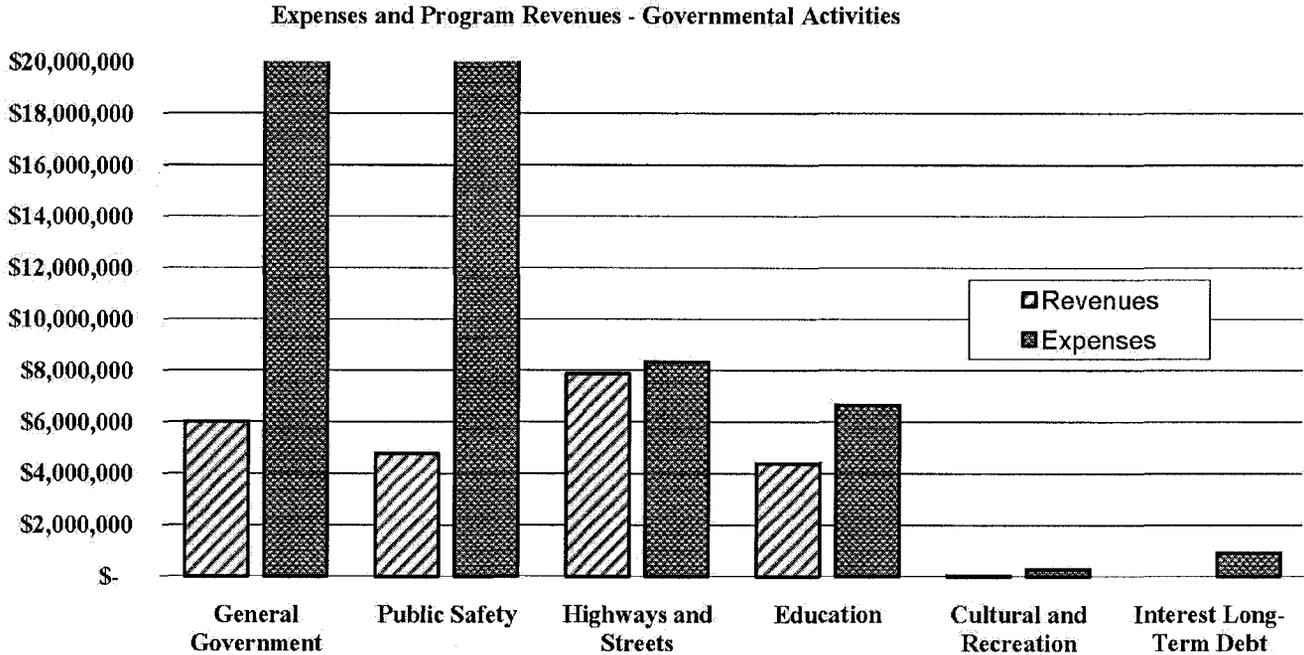
Governmental activities – Governmental activities increased the City’s net assets by \$6.7 million. The major factor for the increase was the capital contribution in highways and street infrastructure in the amount of \$7.1 million. The following pie chart provides a graphical presentation of the various revenues for governmental activities:

**Revenue by Source – Governmental Activities
FY 2008-09**



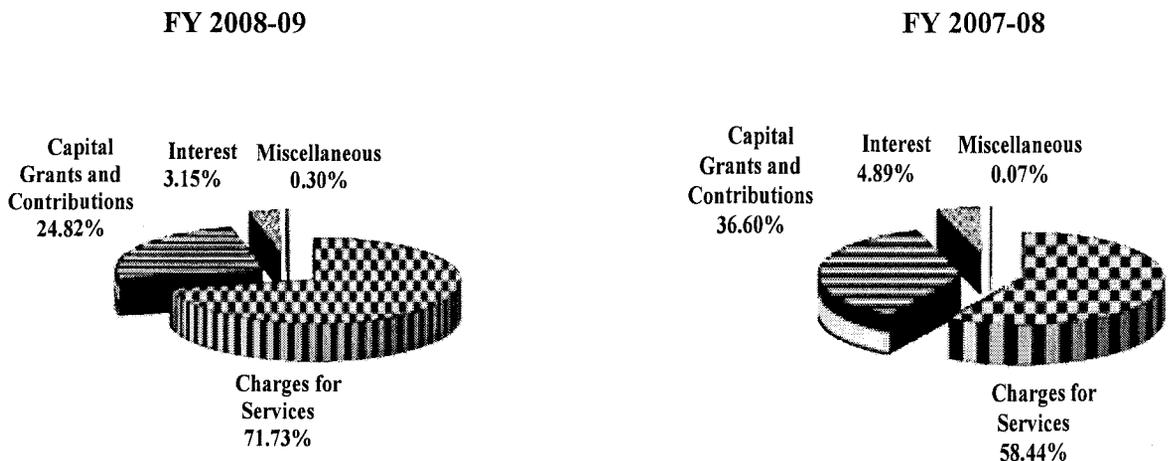
CITY OF BEAVERTON, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Fiscal Year Ended June 30, 2009

The following graph shows the expenses of each governmental function compared to the program revenues generated specifically from its operations. The public safety function (Police) generates some revenues, but property taxes fund the majority of its costs.



Business-type activities - Business-type activities increased the City's net assets by \$7.4 million accounting for 49% of the total growth in the City's net assets. The City can only use these net assets to finance the continuing operations of the water, sewer, and storm drain operations. Of the net assets increase, \$5.8 million is attributable to contribution of utility infrastructure from private developers and other government entities, and the systems development charge revenues that are restricted and set aside for capital projects in future years. In business-type activities, \$8,049,088 of long-term debt is related to capital assets and the remaining amount is invested in an equity interest in joint venture's capital assets. The calculation of the net assets invested in capital assets does not include the portion of the debt that is related to the joint venture. The following pie charts provide a graphical presentation of the various revenues for the business type activities:

Revenue by Source – Business Type Activities



CITY OF BEAVERTON, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Fiscal Year Ended June 30, 2009

ANALYSIS OF SIGNIFICANT BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

The Water fund's net assets increased by \$1.2 million, Sewer fund's net assets increased by \$2.3 million, and Storm Drain fund's net assets increased by \$3.8 million.

The increase in net assets of \$1.2 million in the Water fund is mostly due to the following:

- system development revenues of \$203,000 and capital contributions of \$410,000
- interest on investments of \$321,000

The increase in net assets of \$2.3 million in the Sewer fund is due to:

- system development revenues of \$357,000 and capital contributions of \$484,000
- \$391,000 of surcharge revenues for renewal and rehabilitation projects was unspent and carried forward to FY 2009-10
- \$805,000 of intergovernmental revenue from Clean Water Services of Washington County as reimbursement for a sewer project
- interest on investments of \$237,000

The increase in net assets of \$3.8 million in the Storm Drain fund is due to:

- system development revenues of \$497,000 and capital contributions of \$2.5 million
- \$938,000 of surcharge revenues for renewal and rehabilitation projects was unspent during the year and carried forward to FY 2009-10
- \$456,000 intergovernmental revenue from Metro as reimbursement for a storm project

GENERAL FUND BUDGETARY HIGHLIGHTS

The following is a brief review of budgeting changes from the original to the final budget and from the final budget to actual activity for the General Fund (see pages 56 and 57 for more detailed information):

The final adopted budget for the General Fund was \$1.94 million (4.3%) more than the original budget amount (excluding the contingency). This increase was mostly related to the amendments made to appropriate the carryover of unspent federal grant funds for seismic upgrade of City Hall (\$661,000); carryover of unspent funds for electrical system upgrade at City Hall (\$100,000); additional appropriation to cover increased costs in personal services for various police positions (\$239,000); appropriation needed for outside legal counsel on the Beaverton Central Plant litigation (\$150,000); additional funds in the mayor's department to implement new community event programs and to continue to support existing programs (\$252,000) and funding needed for developing a portion of the Westgate site for city events (\$60,000).

General Fund expenditures came in at \$5.7 million (12%) less than the final budget (excluding contingency), and significant differences between final adopted budget and actual include the following:

- The total personal services expenditures came in at \$1.7 million less than the budget due to various position vacancies during the fiscal year (\$984,000), and also due to the differences between the budgeted vs. actual fringe benefit rates such as medical and dental insurance premiums and retirement benefits rates (\$733,000).
- Beaverton Central Plant Expansion project appropriation of \$388,000 was unspent and the project was placed on hold; \$100,000 appropriation to upgrade the electrical service to City Hall was unspent and carried forward to FY 2009-10.
- Pre-Disaster Mitigation grant program for seismic upgrade of the City Hall was completed \$608,000 less than budget; property purchase of \$295,000 was appropriated but not spent in the year and was carried forward to FY 2009-10.
- Police department's overall materials and services expenses were \$323,000 under budget.

CITY OF BEAVERTON, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Fiscal Year Ended June 30, 2009

- \$123,000 appropriation in the community involvement and public affairs program and \$133,000 in the downtown redevelopment and economic development program were not spent during the year.
- \$410,000 transfer budgeted to fund Hall-Watson street beautification phase 3 project was unspent and the project was placed on hold.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the City had approximately \$308 million invested in a broad range of capital assets, including land, buildings and improvements, equipment, roads, street lighting system, traffic light system, bridges, water, sewer and storm drain infrastructure.

Major capital asset activities during the fiscal year included a variety of street construction projects and additions to the utility systems. The total increase in investment in capital assets for the current fiscal year was 3.5% entity wide. Of this, 3.4% increase was attributed to the street and utility infrastructure additions constructed by private developers and deeded to the City, which will be responsible for its future maintenance and replacement. The total governmental type capital assets increased by 2.18%, and the increase within business-type activities was 4.88%.

Summary of Capital Assets
June 30

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$14,083,833	\$13,839,613	\$2,657,831	\$2,364,880	\$16,741,664	\$16,204,493
Construction in progress	153,195	59,776			153,195	59,776
Intangible Water Rights			263,785	285,126 *	263,785	285,126
Buildings and improvements (net of depreciation)	25,997,022	27,439,367	129,495	137,974	26,126,517	27,577,341
Machinery and equipment (net of depreciation)	10,634,703	10,641,585	1,229,660	1,198,970	11,864,363	11,840,555
Infrastructure (net of depreciation)	104,420,507	99,994,928	148,621,974	141,806,322	253,042,481	241,801,250
Totals	\$155,289,260	\$151,975,269	\$152,902,745	\$145,793,272	\$308,192,005	\$297,768,541

* Adjustment made in 2008 to include intangible assets - water rights, net

Additional information on the City's capital assets can be found in note III.C on pages 32 and 33 of this report.

Bonded Debt - At the end of the current fiscal year, the City had total bonded debt outstanding of \$34.3 million (net of discount of \$217,917). Of this amount, \$13.1 million represents outstanding bonded debt for the governmental funds. These bonds are voter approved general obligation bonds which are paid by ad-valorem tax on all taxable property in the city. The remainder of the City's bonded debt is for business-type activities and includes three (3) outstanding water revenue bond issues. The total amount of water bonds outstanding at June 30, 2009 is \$21.2 million (net of discount of \$190,702). The bonds are paid from net revenues of the water system.

The City received Aaa and AAA ratings respectively from Moody's Investors Services, Inc. (Moody's) and Standard & Poor's (S&P) for both the GO refunding debt and water revenue bonds that were issued during FY 2005-2006. Moody's and S&P have assigned underlying ratings on the 2005 GO refunding bonds of Aa2 and AA. Additionally, Moody's upgraded the underlying rating on the 2006 water revenue bonds from A2 to A1 and S&P upgraded the underlying rating from A+ to AA. In November 2008, S&P upgraded the rating on the 2005 GO bond from AA to AA+.

CITY OF BEAVERTON, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Fiscal Year Ended June 30, 2009

State statutes limit the amount of general obligation debt a city may issue to three(3) percent of it's total real market value of all taxable property within the City boundaries. The current debt limitation for the City is \$365 million which is significantly (\$352 million) more than the City's outstanding general obligation debt of \$13.1 million.

Outstanding Bonded Debt at Year-End
June 30

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
General obligation bonds, net of \$27,215 discount (backed by the City)	\$13,082,785	\$14,190,063			\$13,082,785	\$14,190,063
Revenue bonds, net of \$190,702 discount (backed by fee revenues)			\$21,249,298	\$23,003,201	21,249,298	23,003,201
Totals	<u>\$13,082,785</u>	<u>\$14,190,063</u>	<u>\$21,249,298</u>	<u>\$23,003,201</u>	<u>\$34,332,083</u>	<u>\$37,193,264</u>

Additional information on the City's bonded debt can be found in the notes to the basic financial statements on pages 37 and 38.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

During the preparation of the budget for the ensuing fiscal year, the long-term impacts of the local economy were examined in conjunction with business decisions made by the City. The following are the major assumptions used in developing the FY 2009-10 budget:

- The City's average population for next fiscal year will grow slightly (0.6%) from 85,883 to 86,403.
- The City's tax rate is estimated to be \$3.88 of the City's permanent levy rate of \$4.62. The increment between the proposed tax levy and the City's permanent rate is \$.74 and when applied to the estimated assessed valuation, it would produce an additional \$5.6 million in property tax revenues. This additional unused tax authority is expected to provide the City with sufficient resources to meet our future resource needs. Since the budget adoption, the county assessor has completed the assessed value calculation for FY 2009-10 and the City's actual tax rate is \$3.96. In recognition of the current economic downturn, the adopted budget reflects a 1% increase in the allowance for non-payment of property taxes from 5% to 6%.
- Assessed values, the basis of property tax revenues, will grow by 3% based on Measure 50 provision that limited the maximum assessed value growth rate plus \$35 million in new construction.
- Interest rates on investments are estimated at 1% and the total interest earnings budgeted is \$537,000.
- Water consumption rates will be increased by 7.2% (15 cents per 100 cubic feet of water) effective January 1, 2010, and would generate \$400,000 in additional revenue annually.
- Personal service costs for FY 2009-10 do not include any annual cost of living fiscal salary increase (COLA) for all bargaining groups and the management employee group. The budget includes increase of 9.4% to 9.9% in medical benefits costs to all eligible employees as well as annual step increases for certain eligible employees.

The City's adopted budget for FY 2009-10 reflects total estimated resources of \$163.5 million which exceeds total appropriated expenditures by \$46.7 million.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report should be addressed to the Finance Director at 4755 SW Griffith Dr, Beaverton, OR 97005.