

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF BEAVERTON, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2010

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, 2010 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, 2010.

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$369.7 million (net assets). Of this amount, \$52.1 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 \$10 million during the fiscal year, and the majority of this increase is due to construction and contributions of infrastructure systems and capital improvements (\$6.1 million for business type and \$1.8 million for the governmental type activities).
- Governmental funds reported combined ending fund balances at year-end of \$37 million, an increase of \$1.6 million as compared to last year. Approximately \$34 million is unreserved and undesignated and available to fund ongoing activities.
- The unreserved, undesignated fund balance for the General Fund is approximately \$20.8 million at the end of the current fiscal year, or approximately 53% 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 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).

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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.

The City maintains 15 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 51 and 55 of this report. Individual

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fund data for each of these nonmajor governmental funds is provided as Supplementary Information in the form of combining statements, pages 52 -54 and also pages 56 -58.

The City adopts an annual appropriated budget for all governmental funds on a modified accrual basis. 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 46 through 49. Additional schedules that demonstrate the General Fund's budgetary compliance at the legal level are provided on pages 59 and 60. Budgetary comparisons for all other governmental funds have been provided as supplementary information (pages 61 - 71).

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 asset 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 72 through 74 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 75 through 86.

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 45).

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 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.

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Supplementary Information - The combining statements and schedules referred to earlier, on pages 51 through 89, 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 \$369.7 million at the close of FY 2009-10.

Summary of Net Assets

	Governmental Activities		Business Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Cash and Investments	\$45,112,623	\$41,965,689	\$27,837,247	\$29,304,759	\$72,949,870	\$71,270,448
Other Assets	4,270,703	5,582,511	29,972,556	30,941,402	34,243,259	36,523,913
Capital Assets	154,231,454	155,289,260	162,965,826	152,902,745	317,197,280	308,192,005
Total Assets	203,614,780	202,837,460	220,775,629	213,148,906	424,390,409	415,986,366
Other Liabilities	8,714,621	7,965,207	4,894,502	4,416,597	13,609,123	12,381,804
Long-Term Liabilities	20,835,027	21,852,026	20,216,122	22,039,290	41,051,149	43,891,316
Total Liabilities	29,549,648	29,817,233	25,110,624	26,455,887	54,660,272	56,273,120
Net Assets						
Invested in Capital Assets,						
Net of debt	134,857,096	134,523,236	155,365,259	144,853,657	290,222,355	279,376,893
Restricted	12,066,764	11,662,440	15,333,713	17,267,310	27,400,477	28,929,750
Unrestricted	27,141,272	26,834,551	24,966,033	24,572,052	52,107,305	51,406,603
Total Net Assets	\$174,065,132	\$173,020,227	\$195,665,005	\$186,693,019	\$369,730,137	\$359,713,246

The largest portion of the City's net assets reflects its investment of \$290 million or 78.5% in capital assets (e.g., land, intangible assets, 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, \$27.4 million or approximately 7.4% represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets totaling \$52.1 million or approximately 14.1% may be used to meet the City's ongoing obligations to citizens and creditors.

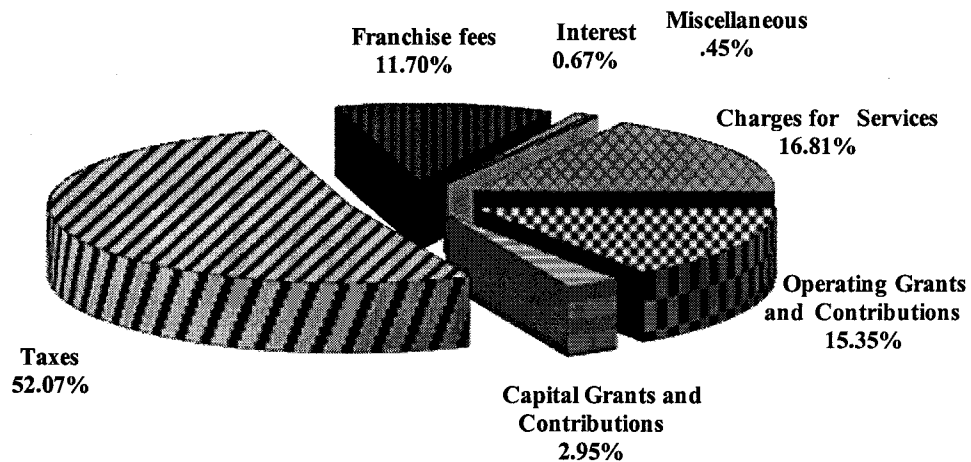
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Summary of Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
<i>Program revenues:</i>						
Charges for services	\$10,452,521	\$10,636,135	\$18,657,416	\$16,642,800	\$29,109,937	\$27,278,935
Operating grants and contributions	9,534,163	8,968,075	20,703		9,554,866	8,968,075
Capital grants and contributions	1,836,694	7,107,177	6,140,084	5,757,891	7,976,778	12,865,068
<i>General revenues:</i>						
Taxes	32,370,580	31,585,372			32,370,580	31,585,372
Franchise revenues	7,273,291	6,643,075			7,273,291	6,643,075
Interest	416,737	920,975	290,763	731,084	707,500	1,652,059
Other	280,666	700,980	8,054	69,695	288,720	770,675
Total revenues	62,164,652	66,561,789	25,117,020	23,201,470	87,281,672	89,763,259
Expenses						
General government	21,251,523	21,507,864			21,251,523	21,507,864
Public safety	22,433,544	21,949,125			22,433,544	21,949,125
Highways and streets	8,650,239	8,396,409			8,650,239	8,396,409
Education	7,636,938	6,764,157			7,636,938	6,764,157
Cultural and recreation	310,433	291,468			310,433	291,468
Interest on long-term debt	837,070	905,386			837,070	905,386
Water utility			8,356,717	8,549,039	8,356,717	8,549,039
Sewer utility			4,132,423	3,828,142	4,132,423	3,828,142
Storm drain utility			3,655,894	3,460,401	3,655,894	3,460,401
Total expenses	61,119,747	59,814,409	16,145,034	15,837,582	77,264,781	75,651,991
Increase in net assets	1,044,905	6,747,380	8,971,986	7,363,888	10,016,891	14,111,268
Beginning net assets	173,020,227	166,272,847	186,693,019	179,329,131	359,713,246	345,601,978
Ending net assets	\$174,065,132	\$173,020,227	\$195,665,005	\$186,693,019	\$369,730,137	\$359,713,246

Governmental activities – Governmental activities increased the City’s net assets by \$1 million. The major factor for the increase was the capital contribution in public utility easements and dedicated rights-of-way in the amount of \$0.9 million. The following pie chart provides a graphical presentation of the various revenues for governmental activities:

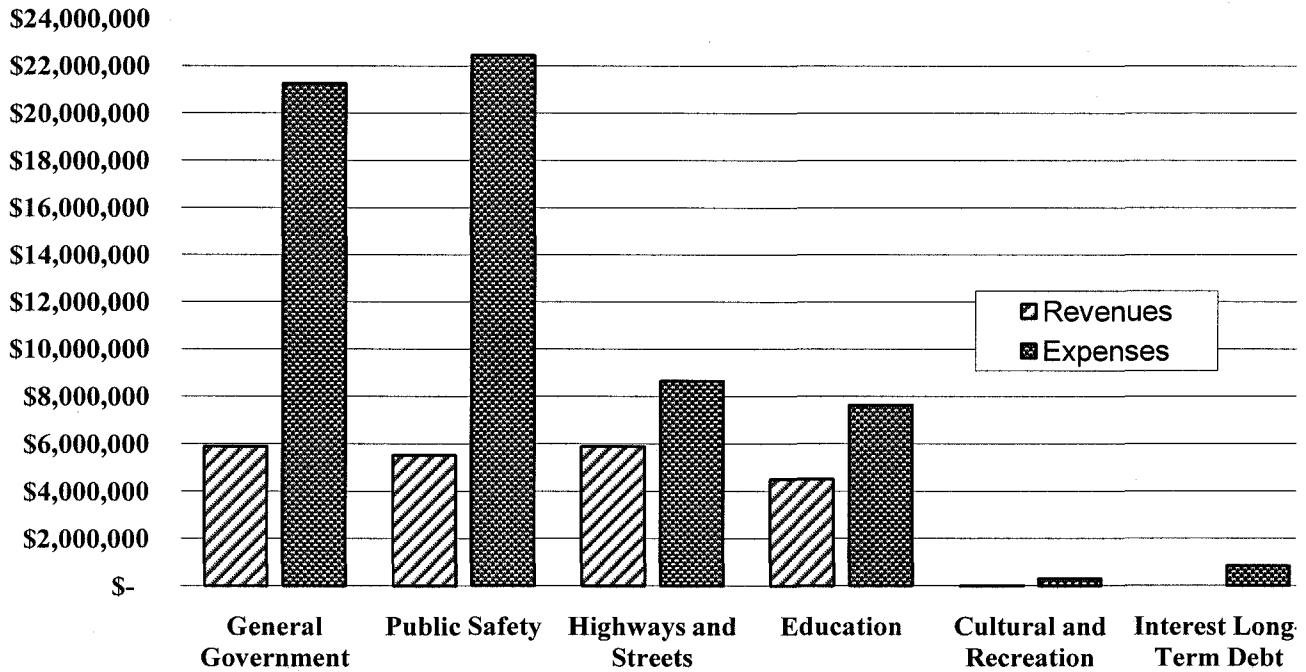
Revenue by Source – Governmental Activities
FY 2009-10



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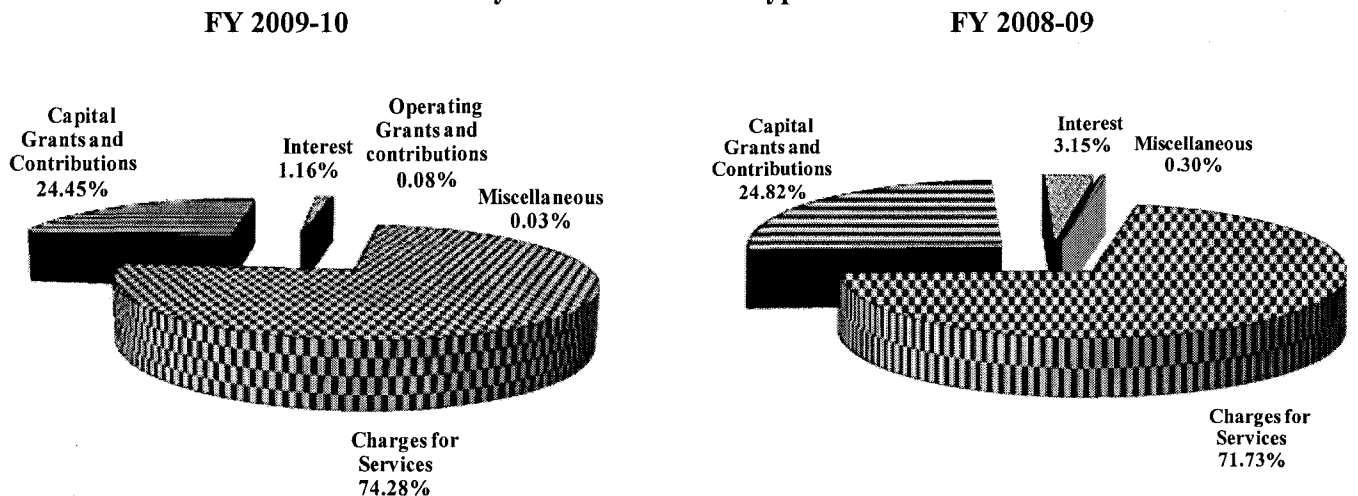
The following graph shows the expenses of each governmental function compared to the program revenues generated specifically from its operations. The public safety function (Police) generates some revenues, but property taxes fund the majority of its costs.

Expenses and Program Revenues – Governmental Activities



Business-type activities - Business-type activities increased the City's net assets by \$9 million accounting for 90% 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, \$3.6 million is attributable to the certification of water right and \$4.3 million 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, \$7.6 million 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



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ANALYSIS OF SIGNIFICANT BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

The fund balances of the City's General fund increased by \$1.5 million during the fiscal year primarily due to:

- Franchise fee audit settlement of \$414,000 with a telecommunication provider company.
- \$542,000 increase in municipal court fines and fees due to the fine allocation rules change.
- \$569,000 increase in charges for services for providing heating and cooling services at the Beaverton Round, reimbursement from Tri-met for providing police protection in the mass-transit system, and reimbursement from other governmental functions for engineering overhead charges.

The Street fund has a total fund balance of \$3.4 million, all of which is restricted for the maintenance of highways and streets infrastructure. The Library fund's fund balance decreased \$169,000 in FY 2009-10 due to expenditures related to the opening of the new library branch. The Capital Projects fund did not experience any significant change during the year.

The Water fund's net assets increased by \$5 million, Sewer fund's net assets increased by \$1.9 million, and Storm Drain fund's net assets increased by \$2 million.

The increase in net assets of \$5 million in the Water fund is mostly due to the following:

- capital contribution of utility infrastructure (\$632,000) and certification water right (\$3.6 million)
- system development revenues of \$168,000
- interest on investments of \$112,000

The increase in net assets of \$1.9 million in the Sewer fund is due to:

- \$1.5 million of intergovernmental revenue from Clean Water Services of Washington County as reimbursement for sewer infrastructure projects
- capital contribution of utility infrastructure \$178,000
- interest on investments of \$97,000 and system development revenues of \$46,000

The increase in net assets of \$2 million in the Storm Drain fund is due to:

- system development revenues of \$383,000 and capital contributions of \$1.1 million
- \$344,000 intergovernmental revenue from Metro as reimbursement for a storm project

GENERAL FUND BUDGETARY HIGHLIGHTS

The final adopted budget for the General Fund was \$2.1 million (4.6%) more than the original budget amount, excluding the contingency (see pages 59 and 60 for more detailed information). This increase was mostly related to the amendments made to appropriate the federal stimulus grant funds for energy efficiency improvement projects (\$915,000), justice assistance grant program (\$178,000), and carryover of unspent federal grant funds for homeland security programs (\$111,000); additional appropriation in transfers to support the new library branch operation (\$350,000) and to fund for the City's capital acquisition program (\$220,000); additional appropriation in the mayor's department for a new Assistant Director General Services position and professional services to assist with the development of a mixed-use venue and branding program for the City (\$400,000).

General Fund expenditures came in at \$3 million (6.3%) 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 \$768,000 less than the budget due to various position vacancies during the fiscal year (\$399,000) 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 (\$369,000).
- Energy efficiency conservation federal block grant program was not completed and was carried forward to FY 2010-11 (\$769,000).

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- Police department's justice assistance grant and homeland security grant program expenditures were not completed in FY 2009-10 and were carried forward to FY 2010-11 (\$129,000).
- \$101,000 appropriation in the sustainability and recycling program and \$204,000 in the community involvement, economic and downtown development programs were not spent during the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At June 30, 2010, the City had approximately \$317 million invested in a broad range of capital assets, including land and easements, water rights, 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 2.9% entity wide. Of this, 2.3% increase was attributed to the utility infrastructure additions and easements 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 decreased \$1 million (0.7%) due to depreciations, and the increase within business-type activities was 6.6%.

Summary of Capital Assets
June 30

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land, intangible assets	\$15,451,236	\$14,083,833	\$6,759,097	\$2,657,831	\$22,210,333	\$16,741,664
Construction in progress	221,732	153,195	875,640		1,097,372	153,195
Intangible assets being amortized	403,110		242,444	263,785	645,554	263,785
Buildings and improvements (net of depreciation)	25,247,994	25,997,022	122,114	129,495	25,370,108	26,126,517
Machinery and equipment (net of depreciation)	10,531,310	10,634,703	1,450,611	1,229,660	11,981,921	11,864,363
Infrastructure (net of depreciation)	102,376,072	104,420,507	153,515,920	148,621,974	255,891,992	253,042,481
Totals	\$154,231,454	\$155,289,260	\$162,965,826	\$152,902,745	\$317,197,280	\$308,192,005

Additional information on the City's capital assets can be found in note III.C on pages 31 and 32 of this report.

Bonded Debt - At the end of the current fiscal year, the City had total bonded debt outstanding of \$31.3 million (net of discount of \$171,942). Of this amount, \$11.9 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, 2010 is \$19.4 million (net of discount of \$147,448). 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 and revenue bonds from AA to AA+. In May 2010, Moody's upgraded the ratings of GO bond from Aa2 to Aa1 and revenue bonds from A1 to Aa2.

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State statutes limit the amount of general obligation debt a city may issue to three (3) percent of its total real market value of all taxable property within the City boundaries. The current debt limitation for the City is \$342.4 million which is significantly (\$330.5 million) more than the City's outstanding general obligation debt of \$11.9 million.

Outstanding Bonded Debt at Year-End
June 30

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds, net of \$24,494 discount (backed by the City)	\$11,920,506	\$13,082,785			\$11,920,506	\$13,082,785
Revenue bonds, net of \$147,448 discount (backed by fee revenues)			\$19,387,552	\$21,249,298	19,387,552	21,249,298
Totals	\$11,920,506	\$13,082,785	\$19,387,552	\$21,249,298	\$31,308,058	\$34,332,083

Additional information on the City's bonded debt can be found in the notes to the basic financial statements on pages 36 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 City's adopted budget for FY 2010-11 reflects total estimated resources of \$168.5 million which exceeds total appropriated expenditures by \$49.2 million.

The following are the major assumptions used in developing the FY 2010-11 budget:

- The City's average population for next fiscal year will grow slightly from 86,860 to 87,500.
- The City's actual tax rate for FY 2010-11 is \$3.97 (86%) of the City's permanent levy rate of \$4.62. The increment between the proposed tax levy and the City's permanent rate is \$0.65, and when applied to the estimated assessed valuation, it would produce an additional \$5 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.
- 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.
- Interest rates on investments are estimated at 0.75% and the total interest earnings budgeted is \$427,000.
- Water consumption rates will be increased by 4.5% (10 cents per 100 cubic feet of water) effective January 1, 2011, and would generate \$260,000 additional revenue annually.
- Personal service costs for FY 2010-11 include the elimination of 9.0 full time equivalent employees due to the downturn in building development activities. The budget also includes cost of living fiscal salary increase (COLA) for all bargaining groups and the management employee group (from 1.5% to 2.95%) as well as an increase of 8% to 18% in medical benefits costs to all eligible employees.

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.